

THE WHITE HOUSE

WASHINGTON
December 23, 1994

MEMORANDUM FOR THE PRESIDENT

FROM: BILL GALSTON

VIA: LEON PANETTA
GEORGE STEPHANOPOULOS
CAROL H. RASCO

SUBJECT: DLC/PROGRESSIVE POLICY INSTITUTE RECOMMENDATIONS *file*

INTRODUCTION

Recently, you asked me to evaluate the policy recommendations issued by the DLC/Progressive Policy Institute and to prepare "brief recommendations" on the items that are not (yet) official administration policy. The following represents a first cut at responding to your request for the seven PPI recommendations that bear directly on domestic policy. (Three others, which I will note for the record at the end of this memorandum, fall into the area of international policy and should probably be evaluated by the NSC, NEC, or USTR.) I will coordinate a follow-up on whatever proposals you note as worthy of further scrutiny.

DOMESTIC POLICY INITIATIVES

1. A GI Bill for American Workers

The Administration is moving forward with versions of all three PPI proposals in this area: (1) aggressively using your direct lending/income contingent repayment for worker retraining; (2) creating tax-favored savings account that workers could use for education and retraining; and (3) shifting from categorical programs to vouchers controlled by individual workers. In addition, your proposed tax deduction for education and training expenses goes well beyond anything the DLC has proposed.

2. Cut and Invest

As you know, PPI's Rob Shapiro has long argued for a massive shift in the budget from what he characterizes as "special interest" subsidies to investments that promote longterm economic growth. Shapiro has identified a list of tax and spending programs totalling \$225 billion over five years that he believes should be terminated. You reviewed that list during the recent FY 1996 budget process. You accepted many of the proposed subsidy cuts but ruled out an assault on special interest "tax expenditures" on the grounds that our adversaries would characterized any such move as a "there you go again" tax increase.

On the investment side, Shapiro recommends increases for education and training totalling \$18 billion over five years, as follows: enlarging national service to serve 150,000 young people each year (\$6.4 billion); expanding youth apprenticeships (\$2.5 billion); fully funding Head Start (\$6.0 billion); expanding our efforts to promote charter schools (\$200 million); boosting Goals 2000 (\$1.8 billion); and funding Individual Development Accounts along the lines of your expanded IRA proposal (\$1.0 billion). Your proposed FY 1996-2000 budget includes substantial increases for all these programs, but the five year total falls well short of the Shapiro proposal.

Shapiro's investment list also includes an additional \$19 billion for infrastructure and \$10 billion for research and development. While your budget will include increases for selected items in these categories, the total will not come close to the Shapiro figures.

Shapiro also proposes some important changes in the tax code, specifically: replacing the current children's exemption with a \$720 credit per child for families under \$50,000 per year (\$60 billion over five years); and indexing capital gains for inflation (\$20 billion over the first five years, but \$8 billion annually when fully phased in). Your proposed \$500 child credit, fully available to families under \$60,000, matches up well with the PPI proposal. On the other hand, your budget proposal is silent on the issue of capital gains, which is likely to emerge as a major flash-point with congressional Republicans in coming months.

In the area of entitlements, Shapiro has two main ideas: universal means-testing to reduce benefits to wealthy recipients, and raising the retirement age to 70 by the year 2020. The administration has advocated nothing corresponding to these ideas. As you know, the Kerrey Commission debated ideas along these lines without coming close to reaching a consensus.

Finally, Shapiro recommends a series of changes in the budget process: (1) restricting the growth of federal spending to the rate of growth of the overall economy; (2) establishing a capital budget and requiring balance between federal receipts and consumption expenditures, limiting the annual deficit to capital investments; (3) giving the President a line-item veto; and (4) setting up a new Subsidies Commission (along the lines of the military base-closing commission) that would have the legal authority to propose packages of special-interest spending reductions for up-or-down votes.

You have repeatedly demanded the strongest possible version of the line-item veto, and you have reined in the growth of federal spending (albeit without a fixed formula). On the other hand: in spite of intensive staff work, we have not been able to devise a workable version of the capital budget, and we have not seriously examined proposals along the lines of the Subsidy Commission.

3. Cutting Washington Down to Size

The DLC/PPI recommendations call for a systematic effort to devolve power and authority away from the federal government to the states and localities whenever appropriate. They propose the following questions as tests to be applied to any existing or proposed government program: (1) Is this an activity for government? (2) Which level of government would do the job best? (3) Which level of government would best assure fiscal discipline and flexibility? (4) Which level of government will be most responsive to the citizenry? (5) Who has a compelling interest in doing the job? (6) How can equity be assured?

In addition to the steps that the President and administration can propose or take unilaterally, the DLC/PPI recommend convening a Federalism Summit including governors, local representatives, and congressional leaders to begin systematically sorting out levels of responsibility. They also suggest that the President urge Congress to appoint a Select Joint Committee on federalism to address these issues.

Under your leadership and the National Performance Review, the administration has made an impressive effort to revitalize federalism, through strategies such as waivers, increased flexibility, and legislation that devolves authority to states and localities. (The article I sent you a few weeks ago summarizes the administration's accomplishments in this area). On the other hand, we have not proposed a federalism summit; nor have we yet settled on a response to a request for such an event that may well come from a number of governors. Given the current push to streamline congressional operations and reduce the number of committees, this would probably not be the time to call for a new select committee--even to address a subject as important as federalism.

4. Health Care Reform

The current DLC/PPI health care proposal contains five principal elements: (1) insurance market reform; (2) capping tax deductions for employer-provided insurance; (3) an individual mandate for purchasing insurance; (4) requiring health plans to improve and standardize information for consumers; and (5) controlling public sector health costs by (a) paying a fixed amount per capita for each new Medicare beneficiary and (b) significantly increasing state flexibility to restructure Medicaid.

As you know, these issues (and many others) are now being studied by the health care working group under the direction of Bob Rubin and Carol Rasco. Insurance reform and improved information are certainly on the table; the individual mandate and tax cap probably are not; and Medicare/Medicaid changes are being considered in the context of moving toward your objective of universal coverage.

5. Welfare Reform: Putting Work First

The DLC/PPI recommendations build on your June 1994 welfare reform plan, which they characterize as a "promising start." They recommend strengthening your plan in three ways:

(1) Even more should be done to make work pay. In addition to the EITC, health care, child care, and transportation assistance, rules that decrease incentives to work and save should be eliminated. These rules include: decreasing AFDC payments almost dollar-for-dollar as earnings increase; limiting welfare recipients' assets to \$1000; and raising public housing rents as earned income increases.

(2) The emphasis should be more on job placement and less on job training. Welfare system outcomes should be measured by how many recipients are actually placed in jobs; case managers should be assigned monthly job placement quotas; and bonuses should be awarded to case managers who regularly exceed their quotas.

(3) The emphasis should be less on carrying out top-down reform of the existing welfare bureaucracy and more on creating competitive alternatives to it. That means partnerships with ventures such as America Works, Cleveland Works, and Project Match, all of which stress the work ethic and job placement in the private sector.

I personally believe that all of these ideas should be on the table during the current reconsideration of our stance on welfare reform for the 104th Congress.

6. Addressing Teen Pregnancy

The centerpiece of the DLC/PPI strategy for reducing teen pregnancy is a national mobilization involving all sectors of our society (business, religious institutions, community-based voluntary organizations, the media, among others) and led by the President of the United States. This campaign would have specific, measurable objectives--for example, reducing the teen pregnancy rate by 5 percent annually over the next decade.

You have recently authorized us to explore forming an independent non-profit institution that could serve as a rallying-point for such a national campaign, and we hope to have some names and ideas for your consideration early in the new year. If we decide to proceed, your personal involvement and moral leadership would be essential.

The DLC/PPI recommend tough policies (versions of which are included in your June 1994 welfare reform proposal) to establish paternity at birth and enforce child support awards. They note that 70 percent of teen mothers' babies are fathered by men aged 20 and older. To counter this, they recommend rigorous

enforcement of laws against rape, incest, and sexual abuse; we should come out strongly in favor of this.

Your welfare reform proposal would prohibit teen mothers under 18 from setting up independent households. Critics have charged that this would force some minors with infants back into abusive settings. In part to address this, the DLC/PPI proposes the creation of community-based "second-chance homes," run by local organizations and religious institutions with encouragement from the federal government. These group homes would provide "safety, support, structure, and discipline," including mandatory school attendance, child care, and parenting guidance. This idea is clearly distinguished from Gingrich-style orphanages (which would separate children from their parents) and should seriously be considered as part of our welfare reform effort and national campaign.

7. Reinventing Public Housing

The central DLC/PPI housing proposal is to shift from an emphasis on rental subsidies towards the goal of home ownership for the upwardly mobile working poor. While differing in detail, the recent HUD reinvention plan moves significantly in this direction, as does the homeownership initiative you recently announced.

The other significant DLC/PPI proposal is to "end public housing as we know it." One element is a two-year time limit for all new public housing tenants. In my view, which is widely shared, this would be hard to administer, and probably counterproductive.

Another element is strengthening the authority of public housing managers to screen the behavior of current and prospective tenants. This is an important idea that enjoys significant support. To some extent this is a matter of encouraging managers to act more aggressively within existing legal authority; HUD is trying to do this now. But it would also require changes in law, some of which the administration is already supporting. For example, Secretary Cisneros' recent proposal would shift eligibility requirements in favor of working families. On the other hand, HHS and Justice rebuffed Republican proposals last year that would have made it more difficult for individuals with records of drug addiction to obtain public housing. I believe that it would be worthwhile to explore this topic more systematically.

OTHER DLC/PPI PROPOSALS

As I noted at the beginning of this memorandum, three of the DLC/PPI alternatives to the Republican Contract address international issues.

- 1. The President should offer a new nuclear bargain in which the "have" states would reduce their arsenals toward zero**

in exchange for acceptance by "have-not" states of tougher non-proliferation verification and enforcement measures.

2. To ensure a strong military for the 21st century, we should trade quantity for quality, trimming forces designed to fight the Cold War in order to maintain readiness, and investing in a new generation of military equipment. As part of the quantity/quality trade, we should rethink the overlapping roles and responsibilities of the four branches of the armed forces.

3. The United States should welcome to NAFTA all emerging democracies, regardless of their geographic location, that wish to open reciprocally their markets to trade and investment, and to undertake (at a minimum) NAFTA labor and environmental standards. To address such standards for the future, the International Labor Organization should be strengthened, and a parallel organization, the Global Environmental Organization, should be established.

If these ideas strike you as promising, the NSC, NEC, and USTR could be asked to evaluate them in detail.

CONCLUSION

As soon as you indicate which (if any) of the DLC/PPI domestic policy proposals warrants further investigation, I will coordinate a more thorough policy process to produce options for your consideration.

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Centrist Group Offers Reply to GOP 'Contract'

DLC Also Distances Itself From Clinton

By Dan Balz

Washington Post Staff Writer

The centrist Democratic Leadership Council (DLC) yesterday issued a 10-point alternative to the "bumper-sticker bromides" of the Republicans' Contract With America and its leaders pledged to wage "hand-to-hand combat" with the Republicans for the support of the "vital center" of the American electorate.

DLC president Al From said the agenda would push the country in a "far different direction" than the Republican contract. But he acknowledged that it also represents a sharp departure from the policies of the Clinton administration.

From said the White House had played no direct role in the formulation of what he called a "progressive alternative" to the Republicans, despite the fact that Bill Clinton chaired the DLC before launching his presidential campaign.

In a sign of the DLC's continuing disappointment with Clinton's presidency, From offered the White House another cold shoulder, declaring that his organization is an independent think tank, "not an adjunct of the Clinton administration." Nonetheless, Clinton is scheduled to speak at the group's fund-raising dinner tonight.

The 10-point package includes measures to cut the federal deficit; reform welfare, housing and health care programs; shift power away from Washington; and assure U.S. military strength.

The unveiling of the alternative agenda marked the 10th anniversary of the DLC's founding, but From and others conceded that the centrist group's ranks in Congress are thinner than ever since the November elections and that there is little hope congressional Democrats will take up its cause.

"If we depend on Congress to reform the Democratic Party, we'll sit here until the funeral," he said.

He and other speakers at a news conference insisted, however, that the ideas they are promoting enjoy support across the country and that they will take them to the grass roots as part of an effort to combat

AN ALTERNATIVE AGENDA

Highlights of an alternative to the Republican "Contract With America" released yesterday by the Democratic Leadership Council and the Progressive Policy Institute, its policy arm:

1. **Create a "G.I. Bill" for workers by:**
 - converting money spent on existing job-training programs into vouchers.
 - encouraging displaced workers to finance their retraining through federally guaranteed, income-contingent student loans.
 - developing Individual Development Accounts (similar to IRAs) to encourage saving for lifetime learning.
2. **Cut tax and spending programs that subsidize certain industries and redirect \$225 billion over five years for: education and training; research and infrastructure; deficit reduction; and family tax relief.**
3. **Build on the North American Free Trade Agreement by:**
 - inviting in any emerging democracy that accepts NAFTA's standards on trade, investment, labor and the environment.
 - creating international institutions to resolve international labor and environmental disputes.
4. **Reform welfare by:**
 - limiting cash payments to two years.
 - placing recipients who do not find work in the private sector in community service jobs.
5. **Rebuild housing opportunity by:**
 - limiting occupancy in public housing to two years and giving housing managers authority to enforce standards of conduct.
 - gradually shifting resources from subsidies toward efforts to boost the supply of low-cost, privately owned, owner-occupied homes.
6. **Combat teenage pregnancy by:**
 - resurrecting "social sanctions" against out-of-wedlock births.
 - creating "second-chance" homes where teenage mothers receive help raising their children.
7. **Cut the size of the federal government by:**
 - dismantling petrified central bureaucracies and returning power from Washington to states, communities and citizens.
 - convening a "Federalism Convention" to plan a redistribution of power.
8. **Reforming health care by changing the market through:**
 - requiring everyone to purchase insurance.
 - changing the tax-subsidy system for employer-paid insurance.
 - applying private sector managed care reforms to Medicare and Medicaid to bring their costs under control.
9. **Move toward a nuclear weapons-free world by the middle of the next century by striking a grand bargain between nuclear and non-nuclear states.**
10. **Strengthen U.S. military forces by ending the 1993 "bottom-up review" launched by the Pentagon and beginning a more systematic assessment of the services' roles and missions in light of changing demands.**

THE WASHINGTON POST

the new Republican majority in Congress and to revitalize a Democratic Party that absorbed its worst defeat in 40 years last month.

"We are alerting the Republicans we intend to engage them in hand-to-hand combat for every inch of ground in the battlefield for ideas," From said.

Will Marshall, president of the Progressive Policy Institute, the policy arm of the DLC, said the agenda outlined yesterday is "rooted in the values" of working Americans and that while the many of the themes are similar to those in the Republican contract, the philosophy and details are different.

Marshall said that while the Republican contract offers the symbol-

ism of a balanced budget amendment, the DLC offers specific ways to shrink the deficit. He said that while both seek to change the welfare system, Republicans favor a punitive approach in contrast to a DLC philosophy he described as "reciprocal responsibility."

The DLC agenda renews the group's recommendation for a budgetary policy called "cut and invest" in which Congress would wipe out many tax subsidies now provided for various industries and use part of the proceeds to invest in education, training, infrastructure and tax relief for families.

Robert Shapiro said the DLC already has identified 68 tax subsidies

See DLC, A24, Col. 1

Centrist Democrats Offer Alternative To GOP 'Contract'

DLC, From A21

for corporate America that represent an industry's clout in Congress, not its value to the economy. Eliminating them would save \$225 billion over five years, he said, adding that eventually such reforms could save the government \$75 billion a year.

Labor Secretary Robert B. Reich recently called for a similar policy to scale back on what he and the DLC call "corporate welfare," although the speech was not cleared in advance by the White House.

Shapiro also urged reforms in entitlement programs, including a gradual increase in the age of eligibility for Social Security to 70.

Other elements of the DLC economic program include a "G.I. Bill" for workers that would consolidate existing programs and offer new incentives for workers to undergo retraining throughout life.

Marshall said the group disagrees with both the Republican and the Clinton administration approaches to welfare reform. "We don't want to reform welfare, we want to replace it with work," he said.

He said the Republican proposal to deny benefits to children born to teenage mothers and put the children into orphanages is insensitive. To combat teen pregnancy, the DLC called for a national campaign to make out-of-wedlock births socially unacceptable and for the creation of community homes, patterned after settlement houses from the turn of the century, where teenage mothers could raise their children.

The DLC also called for significant changes in public housing policy designed to make it a transitional program, not a permanent condition, including the gradual phase-out of housing subsidies and using the money to build low-cost housing for the poor.

On health care, an area not covered in the Republican contract, the DLC recommended step-by-step changes, beginning with insurance reforms but eventually requiring all Americans to purchase health insurance.

Like the Republicans, the DLC called for a significant shift in governmental responsibility from Washington to the states and cities. But rather than outline specific programs that should be moved out of Washington, the DLC urged Clinton to convene a "Federalism Convention" to develop a plan for decentralizing power.

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THE PRESIDENT HAS SEEN

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Jim Galt

We need to understand
the other side proposals
+ determine which we
should pursue - PS. Organize
brief recommendations on those
we don't get acting on

JK