



U. S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
WASHINGTON, D.C. 20410-0001

THE SECRETARY

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FROM: Andrew Cuomo

SUBJECT: FY2000 Budget and State of the Union Ideas/Themes

Over the past six years, President Clinton has consistently argued that we need to strengthen our economy and prepare our citizens for the 21st century. As our economy has expanded, he has also argued that the economic opportunity must reach all our citizens - and pointed out that big challenges still remain in meeting that goal. As his two successive "State of the Cities" reports made clear, many people and places still face significant opportunity gaps in education, housing and jobs - gaps that must be closed if we are to fulfill the President's vision for the Nation.

The President scored a tremendous victory in expanding opportunity for all with the most recent HUD bill: historic public housing reforms, the first new housing vouchers since the GOP took control of Congress, and a \$2 billion increase in HUD's budget when just a few years back the agency was on the "hit list" for elimination. The President is at last getting credit for, in the words of *NY Times* columnist Bob Herbert, managing "a significant advance in the most unlikely of areas: low-income housing." Because of this, the Administration has real momentum on these issues. HUD's success - and the agency's agenda in the year ahead - can be a major contributor to the President's legacy.

As you begin preparing for the State of the Union, I would strongly urge you to include - either as a distinct segment or as a theme developed and woven throughout the speech - a handful of proposals that directly address the opportunity gaps that remain, including: the housing needs that confront America's senior citizens and families; the homeownership gaps that persist between minorities and whites; and the job creation gap that plagues many central cities, older suburbs and rural America.

I am pleased to share with you five of our most innovative and significant proposals:

➔ 1. **"HOME FIRST"**: A comprehensive strategy for meeting the housing needs of our growing senior population;

➔ 2. **"A HOME FOR ALL"**: A plan to create affordable housing opportunities for thousands of Americans in need;

➔ 3. **"AMERICA WORKS"**: A proposal to create more jobs in distressed areas; ←

➔ 4. **"THE NEW AMERICAN COMMUNITY"**: An initiative that will encourage neighboring towns, cities and counties to be partners in ending sprawl, conserving resources, and building sustainable communities;

➔ 5. **"OUR HOUSE"**: A proposal to wipe out housing discrimination.

A. **"HOME FIRST": A HOUSING SECURITY PLAN FOR SENIORS**

As the President has pointed out a number of times, the United States will go through a demographic shift unlike anything it has seen in its history over the next fifty years. By 2050, as many as one in five Americans could be elderly (65 and over), compared with one in every 25 at the turn of the last century. By 2050, the elderly population will more than double to 80 million, with the "oldest old" (85 and over) making up almost one quarter of that population. Many of this group will be alone, many will be facing multiple chronic illnesses and will need to rely upon family, friends or community for support.

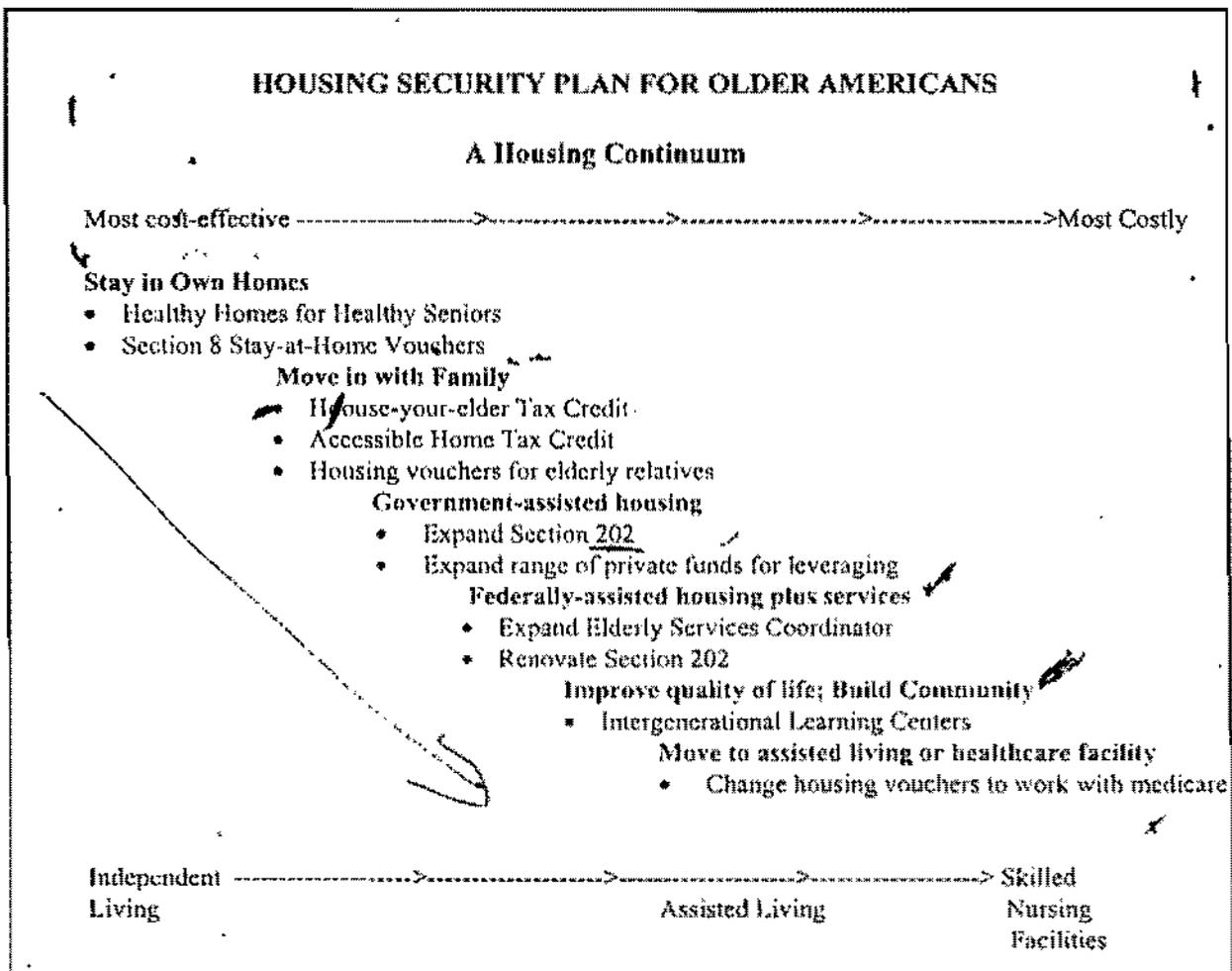
We know now, from personal experience, that too many senior citizens are forced out of their homes because they frequently face catastrophic healthcare costs associated with aging - costs that drain their finances and make owning a home unaffordable. This homeownership crisis will likely affect millions of seniors in the new century; already, the latest studies show that one and a half million elderly pay more than 50% of their income in rent or live in substandard housing.

In anticipation of this looming crisis, and to meet the needs of today's hard-pressed seniors, the President should propose a comprehensive plan ("Home First") to provide security and peace of mind to coming generations of senior citizens. Our goal should

always be to keep a senior citizen in their home – or the home of their relatives – first. Moreover, by coordinating housing and health care, our Senior Security Plan will help seniors stay at home instead of in more expensive and restrictive health care facilities.

Under HUD's proposed Housing Security Plan for Older Americans, this Administration will offer a full range of housing options for America's elderly - a Continuum of Care. By combining new and existing HUD programs, we will create a comprehensive and cost effective senior housing system that preserves security and independence as a senior's healthcare needs and financial resources change.

Our strategy addresses six stages in the continuum: First, helping seniors stay in their own homes when appropriate; second, helping seniors stay with their own families whenever possible by creating viable options for housing with family members; third, ensuring the availability and quality of government assisted senior housing when staying at home or with family is no longer possible; fourth, providing health and other support services in existing housing to avoid the need to move to assisted living with on-site health care until absolutely necessary; fifth, ensuring that our nation's elderly remain an integral part of our communities; and sixth, making assisted living more affordable.



(1) HELPING SENIORS STAY IN THEIR OWN HOMES. The first priority of the Housing Security Plan is to help seniors remain in their own homes whenever possible.

1. Healthy Homes for Healthy Seniors. It is not uncommon for elderly Americans to be housing "rich" but cash "poor." To ease this dilemma, HUD will expand its successful healthy homes initiative to focus on the needs of older homeowners. This effort will provide seniors with information on how they can convert the equity in their own homes into funds for needed health and safety home improvements, including home rehabilitation loans, through HUD's reverse mortgage program. We will also mount an extensive public information campaign to get the word out about this new initiative.

2. Stay At Home Vouchers. We will also expand our ability to assist Section 8-eligible senior homeowners. When a healthcare or other financial crisis hits, these low-income homeowners are faced with selling their own homes to meet their basic needs. A senior facing this kind of crisis would be eligible for a "Stay At Home Voucher" that would be used to subsidize their mortgage payment, allowing them to use their cash/income for other expenses.

(2) A FAMILY FIRST POLICY. Whether for health reasons or financial constraints, some seniors will no longer be able to live alone in their own homes. Because caring for these elders starts with the family, we propose three programs:

1. \$1,000 House-Your-Elder Tax Credit for middle-income families that open their homes to older relatives of limited means.

2. Accessible Home Tax Credit for homeowners needing to make modifications to their homes to care for an elderly or disabled relative. Currently, no tax credit is available to cover the cost of modifying privately owned dwellings for accessibility. We propose a credit of 10% of the total cost of modification, up to a total credit of \$500.

3. Housing Vouchers for Elderly Relatives to encourage apartment owners to rent to their needy parents and grandparents. Current law forbids families who own rental units from renting these units to their family members, including needy elders, under the Section 8 program. By eliminating this restriction, and providing appropriate safeguards against fraud and abuse, we will provide not only a decent place to live, but also the supervision and personal support elders need to remain independent. With over one million elderly renters facing severe rent burdens, this easing of the Section 8 rules would offer another option for meeting worst case housing needs.

(3) ENSURING THE AVAILABILITY AND QUALITY OF SENIOR HOUSING. HUD runs a very successful program to build senior housing known as the 202 Supportive Housing for the Elderly Program. We propose continued expansion of this program. The program works with local non-profits to create housing tailored to the unique needs of seniors. These complexes fit in with the local community, offer rental assistance and serve a particularly vulnerable group who cannot easily access tenant-based voucher programs because of their special needs and limited mobility. Currently, the average person on the waiting list for this housing is a single woman in her 70's who needs assistance with one or more daily activities.

The need for senior-tailored complexes is increasing at a tremendous pace, as the number of elders and the "oldest old" rapidly multiplies. As of 10 years ago, the time of the most recent study, there were 8 seniors on the waiting list for each existing unit. The lists are longer today, creating a critical need to expand the scale of this successful program. We could also expand the impact of this program and the overall supply of affordable rental housing by permitting a wider range of private funds to leverage HUD financing, through such mechanisms as low-income housing tax credits.

(4) COMMUNITY-BASED CARE. Because Americans are living longer, many enter a graying period where they are capable of living semi-independently but still need some social services as well as specially-designed buildings that make getting around easier for them. We can ease the strain of this graying period – and save the country billions in higher costs associated with full-time elder services and health care – in two ways: modernizing HUD's older senior housing (202) and expanding existing elder visitation programs. We propose that \$150 million be dedicated to improving existing Section 202 housing so that it can meet the changing needs of our aging population. This money will provide needed renovations, added services and convert some apartments to assisted living units. We also propose a \$100 million expansion of HUD's successful Elderly Service Coordinator program, which currently benefits only residents of HUD-assisted housing. By expanding funding and allowing Service Coordinators to serve lower income elders in both HUD-funded housing as well as private homes and apartments, we can assure that seniors do not have to leave their homes to get the crucial services they need.

(5) INTERGENERATIONAL LEARNING CENTERS. More important than housing and services alone is the spirit and energy of our seniors. They want to be contributing members of society and we need them. Therefore, throughout this continuum, we must ensure that our seniors remain connected to our communities - sharing their skills, knowledge and energy. To strengthen this connection, we propose that HUD fund a series of Intergenerational Learning Centers that will link two vital needs: affordable senior services and affordable child care. These Learning Centers will be located within and operated, at least in part, by residents of existing HUD 202 Housing for elderly persons. These Centers will harness the skills of our seniors to meet the country's vast need for affordable child care. And through HUD's existing

Neighborhood Networks program, these Centers can also serve as a forum for sharing Internet technology, allowing seniors and children to learn new skills together.

(6) ASSISTED LIVING. When seniors do have to move into assisted living facilities to get the help they need, this Administration can play a bigger role in easing that transition. We propose that HUD partner with HHS to better integrate housing assistance with Medicaid services. A single change in the current law would allow vouchers to cover the rent portion of assisted living costs. There is no reason that a lower income senior should be locked out of an assisted living facility simply because a housing voucher issued by one part of the government cannot work in conjunction with Medicaid payments for assisted living services issued by another part of the same government.

B. "A HOME FOR ALL": A 21ST CENTURY HOUSING INITIATIVE

As the 1998 State of the Cities report noted, despite our success in creating the strongest economy in generations, a record number of Americans, over five million families, face an affordable housing crisis – paying more than 50% of their income in rent or living in substandard, often unsafe and unsanitary housing. Capitalizing on the strength of the economy, the President should set a national goal of ensuring that we have a "decent, safe and sanitary home for all Americans" in the new century. We propose addressing this growing housing crisis in two ways:

(1) 200,000 New Rental Vouchers. As you know, our main vehicle for creating "new" housing opportunities is through the Section 8 program. In FY1999, for the first time in five years, Congress approved funding for 90,000 additional vouchers for families on long waiting lists, including those who need to make the transition from welfare-to-work. The recent public housing reform bill authorized 100,000 new vouchers for FY2000. We should take advantage of this "nod" by making a bolder, stronger request. We are proposing that the FY2000 budget provide an additional 200,000 incremental vouchers. Of this number, 50,000 new vouchers would be dedicated to the President's Welfare-to-Work initiative and 50,000 would be dedicated to helping homeless individuals and families move into self-sufficiency.

(2) "Brownyards to Backyards": demolishing 10,000 abandoned buildings. A major obstacle to urban redevelopment is "dirty" sites with environmental problems. So called "brownfields" reclaim commercial property, but do nothing to expand residential sites. HUD is proposing a new federal initiative to attack the primary cause of blight in urban neighborhoods: abandoned apartment buildings, single family homes, warehouses, office buildings and commercial centers. Under the proposal, HUD would provide a total of \$300 million in competitive grant funds to local governments to support demolition of blighted, abandoned buildings and redevelopment of multifamily and single family housing. The program would provide an average of \$30,000 per building to pay for demolition, debris removal, environmental remediation of soils (if necessary) and site preparation for new development (per building estimate assumes a mix of single family homes and larger buildings). To encourage housing development, HUD would offer

discounted pricing and streamlined processing of FHA mortgage insurance for affordable multifamily and single family housing built on the same sites.

Participating cities would be asked to forgive all existing local tax liens on the property and contribute additional public funds (possibly including HOME or CDBG funds) to support redevelopment of affordable housing. By offering a powerful combination of - demolition of America's most blighted buildings, preparation of development-ready sites and federal credit enhancement to help finance redevelopment of affordable housing - this new initiative would begin to turn around some of America's most distressed neighborhoods.

C. "AMERICA WORKS": A 21ST CENTURY JOB CREATION INITIATIVE

While cities have made dramatic progress in lowering unemployment and creating jobs as a result of the President's economic policies, there remains a jobs gap in many communities. Our 1998 State of the Cities report described how that gap was developing in central cities, which are generating relatively few of the entry-level jobs their residents urgently need. To date, the Administrations' response to this need has been highly successful: boosting business investment and job creation through empowerment zones and enterprise communities. We propose these further steps:

(1) Round III Empowerment Zones/Enterprise Communities. Round I EZ/ECs were highly successful in leveraging private dollars in distressed neighborhoods: The original 72 urban EZs and ECs have generated almost \$4 billion in private and public investments, creating jobs and helping thousands of families move from welfare to work. Round II applications revealed that a high level of skill and innovation had evolved in just one year. The success and lessons of the first two rounds promise to make Round III of even greater impact. We propose an additional \$195 million in grants for Round III to support a total of 15 additional Zones and 15 additional Communities. HUD funds would emphasize highly leveraged, break-the-mold economic development, as well as housing-based welfare-to-work programs that complement HHS and DOL efforts to ensure the success of the President's welfare reform.

(2) The Community Empowerment Fund. Access to capital is a significant impediment to growth in the central cities where higher risk and historically higher default rates make conventional money lenders cautious to tread. In recognition of this market gap, HUD has become the investment banker of choice for economic development in many communities, providing over \$2 billion in guaranteed loans, in addition to billions of dollars in CDBG (Community Development Block Grant) money over the past five years.

The next stage in expanding and stabilizing this capital resource is to develop a secondary market for these loans, similar to the existing secondary market for residential mortgages. The Community Empowerment Fund would create this market within the framework of existing HUD programs.

The Fund will enable a secondary market to emerge through two essential mechanisms:

- Standardizing underwriting and loan pooling. All Section 108 guaranteed loans will be underwritten to standardized guidelines.
- Creating a loan pool that will allow loans to be seasoned and eventually sold into the private secondary markets. Communities will have the option of using CEF/EDI funds in this shared loan loss reserve fund.

The Fund will help older cities and suburbs as well as under-developed rural areas get the capital they need to maintain and expand their economic base in the new high tech, global economy. The CEF will also support welfare-to-work efforts in cities and also link debt and venture capital for new and existing inner city businesses.

(3) Neighborhood Renewal Tax Exemption. We also propose a new Neighborhood Renewal Tax Exemption, which would encourage moderate and middle-income households to move into revitalizing EZ/EC neighborhoods. The new policy would allow taxpayers moving into those neighborhoods to claim up to two additional personal exemptions for the first year of residence in a designated neighborhood. This will help advance the goals of the Administration's revitalization strategy for distressed communities, creating the needed mix of incomes to bring back retail demand, job networks, and role models. Using exemptions would allow us to "reward" households that do not itemize deductions and to scale the reward to income. Moving into a home with extensive rehabilitation needs can be costly. The availability of additional personal exemptions will attract middle-income households to the EZs/ECs. Based on patterns of migration into and out of poor neighborhoods, HUD estimates that about 45,000 households (that would move into EZ/EC neighborhoods each year) could qualify for this benefit (provided they have sufficient income to file).

**D. "THE NEW AMERICAN COMMUNITY":
A PROPOSAL TO ENCOURAGE "SMART GROWTH"**

The November elections showed that there is growing support for controlling sprawl and managing suburban growth. Sprawl is hurting both cities and suburbs: Cities are losing the middle class and related tax revenues and in the suburbs, there's growing dissatisfaction with congestion, gridlock, overcrowded schools, higher taxes and loss of open space. From Maryland to New Jersey, from Vermont to California, there is a growing consensus that communities need to do more to promote more compact, cost-effective forms of development. In short, citizens are concerned that economic gains not come at the expense of their quality of life – and are beginning to think about building a new kind of American community, one that, in truth, harkens back to an earlier time in the Nation's history – a time of neighborhoods and neighbors.

We are proposing a "New American Community" initiative that recognizes the growing inter-connectedness of cities and suburbs and the need to contain sprawl and ensure that communities plan their growth. The initiative will encourage neighboring towns, cities and counties to undertake "Smart Growth" plans, and preserve and protect open space and

greenfields in our metropolitan areas. By providing \$100 million in competitive funding to States and to partnerships of local governments, we will spur the development and implementation of new, locally-driven strategies that address economic and community development needs at the regional level. We also propose making these "New American Community" criteria a factor to consider in awarding CDBG, 108, EDI, BEDI and Home awards.

E. "OUR HOUSE": A PLAN TO WIPE OUT HOUSING DISCRIMINATION

Even at the end of the 20th century, housing discrimination, in both blatant and subtle forms, continues to plague this home we call America. It is time to get our house in order – eradicating once and for all the scourge of racial discrimination in housing and homeownership. The President should declare that in this great Nation, we should all be judged to qualify for a home not by the color of our skin but by our ability to meet our commitments – in rent or mortgage payments.

Last year, President Clinton announced his commitment to doubling the number of fair housing enforcement actions by the year 2000. To help complete this effort, we propose increasing the fair housing enforcement budget by \$15 million over the 1999 requested levels of \$52 million. This increase in funds will support base activities and two major new anti-discrimination efforts:

(1) An expansion of our 1999 Fair Housing Audit. Last week we announced that HUD would conduct the first national audit of housing discrimination. This landmark \$7.5 million study will provide the only detailed breakdown of where and how housing discrimination exists, both by industry sector (lending, sales, rentals), by location (cities, suburbs, rural areas), and by minority group (African Americans, Hispanics, Native Americans and Asians/Pacific Islanders). Preliminary results will be available within a year, and will lay the foundation for Fair Housing enforcement well into the next century. We propose that another 20 cities be added to this audit for FY2000.

(2) More Help for Private Groups Fighting Housing Discrimination. Although we have made good progress, the Federal government cannot do all the work alone. We have good partners at the State and local level upon whom we should also rely. Therefore, we will contract with State and local Fair Housing Organizations to further enforce Federal fair housing laws at the state and local level.

I strongly urge you to consider these ideas in preparing for the State of the Union address and can provide more information as needed.

THE WHITE HOUSE

WASHINGTON

June 5, 2000

MEMORANDUM FOR THE PRESIDENT

FROM: GENE SPERLING
JACOB LEW

SUBJECT: The Mid-session Review

This memo discusses the strategy for approaching the Mid-session Review. It reflects several in-depth NEC meetings and not only the views but also the detailed editing of Larry Summers, Martin Baily, Sylvia Mathews, and other members of your budget team.

Our latest estimate is that the on-budget surplus will be revised up from \$746 billion in the February budget to nearly \$1.9 trillion. In the Mid-session Review itself we will need to describe how we believe the on-budget surplus should be allocated. This memo presents some choices about alternative frameworks and specifics for this allocation.

The Mid-session budget is only one element of the overall approach. Your economic team believes that the focus of the remainder of the year should be on a specific, conditional, public offer to the Republicans. Our posture would be that while the campaign will decide between competing visions of how to best use the surplus, we have an opportunity to make progress this year in a few specific areas. This memo discusses one approach to making a strategic offer that would build on our Mid-session Review proposals by offering to trade a prescription drug benefit for marriage penalty tax relief.

The outline of this memo is:

- I. Strategic Overview
 - II. Mid-Session Review Framework
 - III. Scenarios for an Offer
- Appendix: Analysis of Taking Medicare Off-budget

I. STRATEGIC OVERVIEW

With only weeks left in which Congress will be in session, you need to consider what is the best tactical and strategic use of the Mid-session Review. The key considerations are: actual accomplishments this year, blocking negative policies this year, and defining what will be the best choices that should guide America over the next decades.

Therefore, while the new numbers and the publication of a Mid-session Review will require you to put out some form of revised budget, all of us believe we should not view this just as a traditional budget exercise. We believe that that you should be strategic as to first, whether a new budget or a "new offer" would best allow you to set the agenda this year, and second, how specific or broad you should be in defining larger choices for the next decades.

Focus on an Offer

In light of both the little time left on the legislative clock and the enormous increase in the on-budget surplus estimate, we believe that the public and strategic focus of our Mid-session announcement should be a specific, conditional offer from you to the Republican Congressional leadership. While you also have to put out a budget framework, we believe that the focus should be on the offer.

There are two reasons we believe an offer should be central:

(1) Affordability. In the past we have used our budget frameworks to set the agenda and block irresponsible uses of the surplus with a "Social Security first" or "first things first" message. The underlying message was that with limited resources, we could not responsibly know that we could afford tax cuts or new spending until we had first taken care of Medicare, Social Security, and debt reduction. The affordability argument is less viable today. It is hard to say that we cannot afford a \$250 billion tax cut until Social Security and Medicare are taken care of when another \$1 trillion just appeared. Therefore a better block is to structure the public message around the principle that any steps should reflect balanced priorities. In particular, we should insist that the Republicans do not get their priorities until we at least agree that we get our priorities at the same time, provided that this deal still leaves enough resources to address Social Security and Medicare. Another alternative, however, would be to stay with the message that *none* of the surplus should be allocated until Social Security and Medicare have been strengthened and the debt reduced. Your advisers, however, do not feel this would be an effective block.

(2) Timing. With so little time on the legislative calendar, a full new budget framework with several detailed new proposals may be seen as unrealistic and therefore not affect the legislative agenda. However, a reasonable and constructive offer on what could still get done this year could very well define the agenda, forcing the Republicans to respond to you and giving you clearer grounds to block their policies if yours are not included.

The offer we propose in Section III is essentially a prescription drugs for marriage penalty offer -- if they first agree to the fiscally responsible step of taking Medicare off-budget or

otherwise fencing off the Medicare surplus (discussed in the next section), thereby locking away \$400 billion in additional debt reduction.

The Mid-session Review Framework

Assuming an offer is made, another strategic issue for you to consider is how to structure your overall budget framework. One aspect of this is the focus on debt reduction and fiscal discipline versus the benefits and risks of making specific, detailed new spending proposals. All of your advisers agree that you could have a balanced framework that pays off the debt by 2011 or 2012 and reserves substantial resources for new investments. We have different shades of opinions about the scale of the new investments and the degree of specificity in describing them.

Some members of your economic team feel it is best to stay with a winning game and keep the debt reduction versus irresponsible tax cuts message as clean as possible. While accepting some broad new initiatives, they feel that the risks to your fiscal discipline message from more detailed and greatly expanded new spending proposals at this point in the year far outweigh the minimal chance that these proposals will affect the legislative agenda. Others feel that with such large surpluses, you need to show that the Clinton fiscal vision includes using the benefits of fiscal discipline to address major challenges in education, poverty reduction, and research – even at the cost of being labeled “back to big spending.”

There is the further issue of how specific to be. Specific, detailed ideas on new trust funds may enliven public debate over the future, but they also could be seen as unrealistic at this late date, or as drawing attention away from the Vice President. Another option is to have specific reserves but without specific policies for key priorities – e.g., reserves for education, research and personal savings accounts – and then use these reserves as vehicles to discuss your vision for the type of choices and ideas that should guide budget choices in the coming years.

II. MID-SESSION REVIEW FRAMEWORK

The nearly final estimate of the projected on-budget surplus is \$1.86 trillion. This estimate is nearly \$300 billion higher than the preliminary \$1.6 trillion projection that we presented to you recently. The nearly final estimate of the unified surplus is about \$4.3 trillion over 10 years.

In developing the Mid-session Review, you need to make two choices. The first is a set of choices that determine how much is available for new investments in national priorities, including education, research, globalization initiatives, tax cuts, and personal savings proposals. The second is choices about how these resources should be allocated to these different priorities and what level of specificity you want to propose.

Your economic team has developed overall framework options that maintain fiscal discipline while expanding resources for key priorities. The first framework, Framework Option 1A, would devote at least 40 percent of the surplus to debt reduction, paying off the debt by 2011. At the same time, it would afford a major expansion relative to the February budget

proposals; including \$130 billion added to our Medicare policy and \$390 billion that could be allocated to discretionary investments, tax cuts, a personal savings proposal, or additional debt reduction.

The core elements of this approach are:

- **As a base, retain specific proposals from the February budget.** We would retain the \$299 billion for Medicare solvency, \$256 billion in tax proposals, \$91 billion for health coverage, and other policies.
- **Take Medicare off budget.** Medicare is projected to run a surplus of \$400 billion from 2001-10. This surplus is currently included in the \$1.86 trillion on-budget surplus. Your economic team recommends that we move Medicare Part A off-budget (or otherwise wall off the Medicare surplus), ensuring that this \$400 billion is used for debt reduction. This would allow us to redefine the on-budget surplus as \$1.5 trillion. We could use the charge of "raiding the Social Security and Medicare surpluses" to block tax cuts that exceeded this amount. The power of this argument has been demonstrated by the effect that taking Social Security off-budget has had on the fiscal debate. The new idea would be to extend this to say that payroll taxes for both Medicare and Social Security should be set aside for debt reduction and not used to fund large tax cuts. (See the Appendix to this memo for more discussion of the policy considerations in moving Medicare off-budget.)
- **Enhance the prescription drug benefit and invest in provider givebacks.** Your economic team recommends that we improve the prescription drug benefit by starting it in 2002 and adding a catastrophic benefit that is not included in the premium. In addition, we recommend retaining competition and other reforms, but dropping some savers and proposing \$35 billion of givebacks. This would bring the net cost of Medicare policies to \$264 billion – \$130 billion more than we proposed in the February budget.
- **This would leave about \$390 billion for added discretionary spending, tax cuts, personal savings, or more debt reduction.** After taking into account debt service, these core proposals would leave \$390 billion for additional proposals or reserves for discretionary investments, tax cuts, or personal savings. In addition, some of this money could be used to increase the total allocation to debt reduction.

FRAMEWORK OPTION 1A
(billions of dollars)

	<u>Feb Budget</u>	<u>MSR</u>	<u>Added</u>
Current services on-budget surplus	\$746	\$1,860	+\$1,154
Take Medicare off-budget (debt reduction)	--	\$400	+\$400
Revised surplus with Medicare off-budget	--	\$1,460	
Net prescription drugs and provider givebacks	\$134	\$264	+\$130
Medicare transfers (debt reduction)	\$299	\$299	--
Current tax cut	\$256	\$256	--
Current discretionary	-\$32	-\$32	--
Health coverage	\$91	\$91	--
Other (including tobacco policy)	-\$79	-\$79	--
Debt service	\$68	\$272	+\$204
<i>Total base proposals</i>	<i>\$737</i>	<i>\$1,470</i>	<i>+\$733</i>
Added discretionary / tax / personal savings		\$390	
Total debt reduction	\$308 (41%)	\$758 (41%)	+\$450 (40%)

IIA. FIRST OPTION: ALLOCATING \$390 BILLION TO NATIONAL PRIORITIES

If you believe that \$390 billion is sufficient for new investments in key national priorities, then you will need to make decisions about how this money is allocated between different priorities and the degree of specificity you want to have in making this allocation. The general options discussed here consider different allocations to personal savings, discretionary investments, additional tax cuts, and more debt reduction. In deciding these issues there are several questions you need to address:

(1) Do you want to define the \$390 billion in terms of specific priorities?

Option A: Define the \$390 billion as "investments in America's priorities" without specifying the allocation to different priorities.

Option B: Provide more structure about the use of the \$390 billion.

(2) If you want to define the \$390 billion, how specific do you want to be?

- Option A:** Make specific proposals such as detailed trust funds for areas like education, research, or globalization initiatives. Also we could propose to strengthen some of your existing tax cut proposals in areas like health coverage, vaccines, and digital divide.
- Option B:** Leave the money in more general "reserves" earmarked for priorities like education, research, or globalization initiatives. This would provide you with a broader vehicle to talk about addressing America's major challenges.

(3) Do you want to allocate money to personal savings? A major issue in looking at the \$390 billion is whether or not you want to explicitly set aside funds of at least \$250 billion – in some nonspecific form – that could be used for a personal savings tax cut like USAs. If you keep this overall option and provide a reserve of \$250 billion for personal savings, this would leave \$140 billion for new investments in other priorities like education, research, globalization initiatives, or additional targeted tax cuts.

(4) Do you want 50 percent for debt reduction? Framework Option 1B shows what it is like to use 50 percent of the surplus for debt reduction. This would be a simple and appealing message. It could also allow about \$172 billion to be reserved or transferred to Social Security, potentially as part of a policy that extended solvency even more than your current proposal.

- Option A:** Keep base policies: \$758 billion (41 percent of the surplus) for debt reduction and \$390 billion for investments in priorities.
- Option B:** Increase debt reduction total to \$930 billion, 50 percent of the surplus. This would add \$172 billion to debt reduction and leave \$250 billion for new investments in priorities.
- Option C:** Increase the debt reduction total to \$930 billion or more and allow that a fraction of this (i.e., \$250 billion) could be used for investments in personal savings. If we did this we would have to acknowledge that this would lower debt reduction by \$250 billion or we would be accused of double counting.

IIB. SECOND FRAMEWORK OPTION: GREATER RESOURCES FOR PRIORITIES

If you believe that the base options do not provide sufficient resources for national priorities, then there are two alternative policies that build on the core elements but provide more resources for national priorities. These two options are:

(Option 2A) Reduce Medicare solvency transfers.

Medicare solvency transfers could be reduced from \$299 billion to something like \$200 billion while still extending the solvency of Medicare to at least 2030. We could justify scaling back our Medicare transfers in light of the revised Trustees Report which projects solvency to 2025 (compared with 2015 projected in last year's Report). As a result, we could say that we have decided to reallocate resources from solvency to prescription drugs. Alternatively, we are exploring the possibility of using the same interest savings concept for Medicare transfers that we currently use for Social Security transfers; this would result in smaller Medicare transfers from 2001-10 while still extending solvency to at least 2030.

- You would then have \$490 billion for investments in key priorities, \$100 billion more than the first option. This could be available for investments in areas like education or research. Or, since you are taking money from Medicare, you could use the additional \$100 billion for a health care initiative, such as a fund for uncompensated pool for providers disproportionately serving the uninsured or a proposal for a new medical education training fund for academic health centers favored by Secretary Shalala. (We have not had full discussion on these health care options; if this is of interest to you we will have a quick process to flesh out more specific options.)
- Under this scenario we would be devoting 34 percent of the on-budget surplus to debt reduction. Based on preliminary estimates, the debt would be repaid in 2012 – one year later than in the base option.

(Option 2B) Leave Medicare on-budget and use one-third of the surplus for debt reduction.

Devote one-third of the \$1.86 trillion surplus – or \$620 billion – to debt reduction. (This is equivalent to using about one-quarter of the added surplus for debt reduction.) \$299 billion of this debt reduction would be accomplished through Medicare solvency transfers. The other \$321 billion would come from another form of debt reduction, possibly a reserve for Social Security or pure debt reduction.

- This would also free up about \$510 billion for discretionary investments, tax cuts, and personal savings – about \$120 billion more than was available in the base proposal.
- Based on preliminary estimates, the debt would be repaid in 2012 – one year later than in the base option.

IIC. COMPARING THE ALTERNATIVE FRAMEWORKS FOR THE TOTAL

The following table shows the four alternative frameworks and the amount of money they leave available for additional priorities. They differ only in the total amount devoted to debt reduction, the size of the Medicare transfers, whether or not Medicare is taken off-budget, and the resources available for new investments in priorities.

<u>ALTERNATIVE MID-SESSION REVIEW FRAMEWORKS</u>				
	<u>Option</u> <u>1A</u>	<u>Option</u> <u>1B</u>	<u>Option</u> <u>2A</u>	<u>Option</u> <u>2B</u>
Current services on-budget surplus	\$1,860	\$1,860	\$1,860	\$1,860
Take Medicare off-budget (debt reduction)	\$400	\$400	\$400	--
Medicare Transfers	\$299	\$299	\$200	\$299
Social Security Reserve or Other Debt Redn	--	\$172	--	\$321
Net prescription drugs and provider givebacks	\$264	\$264	\$264	\$264
Current tax cut	\$256	\$256	\$256	\$256
Current discretionary	-\$32	-\$32	-\$32	-\$32
Health coverage	\$91	\$91	\$91	\$91
Other (including tobacco policy)	-\$79	-\$79	-\$79	-\$79
Debt service	\$272	\$239	\$272	\$231
<i>Total base proposals</i>	<i>\$1,470</i>	<i>\$1,610</i>	<i>\$1,370</i>	<i>\$1,350</i>
Added discretionary / tax / personal savings	\$390	\$250	\$490	\$510
Total debt reduction	\$758 (41%)	\$930 (50%)	\$639 (34%)	\$620 (33%)
Debt elimination year	2011	2011	2012	2012

III. SCENARIOS FOR AN OFFER

Your economic team believes that while we should have an overall framework for the Mid-session Review, the best strategy is to focus public attention on an offer that builds on your Mid-session Review proposals but uses only a limited portion of the surplus. We would define this limited offer as something that could be accomplished this year, and argue that the election is the place to settle the priorities that should govern the allocation of the remaining surplus.

Precondition for a deal: Medicare off-budget. As a precondition, we would require that the fiscally responsible step of taking Medicare off-budget, increasing debt reduction by \$400 billion and ensuring that payroll taxes are used for Social Security and Medicare only.

Proposed deal: prescription drugs for marriage penalty. We would offer to sign marriage penalty tax relief, potentially subject to some minimum standards of fairness, for about \$240 billion (the Senate level) if they pass a prescription drug proposal that provides affordable coverage, including a catastrophic benefit, for a total of about \$250 billion.

- This deal would be described as a \$500 billion deal.
- The deal actually takes about \$1 trillion off the table – including the Medicare off-budget and the debt service on the prescription drugs and marriage penalty. This leaves about \$900 billion undefined by the deal. You would use your Mid-session Review proposals – and your platform – to sharpen the debate about the choice the American people face about how to use the remaining surplus.
- A variant of this deal would be an expanded offer that would include our health care coverage in exchange for some provider givebacks.

Advantages of this approach

- With such a large on-budget surplus, a conditional offer on prescription drugs may be a better block against unwise but moderate-sized moderate tax cuts – like estate tax cuts – than trying to argue that we cannot afford any tax cuts or initiatives at all.
- It puts prescription drugs front and center.
- The offer defines and limits the tax cut – it does not open the door to estate tax and other proposals.
- Would be perceived by many as making a serious, constructive offer. Could at a minimum lead to accomplishing a Clinton victory on Medicare off-budget this year.

Potential downsides to this approach

- A potential Republican counteroffer of a bad marriage penalty, a weak prescription drug plan, and significant Medicare givebacks, and possibly Medicare off-budget could put us in a difficult situation.
- Requiring Medicare off-budget as a precondition could block the ability to get a major achievement on prescription drugs.

- Although the offer requires moving Medicare off-budget, it could be viewed as breaking our fiscal discipline with half a trillion dollars in new spending without Medicare or Social Security solvency.
- Provides no additional energy for your other tax cut proposals, like expanding the EITC, or for health coverage.

APPENDIX – CONSIDERATIONS IN TAKING MEDICARE OFF-BUDGET

Medicare Part A covers Hospital Insurance and is paid for by the 2.9 percent payroll tax. For Medicare Part B, 25 percent of the funding comes from premiums and 75 percent of the funding comes from general revenues. Our proposal would only be to take Medicare Part A off-budget. Under current accounting rules, Medicare Part B does not materially affect the surplus. We would not propose taking Part B off budget because it would raise additional technical complications and would increase the susceptibility of Medicare Part B to spending caps that we strongly oppose.

Since 1965, Medicare (henceforth Medicare refers to Medicare Part A) has mostly run small surpluses, with income exceeding costs. In FY 1999, Medicare had a surplus of \$19 billion. These surpluses are expected to grow to the \$35 to \$45 billion range annually – totaling \$400 billion over 10 years. Medicare is projected to stay in surplus until about 2020. With Medicare on-budget, these surpluses contribute to the total surplus, and are thus available for tax cuts or spending. Moving Medicare off-budget would reduce the total surplus by \$400 billion over 10 years. If we continue to balance the on-budget account, it would ensure that the \$400 billion that goes to the Medicare trust fund is matched dollar-for-dollar by debt reduction.

An alternative would be to earmark the Medicare surplus within the on-budget surplus and dedicate it to debt reduction. This would avoid some of the complexities of changing budget concepts, and of different treatment of Part A and Part B, but it could be seen as less definitive than taking Medicare off-budget, and thus be a less effective block.

In addition to the general resource constraint and tax cut blocking issues discussed in the memo, there are several considerations in taking Medicare off-budget:

Arguments for taking Medicare off-budget

- Taking Medicare off-budget, in the context of a balanced on-budget account, ensures that Medicare trust fund accumulations are matched by increased national savings. This is the best way for the government to pre-fund its future obligations to Medicare beneficiaries. This is analogous to the argument for taking Social Security off-budget. It is also more relevant now that Medicare is running a substantial surplus and building up a substantial trust fund to pay benefits for the baby boom generation.
- Taking Medicare off-budget puts our transfers on a firmer foundation. Currently our Medicare transfers involve moving money from the on-budget to the on-budget but defining it as an outlay. If this money were transferred from the on-budget to the off-budget the conceptual underpinnings of this policy would be much more clear.
- Taking Medicare off-budget ensures that any policies that extend the solvency of Medicare also improve the overall fiscal soundness of Federal finances. (With Medicare on-budget, if a Medicare savings policy is used as an offset for other spending, it could extend Medicare solvency while doing nothing for overall Federal finances.)

- Medicare can be volatile and can contribute to swings in the actual or projected on-budget surplus. In some circumstances, taking Medicare off-budget could reduce the volatility in the on-budget surplus. If future budgets aim for a balanced on-budget account and Medicare projections come in worse than projected, having Medicare off-budget will reduce pressure for cuts in other areas.
- Taking Medicare off-budget would reduce the pressure for cutting Medicare Part A to balance the budget. (This could also be viewed as a con, since it could require larger cuts in discretionary spending.)

Arguments against taking Medicare off-budget

- This would only be taking Medicare Part A – Hospital Insurance coming from payroll taxes – off-budget. Medicare Part B would still be 25 percent premiums and 75 percent on-budget general revenues. This could leave Part B politically exposed.
- With our other policies, this could be seen as devoting \$963 billion for Medicare – some may find this too much for older Americans at the expense of coverage, education, and children. Much of this, however, is simply debt reduction through Medicare. The force of this critique will depend on the composition of the entire budget.
- Taking Medicare off-budget could increase Stockman risk for discretionary: if the economy worsens and the on-budget moves into deficit there would be more pressure to cut discretionary spending.
- The unified surplus is the best measure of the financial and economic impact of the U.S. government – moving Medicare off-budget is just one more deviation from this measure.
- Given the currently projected Medicare surpluses, taking Medicare off-budget could increase fiscal discipline and debt reduction. But if Medicare goes into deficit, which is currently projected to occur about 2020, this policy could actually reduce fiscal discipline. In some circumstances this problem could be eased if concerns about Medicare's imminent insolvency motivate greater fiscal discipline.
- Moving Medicare off-budget could create pressure to move other trust funds – like the Highway Trust Fund and the Federal civil service and military retirement trust funds – or even non-trust fund programs off-budget.
- In the past Medicare savings have provided an offset for health programs like CHIP. With Medicare Part A off-budget, its Part A savings could only be used as an offset for Part A spending.
- Medicare accounting is very complicated. Even if taking Medicare Part A off-budget improves this accounting, by raising the profile of the issue we could be forced to explain some of the issues that have existed for decades.

Taxes

September 15, 2000

MEMORANDUM FOR GENE SPERLING

FROM: PETER WONG

SUBJECT: REPUBLICANS' 90-10 PLAN FOR FY 2001 SURPLUS

The Ways and Means Committee marked up a debt reduction reconciliation bill on September 14. This bill appropriates \$42 billion in FY 2001 only for a "Public Debt-Reduction Account" to be used by Treasury for public debt retirement. This is simply a gimmick because the Treasury automatically reduces debt held by the public when there are budget surpluses, so no new legislation is needed to retire debt. There are only two tangible ways to reduce the debt—restrain spending and foregoing large tax cuts. In fact, we can argue that the most important actions this year that have produced debt reduction are the President's veto of the two large tax cuts (Estate and Marriage) and the House votes to sustain the veto.

The objectionable part of the bill is that it reduces the statutory limit on the debt ceiling by the same \$42 billion. The limits would be reduced from the current \$5.950 trillion to \$5.908 trillion. As of August 31, 2000, the outstanding debt is \$5.595 trillion. This bill will leave only \$313 billion of "room" under the revised debt ceiling. (These are Ways and Means numbers.)

Remaining Surplus for Other Uses

In July, CBO projected a FY 2001 non-Social Security non-Medicare-HI surplus of \$70 billion. If \$42 billion were reserved for debt reduction, then \$28 billion would be left for other uses. So far, the Republicans have not released a detailed plan for using the \$28 billion.

CBO Projections FY 2001	(billions)	
Total CBO-projected surplus (unified budget)	\$268	100%
Social Security surplus	166	62%
Hospital Insurance (HI) Surplus	32	12%
Portion of FY 2001 surplus for debt reduction	42	16%
Subtotal for debt reduction	240	90%
Remaining surplus for other uses	\$28	10%

It is not a surprise that the \$28 billion fits perfectly into Speaker Hastert and Senator Lott's new budget rule of using 90% of the unified budget surplus for debt reduction and 10% percent for other uses such as tax cuts. They simply backed into the numbers. *The burning question seems to be whether the \$28 billion is enough to meet the remaining Republican tax cut priorities and how much would be left over for discretionary spending.*

Hastert and DeLay told reporters that their preliminary tax priorities are:

- repeal of the 3% telephone excise tax,
- small business tax breaks linked with an increase in the minimum wage,
- pension reforms and individual retirement account expansion, and
- community renewal legislation to help economically depressed areas.

The FY 2001 cost of the Hastert-DeLay's list of tax cuts is \$8 billion. Over five years, it is \$67.2 billion and \$136.1 billion over ten years.

Cost of Hastert's Remaining Tax Priorities (using CBO numbers)*	FY 2001 (billions)	FY 2001-05 (billions)	FY 2001-10 (billions)
Repeal of telephone excise tax (H.R. 3916)	\$4.3	\$24.0	\$55.0
Small business tax breaks (H.R. 3832)**	1.7	10.3	18.7
Pension reforms and IRA (H.R. 1102)***	1.9	27.1	43.1
Community renewal (H.R. 4923)	0.1	5.8	19.3
Total	\$8	\$67.2	\$136.1

*from an internal table generated by OMB

**small business provisions only (avoid double counting with pension bill)

***Including CBO sunset after 2004

The Republicans' Plan is really a 90-5-5 Plan. Hastert and DeLay also told reporters that they want to spend half of the \$28 billion or \$14 billion for tax cuts. So far, based on their proposed tax priorities, the tax bills costs about \$8 billion meaning they have roughly \$6 billion for additional tax cuts. Another existing tax cut item that Republicans might consider using the remaining \$6 billion for is their Social Security Benefits Tax Relief Act which costs \$3.6 billion in FY 2001 and \$117 billion over 10 years.

Although Hastert and DeLay were non-committal, we are assuming the remaining \$14 billion or 5% of the unified surplus are funds that they will use to negotiate with the President to pass appropriations bills. *The next question is whether the \$14 billion over the budget resolution baseline is enough to satisfy our proposed discretionary priorities.*

I spoke with Dick Emery at OMB about the scenario and he thinks that the remaining \$14 million will be way short of the amount necessary to meet our priorities and the add-backs. OMB thinks the *upper limit* number that will capture all the potential spending scenarios and add-ons is almost \$32 billion above the CBO baseline. In practice the number will be lower in order to meet our spending priorities. Given OMB's worst case scenario, the 90-5-5 plan is almost \$18 billion short on the spending side. OMB provided a chart detailing the likely actions and potential add-ons, which is summarized below.

Five Percent for Spending Initiatives is not Enough (using CBO numbers)	FY 2001 (billions)
Remaining amount for spending	\$14.0
Likely action:	
Medicare givebacks	-3.7
Emergency agriculture funding	-2.2
Appropriations to meet the President's priorities <i>(very confidential number from OMB)</i>	-10.0
Other additional add-ons:	
High Medicare add-ons (Daschle's added proposal)	-5.3
Defense	-4.0
Other member add-ons	-5.0
Debt service on above	-1.7
Total likely action and add-ons	-31.9
Deficit of funds needed to meet priorities	- \$17.9

I think it is politically dangerous for us to seriously engage the Republicans in their one-year 90-5-5 scheme because: 1) the debt reduction portion is simply a public relations gimmick, and 2) it reduces our leverage to negotiate successfully to meet all the President's discretionary priorities in the appropriations process. However, if Republicans forgo their 5 percent plan for tax cuts and use the entire \$28 billion to bridge the spending gap, it gets us very close.

TAX STRATEGY

Sept. 28, 2000

Our list:

PRESIDENT'S TAX PROPOSALS	
College opportunity	\$36
School construction	8
EITC	25
Community (new mkts, EZs, etc.)	15
Digital divide	2
Better America Bonds	3
Long-term care	26
Health coverage	14
Vaccines	1
Marriage penalty / standard deduction	43
Childcare	31
RSAs	54
Small business pension coverage	17
Other pensions	7
AMT	36
Other simplification	5
Philanthropy	15
Energy efficiency	9
International trade	5
GROSS TOTAL	359
OFFSETS	96
NET TOTAL	\$263

Potential Arme y List:

Pension	\$80
Minimum Wage	76
Telephone Tax	42-52
New Markets	20-40
FSC	4
Adoption	?
Taxpayer Bill of Rights (TBOR)	7
Total	\$229-259

Possible first offer:

Social Security	\$44
Democratic Marriage Penalty with EITC	95
Estate Tax	60-80
New Markets	20-40
Subtotal	219-259
<i>In addition, bi-partisan support for:</i>	
School Construction	8
FSC	4
Total	\$231-271

Second move:

Option A:	
Pensions	\$70
Minimum Wage	30
Marriage Penalty	95
New Markets	20
FSC	4
Subtotal	219
<i>Willing to add an additional \$60 if:</i>	
Long-term care	26.6
School Construction	8
GOP add-ons	25.4
Total	\$279

Option B:	
<i>Same as A except including:</i>	
Telephone tax	\$42-52
Marriage Penalty	45

Option C:	
Portman Cardin	\$70
Minimum Wage	30
Telephone	42-52
New Markets	20
FSC	4
Total	\$166-176

Willing to add an additional \$80 if including:

- Long-term care
- School Construction
- Vaccine
- Energy

Question: Would they go for this if they get \$40 for their additional options?

THREE OVERALL TAX STRATEGY OPTIONS

Should we propose: 1) a top-line agreement incorporating selected current bills and fight under the number for our priorities, 2) a message offer, or 3) no offer?

Top-Line Agreement

The top-line approach would generate the following likely outcome.

Likely outcome	Low range	High range
Pension: Portman-Cardin	\$60	\$100
New markets	20	27
Telephone excise tax	54	54
Minimum wage	35	80
Patients bill-of-rights (PBOR)	0	40
Total	\$169	\$301

Conditions to a top-line agreement:

- **Keep the Republican tax cut to \$180-200 billion.** This is workable only if we can keep the Republican package in the \$180-200 billion range.
- **Agree to a higher number if the extra room is reserved only for Clinton priorities.** Agree to a top-line figure of \$250-\$275 billion if \$50 to \$70 billion is made available for Clinton tax priorities, such as long-term care, school construction, EITC/marriage penalty, vaccines, climate change, etc.

Pros of strategy:

- If Republican agree to top line approach, we could prevent the tax cuts from spiraling uncontrollably upwards to the \$350-400 billion range.
- It provides us a framework to push for Clinton priorities without the fear that it would lead to a bidding war.

Cons of strategy:

- Fighting each bill individually might lead to a less overall tax cut total than the top-line agreement strategy.
- The top-line strategy might allow them to claim to the public that the Administration is embracing their "debt-reduction and moderate tax cut strategy". In addition, it takes away our position as defenders of "fiscal discipline" by stopping the Republican's irresponsible \$2 trillion tax cut plan.

Unified Democratic Offer

Propose a \$250 billion net offer by Clinton and Democrats. Below is a net \$250 billion scenario that is being put forth for discussion. It is a revised "Podesta envelop" without the telephone tax. It includes a Social Security provision and several smaller Clinton priorities with up to \$75 billion in tax loophole closures and eliminating unnecessary subsidies.

Possible Unified Offer	(billions)
Senate Democrat estate tax	\$60
House Democrat marriage penalty	82
Clinton Social Security benefits offer—eliminating 50% tax bracket	43
Pension and savings	45
New markets	20
School construction	8
Long-term care	26
Vaccines	1.5
Climate change	8.5
EITC reform or child care tax credit	21
Misc. (open pot)	10
Gross total	325
Loophole closures	75
Net Total	\$250

Pros of unified offer:

- This would place President and Congressional Democrats in a position of proposing a "working family" tax cut plan and put the Republicans in the position of saying no.
- It may help Congressional Democrats who feel they need to get "healthy" on the issues of the marriage penalty, Social Security and the estate tax.

Cons of unified offer:

- It would move the President away from the fiscal discipline posture on Medicare and Social Security solvency. *(This could be partially addressed with moving the Medicare off-budget package.)*
- It may serve as a floor for Republican tax cuts and could re-ignite tax cut efforts. The President may be seen as reviving the tax-cut debate when tax cuts as an issue is beginning to recede in Congress.

No Offer

Fight each bill separately. Under this strategy, we would fight every bill one by one to keep the overall total down. This strategy would allow us to pursue only relatively small Clinton tax priorities, for example, fighting for school construction in the Labor-HHS appropriations bill and fighting for the long-term care tax credit in the event of a "patients bill-of-rights" legislation.

Pros of no-offer strategy:

- Republican tax-cutting efforts appear to be fading and we should not be pushing for tax cuts.
- We can focus on fighting for school construction in Labor-HHS bill. In the event of a "patients bill-of-rights" bill, we will have significant leverage to add the long-term care tax credit.

Cons of no-offer strategy:

- The public may perceive us as opposing tax cuts.
- We are less likely to get at a high number for Clinton's tax cut priorities.

OVERVIEW ON UPDATE ON CONGRESSIONAL TAX PLAN
September 14, 2000

SIZE & COST OF CONGRESSIONAL TAX CUTS

- **Republicans have passed \$712 billion of tax cuts this year, which cost \$913 billion with interest.** This is according to an analysis in an OMB memo that was released in July and updated with a chart produced on September 8, 2000 by Ways and Means Committee. numbers.

<u>Tax Provisions</u>	<u>10 year Cost</u>	<u>Status</u>
Marriage Penalty	\$293	Vetoed and Sustained
Estate Tax Repeal	105	Vetoed and Sustained
Small Business / Minimum Wage	123	
Social Security Benefits Tax Reduction	116	
Communications Excise Tax Repeal	51	
Pension and IRA Limit Increases	52	
Affordable Education	21	
Patients Bill of Rights	69	
Taxpayer Bill of Rights	7	
Trade and Development	4	
Total Cost (eliminating duplication)	712	
Added Interest	201	
Total Drain on Surplus	\$913	

- **The 106th Congress has passed more than \$1.4 trillion of tax cuts, which with interest would use \$1.8 trillion of the surplus.** This is according to the OMB analysis. The Republican tax cuts is more than OMB's \$1.47 trillion projected surplus and uses all of CBO's \$1.81 trillion projected surplus. (Projected surpluses exclude Social Security and Medicare surpluses.) *Note that some Republican members of Congress have endorsed provisions of the "George W. Bush Tax Reduction Proposal" as scored by JCT on May 3, 2000. Under this proposal, the rate reductions are \$727 billion – even more than the rate reductions shown above – and there is an additional \$162 billion for doubling the child tax credit that is not reflected in the numbers.*

Tax Cuts Passed This Year	\$712
<u>Tax Cuts Passed Last Year</u>	
Reduction in Tax Rates	490
Individual Alternative Minimum Tax	115
Corporate Alternative Minimum Tax	14
Capital Gains for Individuals	57
Capital Gains for Corporations	8
Interest Deduction on Worldwide Basis	29
Extend R&E Tax Credit	18
Extend exemption for Subpart F AFI	6
Total Cost (eliminating duplication)	1,447
Added Interest	349
Total Drain on Surplus	\$1,796

SIZE OF THE PRESIDENT'S TAX CUTS

- President offers a balanced set of tax proposals:

PRESIDENT'S TAX PROPOSALS	
College opportunity	\$36
School construction	8
EITC	25
Community (new mkts, EZs, etc.)	15
Digital divide	2
Better America Bonds	3
Long-term care	26
Health coverage	14
Vaccines	1
Marriage penalty / standard deduction	43
Childcare	31
RSAs	54
Small business pension coverage	17
Other pensions	7
AMT	36
Other simplification	5
Philanthropy	15
Energy efficiency	9
International trade	5
GROSS TOTAL	359
OFFSETS	96
NET TOTAL	\$263

DISTRIBUTION OF TAX CUTS

- **Republican tax cuts do as much for the top 1 percent as the bottom 80 percent.** The top 1 percent gets 27.5 percent of the benefits. That is a total of \$18 billion annually, or an average of \$16,000 per family. The bottom 80 percent gets 23.7 percent of the benefits. That is a total of \$15 billion annually, or an average of only \$167 per family. Even this tax cut could be offset if costly tax cuts led to higher interest rates and higher costs on everything from home mortgages to student loans.
- **Taxes on typical families are the lowest in over two decades.** President Clinton's tax cut proposals build on a successful strategy that has resulted in the lowest total Federal tax rates on typical families in over two decades. The tax cuts signed into law by the President in 1993 and 1997 – for example, the expanded Earned Income Tax Credit, the \$500 child tax credit, the \$1,500 HOPE Scholarship Tax Credit, and expanded IRAs have reduced taxes for American families. The total Federal tax rate for the median-income family of four has dropped from 24.5 percent in 1992 to 22.8 percent in 1999 – that's the lowest tax rate since 1978. For families at one-half the median income, the effective Federal tax rate has been slashed from 19.8 percent in 1992 to 14.1 percent in 1999 – that's the lowest tax rate since 1968.

ANALYSIS OF INDIVIDUAL TAX BILLS

- **Marriage penalty: \$293 billion over 10.**
 - The original House bill was \$182 billion and the Senate bill was \$248 billion – so the Conference agreement went up by \$45-\$110 billion from the previous bills.
 - Less than 40 percent of cost reduces marriage penalties, according to Treasury.
 - More than half of the cost goes to people making over \$100,000, according to JCT.
 - **Passed by both Houses, vetoed by the President and sustained by the House.**
- **Estate tax repeal: \$105 billion over 10.**
 - Only 2 percent of decedents pay the estate tax.
 - In 2010 54,000 people get an average tax cut of \$800,000 each.
 - Half of the benefits of repeal go the top one-tenth of one percent, an average tax cut of \$7 million.
 - Cost explodes from \$105 billion from 2001-10 to \$750 billion from 2011-20.
 - Repeal could reduce charitable contributions by \$5-\$6 billion annually.
 - Democratic alternative in the Senate would have taken two-thirds of estates – and the vast majority of small businesses and family farms – off the estate tax rolls.
 - **Passed by both Houses, vetoed by the President and sustained by the House.**

- **Social Security benefits tax rollback: \$116 billion over 10.**
 - By itself it would take 5 years off the life of Medicare – insolvent in 2020 instead of 2025. (The President’s plan extends solvency to at least 2030.)
 - Republican bill includes transfers of \$116 billion over 10 years and \$13.7 trillion over 75 years; even with these huge transfers not a single day is added to solvency.
 - Only 16 percent of Social Security beneficiaries pay tax on up to 85 percent of benefits. (This tax kicks in above \$34,000 for singles and \$44,000 for married couples.)
 - Passed House Ways and Means and passed the Senate as an amendment to estate tax repeal but was stripped from the bill before final passage.

- **Portman-Cardin / IRA limit increase: \$51 billion over 10.**
 - Includes provisions to simplify pensions, increase portability, and expand pension coverage for small businesses that were in the President’s proposal.
 - Increases the maximum annual contribution to a pension from \$10,500 to \$15,000. Currently less than 5 percent of people contribute the maximum and they have an average income of \$130,000.
 - Increases the maximum annual contribution to an IRA from \$2,000 to \$5,000 – fewer than 5 percent of people currently make the maximum annual contribution to an IRA.
 - Relaxes non-discrimination and “top heavy” rules in a way that would allow some employers to improve pensions for top executives while lowering pension quality for rank and file workers.
 - 75 million Americans are not covered by an employer-sponsored pension plan. The President’s RSA proposal would expand coverage to tens of millions of these people.
 - Passed the House overwhelmingly.
 - Senator Roth has a similar plan costing \$43 billion over ten years that is under consideration by the Senate.

MINIMUM WAGE

I. Tax provisions that we agree with and are acceptable:

- Accelerate 100% self-employed health insurance deduction
- Repeal occupational taxes related to spirits, wine and beer
- Permit installment method for accrual basis taxpayers
- Commercial fishermen provision

II. Tax provisions that we can agree to with modifications:

- WOTC with extension to welfare-to-work
- Computer donations—standard and additional digital divide
- Charitable rollover-modified by appreciation to property provision (\$412 million)

III. Major issues in minimum wage tax bill:

1. Dropping or moving health insurance from the minimum wage:

Issues:

- *How much leverage on FSLA would we lose by kicking out the health provisions?*
- *Does trying to add Clinton priorities undercut our effort to drop provisions?*
- *What if they agree to more progressive tax-credit options? (This is unlikely due to Archer's opposition).*

2. Reforestation and climate change.

Issues

- *Do we insist on the climate change tax cut and pair it with the reforestation tax cuts?*
- *Should we go for the car tax credit at \$2.5 billion, a modified package at \$5 billion, or the full package of provisions at \$9 billion?*

3. FUTA surtax:

Issues

- *Is it our aim to keep FUTA?*
- *Do we keep FUTA out or do we keep it in with UI reforms? (Adding UI reforms to FUTA would increase the package by \$14 billion over ten years.)*

4. Meals and entertainment:

- Everyone in the tax strategy group is opposed to increasing the business and meal deduction to 80% for all employees.

Issue

- *Should we support the provision granting 80% business meal deduction for workers subject to DOT hours and/or the provision moving from 50% to 60% for small businesses only?*
5. Should we follow the strategy of a symmetrical path—for example, put our digital divide package against their digital divide package and our environmental package against their environmental package?
6. Should we discuss our priority items, for which they do not have proposals, such as school construction and vaccines?

~~CONFIDENTIAL~~

JGP
9/22/04

~~CONFIDENTIAL~~

April 4, 1997

cc: Palmer/Blum
Gene
Let's discuss
with theme of summit
po-empt?
RG

MEMORANDUM TO THE PRESIDENT

From: Gene Sperling
Subject: On Children: A Big Statement

This is the memo I have always wanted to write to you. It may be more from the heart than from the mind, but I like to think it is from both.

I need to stress that this is not an NEC memo and the ideas here have not been vetted or gone through a process. I have discussed this memo only with Erskine, and he told me he thought I should simply send it to you as a personal memo.

I. AIM FOR A MAJOR STATEMENT: Confront the moral gap between our ideal of opportunity and the desperate conditions for the poorest of poor children.

You have an opportunity to make a compelling statement to the American people. Not just a swift tactical move on the budget, or one that impresses opinion leaders with your leadership, but the type of statement that Presidents are long remembered for.

There are no perfect recipes for a great statement. Yet, one recipe is when a President makes the nation come face to face with a moral gap between its timeless ideals and the harsh realities of a particular moment in history that contradicts those ideals.

Certainly racial discrimination is one of those harsh realities. Both Kennedy and Johnson are remembered for the moments where they used their platforms as President to force the nation to directly confront its contradictions between racial discrimination and our belief in the equality of all people. At this moment in time, the deepest contradiction in our national character is between our belief in equal economic opportunity based on individual hard work and merit, and the deplorable conditions of children in the poorest urban centers (and rural as well) of our nation. The American value is certainly one of equal opportunity and not of equal results. While we maintain a decent safety net so that people do not starve, we rightly allow and even encourage significant differences of wealth and fortune because we believe in giving people the opportunity to fail or succeed based on their hard work and individual merit. The stain on this ideal that creates the gap between our ideal and our reality, is the incredibly poor opportunities of the poorest of our urban (and often rural) children.

For the children born into the most hopeless crime-ridden areas -- where there is a lack of jobs, and health care and quality education -- the promise of opportunity is a false one.

Many people in our society have addressed this issue. But surely neither Nixon nor Ford nor Carter nor Reagan nor Bush ever used the Presidency to directly force the nation to grapple with this fundamental gap in our values. You have addressed this in a myriad of ways, from the EITC to our efforts to provide universal health care.

But I believe the step that will stir the conscience of the nation, and be remembered as such -- is a direct speech to the American people that solely focused on our belief that every American child should have a fair chance to make it; that the realities of our poorest urban centers now make that promise unreal for millions, and that you are willing to tell the nation that we have a moral imperative to direct our national will and our national resources to perfect the nation -- no matter how difficult the choices.

II. THE OUTLINE OF THE STATEMENT:

You should deliver a nationally televised address to the nation on the moral imperative for us to commit ourselves to making the American ideal true for even the poorest of poor children, while announcing a full-scale effort to move us there. This should be largely a tough challenge to parents, businesses, churches, government officials on their role.

But what will make it real and lasting, is to at the same time lay out politically bold steps to take us there.

1. A Pro-Children's Budget: State that our first obligation is to take care of our children: the way to do that is to balance the budget with a pro-children's budget. Pro-children because it saves for their future, but pro-children because it invests in them and in repairing this breach in our values. We can save more for our children's tomorrows, while taking bold steps to save a current generation of children today.

2. First Job is to Balance the Budget and Take Bold Action on Children:

To take care of our children we must focus on the four stages.

Stage 1: 0-5: Early learning, positive love, nutrition, health care, child support, two parents, and pre-school are the ingredients for allowing each child to enter school ready to learn.

Stage 2: Elementary Schools: Safety in the neighborhood; tough standards, individual tutoring and mentoring, access to education technology

Stage 3: 12-17: Hope and high expectations: Pell grants awarded to poor children in 6th grade. One million mentors; community schools that are open and give teens a safe place to learn after school hours. Safe school and youth anti-violence initiatives.

Stage 4: True College Opportunity: Dramatic increase in Pell Grants: strong college opportunity agenda.

3. First Step is to therefore pass a balanced budget that makes dramatic steps to help children. We can then vote for tax cuts later if that helps us reach the first goal.

4. Say clearly that this nations budget priorities go too much to people who don't need them, and too little to the poorest children. Particularly, we need to look at whether too much is going to elderly Americans who don't need it and too little to poor children who desperately need our help.

5. Make Clear that the Tough Choices to Make this Statement are Real -- But Make CLEAR THAT IT IS CONDITIONAL ON AT LEAST HALF THE FUNDS GOING TO CHILDREN AND HALF TO DEFICIT REDUCTION.

- **High Income Premium and Premiums on Home Health Shift over \$30,000 to raise \$12 billion:** As mentioned before, this could be dedicated to health care for poor children, and directly shows the commitment to more generational equity.

- **A .3-.5 CPI adjustment in the Cost-of-Living.** A unilateral endorsement of .3 would be significant and seen as a strong step toward getting to a balanced budget. A bolder move -- likely to secure opinion leader approval -- would be .5 with adjustments for poor Social Security Recipients. The problem is that it may be too much for Democrats and they could revolt, even though a guarantee of it not paying for tax cuts could help.

- **Tobacco Tax targeted for children.** Although it will lead to incredible manipulation that we are "taxing the world," the tax itself is good children's policy and it could be a great fight for us. The demagoguery we will receive should not be underestimated, but it is courage and good policy, and raises significant funds for both deficit reduction and children's health care.

Any two of these items together, would be seen as strong. All three would be bold.

6. With these savings we can balance the budget; Make structural progress on Social Security; and have the funds to:

- Give health care to over 5 million poor children
- New funding for childcare and pre-school/Head Start
- New nationwide initiative on 0-3
- Funding for America Reads/Mentoring/Educational Technology
- New Community Schools Initiative
- Even Greater Increase in Pell Grants

II. OUTCOME?

Risks: This would be a major political roll of the dice. Senior groups and labor might launch a campaign against the COLA adjustment. Labor will show how much we are reducing wages for the working poor; senior groups may do advertisements about seniors losing thousands of dollars over their retirement. Some Republicans will claim that all of the savings are needed to balance the budget under CBO and that we shouldn't be spending any new money. Some commentators will say that this was a move to keep Powell from getting leadership on children, and some editorial pages will still say that you have not made the hard choices on Social Security and Medicare yet. The biggest risk is that Democrats feel that we have made it too easy for Republicans to come up with funds to get out of their box of how to do a budget proposal that pays for tax cuts. They will admire your words, but may say that you have allowed Republicans huge funds they can pocket and that save them.

Yet, if you put the new savings in the context of paying for key children's initiatives, then it is an offer conditional on Republicans accepting his priorities and Democrats will see these moves as tightly linked to accomplishing their key priorities and therefore harder to resist.

Rewards: While the risks are great, so are the rewards. This statement would give the second term of the Clinton Presidency a clear and concise moral foundation that makes clear that the good we are trying to do is far larger than any of the hits other are trying to impose on us. All of our proposals -- from education to safe streets to deficit reduction to tobacco to television violence -- will now be wrapped into a clear and understandable theme of giving all of our children a chance. We will have stepped up to the plate for the elite media who want to see middle-class entitlements shaved -- but we will step up not as "Eisenhower Republicans" or Bond Market Democrats, but as progressive reformers out to use government to help every child simply have an even break. For millions of Clinton supporters and even millions of Clinton doubters, the clear moral statement for children will win their hearts.

When all of the pain is put in the context of paying for this progressive agenda for children, the hits from our side will be more muted. Because half of the savings -- and a growing amount as time goes by -- goes to deficit reduction, Republicans and deficit hawks will find it harder to criticize the overall move as "big spending." Key senior groups might be able to be somewhat muted if we make clear that we would never go above .5.

While your initial speech must be on the poorest children to show clear moral leadership and the lack of any pandering, our initiatives around the nation could still maintain the great quality of disproportionately helping the poorest children while also appealing to the broad middle class. And if we fail; it turns out to be poor politics, then we did so in the best of causes and it will be remembered as such.

THE WHITE HOUSE

Office of the Press Secretary

For Immediate Release

January 27, 2000

PRESIDENT WILLIAM J. CLINTON
STATE OF THE UNION ADDRESS

U.S. Capitol
Washington, D.C.

9:18 P.M. EST

THE PRESIDENT: Mr. Speaker, Mr. Vice President, members of Congress, honored guests, my fellow Americans:

We are fortunate to be alive at this moment in history. (Applause.) Never before has our nation enjoyed, at once, so much prosperity and social progress with so little internal crisis and so few external threats. Never before have we had such a blessed opportunity -- and, therefore, such a profound obligation -- to build the more perfect union of our founders' dreams.

We begin the new century with over 20 million new jobs; the fastest economic growth in more than 30 years; the lowest unemployment rates in 30 years; the lowest poverty rates in 20 years; the lowest African American and Hispanic unemployment rates on record; the first back-to-back budget surpluses in 42 years. And next month, America will achieve the longest period of economic growth in our entire history. (Applause.)

We have built a new economy.

And our economic revolution has been matched by a revival of the American spirit: crime down by 20 percent, to its lowest level in 25 years; teen births down seven years in a row; adoptions up by 30 percent; welfare rolls cut in half to their lowest levels in 30 years.

My fellow Americans, the state of our union is the strongest it has ever been. (Applause.)

As always, the real credit belongs to the American people. (Applause.) My gratitude also goes to those of you in this chamber who have worked with us to put progress over partisanship.

Eight years ago, it was not so clear to most Americans there would be much to celebrate in the year 2000. Then our nation was gripped by economic distress, social decline, political gridlock. The title of a best-selling book asked: "America: What Went Wrong?"

In the best traditions of our nation, Americans determined to set things right. We restored the vital center, replacing outmoded ideologies with a new vision anchored in basic, enduring values: opportunity for all, responsibility from all, a community of all Americans. We reinvented government, transforming it into a catalyst for new ideas that stress both opportunity and responsibility, and give our people the tools they need to solve their own problems.

With the smallest federal work force in 40 years, we turned record deficits into record surpluses, and doubled our investment in education. We cut crime, with 100,000 community police and the Brady

law, which has kept guns out of the hands of half a million criminals.
(Applause.)

We ended welfare as we knew it -- (applause) -- requiring work while protecting health care and nutrition for children, and investing more in child care, transportation, and housing to help their parents go to work. We've helped parents to succeed at home and at work, with family leave, which 20 millions Americans have now used to care for a newborn child or a sick loved one. We've engaged 150,000 young Americans in citizen service through AmeriCorps, while helping them earn money for college.

In 1992, we just had a road map; today, we have results.
(Applause.)

But even more important, America again has the confidence to dream big dreams. But we must not let this confidence drift into complacency. For we, all of us, will be judged by the dreams and deeds we pass on to our children. And on that score, we will be held to a high standard, indeed, because our chance to do good is so great.

My fellow Americans, we have crossed the bridge we built to the 21st century. Now, we must shape a 21st century American revolution -- of opportunity, responsibility and community. We must be now, as we were in the beginning, a new nation.

At the dawn of the last century, Theodore Roosevelt said, "the one characteristic more essential than any other is foresight...it should be the growing nation with a future that takes the long look ahead." So, tonight, let us take our long look ahead -- and set great goals for our nation.

To 21st century America, let us pledge these things: Every child will begin school ready to learn and graduate ready to succeed. (Applause.) Every family will be able to succeed at home and at work, and no child will be raised in poverty. (Applause.) We will meet the challenge of the aging of America. We will assure quality, affordable health care, at last, for all Americans. (Applause.)

We will make America the safest big country on Earth. (Applause.) We will pay off our national debt for the first time since 1835. (Applause.) We will bring prosperity to every American community. We will reverse the course of climate change and leave a safer, cleaner planet. America will lead the world toward shared peace and prosperity, and the far frontiers of science and technology. And we will become at last what our founders pledged us to be so long ago -- one nation, under God, indivisible, with liberty and justice for all. (Applause.)

These are great goals, worthy of a great nation. We will not reach them all this year. Not even in this decade. But we will reach them. Let us remember that the first American Revolution was not won with a single shot; the continent was not settled in a single year. The lesson of our history -- and the lesson of the last seven years -- is that great goals are reached step by step, always building on our progress, always gaining ground.

Of course, you can't gain ground if you're standing still. And for too long this Congress has been standing still on some of our most pressing national priorities. So let's begin tonight with them.

Again, I ask you to pass a real patients' bill of rights. (Applause.) I ask you to pass common-sense gun safety legislation. (Applause.) I ask you to pass campaign finance reform. (Applause.) I ask you to vote up or down on judicial nominations and other important

appointees. (Applause.) And, again I ask you -- I implore you -- to raise the minimum wage. (Applause.)

Now, two years ago -- let me try to balance the seesaw here -- (laughter) -- two years ago, as we reached across party lines to reach our first balanced budget, I asked that we meet our responsibility to the next generation by maintaining our fiscal discipline. Because we refused to stray from that path, we are doing something that would have seemed unimaginable seven years ago. We are actually paying down the national debt. (Applause.)

Now, if we stay on this path, we can pay down the debt entirely in 13 just years now and make America debt-free for the first time since Andrew Jackson was President in 1835. (Applause.)

In 1993, we began to put our fiscal house in order with the Deficit Reduction Act, which you'll all remember won passages in both Houses by just a single vote. Your former colleague, my first Secretary of the Treasury, led that effort and sparked our long boom. He's here with us tonight. Lloyd Bentsen, you have served America well, and we thank you. (Applause.)

Beyond paying off the debt, we must ensure that the benefits of debt reduction go to preserving two of the most important guarantees we make to every American -- Social Security and Medicare. (Applause.) Tonight, I ask you to work with me to make a bipartisan down payment on Social Security reform by crediting the interest savings from debt reduction to the Social Security Trust Fund so that it will be strong and sound for the next 50 years. (Applause.)

But this is just the start of our journey. We must also take the right steps toward reaching our great goals. First and foremost, we need a 21st century revolution in education, guided by our faith that every single child can learn. (Applause.) Because education is more important than ever, more than ever the key to our children's future, we must make sure all our children have that key. That means quality pre-school and after-school, the best trained teachers in the classroom, and college opportunities for all our children. (Applause.)

For seven years now, we've worked hard to improve our schools, with opportunity and responsibility -- investing more, but demanding more in turn. Reading, math, college entrance scores are up. Some of the most impressive gains are in schools in very poor neighborhoods.

But all successful schools have followed the same proven formula: higher standards, more accountability, and extra help so children who need it can get it to reach those standards. I have sent Congress a reform plan based on that formula. It holds states and school districts accountable for progress, and rewards them for results. Each year, our national government invests more than \$15 billion in our schools. It is time to support what works and stop supporting what doesn't. (Applause.)

Now, as we demand more from our schools, we should also invest more in our schools. (Applause.) Let's double our investment to help states and districts turn around their worst-performing schools, or shut them down. Let's double our investments in after-school and summer school programs, which boost achievement and keep people off the streets and out of trouble. (Applause.) If we do this, we can give every single child in every failing school in America -- everyone -- the chance to meet high standards.

Since 1993, we've nearly doubled our investment in Head Start and improved its quality. Tonight, I ask you for another \$1 billion for Head Start, the largest increase in the history of the program.

(Applause.)

We know that children learn best in smaller classes with good teachers. For two years in a row, Congress has supported my plan to hire 100,000 new qualified teachers to lower class size in the early grades. I thank you for that, and I ask you to make it three in a row. (Applause.) And to make sure all teachers know the subjects they teach, tonight I propose a new teacher quality initiative -- to recruit more talented people into the classroom, reward good teachers for staying there, and give all teachers the training they need. (Applause.)

We know charter schools provide real public school choice. When I became President, there was just one independent public charter school in all America. Today, thanks to you, there are 1,700. I ask you now to help us meet our goal of 3,000 charter schools by next year. (Applause.)

We know we must connect all our classrooms to the Internet, and we're getting there. In 1994, only 3 percent of our classrooms were connected. Today, with the help of the Vice President's E-rate program, more than half of them are. And 90 percent of our schools have at least one Internet connection. (Applause.)

But we cannot finish the job when a third of all our schools are in serious disrepair. Many of them have walls and wires so old, they're too old for the Internet. So tonight, I propose to help 5,000 schools a year make immediate and urgent repairs; and again, to help build or modernize 5,000 more, to get students out of trailers and into high-tech classrooms. (Applause.)

I ask all of you to help me double our bipartisan Gear-Up program, which provides mentors for disadvantaged young people. If we double it, we can provide mentors for 1.4 million of them. (Applause.) Let's also offer these kids from disadvantaged backgrounds the same chance to take the same college test-prep courses wealthier students use to boost their test scores. (Applause.)

To make the American Dream achievable for all, we must make college affordable for all. For seven years, on a bipartisan basis, we have taken action toward that goal: larger Pell grants, more affordable student loans, education IRAs, and our HOPE scholarships, which have already benefitted 5 million young people.

Now, 67 percent of high school graduates are going on to college. That's up 10 percent since 1993. Yet millions of families still strain to pay college tuition. They need help. (Applause.) So I propose a landmark \$30-billion college opportunity tax cut -- a middle class tax deduction for up to \$10,000 in college tuition costs. (Applause.) The previous actions of this Congress have already made two years of college affordable for all. It's time to make four years of college affordable for all. (Applause.) If we take all these steps, we'll move a long way toward making sure every child starts school ready to learn and graduates ready to succeed.

We need a 21st century revolution to reward work and strengthen families, by giving every parent the tools to succeed at work and at the most important work of all -- raising children. That means making sure every family has health care and the support to care for aging parents, the tools to bring their children up right, and that no child grows up in poverty.

From my first days as President, we've worked to give families better access to better health care. In 1997, we passed the Children's Health Insurance Program -- CHIP -- so that workers who don't have coverage through their employers at least can get it for their children.

So far, we've enrolled 2 million children; we're well on our way to our goal of 5 million.

But there are still more than 40 million of our fellow Americans without health insurance -- more than there were in 1993. Tonight I propose that we follow Vice President Gore's suggestion to make low income parents eligible for the insurance that covers their children. (Applause.) Together with our children's initiative -- think of this -- together with our children's initiative, this action would enable us to cover nearly a quarter of all the uninsured people in America.

Again, I want to ask you to let people between the ages of 55 and 65 -- the fastest growing group of uninsured -- buy into Medicare. (Applause.) And this year I propose to give them a tax credit to make that choice an affordable one. I hope you will support that, as well. (Applause.)

When the baby boomers retire, Medicare will be faced with caring for twice as many of our citizens; yet, it is far from ready to do so. My generation must not ask our children's generation to shoulder our burden. We simply must act now to strengthen and modernize Medicare.

My budget includes a comprehensive plan to reform Medicare, to make it more efficient and competitive. And it dedicates nearly \$400 billion of our budget surplus to keep Medicare solvent past 2025. (Applause.) And, at long last, it also provides funds to give every senior a voluntary choice of affordable coverage for prescription drugs. (Applause.)

Lifesaving drugs are an indispensable part of modern medicine. No one creating a Medicare program today would even think of excluding coverage for prescription drugs. Yet more than three in five of our seniors now lack dependable drug coverage which can lengthen and enrich their lives. Millions of older Americans who need prescription drugs the most pay the highest prices for them. In good conscience, we cannot let another year pass without extending to all our seniors this lifeline of affordable prescription drugs. (Applause.)

Record numbers of Americans are providing for aging or ailing loved ones at home. It's a loving, but a difficult and often very expensive choice. Last year, I proposed a \$1,000 tax credit for long-term care. Frankly, it wasn't enough. This year, let's triple it, to \$3,000. (Applause.) But this year, let's pass it. (Applause.)

We also have to make needed investments to expand access to mental health care. I want to take a moment to thank the person who led our first White House Conference on Mental Health last year, and who for seven years has led all our efforts to break down the barriers to decent treatment of people with mental illness. Thank you, Tipper Gore. (Applause.)

Taken together, these proposals would mark the largest investment in health care in the 35 years since Medicare was created -- the largest investment in 35 years. That would be a big step toward assuring quality health care for all Americans, young and old. And I ask you to embrace them and pass them. (Applause.)

We must also make investments that reward work and support families. Nothing does that better than the Earned Income Tax Credit -- the EITC. (Applause.) The "E" in the EITC is about earning, working, taking responsibility and being rewarded for it. In my very first address to you, I asked Congress to greatly expand this credit; and you did. As a result, in 1998 alone, the EITC helped more than 4.3 million

Americans work their way out of poverty toward the middle class. That's double the number in 1993.

Tonight, I propose another major expansion of the EITC: to reduce the marriage penalty, to make sure it rewards marriage as it rewards work -- (applause) -- and also, to expand the tax credit for families that have more than two children. It punishes people with more than two children today. (Applause.) Our proposal would allow families with three or more children to get up to \$1,100 more in tax relief. These are working families; their children should not be in poverty. (Applause.)

We also can't reward work and family unless men and women get equal pay for equal work. (Applause.) Today, the female unemployment rate is the lowest it has been in 46 years. Yet, women still only earn about 75 cents for every dollar men earn. We must do better, by providing the resources to enforce present equal pay laws; training more women for high-paying, high-tech jobs; and passing the Paycheck Fairness Act. (Applause.)

Many working parents spend up to a quarter -- a quarter -- of their income on child care. Last year, we helped parents provide child care for about 2 million children. My child care initiative, before you now, along with funds already secured in welfare reform, would make child care better, safer and more affordable for another 400,000 children. I ask you to pass that. They need it out there -- (applause.)

For hard-pressed middle-income families, we should also expand the child care tax credit. And I believe strongly we should take the next big step and make that tax credit refundable for low-income families. (Applause.) For people making under \$30,000 a year, that could mean up to \$2,400 for child care costs. You know, we all say we're pro-work and pro-family. Passing this proposal would prove it. (Applause.)

Tens of millions of Americans live from paycheck to paycheck. As hard as they work, they still don't have the opportunity to save. Too few can make use of IRAs and 401-K plans. We should do more to help all working families save and accumulate wealth. That's the idea behind the Individual Development Accounts, the IDAs. I ask you to take that idea to a new level, with new Retirement Savings Accounts that enable every low- and moderate-income family in America to save for retirement, a first home, a medical emergency, or a college education. I propose to match their contributions, however small, dollar for dollar, every year they save. And I propose to give a major new tax credit to any small business that will provide a meaningful pension to its workers. Those people ought to have retirement as well as the rest of us. (Applause.)

Nearly one in three American children grows up without a father. These children are five times more likely to live in poverty than children with both parents at home. Clearly, demanding and supporting responsible fatherhood is critical to lifting all children out of poverty. We've doubled child support collections since 1992. And I'm proposing to you tough new measures to hold still more fathers responsible.

But we should recognize that a lot of fathers want to do right by their children, but need help to do it. Carlos Rosas of St. Paul, Minnesota, wanted to do right by his son, and he got the help to do it. Now he's got a good job and he supports his little boy. My budget will help 40,000 more fathers make the same choices Carlos Rosas did. I thank him for being here tonight. (Applause.) Stand up, Carlos. Thank you. (Applause.)

If there is any single issue on which we should be able to

reach across party lines, it is in our common commitment to reward work and strengthen families, similar to what we did last year. We came together to help people with disabilities keep their health insurance when they go to work. And I thank you for that. Thanks to overwhelming bipartisan support from this Congress, we have improved foster care. We've helped those young people who leave it when they turn 18, and we have dramatically increased the number of foster care children going into adoptive homes. I thank all of you for all of that. (Applause.)

Of course, I am forever grateful to the person who has led our efforts from the beginning, and who's worked so tirelessly for children and families for 30 years now: my wife, Hillary. And I thank her. (Applause.)

If we take the steps I've just discussed, we can go a long, long way toward empowering parents to succeed at home and at work, and ensuring that no child is raised in poverty. We can make these vital investments in health care, education, support for working families, and still offer tax cuts to help pay for college, for retirement, to care for aging parents, to reduce the marriage penalty. We can do these things without forsaking the path of fiscal discipline that got us to this point here tonight.

Indeed, we must make these investments and these tax cuts in the context of a balanced budget that strengthens and extends the life of Social Security and Medicare and pays down the national debt. (Applause.)

Crime in America has dropped for the past seven years -- that's the longest decline on record -- thanks to a national consensus we helped to forge on community police, sensible gun safety laws, and effective prevention. But nobody -- nobody here, nobody in America -- believes we're safe enough. So again, I ask you to set a higher goal. Let's make this country the safest big country in the world. (Applause.)

Last fall, Congress supported my plan to hire, in addition to the 100,000 community police we've already funded, 50,000 more, concentrated in high-crime neighborhoods. I ask your continued support for that.

Soon after the Columbine tragedy, Congress considered common-sense gun legislation, to require Brady background checks at the gun shows, child safety locks for new handguns, and a ban on the importation of large-capacity ammunition clips. With courage -- and a tie-breaking vote by the Vice President -- (applause) -- the Senate faced down the gun lobby, stood up for the American people, and passed this legislation. But the House failed to follow suit.

Now, we have all seen what happens when guns fall into the wrong hands. Daniel Mauser was only 15 years old when he was gunned down at Columbine. He was an amazing kid -- a straight-A student, a good skier. Like all parents who lose their children, his father Tom has borne unimaginable grief. Somehow he has found the strength to honor his son by transforming his grief into action. Earlier this month, he took a leave of absence from his job to fight for tougher gun safety laws. I pray that his courage and wisdom will at long last move this Congress to make common-sense gun legislation the very next order of business. (Applause.)

Tom Mauser, stand up. We thank you for being here tonight. (Applause.) Tom. Thank you, Tom. (Applause.)

We must strengthen our gun laws and enforce those already on the books better. (Applause.) Federal gun crime prosecutions are up 16

percent since I took office. But we must do more. I propose to hire more federal and local gun prosecutors and more ATF agents to crack down on illegal gun traffickers and bad-apple dealers. And we must give them the enforcement tools that they need, tools to trace every gun and every bullet used in every gun crime in the United States. I ask you to help us do that. (Applause.)

Every state in this country already requires hunters and automobile drivers to have a license. I think they ought to do the same thing for handgun purchases. (Applause.) Now, specifically, I propose a plan to ensure that all new handgun buyers must first have a photo license from their state showing they passed the Brady background check and a gun safety course, before they get the gun. I hope you'll help me pass that in this Congress. (Applause.)

Listen to this -- listen to this. The accidental gun rate -- the accidental gun death rate of children under 15 in the United States is nine times higher than in the other 25 industrialized countries combined. Now, technologies now exist that could lead to guns that can only be fired by the adults who own them. I ask Congress to fund research into smart gun technology, to save these children's lives. (Applause.) I ask responsible leaders in the gun industry to work with us on smart guns, and other steps to keep guns out of the wrong hands, to keep our children safe.

You know, every parent I know worries about the impact of violence in the media on their children. I want to begin by thanking the entertainment industry for accepting my challenge to put voluntary ratings on TV programs and video and Internet games. But, frankly, the ratings are too numerous, diverse and confusing to be really useful to parents. So tonight, I ask the industry to accept the First Lady's challenge to develop a single voluntary rating system for all children's entertainment that is easier for parents to understand and enforce. (Applause.) The steps I outline will take us well on our way to making America the safest big country in the world.

Now, to keep our historic economic expansion going -- the subject of a lot of discussion in this community and others -- I believe we need a 21st century revolution to open new markets, start new businesses, hire new workers right here in America -- in our inner cities, poor rural areas, and Native American reservations. (Applause.)

Our nation's prosperity hasn't yet reached these places. Over the last six months, I've traveled to a lot of them, joined by many of you, and many far-sighted business people, to shine a spotlight on the enormous potential in communities from Appalachia to the Mississippi Delta, from Watts to the Pine Ridge Reservation. Everywhere I go, I meet talented people eager for opportunity, and able to work. Tonight I ask you, let's put them to work. (Applause.) For business, it's the smart thing to do. For America, it's the right thing to do. And let me ask you something -- if we don't do this now, when in the wide world will we ever get around to it? (Applause.)

So I ask Congress to give businesses the same incentives to invest in America's new markets they now have to invest in markets overseas. (Applause.) Tonight, I propose a large New Markets tax credit and other incentives to spur \$22 billion in private-sector capital to create new businesses and new investments in our inner cities and rural areas. (Applause.)

Because empowerment zones have been creating these opportunities for five years now, I also ask you to increase incentives to invest in them and to create more of them. (Applause.)

And let me say to all of you again what I have tried to say at

every turn -- this is not a Democratic or a Republican issue. Giving people a chance to live their dreams is an American issue.' (Applause.)

Mr. Speaker, it was a powerful moment last November when you joined Reverend Jesse Jackson and me in your home state of Illinois, and committed to working toward our common goal, by combining the best ideas from both sides of the aisle. I want to thank you again, and to tell you, Mr. Speaker, I look forward to working with you. This is a worthy, joint endeavor. Thank you. (Applause.)

I also ask you to make special efforts to address the areas of our nation with the highest rates of poverty -- our Native American reservations and the Mississippi Delta. My budget includes \$110-million initiative to promote economic development in the Delta, and a billion dollars to increase economic opportunity, health care, education and law enforcement for our Native American communities. (Applause.) In this new century -- we should begin this new century by honoring our historic responsibility to empower the first Americans. (Applause.) And I want to thank tonight the leaders and the members from both parties who've expressed to me an interest in working with us on these efforts. They are profoundly important.

There's another part of our American community in trouble tonight -- our family farmers. When I signed the Farm Bill in 1996, I said there was great danger it would work well in good times, but not in bad. Well, droughts, floods, and historically low prices have made these times very bad for the farmers. We must work together to strengthen the farm safety net, invest in land conservation, and create some new markets for them by expanding our programs for bio-based fuels and products. Please, they need help -- let's do it together. (Applause.)

Opportunity for all requires something else today -- having access to a computer and knowing how to use it. That means we must close the digital divide between those who've got the tools and those who don't. (Applause.)

Connecting classrooms and libraries to the Internet is crucial, but it's just a start. My budget ensures that all new teachers are trained to teach 21st century skills, and it creates technology centers in 1,000 communities to serve adults. This spring, I'll invite high-tech leaders to join me on another New Markets tour, to close the digital divide and open opportunity for our people.

I want to thank the high-tech companies that already are doing so much in this area. I hope the new tax incentives I have proposed will get all the rest of them to join us. This is a national crusade. We have got to do this, and do it quickly. (Applause.)

Now, again I say to you, these are steps, but step by step, we can go a long way toward our goal of bringing opportunity to every community.

To realize the full possibilities of this economy, we must reach beyond our own borders, to shape the revolution that is tearing down barriers and building new networks among nations and individuals, and economies and cultures: globalization. It's the central reality of our time.

Of course, change this profound is both liberating and threatening to people. But there's no turning back. And our open, creative society stands to benefit more than any other -- if we understand, and act on, the realities of interdependence. We have to be at the center of every vital global network, as a good neighbor and a good partner. We have to recognize that we cannot build our future

without helping others to build theirs.

The first thing we have got to do is to forge a new consensus on trade. Now, those of us who believe passionately in the power of open trade, we have to ensure that it lifts both our living standards and our values, never tolerating abusive child labor or a race to the bottom in the environment and worker protection. But others must recognize that open markets and rule-based trade are the best engines we know of for raising living standards, reducing global poverty and environmental destruction, and assuring the free flow of ideas.

I believe as strongly tonight as I did the first day I got here, the only direction forward for America on trade -- the only direction for America on trade is to keep going forward. I ask you to help me forge that consensus. (Applause.)

We have to make developing economies our partners in prosperity. That's why I would like to ask you again to finalize our groundbreaking African and Caribbean Basin trade initiatives. (Applause.)

But globalization is about more than economics. Our purpose must be to bring together the world around freedom and democracy and peace, and to oppose those who would tear it apart. Here are the fundamental challenges I believe America must meet to shape the 21st century world.

First, we must continue to encourage our former adversaries, Russia and China, to emerge as stable, prosperous, democratic nations. Both are being held back today from reaching their full potential: Russia by the legacy of communism, an economy in turmoil, a cruel and self-defeating war in Chechnya; China by the illusion that it can buy stability at the expense of freedom.

But think how much has changed in the past decade: 5,000 former Soviet nuclear weapons taken out of commission; Russian soldiers actually serving with ours in the Balkans; Russian people electing their leaders for the first time in a thousand years; and in China, an economy more open to the world than ever before.

Of course, no one, not a single person in this chamber tonight, can know for sure what direction these great nations will take. But we do know for sure that we can choose what we do. And we should do everything in our power to increase the chance that they will choose wisely, to be constructive members of our global community.

That's why we should support those Russians who are struggling for a democratic, prosperous future; continue to reduce both our nuclear arsenals; and help Russia to safeguard weapons and materials that remain.

And that's why I believe Congress should support the agreement we negotiated to bring China into the WTO, by passing Permanent Normal Trade Relations with China as soon as possible this year. (Applause.)

I think you ought to do it for two reasons. First of all, our markets are already open to China; this agreement will open China's markets to us. (Applause.) And, second, it will plainly advance the cause of peace in Asia and promote the cause of change in China. No, we don't know where it's going. All we can do is decide what we're going to do. But when all is said and done, we need to know we did everything we possibly could to maximize the chance that China will choose the right future. (Applause.)

A second challenge we've got is to protect our own security

from conflicts that pose the risk of wider war and threaten our common humanity. We can't prevent every conflict or stop every outrage. But where our interests are at stake and we can make a difference, we should be, and we must be, peacemakers.

We should be proud of our role in bringing the Middle East closer to a lasting peace; building peace in Northern Ireland; working for peace in East Timor and Africa; promoting reconciliation between Greece and Turkey and in Cyprus; working to defuse these crises between India and Pakistan; in defending human rights and religious freedom. And we should be proud of the men and women of our Armed Forces and those of our allies who stopped the ethnic cleansing in Kosovo, enabling a million people to return to their homes. (Applause.)

When Slobodan Milosevic unleashed his terror on Kosovo, Captain John Cherrey was one of the brave airmen who turned the tide. And when another American plane was shot down over Serbia, he flew into the teeth of enemy air defenses to bring his fellow pilot home. Thanks to our Armed Forces' skill and bravery, we prevailed in Kosovo without losing a single American in combat. (Applause.) I want to introduce Captain Cherrey to you. We honor Captain Cherrey, and we promise you, Captain, we'll finish the job you began. Stand up so we can see you. (Applause.)

A third challenge we have is to keep this inexorable march of technology from giving terrorists and potentially hostile nations the means to undermine our defenses. Keep in mind, the same technological advances that have shrunk cell phones to fit in the palms of our hands can also make weapons of terror easier to conceal and easier to use.

We must meet this threat by making effective agreements to restrain nuclear and missile programs in North Korea; curbing the flow of lethal technology to Iran; preventing Iraq from threatening its neighbors; increasing our preparedness against chemical and biological attack; protecting our vital computer systems from hackers and criminals; and developing a system to defend against new missile threats -- while working to preserve our ABM missile treaty with Russia. We must do all these things.

I predict to you, when most of us are long gone, but some time in the next 10 to 20 years, the major security threat this country will face will come from the enemies of the nation state: the narco-traffickers and the terrorists and the organized criminals, who will be organized together, working together, with increasing access to ever-more sophisticated chemical and biological weapons.

And I want to thank the Pentagon and others for doing what they're doing right now to try to help protect us and plan for that, so that our defenses will be strong. I ask for your support to ensure they can succeed. (Applause.)

I also want to ask you for a constructive bipartisan dialogue this year to work to build a consensus which I hope will eventually lead to the ratification of the Comprehensive Nuclear Test Ban Treaty. (Applause.)

I hope we can also have a constructive effort to meet the challenge that is presented to our planet by the huge gulf between rich and poor. We cannot accept a world in which part of humanity lives on the cutting edge of a new economy, and the rest live on the bare edge of survival. I think we have to do our part to change that -- with expanded trade, expanded aid, and the expansion of freedom.

This is interesting -- from Nigeria to Indonesia, more people got the right to choose their leaders in 1999 than in 1989, when the

Berlin Wall fell. We've got to stand by these democracies -- including, and especially tonight, Colombia, which is fighting narco-traffickers, for its own people's lives and our children's lives. I have proposed a strong two-year package to help Colombia win this fight. I want to thank the leaders in both parties in both Houses for listening to me and the President of Colombia about it. We have got to pass this. I want to ask your help. A lot is riding on it. And it's so important for the long-term stability of our country, and for what happens in Latin America.

I also want you to know I'm going to send you new legislation to go after what these drug barons value the most -- their money. And I hope you'll pass that as well. (Applause.)

In a world where over a billion people live on less than a dollar a day, we also have got to do our part in the global endeavor to reduce the debts of the poorest countries, so they can invest in education, health care and economic growth. That's what the Pope and other religious leaders have urged us to do. And last year, Congress made a down payment on America's share. I ask you to continue that. I thank you for what you did, and ask you to stay the course. (Applause.)

I also want to say that America must help more nations to break the bonds of disease. Last year in Africa, 10 times as many people died from AIDS as were killed in wars -- 10 times. The budget I give you invests \$150 million more in the fight against this and other infectious killers. And today, I propose a tax credit to speed the development of vaccines for diseases like malaria, TB and AIDS. I ask the private sector and our partners around the world to join us in embracing this cause. We can save millions of lives together, and we ought to do it. (Applause.)

I also want to mention our final challenge, which, as always, is the most important. I ask you to pass a national security budget that keeps our military the best-trained and best-equipped in the world, with heightened readiness and 21st century weapons; which raises salaries for our servicemen and women; which protects our veterans; which fully funds the diplomacy that keeps our soldiers out of war; which makes good on our commitment to pay our U.N. dues and arrears. I ask you to pass this budget. (Applause.)

I also want to say something, if I might, very personal tonight. The American people watching us at home, with the help of all the commentators, can tell from who stands and who sits, and who claps and who doesn't, that there's still modest differences of opinion in this room. (Laughter.) But I want to thank you for something, every one of you. I want to thank you for the extraordinary support you have given -- Republicans and Democrats alike -- to our men and women in uniform. I thank you for that. (Applause.)

I also want to thank, especially, two people. First, I want to thank our Secretary of Defense, Bill Cohen, for symbolizing our bipartisan commitment to national security. Thank you, sir. (Applause.) Even more, I want to thank his wife, Janet, who, more than any other American citizen, has tirelessly traveled this world to show the support we all feel for our troops. Thank you, Janet Cohen. I appreciate that. Thank you. (Applause.)

These are the challenges we have to meet so that we can lead the world toward peace and freedom in an era of globalization.

I want to tell you that I am very grateful for many things as President. But one of the things I'm grateful for is the opportunity that the Vice President and I have had to finally put to rest the bogus idea that you cannot grow the economy and protect the environment at the

same time. (Applause.)

As our economy has grown, we've rid more than 500 neighborhoods of toxic waste, ensured cleaner air and water for millions of people. In the past three months alone, we've helped preserve 40 million acres of roadless lands in the national forests, created three new national monuments.

But as our communities grow, our commitment to conservation must continue to grow. Tonight, I propose creating a permanent conservation fund, to restore wildlife, protect coastlines, save natural treasures, from the California redwoods to the Florida Everglades. (Applause.)

This Lands Legacy endowment would represent by far the most enduring investment in land preservation ever proposed in this House. I hope we can get together with all the people with different ideas and do this. This is a gift we should give to our children and our grandchildren for all time, across party lines. We can make an agreement to do this. (Applause.)

Last year, the Vice President launched a new effort to make communities more liberal -- livable -- (laughter) -- liberal, I know. (Laughter and applause.) Wait a minute, I've got a punchline now. That's this year's agenda; last year was livable, right? (Laughter.) That's what Senator Lott is going to say in the commentary afterwards. (Laughter.) To make our communities more livable. This is big business. This is a big issue. What does that mean? You ask anybody that lives in an unlivable community, and they'll tell you. They want their kids to grow up next to parks, not parking lots; the parents don't have to spend all their time stalled in traffic when they could be home with their children.

Tonight, I ask you to support new funding for the following things, to make American communities for liberal -- livable. (Laughter and applause.) I've done pretty well with this speech, but I can't say that. (Applause.)

One, I want you to help us to do three things. We need more funding for advanced transit systems. (Applause.) We need more funding for saving open spaces in places of heavy development. (Applause.) And we need more funding -- this ought to have bipartisan appeal -- we need more funding for helping major cities around the Great Lakes protect their waterways and enhance their quality of life. We need these things and I want you to help us. (Applause.)

The greatest environmental challenge of the new century is global warming. The scientists tell us the 1990s were the hottest decade of the entire millennium. If we fail to reduce the emission of greenhouse gases, deadly heat waves and droughts will become more frequent, coastal areas will flood, and economies will be disrupted. That is going to happen, unless we act.

Many people in the United States -- some people in this chamber -- and lots of folks around the world still believe you cannot cut greenhouse gas emissions without slowing economic growth. In the Industrial Age that may well have been true. But in this digital economy, it is not true anymore. New technologies make it possible to cut harmful emissions and provide even more growth.

For example, just last week, automakers unveiled cars that get 70 to 80 miles a gallon -- the fruits of a unique research partnership between government and industry. And before you know it, efficient production of bio-fuels will give us the equivalent of hundreds of miles from a gallon of gasoline.

To speed innovation in these kind of technologies, I think we should give a major tax incentive to business for the production of clean energy, and to families for buying energy-saving homes and appliances and the next generation of super-efficient cars when they hit the showroom floor. I also ask the auto industry to use the available technologies to make all new cars more fuel-efficient right away.

And I ask this Congress to do something else. Please help us make more of our clean energy technology available to the developing world. That will create cleaner growth abroad and a lot more new jobs here in the United States of America. (Applause.)

In the new century, innovations in science and technology will be the key not only to the health of the environment, but to miraculous improvements in the quality of our lives and advances in the economy. Later this year, researchers will complete the first draft of the entire human genome, the very blueprint of life. It is important for all our fellow Americans to recognize that federal tax dollars have funded much of this research, and that this and other wise investments in science are leading to a revolution in our ability to detect, treat, and prevent disease.

For example, researchers have identified genes that cause Parkinson's, diabetes, and certain kinds of cancer -- they are designed precision therapies that will block the harmful effect of these genes for good. Researchers already are using this new technique to target and destroy cells that cause breast cancer. Soon, we may be able to use it to prevent the onset of Alzheimer's. Scientists are also working on an artificial retina to help many blind people to see -- and listen to this -- microchips that would actually directly stimulate damaged spinal cords in a way that could allow people now paralyzed to stand up and walk. (Applause.)

These kinds of innovations are also propelling our remarkable prosperity. Information technology only includes 8 percent of our employment, but now it counts for a third of our economic growth -- along with jobs that pay, by the way, about 80 percent above the private sector average. Again, we ought to keep in mind, government-funded research brought supercomputers, the Internet, and communications satellites into being. Soon researchers will bring us devices that can translate foreign languages as fast as you can talk; materials 10 times stronger than steel at a fraction of the weight; and -- this is unbelievable to me -- molecular computers the size of a tear drop with the power of today's fastest supercomputers.

To accelerate the march of discovery across all these disciplines in science and technology, I ask you to support my recommendation of an unprecedented \$3 billion in the 21st Century Research Fund, the largest increase in civilian research in a generation. We owe it to our future. (Applause.)

Now, these new breakthroughs have to be used in ways that reflect our values. First and foremost, we have to safeguard our citizens' privacy. Last year, we proposed to protect every citizen's medical record. This year, we will finalize those rules. We've also taken the first steps to protect the privacy of bank and credit card records and other financial statements. Soon I will send legislation to you to finish that job. We must also act to prevent any genetic discrimination whatever by employers or insurers. I hope you will support that. (Applause.)

These steps will allow us to lead toward the far frontiers of science and technology. They will enhance our health, the environment, the economy in ways we can't even imagine today. But we all know that

at a time when science, technology and the forces of globalization are bringing so many changes into all our lives, it's more important than ever that we strengthen the bonds that root us in our local communities and in our national community.

No tie binds different people together like citizen service. There's a new spirit of service in America -- a movement we've tried to support with AmeriCorps, expanded Peace Corps, unprecedented new partnerships with businesses, foundations, community groups. Partnerships, for example, like the one that enlisted 12,000 companies which have now moved 650,000 of our fellow citizens from welfare to work. Partnerships to battle drug abuse, AIDS, teach young people to read, save America's treasures, strengthen the arts, fight teen pregnancy, prevent violence among young people, promote racial healing. The American people are working together.

But we should do more to help Americans help each other. First, we should help faith-based organizations to do more to fight poverty and drug abuse, and help people get back on the right track, with initiatives like Second Chance Homes that do so much to help unwed teen mothers. Second, we should support Americans who tithe and contribute to charities, but don't earn enough to claim a tax deduction for it. (Applause.) Tonight, I propose new tax incentives that would allow low- and middle-income citizens who don't itemize to get that deduction. It's nothing but fair, and it will get more people to give. (Applause.)

We should do more to help new immigrants to fully participate in our community. That's why I recommend spending more to teach them civics and English. And since everybody in our community counts, we've got to make sure everyone is counted in this year's census. (Applause.)

Within 10 years -- just 10 years -- there will be no majority race in our largest state of California. In a little more than 50 years, there will be no majority race in America. In a more interconnected world, this diversity can be our greatest strength. Just look around this chamber. Look around. We have members in this Congress from virtually every racial, ethnic, and religious background. And I think you would agree that America is stronger because of it. (Applause.)

You also have to agree that all those differences you just clapped for all too often spark hatred and division even here at home. Just in the last couple of years, we've seen a man dragged to death in Texas just because he was black. We saw a young man murdered in Wyoming just because he was gay. Last year, we saw the shootings of African Americans, Asian Americans, and Jewish children just because of who they were. This is not the American way, and we must draw the line. (Applause.)

I ask you to draw that line by passing without delay the Hate Crimes Prevention Act and the Employment Non-Discrimination Act. (Applause.) And I ask you to reauthorize the Violence Against Women Act. (Applause.)

Finally tonight, I propose the largest-ever investment in our civil rights laws for enforcement, because no American should be subjected to discrimination in finding a home, getting a job, going to school, or securing a loan. Protections in law should be protections in fact. (Applause.)

Last February, because I thought this was so important, I created the White House Office of One America to promote racial reconciliation. That's what one of my personal heroes, Hank Aaron, has done all his life. From his days as our all-time home run king to his

recent acts of healing, he has always brought people together. We should follow his example, and we're honored to have him with us tonight. Stand up, Hank Aaron. (Applause.)

I just want to say one more thing about this, and I want every one of you to think about this the next time you get mad at one of your colleagues on the other side of the aisle. This fall, at the White House, Hillary had one of her millennium dinners, and we had this very distinguished scientist there, who is an expert in this whole work in the human genome. And he said that we are all, regardless of race, genetically 99.9 percent the same.

Now, you may find that uncomfortable when you look around here. (Laughter.) But it is worth remembering. We can laugh about this, but you think about it. Modern science has confirmed what ancient faiths has always taught: the most important fact of life is our common humanity. Therefore, we should do more than just tolerate our diversity -- we should honor it and celebrate it. (Applause.)

My fellow Americans, every time I prepare for the State of the Union, I approach it with hope and expectation and excitement for our nation. But tonight is very special, because we stand on the mountain top of a new millennium. Behind us we can look back and see the great expanse of American achievement; and before us we can see even greater, grander frontiers of possibility. We should, all of us, be filled with gratitude and humility for our present progress and prosperity. We should be filled with awe and joy at what lies over the horizon. And we should be filled with absolute determination to make the most of it.

You know, when the framers finished crafting our Constitution in Philadelphia, Benjamin Franklin stood in Independence Hall and he reflected on the carving of the sun that was on the back of a chair he saw. The sun was low on the horizon. So he said this -- he said, "I've often wondered whether that sun was rising or setting. Today," Franklin said, "I have the happiness to know it's a rising sun." Today, because each succeeding generation of Americans has kept the fire of freedom burning brightly, lighting those frontiers of possibility, we all still bask in the glow and the warmth of Mr. Franklin's rising sun.

After 224 years, the American revolution continues. We remain a new nation. And as long as our dreams outweigh our memories, America will be forever young. That is our destiny. And this is our moment.

Thank you, God bless you, and God bless America. (Applause.)

END

11:08 P.M. EST

THE WHITE HOUSE

Office of the Press Secretary

For Immediate Release

January 19, 1999

PRESIDENT WILLIAM JEFFERSON CLINTON
STATE OF THE UNION ADDRESS

United States Capitol
Washington, D.C.

9:10 P.M. EST

THE PRESIDENT: Mr. Speaker, Mr. Vice President, members of Congress, honored guests, my fellow Americans: Tonight, I have the honor of reporting to you on the State of the Union.

Let me begin by saluting the new Speaker of the House, and thanking him, especially tonight, for extending an invitation to two special guests sitting in the gallery with Mrs. Hastert: Lyn Gibson and Wei Ling Chestnut are the widows of the two brave Capitol Hill police officers who gave their lives to defend freedom's house. (Applause.)

Mr. Speaker, at your swearing-in, you asked us all to work together in a spirit of civility and bipartisanship. Mr. Speaker, let's do exactly that. (Applause.)

Tonight, I stand before you to report that America has created the longest peacetime economic expansion in our history -- (Applause) -- with nearly 18 million new jobs, wages rising at more than twice the rate of inflation, the highest home ownership in history, the smallest welfare rolls in 30 years, and the lowest peacetime unemployment since 1937. (Applause.)

For the first time in three decades, the budget is balanced. (Applause.) From a deficit of \$290 billion in 1992, we had a surplus of \$70 billion last year. And now we are on course for budget surpluses for the next 25 years. (Applause.)

Thanks to the pioneering leadership of all of you, we have the lowest violent crime rate in a quarter century and the cleanest environment in a quarter century. America is a strong force for peace from Northern Ireland to Bosnia to the Middle East.

Thanks to the leadership of Vice President Gore, we have a government for the Information Age. Once again, a government that is a progressive instrument of the common good, rooted in our oldest values of opportunity, responsibility and community; devoted to fiscal responsibility; determined to give our people the tools they need to make the most of their own lives in the 21st century -- a 21st century government for 21st century America.

My fellow Americans, I stand before you tonight to report that the state of our union is strong. (Applause.)

America is working again. The promise of our future is limitless. But we cannot realize that promise if we allow the hum of our prosperity to lull us into complacency. How we fare as a nation far into the 21st century depends upon what we do as a nation today.

So with our budget surplus growing, our economy expanding, our confidence rising, now is the moment for this generation to meet our historic responsibility to the 21st century.

Our fiscal discipline gives us an unsurpassed opportunity to address a remarkable new challenge -- the aging of America. With the number of elderly Americans set to double by 2030, the baby boom will become a senior boom. So first, and above all, we must save Social Security for the 21st century. (Applause.)

Early in this century, being old meant being poor. When President Roosevelt created Social Security, thousands wrote to thank him for eliminating what one woman called the "stark terror of penniless, helpless old age." Even today, without Social Security, half our nation's elderly would be forced into poverty.

Today, Social Security is strong. But by 2013, payroll taxes will no longer be sufficient to cover monthly payments. By 2032, the trust fund will be exhausted and Social Security will be unable to pay the full benefits older Americans have been promised.

The best way to keep Social Security a rock-solid guarantee is not to make drastic cuts in benefits, not to raise payroll tax rates, not to drain resources from Social Security in the name of saving it. Instead, I propose that we make an historic decision to invest the surplus to save Social Security. (Applause.)

Specifically, I propose that we commit 60 percent of the budget surplus for the next 15 years to Social Security, investing a small portion in the private sector, just as any private or state government pension would do. This will earn a higher return and keep Social Security sound for 55 years.

But we must aim higher. We should put Social Security on a sound footing for the next 75 years. We should reduce poverty among elderly women, who are nearly twice as likely to be poor as our other seniors. (Applause.) And we should eliminate the limits on what seniors on Social Security can earn. (Applause.)

Now, these changes will require difficult but fully achievable choices over and above the dedication of the surplus. They must be made on a bipartisan basis. They should be made this year. So let me say to you tonight, I reach out my hand to all of you in both Houses, in both parties, and ask that we join together in saying to the American people: We will save Social Security now. (Applause.)

Now, last year we wisely reserved all of the surplus until we knew what it would take to save Social Security. Again, I say, we shouldn't spend any of it -- not any of it -- until after Social Security is truly saved. First things first. (Applause.)

Second, once we have saved Social Security, we must fulfill our obligation to save and improve Medicare. Already, we have extended the life of the Medicare trust fund by 10 years -- but we should extend it for at least another decade. Tonight, I propose that we use one out of every \$6 in the surplus for the next 15 years to guarantee the soundness of Medicare until the year 2020. (Applause.)

But, again, we should aim higher. We must be willing to work in a bipartisan way and look at new ideas, including the upcoming report of the bipartisan Medicare Commission. If we work together, we can secure Medicare for the next two decades and cover the greatest growing need of seniors -- affordable prescription drugs. (Applause.)

Third, we must help all Americans, from their first day on the job -- to save, to invest, to create wealth. From its beginning, Americans have supplemented Social Security with private pensions and savings. Yet, today, millions of people retire with little to live on other than Social Security. Americans living longer than ever simply must save more than ever.

Therefore, in addition to saving Social Security and Medicare, I propose a new pension initiative for retirement security in the 21st century. I propose that we use a little over 11 percent of the surplus to establish universal savings accounts -- USA accounts -- to give all Americans the means to save. With these new accounts Americans can invest as they choose and receive funds to match a portion of their savings, with extra help for those least able to save. USA accounts will help all Americans to share in our nation's wealth and to enjoy a more secure retirement. I ask you to support them. (Applause.)

Fourth, we must invest in long-term care. (Applause.) I propose a tax credit of \$1,000 for the aged, ailing or disabled, and the families who care for them. Long-term care will become a bigger and bigger challenge with the aging of America, and we must do more to help our families deal with it. (Applause.)

I was born in 1946, the first year of the baby boom. I can tell you that one of the greatest concerns of our generation is our absolute determination not to let our growing old place an intolerable burden on our children and their ability to raise our grandchildren. Our economic success and our fiscal discipline now give us an opportunity to lift that burden from their shoulders, and we should take it. (Applause.)

Saving Social Security, Medicare, creating USA accounts -- this is the right way to use the surplus. If we do so -- if we do so -- we will still have resources to meet critical needs in education and defense. And I want to point out that this proposal is fiscally sound. Listen to this: If we set aside 60 percent of the surplus for Social Security and 16 percent for Medicare, over the next 15 years, that saving will achieve the lowest level of publicly-held debt since right before World War I, in 1917. (Applause.)

So with these four measures -- saving Social Security, strengthening Medicare, establishing the USA accounts, supporting long-term care -- we can begin to meet our generation's historic responsibility to establish true security for 21st century seniors.

Now, there are more children from more diverse backgrounds in our public schools than at any time in our history. Their education must provide the knowledge and nurture the creativity that will allow our entire nation to thrive in the new economy.

Today we can say something we couldn't say six years ago: With tax credits and more affordable student loans, with more work-study grants and more Pell grants, with education IRAs and the new HOPE Scholarship tax cut that more than five million Americans will receive this year, we have finally opened the doors of college to all Americans. (Applause.)

With our support, nearly every state has set higher academic standards for public schools, and a voluntary national test is being developed to measure the progress of our students. With over \$1 billion in discounts available this year, we are well on our way to our goal of connecting every classroom and library to the Internet.

Last fall, you passed our proposal to start hiring 100,000 new teachers to reduce class size in the early grades. Now I ask you to finish the job. (Applause.)

You know, our children are doing better. SAT scores are up; math scores have risen in nearly all grades. But there's a problem. While our 4th graders outperform their peers in other countries in math and science, our 8th graders are around average, and our 12th graders rank near the bottom. We must do better. Now, each year the national government invests more than \$15 billion in our public schools. I believe we must change the way we invest that money, to support what works and to stop supporting what does not work. (Applause.)

First, later this year, I will send to Congress a plan that, for the first time, holds states and school districts accountable for progress and rewards them for results. My Education Accountability Act will require every school district receiving federal help to take the following five steps.

First, all schools must end social promotion. (Applause.) No child should graduate from high school with a diploma he or she can't read. We do our children no favors when we allow them to pass from grade to grade without mastering the material.

But we can't just hold students back because the system fails them. So my balanced budget triples the funding for summer school and after-school programs, to keep a million children learning. (Applause.)

Now, if you doubt this will work, just look at Chicago, which ended social promotion and made summer school mandatory for those who don't master the basics. Math and reading scores are up three years running -- with some of the biggest gains in some of the poorest neighborhoods. It will work, and we should do it. (Applause.)

Second, all states and school districts must turn around their worst-performing schools -- or shut them down. (Applause.) That's the policy established in North Carolina by Governor Jim Hunt. North Carolina made the biggest gains in test scores in the nation last year. Our budget includes \$200 million to help states turn around their own failing schools.

Third, all states and school districts must be held responsible for the quality of their teachers. The great majority of our teachers do a fine job. But in too many schools, teachers don't have college majors -- or even minors -- in the subjects they teach. New teachers should be required to pass performance exams, and all teachers should know the subjects they're teaching. (Applause.) This year's balanced budget contains resources to help them reach higher standards.

And to attract talented young teachers to the toughest assignments, I recommend a sixfold increase in our program for college scholarships for students who commit to teach in the inner cities and isolated rural areas and Indian communities. Let us bring excellence in every part of America. (Applause.)

Fourth, we must empower parents, with more information and more choices. In too many communities, it's easier to get information on the quality of the local restaurants than on the quality of the local schools. Every school district should issue report cards on every school. And parents should be given more choices in selecting their public schools. (Applause.)

When I became President, there was just one independent public charter school in all America. With our support, on a bipartisan basis, today there are 1,100. My budget assures that early in the next century, there will be 3,000. (Applause.)

Fifth, to assure that our classrooms are truly places of learning,

and to respond to what teachers have been asking us to do for years, we should say that all states and school districts must both adopt and implement sensible discipline policies. (Applause.)

Now, let's do one more thing for our children. Today, too many of our schools are so old they're falling apart, or so over-crowded students are learning in trailers. Last fall, Congress missed the opportunity to change that. This year, with 53 million children in our schools, Congress must not miss that opportunity again. I ask you to help our communities build or modernize 5,000 schools. (Applause.)

If we do these things -- end social promotion; turn around failing schools; build modern ones; support qualified teachers; promote innovation, competition and discipline -- then we will begin to meet our generation's historic responsibility to create 21st century schools. (Applause.)

Now, we also have to do more to support the millions of parents who give their all every day at home and at work. The most basic tool of all is a decent income. So let's raise the minimum wage by a dollar an hour over the next two years. (Applause.) And let's make sure that women and men get equal pay for equal work by strengthening enforcement of equal pay laws. (Applause.)

That was encouraging, you know. (Laughter.) There was more balance on the seats. I like that. Let's give them a hand. That's great. (Applause.)

Working parents also need quality child care. (Applause.) So, again this year, I ask Congress to support our plan for tax credits and subsidies for working families, for improved safety and quality, for expanded after-school programs. And our plan also includes a new tax credit for stay-at-home parents, too. They need support, as well. (Applause.)

Parents should never have to worry about choosing between their children and their work. Now, the Family and Medical Leave Act -- the very first bill I signed into law -- has now, since 1993, helped millions and millions of Americans to care for a newborn baby or an ailing relative without risking their jobs. I think it's time, with all the evidence that it has been so little burdensome to employers, to extend Family Leave to 10 million more Americans working for smaller companies. And I hope you will support it. (Applause.)

Finally on the matter of work, parents should never have to face discrimination in the workplace. So I want to ask Congress to prohibit companies from refusing to hire or promote workers simply because they have children. That is not right. (Applause.)

America's families deserve the world's best medical care. Thanks to bipartisan federal support for medical research, we are now on the verge of new treatments to prevent or delay diseases from Parkinson's to Alzheimer's, to arthritis to cancer. But as we continue our advances in medical science, we can't let our medical system lag behind. Managed care has literally transformed medicine in America -- driving down costs, but threatening to drive down quality as well.

I think we ought to say to every American: You should have the right to know all your medical options -- not just the cheapest. If you need a specialist, you should have the right to see one. You have a right to the nearest emergency care if you're in an accident. These are things that we ought to say. And I think we ought to say, you should have a right to keep your doctor during a period of treatment, whether it's a pregnancy or a chemotherapy treatment, or anything else. I believe this.

Now, I've ordered these rights to be extended to the 85 million Americans served by Medicare, Medicaid, and other federal health programs. But only Congress can pass a patients' bill of rights for all Americans. (Applause.) Now, last year, Congress missed that opportunity and we must not miss that opportunity again. For the sake of our families, I ask us to join together across party lines and pass a strong, enforceable patients' bill of rights. (Applause.)

As more of our medical records are stored electronically, the threats to all our privacy increase. Because Congress has given me the authority to act if it does not do so by August, one way or another, we can all say to the American people, we will protect the privacy of medical records and we will do it this year. (Applause.)

Now, two years ago, the Congress extended health coverage to up to five million children. Now, we should go beyond that. We should make it easier for small businesses to offer health insurance. We should give people between the ages of 55 and 65 who lose their health insurance the chance to buy into Medicare. And we should continue to ensure access to family planning.

No one should have to choose between keeping health care and taking a job. And, therefore, I especially ask you tonight to join hands to pass the landmark bipartisan legislation -- proposed by Senators Kennedy and Jeffords, Roth and Moynihan -- to allow people with disabilities to keep their health insurance when they go to work. (Applause.)

We need to enable our public hospitals, our community, our university health centers to provide basic, affordable care for all the millions of working families who don't have any insurance. They do a lot of that today, but much more can be done. And my balanced budget makes a good down payment toward that goal. I hope you will think about them and support that provision.

Let me say we must step up our efforts to treat and prevent mental illness. No American should ever be afraid -- ever -- to address this disease. This year, we will host a White House Conference on Mental Health. With sensitivity, commitment and passion, Tipper Gore is leading our efforts here, and I'd like to thank her for what she's done. Thank you. Thank you. (Applause.)

As everyone knows, our children are targets of a massive media campaign to hook them on cigarettes. Now, I ask this Congress to resist the tobacco lobby, to reaffirm the FDA's authority to protect our children from tobacco, and to hold tobacco companies accountable while protecting tobacco farmers.

Smoking has cost taxpayers hundreds of billions of dollars under Medicare and other programs. You know, the states have been right about this -- taxpayers shouldn't pay for the cost of lung cancer, emphysema and other smoking-related illnesses -- the tobacco companies should. So tonight I announce that the Justice Department is preparing a litigation plan to take the tobacco companies to court -- and with the funds we recover, to strengthen Medicare. (Applause.)

Now, if we act in these areas -- minimum wage, family leave, child care, health care, the safety of our children -- then we will begin to meet our generation's historic responsibility to strengthen our families for the 21st century.

Today, America is the most dynamic, competitive, job-creating economy in history. But we can do even better -- in building a 21st century economy that embraces all Americans.

Today's income gap is largely a skills gap. Last year, the Congress passed a law enabling workers to get a skills grant to choose the training they need. And I applaud all of you here who were part of that. This year, I recommend a five-year commitment in the new system so that we can provide, over the next five years, appropriate training opportunities for all Americans who lose their jobs, and expand rapid response teams to help all towns which have been really hurt when businesses close. I hope you will support this. (Applause.)

Also, I ask your support for a dramatic increase in federal support for adult literacy, to mount a national campaign aimed at helping the millions and millions of working people who still read at less than a 5th grade level. We need to do this. (Applause.)

Here's some good news: In the past six years, we have cut the welfare rolls nearly in half. (Applause.) Two years ago, from this podium, I asked five companies to lead a national effort to hire people off welfare. Tonight, our Welfare to Work Partnership includes 10,000 companies who have hired hundreds of thousands of people. And our balanced budget will help another 200,000 people move to the dignity and pride of work. I hope you will support it. (Applause.)

We must do more to bring the spark of private enterprise to every corner of America -- to build a bridge from Wall Street to Appalachia to the Mississippi Delta, to our Native American communities -- with more support for community development banks, for empowerment zones, for 100,000 more vouchers for affordable housing. And I ask Congress to support our bold new plan to help businesses raise up to \$15 billion in private sector capital to bring jobs and opportunities to our inner cities and rural areas -- with tax credits, loan guarantees, including the new American Private Investment Company, modeled on the Overseas Private Investment Company. (Applause.)

For years and years and years, we've had this OPIC, this Overseas Private Investment Corporation, because we knew we had untapped markets overseas. But our greatest untapped markets are not overseas -- they are right here at home. And we should go after them. (Applause.)

We must work hard to help bring prosperity back to the family farm. (Applause.) As this Congress knows very well, dropping prices and the loss of foreign markets have devastated too many family farms. Last year, the Congress provided substantial assistance to help stave off a disaster in American agriculture. And I am ready to work with lawmakers of both parties to create a farm safety net that will include crop insurance reform and farm income assistance. I ask you to join with me and do this. This should not be a political issue. Everyone knows what an economic problem is going on out there in rural America today, and we need an appropriate means to address it. (Applause.)

We must strengthen our lead in technology. It was government investment that led to the creation of the Internet. I propose a 26-percent increase in long-term computing research.

We also must be ready for the 21st century from its very first moment, by solving the so-called Y2K computer problem. (Applause.)

We had one member of Congress stand up and applaud. (Laughter.) And we may have about that ratio out there applauding at home, in front of their television sets. But remember, this is a big, big problem. And we've been working hard on it. Already, we've made sure that the Social Security checks will come on time. (Applause.) But I want all the folks at home listening to this to know that we need every state and local government, every business, large and small, to work with us to make sure that this Y2K computer bug will be remembered as the last

headache of the 20th century, not the first crisis of the 21st.
(Applause.)

For our own prosperity, we must support economic growth abroad. You know, until recently, a third of our economic growth came from exports. But over the past year and a half, financial turmoil overseas has put that growth at risk. Today, much of the world is in recession, with Asia hit especially hard. This is the most serious financial crisis in half a century. To meet it, the United States and other nations have reduced interest rates and strengthened the International Monetary Fund. And while the turmoil is not over, we have worked very hard with other nations to contain it.

At the same time, we have to continue to work on the long-term project, building a global financial system for the 21st century that promotes prosperity and tames the cycle of boom and bust that has engulfed so much of Asia. This June I will meet with other world leaders to advance this historic purpose. And I ask all of you to support our endeavors.

I also ask you to support creating a freer and fairer trading system for 21st century America. (Applause.)

I'd like to say something really serious to everyone in this chamber in both parties. I think trade has divided us, and divided Americans outside this chamber, for too long. Somehow we have to find a common ground on which business and workers and environmentalists and farmers and government can stand together. I believe these are the things we ought to all agree on. So let me try.

First, we ought to tear down barriers, open markets, and expand trade. But at the same time, we must ensure that ordinary citizens in all countries actually benefit from trade -- (Applause.) -- a trade that promotes the dignity of work, and the rights of workers, and protects the environment. We must insist that international trade organizations be more open to public scrutiny, instead of mysterious, secret things subject to wild criticism.

When you come right down to it, now that the world economy is becoming more and more integrated, we have to do in the world what we spent the better part of this century doing here at home. We have got to put a human face on the global economy. (Applause.)

We must enforce our trade laws when imports unlawfully flood our nation. (Applause.) I have already informed the government of Japan that if that nation's sudden surge of steel imports into our country is not reversed, America will respond. (Applause.)

We must help all manufacturers hit hard by the present crisis with loan guarantees and other incentives to increase American exports by nearly \$2 billion. I'd like to believe we can achieve a new consensus on trade, based on these principles. And I ask the Congress again to join me in this common approach and to give the President the trade authority long used -- and now overdue and necessary -- to advance our prosperity in the 21st century. (Applause.)

Tonight, I issue a call to the nations of the world to join the United States in a new round of global trade negotiations to expand exports of services, manufacturers and farm products. Tonight I say we will work with the International Labor Organization on a new initiative to raise labor standards around the world. And this year, we will lead the international community to conclude a treaty to ban abusive child labor everywhere in the world. (Applause.)

If we do these things -- invest in our people, our communities,

our technology, and lead in the global economy -- then we will begin to meet our historic responsibility to build a 21st century prosperity for America.

You know, no nation in history has had the opportunity and the responsibility we now have to shape a world that is more peaceful, more secure, more free. All Americans can be proud that our leadership helped to bring peace in Northern Ireland. All Americans can be proud that our leadership has put Bosnia on the path to peace. And with our NATO allies, we are pressing the Serbian government to stop its brutal repression in Kosovo -- (Applause.) -- to bring those responsible to justice, and to give the people of Kosovo the self-government they deserve.

All Americans can be proud that our leadership renewed hope for lasting peace in the Middle East. Some of you were with me last December as we watched the Palestinian National Council completely renounce its call for the destruction of Israel. Now I ask Congress to provide resources so that all parties can implement the Wye Agreement -- to protect Israel's security, to stimulate the Palestinian economy, to support our friends in Jordan. We must not, we dare not, let them down. I hope you will help. (Applause.)

As we work for peace, we must also meet threats to our nation's security -- including increased dangers from outlaw nations and terrorism. We will defend our security wherever we are threatened, as we did this summer when we struck at Osama bin Laden's network of terror. The bombing of our embassies in Kenya and Tanzania reminds us again of the risks faced every day by those who represent America to the world. So let's give them the support they need, the safest possible workplaces, and the resources they must have so America can continue to lead. (Applause.)

We must work to keep terrorists from disrupting computer networks. We must work to prepare local communities for biological and chemical emergencies, to support research into vaccines and treatments.

We must increase our efforts to restrain the spread of nuclear weapons and missiles, from Korea to India and Pakistan. We must expand our work with Russia, Ukraine, and the other former Soviet nations to safeguard nuclear materials and technology so they never fall into the wrong hands. Our balanced budget will increase funding for these critical efforts by almost two-thirds over the next five years.

With Russia, we must continue to reduce our nuclear arsenals. The START II treaty and the framework we have already agreed to for START III could cut them by 80 percent from their Cold War height.

It's been two years since I signed the Comprehensive Test Ban Treaty. If we don't do the right thing, other nations won't either. I ask the Senate to take this vital step: Approve the treaty now, to make it harder for other nations to develop nuclear arms, and to make sure we can end nuclear testing forever. (Applause.)

For nearly a decade, Iraq has defied its obligations to destroy its weapons of terror and the missiles to deliver them. America will continue to contain Saddam -- and we will work for the day when Iraq has a government worthy of its people. (Applause.)

Now, last month, in our action over Iraq, our troops were superb. Their mission was so flawlessly executed that we risk taking for granted the bravery and the skill it required. Captain Jeff Taliaferro, a 10-year veteran of the Air Force, flew a B-1B bomber over Iraq as we attacked Saddam's war machine. He's here with us tonight. I'd like to ask you to honor him and all the 33,000 men and women of Operation

Desert Fox.

Captain Taliaferro. (Applause.)

It is time to reverse the decline in defense spending that began in 1985. (Applause.) Since April, together we have added nearly \$6 billion to maintain our military readiness. My balanced budget calls for a sustained increase over the next six years for readiness, for modernization, and for pay and benefits for our troops and their families. (Applause.)

We are the heirs of a legacy of bravery represented in every community in America by millions of our veterans. America's defenders today still stand ready at a moment's notice to go where comforts are few and dangers are many, to do what needs to be done as no one else can. They always come through for America. We must come through for them. (Applause.)

The new century demands new partnerships for peace and security. The United Nations plays a crucial role, with allies sharing burdens America might otherwise bear alone. America needs a strong and effective U.N. I want to work with this new Congress to pay our dues and our debts. (Applause.)

We must continue to support security and stability in Europe and Asia -- expanding NATO and defining its new missions; maintaining our alliance with Japan, with Korea, without our other Asian allies; and engaging China.

In China, last year, I said to the leaders and the people what I'd like to say again tonight: Stability can no longer be bought at the expense of liberty. (Applause.) But I'd also like to say again to the American people: It's important not to isolate China. The more we bring China into the world, the more the world will bring change and freedom to China. (Applause.)

Last spring, with some of you, I traveled to Africa, where I saw democracy and reform rising, but still held back by violence and disease. We must fortify African democracy and peace by launching Radio Democracy for Africa, supporting the transition to democracy now beginning to take place in Nigeria, and passing the African Trade and Development Act. (Applause.)

We must continue to deepen our ties to the Americas and the Caribbean; our common work to educate children, fight drugs, strengthen democracy and increase trade. In this hemisphere, every government but one is freely chosen by its people. We are determined that Cuba, too, will know the blessings of liberty. (Applause.)

The American people have opened their hearts and their arms to our Central American and Caribbean neighbors who have been so devastated by the recent hurricanes. Working with Congress, I am committed to help them rebuild. When the First Lady and Tipper Gore visited the region, they saw thousands of our troops and thousands of American volunteers. In the Dominican Republic, Hillary helped to rededicate a hospital that had been rebuilt by Dominicans and Americans, working side-by-side. With her was someone else who has been very important to the relief efforts.

You know, sports records are made and, sooner or later, they're broken. But making other people's lives better, and showing our children the true meaning of brotherhood -- that lasts forever. So, for far more than baseball, Sammy Sosa, you're a hero in two countries tonight. Thank you. (Applause.)

So I say to all of you, if we do these things -- if we pursue peace, fight terrorism, increase our strength, renew our alliances -- we will begin to meet our generation's historic responsibility to build a stronger 21st century America in a freer, more peaceful world.

As the world has changed, so have our own communities. We must make them safer, more livable and more united. This year, we will reach our goal of 100,000 community police officers -- ahead of schedule and under budget. (Applause.) The Brady Bill has stopped a quarter million felons, fugitives and stalkers from buying handguns. And, now, the murder rate is the lowest in 30 years and the crime rate has dropped for six straight years. (Applause.)

Tonight, I propose a 21st century crime bill to deploy the latest technologies and tactics to make our communities even safer. Our balanced budget will help put up to 50,000 more police on the street, in the areas hardest hit by crime -- and then to equip them with new tools, from crime-mapping computers to digital mug shots.

We must break the deadly cycle of drugs and crime. Our budget expands support for drug testing and treatment, saying to prisoners: If you stay on drugs, you have to stay behind bars. And to those on parole: If you want to keep your freedom, you must stay free of drugs. (Applause.)

I ask Congress to restore the five-day waiting period for buying a handgun -- (Applause.) -- and extend the Brady Bill to prevent juveniles who commit violent crimes from buying a gun. (Applause.)

We must do more to keep our schools the safest places in our communities. Last year, every American was horrified and heartbroken by the tragic killings in Jonesboro, Paducah, Pearl, Edinboro, Springfield. We were deeply moved by the courageous parents now working to keep guns out of the hands of children and to make other efforts so that other parents don't have to live through their loss.

After she lost her daughter, Suzann Wilson of Jonesboro, Arkansas, came here to the White House with a powerful plea. She said, "Please, please, for the sake of your children, lock up your gun. Don't let what happened in Jonesboro happen in your town." It's a message she is passionately advocating every day.

Suzann is here with us tonight, with the First Lady. I'd like to thank her for her courage and her commitment. Thank you. (Applause.)

In memory of all the children who lost their lives to school violence, I ask you to strengthen the Safe and Drug-Free School Act, to pass legislation to require child trigger locks, to do everything possible to keep our children safe. (Applause.)

A century ago, President Theodore Roosevelt defined our "great, central task" as "leaving this land even a better land for our descendants than it is for us." Today, we're restoring the Florida Everglades, saving Yellowstone, preserving the red rock canyons of Utah, protecting California's redwoods and our precious coasts. But our most fateful new challenge is the threat of global warming. 1998 was the warmest year ever recorded. Last year's heat waves, floods and storms are but a hint of what future generations may endure if we do not act now.

Tonight I propose a new clean air fund to help communities reduce greenhouse and other pollution, and tax incentives and investments to spur clean energy technology. And I want to work with members of Congress in both parties to reward companies that take early, voluntary action to reduce greenhouse gases. (Applause.)

All our communities face a preservation challenge, as they grow and green space shrinks. Seven thousand acres of farmland and open space are lost every day. In response, I propose two major initiatives: First, a \$1-billion Livability Agenda to help communities save open space, ease traffic congestion, and grow in ways that enhance every citizen's quality of life. (Applause.) And second, a \$1-billion Lands Legacy Initiative to preserve places of natural beauty all across America -- from the most remote wilderness to the nearest city park. (Applause.)

These are truly landmark initiatives, which could not have been developed without the visionary leadership of the Vice President, and I want to thank him very much for his commitment here. (Applause.)

Now, to get the most out of your community, you have to give something back. That's why we created AmeriCorps -- our national service program that gives today's generation a chance to serve their communities and earn money for college.

So far, in just four years, 100,000 young Americans have built low-income homes with Habitat for Humanity, helped to tutor children with churches, worked with FEMA to ease the burden of natural disasters, and performed countless other acts of service that have made America better. I ask Congress to give more young Americans the chance to follow their lead and serve America in AmeriCorps. (Applause.)

Now, we must work to renew our national community as well for the 21st century. Last year the House passed the bipartisan campaign finance reform legislation sponsored by Representatives Shays and Meehan and Senators McCain and Feingold. But a partisan minority in the Senate blocked reform. So I'd like to say to the House: Pass it again, quickly. (Applause.) And I'd like to say to the Senate: I hope you will say yes to a stronger American democracy in the year 2000. (Applause.)

Since 1997, our Initiative on Race has sought to bridge the divides between and among our people. In its report last fall, the Initiative's Advisory Board found that Americans really do want to bring our people together across racial lines.

We know it's been a long journey. For some, it goes back to before the beginning of our Republic; for others, back since the Civil War; for others, throughout the 20th century. But for most of us alive today, in a very real sense, this journey began 43 years ago, when a woman named Rosa Parks sat down on a bus in Alabama, and wouldn't get up. She's sitting down with the First Lady tonight, and she may get up or not, as she chooses. We thank her. (Applause.) Thank you, Rosa. (Applause.)

We know that our continuing racial problems are aggravated, as the Presidential Initiative said, by opportunity gaps. The initiative I've outlined tonight will help to close them. But we know that the discrimination gap has not been fully closed either. Discrimination or violence because of race or religion, ancestry or gender, disability or sexual orientation, is wrong, and it ought to be illegal. Therefore, I ask Congress to make the Employment Non-Discrimination Act and the Hate Crimes Prevention Act the law of the land. (Applause.)

Now, since every person in America counts, every American ought to be counted. We need a census that uses modern scientific methods to do that. (Applause.)

Our new immigrants must be part of our One America. After all, they're revitalizing our cities, they're energizing our culture, they're

building up our economy. We have a responsibility to make them welcome here; and they have a responsibility to enter the mainstream of American life. That means learning English and learning about our democratic system of government. There are now long waiting lines of immigrants that are trying to do just that. Therefore, our budget significantly expands our efforts to help them meet their responsibility. I hope you will support it. (Applause.)

Whether our ancestors came here on the Mayflower, on slave ships, whether they came to Ellis Island or LAX in Los Angeles, whether they came yesterday or walked this land a thousand years ago -- our great challenge for the 21st century is to find a way to be One America. We can meet all the other challenges if we can go forward as One America.

You know, barely more than 300 days from now, we will cross that bridge into the new millennium. This is a moment, as the First Lady has said, "to honor the past and imagine the future."

I'd like to take just a minute to honor her. For leading our Millennium Project, for all she's done for our children, for all she has done in her historic role to serve our nation and our best ideals at home and abroad, I honor her. (Applause.)

Last year, I called on Congress and every citizen to mark the millennium by saving America's treasures. Hillary has traveled all across the country to inspire recognition and support for saving places like Thomas Edison's Invention Factory or Harriet Tubman's home. Now we have to preserve our treasures in every community. And tonight, before I close, I want to invite every town, every city, every community to become nationally recognized "millennium community," by launching projects that save our history, promote our arts and humanities, prepare our children for the 21st century.

Already, the response has been remarkable. And I want to say a special word of thanks to our private sector partners and to members in Congress of both parties for their support. Just one example: Because of you, the Star-Spangled Banner will be preserved for the ages. In ways large and small, as we look to the millennium we are keeping alive what George Washington called "the sacred fire of liberty."

Six years ago, I came to office in a time of doubt for America, with our economy troubled, our deficit high, our people divided. Some even wondered whether our best days were behind us. But across this country, in a thousand neighborhoods, I have seen -- even amidst the pain and uncertainty of recession -- the real heart and character of America. I knew then that we Americans could renew this country.

Tonight, as I deliver the last State of the Union address of the 20th century, no one anywhere in the world can doubt the enduring resolve and boundless capacity of the American people to work toward that "more perfect union" of our founders' dream.

We're now at the end of a century when generation after generation of Americans answered the call to greatness, overcoming Depression, lifting up the dispossessed, bringing down barriers to racial prejudice, building the largest middle class in history, winning two world wars and the "long twilight struggle" of the Cold War. We must all be profoundly grateful for the magnificent achievement of our forbearers in this century.

Yet, perhaps, in the daily press of events, in the clash of controversy, we don't see our own time for what it truly is -- a new dawn for America.

A hundred years from tonight, another American President will

stand in this place and report on the State of the Union. He -- or she -- (Applause) -- he or she will look back on a 21st century shaped in so many ways by the decisions we make here and now. So let it be said of us then that we were thinking not only of our time, but of their time; that we reached as high as our ideals; that we put aside our divisions and found a new hour of healing and hopefulness; that we joined together to serve and strengthen the land we love.

My fellow Americans, this is our moment. Let us lift our eyes as one nation, and from the mountaintop of this American Century, look ahead to the next one -- asking God's blessing on our endeavors and on our beloved country.

Thank you and good evening.

END

10:27 P.M. EST