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1/23/1996 State of the Union [binder] [1]

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State of the Union

Q. Which of the issues being discussed are most important?

- The U.S. has a complex economy with a wide range of industrial, agricultural and services export interests. Therefore all trade barriers are of concern.

Q.. Has China given any indication that it is willing to address its trade deficit with us?

- The Chinese appear to recognize that the status quo is not sustainable. Recent trade figures suggest an initial attempt by China to import more U.S. goods; in fact, since 1992 U.S. exports to China have risen by 71%. But, additional market access for U.S. goods and services is still needed and the WTO accession talks are one of the best ways to restore balance to our trading relationship.

Impact of Japan on Asia

How will the economic situation in Japan affect other Asian economies?

- There is little doubt that Japan's economic weakness is having a negative impact on many East Asian emerging markets. Japanese imports from everyone, including many Asian emerging market, have fallen substantially in recent months. [And there are discouraging signs which suggest that the pace of the fall may be accelerating].
- We have long maintained that the restoration of Japan's economic health is critical to the economic health of Asia and the world.
- The need to stabilize emerging Asian markets makes it all the more important that Japan take measures to stimulate its own domestic demand, to strengthen its own financial system and to deregulate and open its markets. The Japanese government's recent stimulus package is a welcome step in the right direction.
- The absolute key is that the Japanese government take the necessary actions with respect to their economy, most importantly, appropriate and effective measures with respect to their banking system. Japan's Diet passed a substantial fiscal program on June 18, but additional fiscal measures may be needed. Deregulation and opening markets are also very important.
- The United States is uniquely situated today to try to be helpful in Asia, as we have been over the since this crisis began. Intervention seemed to us an appropriate way to be helpful in this circumstance.

Impact of Asia on the United States

What will the impact of the Asian financial crisis be on the United States?

- The initial impact of the crisis has been a substantial reduction in U.S. exports to the Asian crisis countries.
- The decline could be larger if further contraction occurs in emerging Asia or if the recession in Japan were to deepen.
- The depreciation of many Asian currencies also will make their goods more competitive. This, combined with continued U.S. growth, is likely to increase our imports from many Asian countries later this year.
- U.S. economic health is primarily determined by the economic fundamentals in the U.S. -- which are strong. The most likely scenario for the U.S. economy remains continued solid growth and low inflation.

Background

Based on data from the first four months of this year, U.S. exports to the countries most affected by recent financial instability -- Thailand, Malaysia, Indonesia, Singapore and Korea -- are currently on pace to fall to record an annualized fall of between \$17 and \$21 billion since the onset of the crisis, depending on how one does the seasonal adjustment. U.S. exports to Japan currently are on pace to record an annualized fall of between \$6 and \$8 billion. (Note: these numbers have been used publicly before, in Secretary Rubin's testimony before the Senate Finance Committee)

Impact on the U.S. Trade Deficit

How much will our trade deficit deteriorate?

- I would not feel comfortable estimating the precise impact at the present time, given the uncertainties that remain.
- The size of the deterioration in the trade deficit will depend on variety of factors, including:
 - the extent of the slowdown of growth in affected Asian countries -- and the speed of their recovery;
 - the impact of the depreciation of East Asian currencies on U.S. import volumes and prices;
 - the impact of the crisis on other industrialized economies, and the indirect effect of slower growth in these economies on our economy.
- There is a general consensus that the deterioration in the U.S. trade deficit this year will be noticeable. The IMF has estimated that the 1998 current account deficit may widen to \$229 billion (2.7% of GDP); the OECD to \$211 billion (2.5% of GDP); and *Consensus Economics*, to \$204 billion, (2.4% of GDP).

Background

Treasury's own internal forecasts (SENSITIVE) currently suggest that the current account deficit may widen to \$235 billion, 2.8% of GDP, in 1998 and to \$275 billion, 3.1% of GDP, in 1999. Approximately two thirds of this forecast deterioration is due to the direct and indirect effects of the Asian financial crisis. The 1997 current account deficit was \$166 billion, 2.1% of GDP.

brad setser/treasury/imi/

END!

STATE OF THE UNION: THE REPUBLICAN RESPONSE
SENATE MAJORITY LEADER BOB DOLE
REMARKS PREPARED FOR DELIVERY
JANUARY 23, 1996

GOOD EVENING. I'M BOB DOLE, AND I'M HERE TO REPLY TO THE PRESIDENT'S MESSAGE ON THE STATE OF THE UNION. BUT A REPLY NEED NOT BE AN ARGUMENT.

INSTEAD, I WANT TO PRESENT ANOTHER VIEW, ANOTHER WAY OF THINKING ABOUT THE PROBLEMS WE FACE.

A FEW YEARS BACK, I MET WITH A GROUP OF 100 HIGH SCHOOL SENIORS -- ONE YOUNG MAN AND WOMAN FROM EVERY STATE.

DURING THE MEETING, ONE YOUNG MAN STOOD UP AND SAID:

"SENATOR, EVERYBODY HAS SOMEBODY WHO SPEAKS FOR THEM. BUT WHO SPEAKS FOR US?" HE ASKED ME. "WHO SPEAKS FOR THE FUTURE?"

THAT'S WHAT I WANT TO TALK WITH YOU ABOUT TONIGHT.

THE FUTURE, AND THE VALUES THAT WILL SHAPE IT.

THOSE VALUES ARE AT THE HEART OF OUR DISAGREEMENTS WITH THE PRESIDENT.

PRESIDENT CLINTON SAYS OUR DIFFERENCES ARE FEW, THE BUDGET NUMBERS ARE CLOSE AND THAT WE SHOULD TRY TO FIND COMMON GROUND.

WE HAVE TRIED AND TRIED, AGAIN AND AGAIN. BUT SUCH A PLACE APPEARS TO BE ELUSIVE.

FOR WHILE WE SHARE AN ABIDING LOVE OF COUNTRY, WE HAVE BEEN UNABLE TO AGREE.

WHY? BECAUSE WE HAVE STARKLY DIFFERENT PHILOSOPHIES OF GOVERNMENT AND PROFOUNDLY DIFFERENT VISIONS OF AMERICA.

SO ALL THE TALK AND FIGHTING IN WASHINGTON CAN SEEM VERY REMOTE. AND WE POLITICAL FIGURES CAN SEEM DETACHED, AND PETTY, AND FAR REMOVED FROM THE EVERY DAY STRUGGLE OF AMERICAN CITIZENS AND FAMILIES.

BUT, THE TRUTH IS, WE CANNOT IGNORE THE FUTURE.

THE POINT OF OUR LIVES, AFTER ALL, IS TO RAISE CHILDREN WHO ARE SMARTER AND HEALTHIER AND NOBLER THAN WE ARE;

TO CONTRIBUTE TO A COUNTRY THAT IS BETTER THAN TODAY'S AMERICA;
TO MAKE A WORLD THAT IS BETTER AND FINER FOR ALL OF GOD'S CREATION.

AMERICA'S GREATNESS -- ALL THAT WE TAKE SUCH JUSTIFIED PRIDE IN TODAY -- AMERICA'S GREATNESS WAS BUILT BY MEN AND WOMEN WHO SACRIFICED EASE AND COMFORT AND THE JOYS OF TODAY, TO BUILD A BETTER FUTURE FOR THOSE WHO CAME AFTER.

HOW MANY PIONEERS FACED A HOSTILE AND THREATENING FRONTIER;

HOW MANY IMMIGRANTS GAVE THEIR BODIES TO THE MINES;

HOW MANY SOLDIERS LOST THEIR LIVES ON DISTANT BATTLEFIELDS, TO SECURE A BETTER FUTURE FOR THEIR CHILDREN AND THEIR CHILDREN'S CHILDREN.

IN EVERY GENERATION, AMERICANS HAVE MADE THESE SACRIFICES, AND FOUND IN THEIR MAKING A PURPOSE AND A DIRECTION TO LIFE.

NOW, WE HAVE TO DO THAT, IN THIS GENERATION.

THANKS TO GOD AND FORTUNE, AND TO THOSE WHO WENT BEFORE, WE DON'T HAVE TO CONQUER A DANGEROUS FRONTIER, WE DON'T HAVE TO FIGHT ANOTHER GREAT WAR.

WHAT WE DO HAVE TO DO IS FACE THE FACT THAT WE CANNOT GIVE IN TO ALL OF OUR OWN DESIRES.

AS WE HAVE JUST HEARD, PRESIDENT CLINTON, AND THOSE WHO SHARE HIS VISION OF AMERICA, HAVE CHOSEN THEIR GROUND.

THE PRESIDENT HAS CHOSEN TO DEFEND, WITH HIS VETO, A WELFARE SYSTEM THAT NO ONE CAN DEFEND -- FOR IT IS A DAILY ASSAULT ON THE VALUES OF SELF-RELIANCE AND FAMILY.

HE HAS CHOSEN TO DEFEND AN EDUCATION ESTABLISHMENT RUN BY LIBERALS WHOSE GOAL IS TO OPERATE EVERY SCHOOL IN AMERICA BY REMOTE CONTROL FROM WASHINGTON.

HE HAS CHOSEN TO VETO A DEFENSE BILL BECAUSE IT PROVIDED FOR DEFENDING AMERICA AGAINST WEAPONS OF MASS DESTRUCTION.

HE HAS CHOSEN TO DEFEND THE STATUS QUO IN MEDICARE -- A SYSTEM ON WHICH LIVES DEPEND, AND A PROGRAM IN URGENT NEED OF RESCUE.

PRESIDENT CLINTON HAS CHOSEN TO DEFEND AND INCREASE A TAX BURDEN THAT HAS PUSHED COUNTLESS FAMILIES INTO THEIR OWN PERSONAL RECESSIONS.

AND HE HAS CHOSEN TO VETO THE FIRST BALANCED BUDGET IN A GENERATION, OFFERING ONLY A FANTASY IN ITS PLACE.

IF YOU HAVE A CHILD ASLEEP IN YOUR HOME TONIGHT, YOU'LL PROBABLY CHECK ON HIM OR HER BEFORE YOU GO TO BED.

AS YOU BEND OVER TO TUCK YOUR CHILD IN, THINK ABOUT THIS:

IF WE CONTINUE DOWN THIS PATH WE WILL PLACE A TREMENDOUS BURDEN OF DEBT ON EVERY CHILD IN AMERICA.

HOW CAN WE BETRAY THEM, THEIR PARENTS, AND GRANDPARENTS? HOW CAN WE FAIL TO ACT?

WE CANNOT, AND WE WILL NOT.

EVERY POLITICAL MOVEMENT, AND EVERY PUBLIC OFFICIAL, MUST LOCATE A PLACE IN HIS HEART WHERE COMPROMISE ENDS -- A CORE OF CONVICTION WHERE WE KEEP OUR CONSCIENCE.

THERE COMES A TIME WHEN EVEN PRACTICAL LEADERS MUST REFUSE TO BEND OR YIELD.

FOR REPUBLICANS, AND COUNTLESS DEMOCRATS AND INDEPENDENTS, WE HAVE ARRIVED AT THAT TIME.

AMERICA'S TROUBLES ARE REAL BUT OUR CHOICES ARE CLEAR AND OUR WILL IS STRONG.

WE MUST REIN IN OUR RUNAWAY GOVERNMENT, RETURN POWER TO THE PEOPLE, REDUCE THE TAX BURDEN, PUT PARENTS BACK IN CHARGE OF OUR SCHOOLS, UNTIE THE HANDS OF OUR POLICE, RESTORE JUSTICE TO OUR COURTS AND PUT OUR FAITH ONCE AGAIN IN THE BASIC GOODNESS, WISDOM AND SELF-RELIANCE OF OUR PEOPLE.

THE PRESIDENT SPOKE WITH GREAT ELOQUENCE ABOUT A FUTURE WITH UNLIMITED POSSIBILITIES.

IT IS A VISION WE ALL SHARE, FOR IT IS THE STORY OF AMERICA.

BUT WHILE THE PRESIDENT'S WORDS SPEAK OF CHANGE, HIS DEEDS ARE A CONTRADICTION.

THE PRESIDENT CLAIMS TO EMBRACE THE FUTURE WHILE CLINGING TO THE POLICIES OF THE PAST.

FOR THREE YEARS THIS ADMINISTRATION HAS VALUED DEPENDENCE ON GOVERNMENT OVER SELF-RELIANCE, FEDERAL POWER OVER COMMUNITY, FEDERAL PLANNING OVER INDIVIDUAL ENTERPRISE.

IT HAS TRIED TO PLACE GOVERNMENT EXPERTS IN CHARGE OF OUR ECONOMY, OUR HEALTH AND OUR LIVES.

IT HAS PUT LIBERAL JUDGES ON THE BENCH TO WAR WITH OUR VALUES AND QUESTIONS THE PARTICIPATION OF RELIGIOUS PEOPLE IN PUBLIC LIFE, TREATING THEM AS FANATICS OUT OF STEP WITH AMERICA.

PRESIDENT CLINTON SHARES A VIEW OF AMERICA HELD BY OUR COUNTRY'S ELITES:

A NATION OF SPECIAL INTEREST GROUPS, UNITED ONLY BY A DEPENDENCE ON GOVERNMENT, COMPETING WITH EACH OTHER FOR HAND-OUTS, HELD BACK BY OUT-DATED VALUES.

FOR THOSE WHO HOLD THIS VIEW, THERE IS ONLY ONE ANSWER FOR OUR PROBLEMS:

MORE GOVERNMENT.
BIGGER GOVERNMENT.
MORE MEDDLESOME GOVERNMENT.

IF YOU LISTENED CLOSELY, THAT'S WHAT PRESIDENT CLINTON TALKED ABOUT TONIGHT.

PRESIDENT CLINTON MAY WELL BE THE REARGUARD OF THE WELFARE STATE.

HE IS THE CHIEF OBSTACLE TO A BALANCED BUDGET, AND THE BALANCED BUDGET AMENDMENT.

HE IS ALMOST THE LAST PUBLIC DEFENDER OF A DISCREDITED STATUS QUO.

WE REPUBLICANS WILL NOT GIVE UP THE STRUGGLE BECAUSE AMERICA WILL ROUND THE CORNER TO A BRIGHTER FUTURE IF WE PREVAIL.

I COME FROM RUSSELL, KANSAS -- THERE'S NOT MUCH MONEY THERE, BUT THE PEOPLE ARE RICH IN MANY OTHER WAYS.

LIFE ISN'T EASY, BUT THE VALUES ARE DURABLE.

LOVE OF GOD AND COUNTRY AND FAMILY.

COMMITMENT TO HONESTY, DECENCY AND PERSONAL RESPONSIBILITY.

SELF-RELIANCE TEMPERED BY A SENSE OF COMMUNITY.

THOSE VALUES MADE AMERICA THE GREATEST NATION ON EARTH. AND THERE IS NO DOUBT IN MY MIND THAT WE CAN GET OUR COUNTRY BACK ON TRACK IF WE REASSERT THEM AGAIN AS A PEOPLE.

AND IF OUR GOVERNMENT RETURNS TO THEM AS A MATTER OF NATIONAL POLICY.

JUST LIKE THE DEBATE OVER THE BUDGET THIS WINTER, OUR ARGUMENTS THIS SPRING WILL SEEM A MAZE OF CONFLICTING NUMBERS, ASSERTIONS AND HIGH-SOUNDING WORDS.

BUT WHAT WE'RE REALLY ARGUING ABOUT ARE THE VALUES THAT WILL SHAPE OUR NATION, OUR GOVERNMENT, AND THE FUTURE OF YOUR CHILD SLEEPING DOWN THE HALL.

SOME PEOPLE TRY TO MAKE THESE MATTERS COMPLICATED, BUT THEY'RE SIMPLE IN MY HOME TOWN -- AND PROBABLY WHERE YOU ARE, AS WELL. AMERICANS KNOW THAT HANDOUTS WITHOUT RESPONSIBILITY DESTROY HUMAN DIGNITY.

WE KNOW THAT THE HELP OF A NEIGHBOR IS PREFERABLE TO THAT OF A BUREAUCRAT.

AND WE KNOW THAT WEALTH IS CREATED BY FREE INDIVIDUALS WITH THEIR SMARTS AND THEIR SWEAT. GOVERNMENT PROGRAMS CAN ONLY SPEND IT.

I AM A PRACTICAL MAN, BUT I BELIEVE IN THE MIRACLE OF AMERICA.

I HAVE NEVER GONE IN FOR DRAMATICS, BUT I DO BELIEVE WE HAVE REACHED A DEFINING MOMENT.

IT'S AS IF WE WENT TO SLEEP IN ONE AMERICA, AND WOKE UP IN ANOTHER.

IT'S AS THOUGH OUR GOVERNMENT, OUR INSTITUTIONS AND OUR CULTURE HAVE BEEN HIJACKED BY LIBERALS AND ARE CAREENING DANGEROUSLY OFF COURSE.

WE KNOW THE WAY BACK, BUT WE MUST ACT NOW. MY PROMISE TONIGHT IS THAT WE CAN, AND WE WILL.

IF THERE IS NO AGREEMENT, WE WILL SEND PRESIDENT CLINTON ANOTHER BALANCED BUDGET ...

WITH TAX RELIEF FOR AMERICAN FAMILIES ...

REGULATORY RELIEF FOR SMALL BUSINESSES, FARMERS, AND RANCHERS ...

AND REAL WELFARE REFORM.

WE WILL ALWAYS BE MINDFUL OF THE POOR AND DISADVANTAGED, EDUCATION, AND THE ENVIRONMENT. BUT WE WILL BEGIN THE DEFUNDING OF BIG BROTHER BY UNFUNDING WASTEFUL PROGRAMS AND MEDDLESOME DEPARTMENTS.

WE WILL SEND THE PRESIDENT BILL AFTER BILL, RETURNING POWER AND PROGRAMS TO THE STATES.

WE WILL CHALLENGE PRESIDENT CLINTON AGAIN AND AGAIN TO WALK THE TALK HE TALKS SO WELL.

AS WE DO, REMEMBER THIS:

OUR BATTLES WILL NOT BE ABOUT NUMBERS. THEY'LL BE ABOUT THE CHARACTER OF OUR NATION.

YES, THIS COUNTRY HAS PROBLEMS. BUT WE CAN HANDLE THEM.

WHETHER IT'S DEFICIT SPENDING OR THE WELFARE BUREAUCRACY OR OUR LIBERAL COURTS OR THE TROUBLES IN OUR SCHOOLS -- WHAT'S WRONG IS THAT THE ELITES IN CHARGE DON'T BELIEVE IN WHAT THE PEOPLE BELIEVE IN.

THAT, WE CAN FIX.

WE KNOW WHAT MADE AMERICA GREAT. ALL WE NEED NOW IS THE RESOLVE TO LEAD OUR COUNTRY BACK TO HER PLACE IN THE SUN. AND THE COURAGE TO SPEAK FOR THE FUTURE.

WHEN YOU CLOSE THE DOOR TO YOUR CHILD'S ROOM TONIGHT, REMEMBER THAT IT'S NOT TOO LATE.

THIS IS A GREAT COUNTRY. OUR STRENGTH HAS ALWAYS COME FROM THE TRUTH, AND FROM SACRIFICE AND HONOR, AND FROM THE BOTTOMLESS RESERVOIR OF HOPE AND WORK AND COURAGE THAT IS THE AMERICAN PEOPLE.

ALWAYS, WE HAVE BUILT FOR THE FUTURE, WITH A HALF-SILENT CONSCIOUSNESS THAT WE WERE DOING THE WORK OF THE LORD.

TODAY, WE FEEL OURSELVES BESET BY MANY DIFFICULTIES:

BY VIOLENCE AND RESENTMENT, BY RACIAL AND PARTISAN DIVISIONS, BY ECONOMIC STORMS, BY DIZZYING CHANGES OF EVERY KIND. YET, THE BLOOD OF GREATNESS, OF NOBLE FORBEARERS, OF MEN AND WOMEN OF INCREDIBLE ACHIEVEMENT, STILL RUNS THROUGH US ALL.

THAT BIRTHRIGHT IS WHAT IT MEANS TO BEAR THE NAME "AMERICAN."

IN THIS TIME. IN THIS GENERATION, IN THIS YEAR, WE -- LIKE THEY -- CAN AND WILL OVERCOME.

WE NEED ONLY REDEDICATE OURSELVES TO EARNING THE NAME WE HAVE INHERITED.

THANK YOU VERY MUCH, GOD BLESS AMERICA AND GOODNIGHT.

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UNITED STATES
DEPARTMENT OF EDUCATION

NEWS

FOR RELEASE
January 22, 1996

Contact: Jane Glickman (202) 401-1307
Stephanie Babyak (202) 401-2311

NATIONAL STUDENT LOAN DEFAULT RATE HITS ALL-TIME LOW

U.S. Secretary of Education Richard W. Riley today announced that the national student loan default rate has been cut almost in half, from 22.4 percent three years ago to 11.6 percent in the most recent year, due in part, he said, to the U.S. Department of Education's aggressive accountability and collection efforts.

The new rate released today marks the greatest one-year percentage drop since official student loan default reporting began with the fiscal year (FY) 1988 rate.

The new default rate is from FY 1993, the most current data available, and it represents a snapshot in time of borrowers scheduled to begin loan payments in FY 1993, who defaulted in either that year or the following year.

"The dramatic decline in default rates, coupled with an equally impressive rise in defaulted loan collections, has reduced the taxpayers' burden by millions of dollars," Riley said. "These numbers reflect real and substantial progress. They are a result of our serious work at the U.S. Department of Education to improve our accountability."

Riley also credited schools for their efforts to reduce defaults and Congress for authorizing a broad range of tough sanctions to control defaults.

Since the start of the Clinton Administration, the net cost of student loan defaults has dropped by more than two-thirds -- from \$1.7 billion in FY92 to \$400 million in FY95. In FY 1995, the U.S. Treasury paid out \$2.4 billion to cover defaulted student loans.

-MORE-



-2-

Total collections of \$2 billion by the department and guaranty agencies brought net default costs down to \$400 million. The department's defaulted loan collections alone have increased five-fold from 1993 to 1995.

"The department's comprehensive programs to prevent defaults, to collect on overdue loans, and to help borrowers repay debts are paying off," Riley said.

Riley said defaulters face serious sanctions, including federal income tax refund offset, wage garnishment, denial of further student aid, and loss of other forms of loans and credit. However, defaulters now have the option to consolidate their loans and establish an income-based repayment plan in order to avoid sanctions.

President Clinton's new William D. Ford Federal Direct Loan Program offers borrowers with all types of federal student loans a similar income-based repayment plan. With direct lending's consolidation plan, borrowers can take advantage of the program's flexible repayment options to make repayment easier and avoid default in the first place.

Riley reported that the department's collection tools and accountability measures have reaped these results:

- o The department recovered \$598 million in FY94 by offsetting federal income tax refunds from 781,000 defaulters and \$585 million in FY95 by offsetting refunds from 774,000 defaulters;
- o Wage garnishment has increased from some 5,000 defaulters in all of FY95 to nearly 8,300 persons in the first quarter of FY96;
- o Litigation against student defaulters has increased from 200 accounts in FY95 to 708 accounts in the first quarter of FY96.

~~-MORE-~~

-3-

Riley also attributed the declining default rate to the department's statutory and oversight responsibility to remove schools with high default rates from participating in federal student loan programs. Since 1993, some 600 schools have become ineligible as a result. In addition, the department's strengthened accountability activities have prevented many schools that don't meet basic financial or administrative criteria from participating in federal student aid programs.

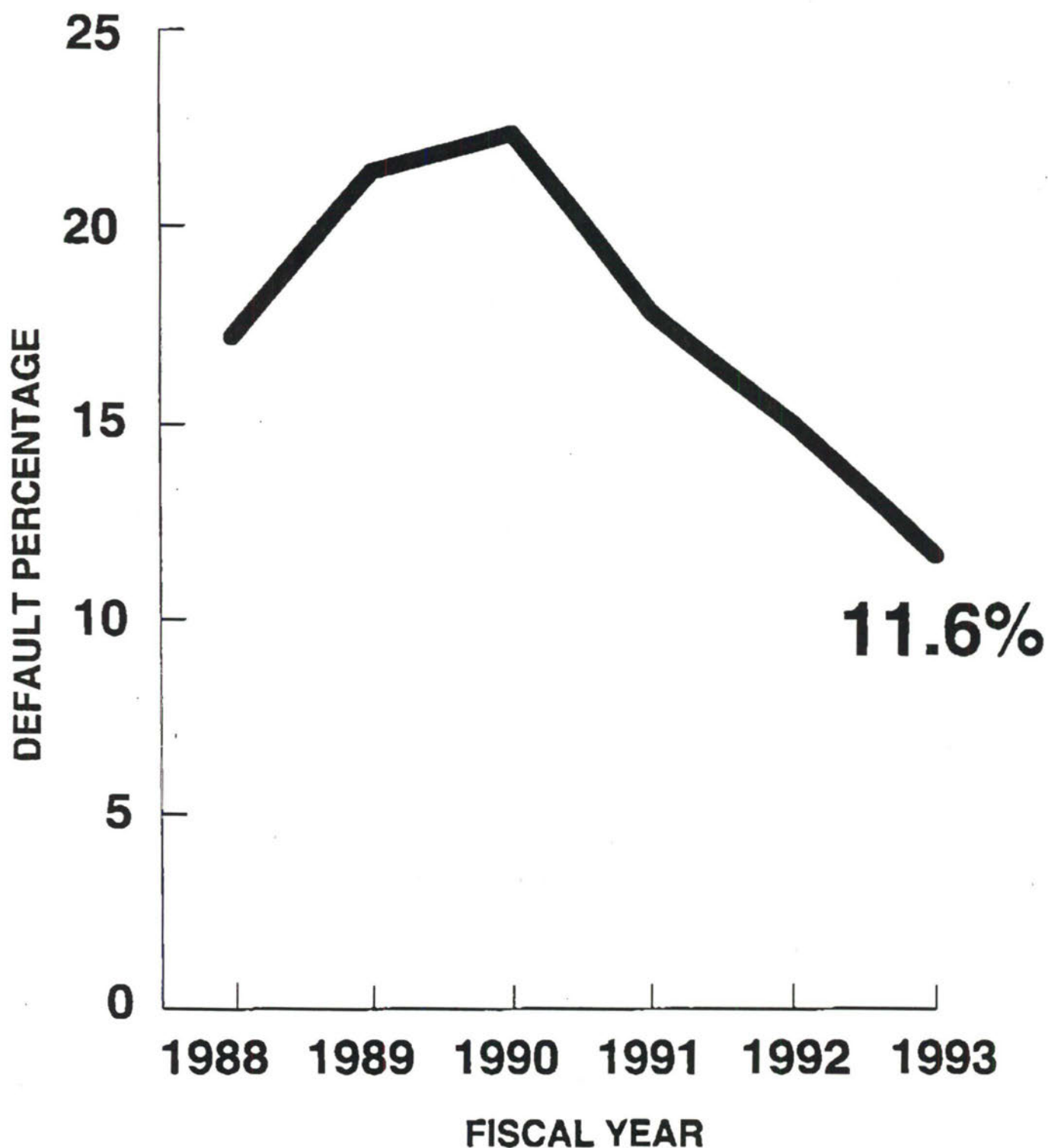
Riley said that with a new National Student Loan Data System (NSLDS), the department is further improving its monitoring of student aid applications to prevent ineligible students -- and students who provide false information -- from receiving federal funds. In the current school year, the NSLDS blocked the issuance of \$230 million in loans to ineligible applicants.

"These significant default reductions and loan collections should quiet critics who claim we aren't up to the task and, therefore, shouldn't be entrusted to manage the direct loan program," Riley said. "These figures are a clear indication that we can do the job and do it well."

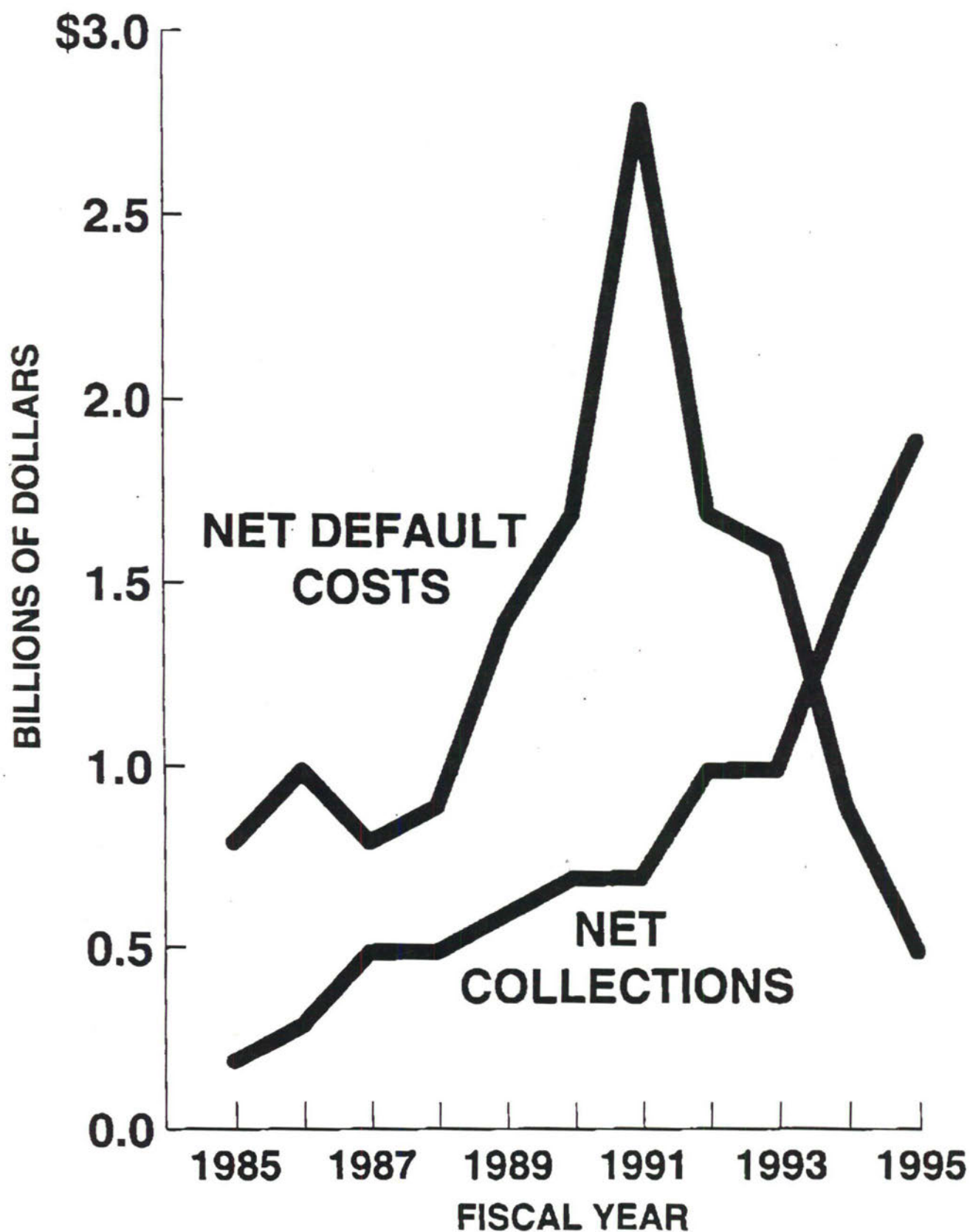
Riley said student loan borrowers who believe they may be in default on a federal student loan should contact the holder of the loan for additional information on repayment options that are available. For accounts currently being handled by the department, or to attempt to locate a past due account, borrowers may call the department's Debt Collection Customer Service Center at 1-800-621-3115.

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STUDENT LOAN DEFAULT RATES



STUDENT DEFAULT COSTS



Remarks by Secretary Richard W. Riley*

January 22, 1996

The story that we want to talk about with you today is the latest example of how President Clinton's efforts to streamline and reinvent government are beginning to pay off.

First, a little background. Every so often through the late '80s and early '90s, a Congressional committee would convene a hearing and issue a report about the high student loan default rate.

The steadily climbing rate at which borrowers were defaulting on college student loans was a vexing problem. The low rate at which past defaulted loans were recouped was also a big problem.

Only three years ago, the default rate reached 22.4 per cent -- more than 1 out of every 5 borrowers failing to repay their loan. The program was hemorrhaging, the numbers were completely unacceptable.

When the Clinton Administration came into office, I declared that reducing the number of loan defaults was our number one management priority in the area of federal assistance for college students.

As this chart shows, we have done just that. In a series of steps taken at the U.S. Department of Education through our Default Reduction Initiative, we have accelerated the actions begun at the end of the previous Administration, and cut the default rate almost in half in just three years to its fiscal 1993 level of 11.6 per cent.

* The Secretary may depart from prepared remarks.

The news gets better. Our collections on past defaulted loans are recouping more taxpayer dollars than ever before. In fiscal 1995, we collected \$2 billion from borrowers whose loans had been in default.

Preliminary numbers for this year show this positive trend in collections continuing. In the first quarter of fiscal 1996, our collections of defaulted loans more than doubled the collections for the same quarter in fiscal 1995.

Taking the broad view, a comparison of new defaults and the collections on past defaults shows that we have cut the net cost of loan defaults by more than two-thirds -- from \$1.7 billion in fiscal 1992 to \$400 million in fiscal 1995.

These numbers reflect real and substantial progress. They are the product of several aggressive management decisions that were intended to get the default problem under control. They are a result of our serious work at the U.S. Department of Education to improve our accountability.

The default rates allowable for an institution have been ratcheted down, a move that encourages schools to be more diligent in insuring that their students receive a quality education and can handle the debts that they incur.

Many institutions that could not meet those basic performance standards are no longer enrolled in federal aid programs. Since the Clinton Administration came into office, we have removed more than 600 institutions from participation in the network of Title IV student programs.

Our work on the National Student Loan Data System is bearing fruit, too. The data system blocked the issuance of \$230 million in loans to student applicants who were not eligible to receive federal aid. While there is still room for improvement, the system's success to date

shows that the Department's capacity to screen applicants and weed out the bad apples is becoming more and more effective.

We will continue to work at lowering loan defaults further. We believe wholeheartedly that President Clinton's direct-loan program will help us in that important cause. While there are no borrowers with direct loans covered in this data, we are convinced that the array of repayment options and minimal red tape in direct lending will make it easier for student borrowers to meet their obligations.



UNITED STATES DEPARTMENT OF EDUCATION

OFFICE OF THE SECRETARY

January 17, 1996

Memorandum

To Jeremy Ben-Ami

From Frank Holleman *FBH*

Re: Student Loan Default Rates and Default Cost

This memo updates and replaces the memo I sent you on December 5, 1995, regarding the status of student loan default rates and default costs. We recently have determined the 1993 default rate, and I have received more detailed information on how the default rate is calculated. Below is a summary based on information provided by ED's Budget Service and Office of Postsecondary Education.

Default Rates

The Department has recently determined that the 1993 default rate is 11.6%. That is a significant decline from the 1992 default rate announced last year, 15%. This rate continues the decline since the 1990 default rate, which was 22.4%.

We have not yet publicly announced the 1993 default rate. We may attempt to have a public announcement next Monday, January 22, to avoid as much of the State of the Union press as possible, the budget press around January 26, and any shutdown thereafter. We have contacted you and others at the White House so that the White House could make the announcement, if the White House would like to do so. As I told you, the representative of the guaranty agency trade association told a Chicago paper last week that the default rate would be around 11% and attempted to claim partial credit for the guaranty agencies. Thus, there is some need to go ahead and make the announcement before the rate otherwise becomes widely known in the press. Other activities may force us to postpone the announcement past January 26; for now, however, we are looking at January 22 for an announcement.

Each year the Department announces a default rate for the year that ended approximately two years earlier; within the next week or so, we are announcing the 1993 default rate. It is possible to determine whether students have defaulted on their loans only after they have left school and have had the chance to be in repayment for a period of time. For example, the 1993 default rate is for loans that went into repayment between October 1, 1992 and September 30, 1993; the rate is the percentage of those loans that

Memorandum to Jeremy Ben-Ami
Page 2

went into default between October 1, 1992, and September 30, 1994. Thus, the 1993 default rate is calculated based on repayment histories ranging from one to two years.

My earlier memo indicated that the default rate was based on a simple two-year repayment history -- that the 1993 default rate was based on the repayment history through 1995 of loans that should have entered repayment in 1993. As usual and as explained above, the explanation is not that simple. The default rate for all loans that went into repayment in FY 93 is calculated by determining which of those loans went into default in FY 93 or FY 94. Again, the default rate for FY 93 loans is thus measured against a repayment history ranging from one to two years.

In the default rate announcement, we would want to emphasize steps the Department has taken and pursued more vigorously to improve the student loan system. Those include stronger steps taken to collect defaulted loans and thus discourage defaulting (offsetting income tax refunds and garnishing wages), the elimination of high default rate schools from the system, and efforts to encourage student borrowers to repay their loans. In addition, it should be recognized that over 88% of these student borrowers repaid their loans on time.

Finally, it should be kept in mind that many of these borrowers went into repayment in FY 93 after the Administration came into office and that their repayment periods include a significant period after the Administration took office (January 1993 through September 1994). Last year's 1992 rate did not include borrowers who went into repayment during the Administration's term of office, but their repayment period did include a portion of the Administration's first year in office (January through September 1993).

Net Default Cost

My December 5 memo also pointed out the significant fact that the net cost of student loan defaults to the U.S. government has dropped by over two-thirds during this Administration. For convenience sake, that discussion is repeated below.

The net cost of defaults is the difference between what the government pays out each year to cover student loan defaults and the amount the government collects from previously defaulted loans during that year. As we do a better job each year preventing defaults by students and collecting on previously defaulted loans, the net cost to the government drops.

In FY 1991, the government paid \$3.6 billion to lenders for

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defaulted loans. By FY 1995, that amount had dropped to \$2.4 billion. During this Administration, the amount dropped from \$2.7 billion in FY 1992 to \$2.4 billion in FY 1995. More dramatic has been the increase in default collections. Default collections have increased from \$700 million in FY 1990 to \$1.9 billion in 1995. During this Administration, collections have increased from \$1 billion in FY 1992 to \$1.9 billion in FY 1995, a 90% increase.

Overall, during this Administration, the net cost of student loan defaults has declined from \$1.7 billion in FY 1992 to \$500 million in FY 1995 -- a decline of over two-thirds. Since FY 1991, the net default cost has declined from \$2.8 billion to \$ 500 million in FY 1995.

Attached is a chart that shows the decline in net default costs.

Let me know if you need further information.

THE WHITE HOUSE
WASHINGTON

1/22/96

To: Baer
Weldman
Reed.
Spelling

From: Blinken

Attached, articles on Tony Blair's
"stakeholder society" concept which
is now center of political debate
in U.K. You're probably up on
this, but in case not, some
obvious parallels to our situation
+ some possible language thoughts
for S&U or beyond.

ATony

Stake that claim

Tony Blair should ignore the critics of his new big idea: the stakeholder society finally gives the left a credible ideology that, **Will Hutton** argues, stands up effectively to laissez-faire capitalism

1/22/96

To: Bacr
Weldman
Reel
Sperry

From: Blinker



THE snap reaction of the left to the idea of the stakeholder economy and society is that it is little more than Thatcherism in drag, just another way of talking about popular capitalism or the enterprise culture. The right is no more forgiving. The dynamics of capitalism are immutable and brook no reform. Tony Blair will find that championing stakeholding is no easy ride; he has entered the political battle of the day with a vengeance.

But the stock criticisms are wrong. Like it or hate it, stakeholding does represent a different political economy of capitalism with profound implications for economic, social and political organisation. It stresses that workers should be seen as members of firms rather than locked into an antagonistic confrontation between capital and labour. In this world view, firms are

and if they are reduced to commodities bought and sold on the stock market, that undermines the trust and reciprocity of obligation on which long-termism and productivity thrive.

Too much fracturing and tearing of society in the quest for simple economic efficiencies is ultimately socially unsustainable — and that spills over into the sustainability of economic growth. Social citizenship and economic membership are interdependent — but this links up with political citizenship. An active participative democracy goes hand in hand with underpinning social cohesion and promoting stakeholder firms.

These are no platitudes. A different vocabulary opens up — social inclusion, membership, trust, co-operation, long-termism, equality of opportunity, participation, active citizenship, rights and obligations — to shape a society

maximisation of shareholder value and the "burden" of welfare and social costs. Behind the vocabulary lies a different value system, a different view of what makes a successful market economy tick — and a dramatically different approach to economic and social policy.

Corporate law, the organisation of pensions, systems of training, company decision-making, the behaviour of the Stock Exchange and the role of education are markedly different in a stakeholder world. The international evidence, as Blair said in Singapore, is that this approach delivers social cohesion and economic growth; the two feed off each other. By pinning his colours to the stakeholder mast, Blair has taken a decisive political step. New Labour has now enlisted a substantial and novel body of ideas: it stands in sharp opposition to the

enough to beat its ideological rival, communism, and even good enough to take on and beat British collectivism — but as a model for the good society or efficient economy it falls far short of any decent yardstick. It is characterised by endemic short-termism, economic volatility and social divisiveness — and, when married to the top-down centralised nature of British government, has delivered a society in which civic duty and public service have become progressively emasculated.

It was exactly against this kind of laissez-faire capitalism that the stakeholder idea was first developed — by the American left during the sixties. The word derived from the way US settlers staked their claim in virgin territory. Business strategists in the late fifties and early sixties used it to rethink the idea of a company as a network of reciprocal claims between shareholders, employees, bankers, suppliers and managers. Large industrial organisations were bureaucracies which arbitrated between these rival claims — a necessary function in any industrial economy, market capitalist or market socialist.

But it was when J.K. Galbraith picked up the idea in the New Industrial State, published in 1967, aided and abetted by Robin Marris, author of the Theory of Monopoly Capitalism, that the idea first gained economic and political currency. During the seventies, American corporate raiders complained that companies were cynically appealing to stakeholder interests to obstruct takeovers and limit shareholders' rights (a complaint they still make). But as no US politician has attempted to organise the ideas into a legislative programme, stakeholding has not progressed much beyond encouraging worker share ownership through Employee Stock Ownership Plans.

In Germany, the social market ideas developed by left theorists in opposition to fascism and communism had similar roots — they thought of the firm as a social organisation with long-term stakeholders, which operated in highly competitive markets. The welfare state was seen as a protective social instrument to promote social inclusion, and allow capitalism its much-needed flexibility to build up and run down industries without worrying about the social consequences. The political purpose was the

ism of the left and right.

In Britain the whole debate has never taken off before. The post-war settlement was a compromise, allowing the left to achieve its social goals through raising public spending and extending public ownership, but leaving the right to protect city freedoms and the ancient notion that the firm represented no more than the shareholders' interests. The case for stakeholding was left to fringe groups campaigning for worker participation and co-operatives. But with the instruments of Old Labour collapsing, and the right building on the laissez-faire model, the most promising avenue for the left is stakeholding.

The TUC has recognized this for some time, and General Secretary John Monks has established a task force to suggest legislative proposals and ways the unions might profit. The Dahrendorf Commission on Wealth Creation and Social Cohesion came out firmly in favour of stakeholding last summer. Tony Blair's has been tantalisingly slow to adopt it publicly but the Singapore speech is a watershed.

It establishes authentically left credentials, blindsides his opponents and has a reforming sting. Witness just one passage. "It is surely time," he said, "to assess how we shift the emphasis in corporate ethos — from the company being a mere vehicle for the capital market to be traded, bought and sold as a commodity — towards a vision of the company as a community or partnership in which each employee has a stake, and where the company's responsibilities are more clearly delineated."

Michael Portillo immediately attacked this as a straight copy of long-standing Conservative policy — but it is difficult to recall a Conservative politician ever indicting the operation of stock-market capitalism for commodifying companies and workers, or proposing a clear delineation of corporate rights and obligations. Isn't the Conservative idea to promote deregulation and to regard stock-market freedoms as sacred?

But Blair's advocacy of what he calls the Stakeholder Welfare System may arouse more concern. There is a clear accent on social cohesion and the necessity to recast the welfare state so it ceases to offer an obstacle to training or self-employment; and it is equally attractive to open up collective means of self-insurance to allow individuals to produce pensions or sickness benefit above the basic levels. The danger, though, is also clear. Singapore-type provident funds could be progressively used to replace existing welfare structures, with their accompanying need for a redistributive tax system.

Yet in sum the commitment to a stakeholder economy and society is a key moment — a way of binding the centre and left together in common cause while providing the ideological impetus for important economic and social reform. Blair went to Australia this

Raising the stakes

There has been a frenzy of analysis since Tony Blair's Singapore speech 10 days ago about the stakeholder society. Is it the 'Big Idea' for the new Britain in the new millennium? Or part of soundbite culture? **Will Hutton** looks beyond the rhetoric. Graphic by **Patrick Wintour** and **Paddy Allen**

THE REACTION to the idea of the stakeholder economy and society, which Tony Blair first unveiled in his Singapore speech ten days ago, has been extraordinary. Ministers do not miss an opportunity to attack the notion; reams of newspaper copy and video-tape have been expended on exploring what it could mean. The political and journalistic establishments are united in their judgement. Stakeholding, whatever its ambiguities, could have legs as New Labour's big idea.

But for all the ministerial protestations that Mr Blair has made his first mistake by putting some "red water" between him and the Conservative party, the inexperienced team at Central Office have played into the Labour leader's hand.

By insisting that no media interview or parliamentary intervention should be complete without some challenge to the idea, they have disobeyed the first law of politics. Setting the agenda is half the political battle; and by the middle of week

two, stakeholding has become the agenda.

The Conservative calculation is that it was more dangerous to allow Mr Blair a free run in developing what might be a very attractive political idea that could pull together a potent coalition of the centre and moderate left of British politics. After all a number of leading British companies, including BT, BP and Marks and Spencer, call themselves stakeholder companies and can hardly dissociate themselves from the idea — while the level-headed element in the union movement are actively campaigning for the unions to abandon their long-standing opposition. Pull these wings together, and here is a very powerful new political coalition united by an overarching political concept.

Hence the urgency, from the Conservative vantage point, of defining stakeholding in negative terms before Mr Blair could define it so that it sounds attractive. The business community and the Tory voters who John Redwood describes as the

lost five million has better beware; this means a return to the bad old days of British corporatism, red tape, tax and spend governments — and bringing back trade union militancy.

With equal urgency Mr Blair has been resisting such attacks. It is about empowerment, he says, quality education and training for all; the creation of a moral community at work as much as in welfare state, and of "treating workers as partners rather than factors of production" (as he said in his interview with David Frost). Above all it is about giving individuals a stake.

Yet for all its occasional lapses into a language of platitudinous generality, this is a political exchange of fundamental importance which both sides regard as essential to win. Cynics inside the Labour Party and in abundance beyond in the media like to prove their independence and powers of professional scepticism by scoffing at stakeholding; to display enthusiasm, interest or understanding is to depart from the unwritten code. All politicians are knaves and propagandists; all their ideas are confused, inadequate or boil down to the same old left/right divide in the end.

Yet stakeholding is a genuine departure; it attempts to offer a set of guiding principles that could organise a reformist political programme in five chief areas: the workplace, the welfare state, the firm and the City, the constitution, and economic policy more generally. This is not socialism in the twentieth century, Scargillite tradition of trying to build a socialist

Jerusalem by planning and public ownership; but it is not the orthodox advocacy of free market capitalism championed by the Conservative Right. It is an explicit statement of the values and principles that have underpinned the century-long attempt to build a just society and moral community that is congruent with private property, the pursuit of the profit motive and decentralised decision-making in markets — the famous third or middle way. There are ambiguities and difficulties; but as a system of ideas it deserves to be taken seriously.

The unifying idea is inclusion; the individual is a member, a citizen and a potential partner. But inclusion is not a one-way street; it places reciprocal obligations on the individual as well as rights — and in every domain and in every social class. These rights and obligations can be organised in a voluntary code; or they may be codified into law. The institutions that grow out of these relationships foster relations of trust and commitment; they tend to be high investing, attentive to human capital and highly creative. OK, you may be thinking, but what does it mean in practice?

Start with the workplace. A worker in Britain is legally a disposable commodity, a view backed by a body of economic theory, company and employment law which insists that no further privileges can be afforded. In stakeholder theory, building on the knowledge that most firms are reluctant to treat their workers as commodities and pay them above the market clearing wage to gain their commit-



Tony Blair... 'red water' between Labour and the Tories

ment and loyalty, workers are seen as members of the firm — committed and enabled to upgrade their skills, and encouraged through trusts or share ownership to own all or part of the firm.

They deserve representation, consultation and prior notification of major events — a round of redundancies or new investment alike. This does not mean 1970s-style union power, which Conservative ministers accuse me of advocating in my book, *The State We're In*; nor does it mean German collective bargaining. It means constructing trust relations with groups of workers, which are best gained if the workers themselves can be formally grouped and represented and if firms accept that such is their responsibility as firms.

This is where workplace relations overlap with the new thinking on corporate governance. There is a crisis in accountability in British firms, with pension fund and insurance company owners having rock-hard proprietorial rights to secure a flow of dividends and to sell their shares as they choose — but with no accompanying obligations when times get hard or when directors are over-rewarded themselves. Shares are not an expression of a relationship, as many small shareholders still regard them; they are chips in a fast-moving casino in which the game is, as Keynes put it, to pass the depreciating half-penny to the next man and cash in yourself.

This, as Keynesian theory shows, paradoxically deters investment by maximising uncertainty — but stakeholder theory adds a new twist. By giving most British companies an insecure ownership platform because their shares are casino chips in the British game of takeover, they can't construct long term trust relationships at the workplace. Managers have other gods to please. But owning a company carries reciprocal obligations — to participate in decision-making and to stand by it in times of crisis.

Ownership thus re-enters the political debate, not in the old public/private typology — but by insisting that private ownership has responsibilities, and championing a wide diversity of means to achieve

that end. Public ownership is but one of a spectrum of possibilities that range from a new legal definition of the public company, through profit-sharing, employee stock ownership plans, mutuals and friendly societies, to worker co-operatives.

Then there is welfare. Here inclusion and membership imply a universal welfare state, financed by progressive taxation, in which every individual has a stake. It implies a solid state pension as the first building block in the pension system; a non-tiered National Health Service free at the point of use; and an inclusive national education system in which the long tail of education underachievement is firmly tackled and the opted-out middle class are reincorporated — rejuvenating the comprehensive principle by tackling its weaknesses. But private delivery systems, organised themselves along stakeholder principles, are more than admissible; as are public/private partnerships with a public sector that itself has been revitalised by reform.

Here again the same principles apply. Citizenship is an expression of political inclusion, and decentralisation of government along with more accountability a means of permitting local citizens some leverage over decision-making and power.

A stakeholder economy and society is mirrored by a stakeholder polity; directors of quangos have to be elected — local authorities are accorded more autonomy of action. Public institutions gain more constitutional independence; in a stakeholder polity, the BBC and the Bank of England alike would suffer less political interference over their proper spheres — notably appointments.

But the ultimate stake for most adults is a job. Stakeholder institutions must be buttressed by full employment policies — implying that the full battery of economic instruments be deployed to stimulate demand, investment and growth. Training and education are thus part of a wider effort to include all in the world of work.

In some of these areas, notably over training and political reform, Tony Blair has assumed a clearly discernable position

continued on page 4

EXECUTIVE OFFICE OF THE PRESIDENT

**Office of Management and Budget
Program Associate Director for Human Resources
260 Old Executive Office Building
Washington, DC 20503**

Fax #: 395-5730**Phone #: 395-4844****FACSIMILE COVER SHEET****DATE:** 01/22/96

TO: Gene Sperling
Bruce Reed
Les Samuels
Jeremy Ben-Ami

Number of pages (including cover sheet): 4**FROM:** Ken Apfel

Attached please find **DRAFT Education Tax Proposals** piece.

This is our first cut at a short analysis of the guarantee proposal and options.

RECEIVED
JAN 22 1996

DRAFT**DRAFT**

Education Tax Proposals

The President proposed college tuition tax relief in the Middle Class Bill of Rights (MCBR). A number of education tax proposals were considered in some depth in November by the NEC and are now under consideration for the State of Union Speech. The alternative proposals would be much more costly, or to maintain cost neutrality would limit coverage in problematic ways, or otherwise present structural problems for which answers have not been found. There is a rhetorical alternative that supports the "guarantee" notion without these problems.

The **Middle Class Bill of Rights** proposal cost \$38.8 billion over 7 years. It phased-in a tax deduction (phased out at higher incomes) for tuition paid up to a maximum deduction of \$10,000 per tax filing unit for all postsecondary students, regardless of institution and program. It covered 16.5 million postsecondary students in college and vocational training.

Alternatives were examined in order to provide a "guarantee" of Federal non-loan resources for the first two years of public postsecondary education.

The **Guarantee Proposal** would provide a refundable tax credit for the first two years of college and tax deductions for the last three years of college. The tax credit would be for tuition paid, up to a maximum of \$1,200 per student; the tax deduction would be up to a maximum of \$10,000, like the MCBR.

There are three major issues raised by this proposal: 1) The guarantee proposal would cost \$54.2 billion, \$15 billion more than the MCBR. 2) In addition to higher cost, the proposal eliminates 7.6 million MCBR beneficiaries (mostly vocational school, part-time, and graduate students). 3) It also provided a credit too small to make the "guarantee" good in 18 States; this State coverage problem would affect such States as MA, MD, MN, NH, NY and OH.

Guarantee Variation 1 would address the cost issue in part, by counting Pell grants in the \$1,200 Guarantee. It would lower the cost to \$48.1 billion, still \$9 billion more than the MCBR. The State coverage issue remains; this variation would eliminate 8 million postsecondary students.

A further modification of this variation would restrict it to the credit only, by eliminating the deduction for 3rd, 4th, and 5th year students, which would cost slightly less than the MCBR (\$37.8 billion). However, this eliminates another 3.1 million students, serving only 5 million students in total, and still has the State coverage problem.

Guarantee Variation 2 - Count Pell and increase guarantee to \$1,600 and eliminate tax deductions. This would partly address the State coverage issue, (still excluding 9 States, including MA, NH, and NY) and lower cost somewhat by eliminating the deduction. It would still cost \$47 billion, \$8 billion more than the MCBR, and it would eliminate 11.1 million beneficiaries.

Guarantee Variation 3 would bring cost down to the MCBR level (\$37 billion) and bring back

DRAFT**DRAFT**

about 2.6 million vocational and part-time students, but do it by restricting the credit to one year, thereby eliminating the payment for the second year as well as the tax deduction, and would return to the State coverage provided under the original guarantee proposal, still not providing the "guarantee" in 18 States. In addition, 8.5 million fewer students than the MCBR would be covered.

In summary, unless we are willing to spend a great deal more money, it is impossible to develop a real two-year guarantee that serves the same population in all the States as the MCBR.

There is another approach to a guarantee that has none of the problems of the variations on the MCBR. The Speech can declare what only student aid insiders now appreciate: current Federal programs already guarantee enough money to ensure that anyone can afford at least a public postsecondary education.

This is because student loans are a pure entitlement, some parts with no income test, and Pell grants operate like a quasi-entitlement for lower income persons. Other more limited federal programs supplement these with work study, more grants and loans.

Therefore, rather than promoting yet another new program the President can achieve the same impact of "guaranteeing" postsecondary education by saying something like:

"Here's something all Americans should know. The Federal government guarantees financial access to college and postsecondary training to every qualified person, young or older.

"That's right -- guarantees it. We do this through a combination of grants and loans and subsidized jobs. This is a promise the government will make so long as I am President.

"We don't pay the full cost for the most expensive schools, of course, but we do make it possible for everyone to afford a public postsecondary college or a training institution, and many private colleges.

"The program improvements I support -- Direct Loans with repayment tied to your actual income so you need never fear default, higher Pell Grants, a stable and growing Federal education and training budget, a tax deduction for tuition -- all enhance this guarantee.

"So if you qualify for an accredited college or training school, the Federal government ensures that you can pay for it."

	Cost	Tax Credit	Tax Deduction	Coverage	Best Feature	Tax Adm.	Higher Ed Community Retrofits	Effect on Student Aid Policies	School Pricing
Widely Class Bill of Rights (MCBR) and Option 5, Repealing Current Policies	\$ 18.8 billion over 7 years \$ 21.5 billion over 5 years (Option 4)	NO	Tuition paid, net of federal and non-federal grants, up to a max deduction of \$10,000 per tax filing unit	Post-secondary students, regardless of institution and program, including grad students (Full- and part- time) Incumbent workers and those needing skill enhancement 16.5 million students	Rewards spending on higher education, which can lead to a better qualified workforce Also with current student loan, Pell grant, etc. guarantees (financial access, albeit with loans, for non-wealthy	Student information verification very difficult Creates a new burden on higher- education institutions Some potential for abuse as in ED programs by including non- degree granting institutions, especially for profits	Not very supportive	Same as major change in Administration's student financial policy by providing new cash benefits to non-wealthy	May lead to tuition increase
Guarantee Proposal	\$ 54.2 billion over 7 years \$ 33 billion over 5 years (Option 4)	Tuition paid, net of federal and non-federal grants, up to a max credit of \$1,200 for 1st- and 2nd-year students	Same as MCBR for 3rd-, 4th-, and 5th-year undergraduate students	Degree-seeking undergraduates enrolled at least half-time 8.9 million students Community college students in 17 states not fully covered because tuition is higher than \$1,200.	Provides guarantee to degree-seeking students of access to at least a 3-year degree without borrowings, as well as a tax deduction to upper level students	More burden on schools and IRS to verify student information than under MCBR by changing eligibility from credit to deduction at the 2nd year	Less supportive than MCBR	Same as MCBR and exacerbated by tax credit	100%+ credit could have more severe effects on school pricing than MCBR
Option 1 Modified \$1,200 Tax Credit plus Deduction	\$ 48.1 billion over 7 years \$ 29.3 billion over 5 years (Option 4)	Same basis, but if Pell grant is \$1,200 or more, no tax credit	Max deduction of \$5,000 per tax filing unit	Same types of students as the guarantee proposal 8.5 million students Community college students in 17 states not fully covered because tuition is higher than \$1,200.	Provides the benefit of the guarantee proposal at lower cost. Focuses the new benefits on the middle class.	Same as the guarantee proposal	Same as the guarantee proposal	Same as the guarantee proposal	Same as the guarantee proposal
Option 2 \$1,600 Tax Credit for 2 Years of College	\$ 47 billion over 7 years \$ 28 billion over 5 years (Option 4)	Same as Option 1 (no credit if Pell grant covers the guarantee level) but max is \$1,600	NO	1st- and 2nd-year degree-seeking undergraduates enrolled at least half-time students 5.4 million students Community college students in 8 states not fully covered because tuition is higher than \$1,600	Same as Option 1 Covers community college tuition in more high-tuition states	Same as the guarantee proposal	Same as the guarantee proposal	Same as the guarantee proposal	Same as the guarantee proposal
Option 3 \$1,200 Tax Credit for 1 Year of College, All Students	\$ 37.3 billion over 7 years \$ 22.1 billion over 5 years (opt. 4)	Same basis and cap as Option 1 but for one year only	NO	Same as the MCBR, but only one year of coverage 8.0 million students Community college students in 17 states not fully covered because tuition is higher than \$1,200.	Reduces the cost of the guarantee proposal, while broadening first- year coverage to include non- degree vocational training	Same as the guarantee proposal	Same as the guarantee proposal	Same as the guarantee proposal	Same as the guarantee proposal

To: Gene, Jen, Jason, Pauline,

Fr: Chris J.

Re: Back up for state of Union

- ① % of elderly insured pre-enactment of Medicare (50%) & now -- nearly all (97%)

Source: JAMA, July, 1995

→ stage 65 ←

- ② Improvements in Life Expectancy since enactment of Medicare

Men - pre-enactment 78
post-enactment (now) 81

~~12.9~~ 12.9, 10.7 2.6 yr ↑
~~7~~ 7 ~~2.8~~ 2.8 yr ↑
~~15.5~~ 15.5 yr

Women pre-enactment 81
post-enactment 84

~~16.3~~ 16.3
~~19.1~~ 19.1 3.8 yr ↑

Source: JAMA, July, 1995

- ③ People 80+ have greater life expectancy in US than in Sweden, France, Japan or England. See attached JAMA piece

Policy Perspectives

Medicare at 30

Preparing for the Future

4 pages in total

Medicare's 30th anniversary is an appropriate time for celebration. Few programs, public or private, have had so demonstrably beneficial an impact on so many Americans as Medicare. But it is also a time both to reflect on Medicare's role in our society at large and to think strategically about how Medicare can fulfill its missions in the years ahead. In the increasingly contentious political environment, Medicare has been called a dinosaur—a program that is too costly, is too inefficient, and has outlived its usefulness. In the view of Medicare's critics, radical restructuring is the only cure. Although improvements can and should be made to Medicare, those calling for the end of Medicare as we know it are most charitably described as misguided. Medicare is responsible for major improvements in the health of elderly and disabled citizens, is well managed, and provides the financial underpinning for much of the US health care system.

Medicare Insures 37 Million Elderly and Disabled People

Before Medicare's enactment, 50% of elderly people had no health insurance. Now more than 97% of senior citizens are insured by Medicare, as are more than 90% of those who have end-stage renal disease and 3.6 million disabled people. Medicare has relieved elderly people of the terrible anxiety they suffered when they did not have health insurance and could not pay for their own care.

Medicare has dramatically increased access to health care. In 1964, just before Medicare's enactment, there were 190 hospital discharges per 1000 elderly people. By 1978, that number had increased to 350 discharges—one indication that Medicare helps elderly people get the health care they need at the time of their lives they need it most.^{1,2} Although it is difficult to prove a causal relationship, Medicare—and the increased access to health care it provides—has undoubtedly contributed to increased longevity among the elderly. In 1960, men who survived to 65 years of age could expect to live to 78 years of age; by 1992, they could expect to reach 81 years of age. Women achieved similar gains.

Most Medicare beneficiaries rely on the financial security and access to health care that Medicare provides. In 1992, 83% of Medicare spending was on behalf of beneficiaries with annual incomes less than \$25 000 (Figure 1). Fully 20% of

beneficiaries are either 85 years of age and older (most of whom are women) or persons with disabilities or end-stage renal disease (Office of the Actuary, Health Care Financing Administration [HCFA], unpublished data from the Medicare Current Beneficiary Survey, 1992). Providing health care to our most vulnerable citizens is a significant accomplishment of which all Americans should be justly proud.

Most beneficiaries think that Medicare is valuable to them. Nearly 90% of beneficiaries are satisfied with the overall quality of their health care, have a regular source of health care, and have great confidence in their physicians (Office of the Actuary, HCFA, data from the Medicare Current Beneficiary Survey, 1992).

Medicare Provides Vital Support to the Health Care Infrastructure

Viewing Medicare as simply a health insurer for 37 million people ignores its larger role in the health care system. In 1993, Medicare accounted for 28% of all hospital expenditures; 20% of physician expenditures; the preponderance of income for home health care agencies, hospices, and renal dialysis facilities; and significant shares of the revenues of clinics, laboratories, ambulance services, and other provider services.⁴

In addition to paying for services to beneficiaries, Medicare makes supplemental payments to provide additional support to hundreds of hospitals across the country. Without Medicare's substantial financial support, a number of these "safety net" institutions could close, leaving many Medicare, Medicaid, and uninsured people without access to health care. (Congress authorized additional payments to disproportionate share hospitals and sole community hospitals beginning in the mid 1980s.)

Medicare makes supplemental payments to (1) hospitals serving a disproportionate share of low-income individuals; (2) teaching hospitals for extra costs associated with teaching programs (indirect medical education); and (3) sole community hospitals to enhance their viability in isolated rural communities.

In 1995, nearly 12% of the \$65 billion Medicare will pay to hospitals are for these larger purposes. Disproportionate share payments will total \$3.7 billion or an extra 13 cents for every dollar paid to these institutions. For large urban public hospitals, the additional payment averages 25 cents for every \$1 paid. Payments to teaching hospitals for indirect medical education are projected at \$1.8 billion or an extra 14 cents for every \$1 paid for direct care to Medicare beneficiaries. For major public teaching hospitals, the additional payment av-

From the Office of the Administrator, Health Care Financing Administration, Washington, DC.

Reprint requests to Medicare 30th Anniversary, Health Care Financing Administration, Office of Professional Relations, Room 423H, Hubert H. Humphrey Bldg, 200 Independence Ave SW, Washington, DC 20201 (Dr Vladeck).

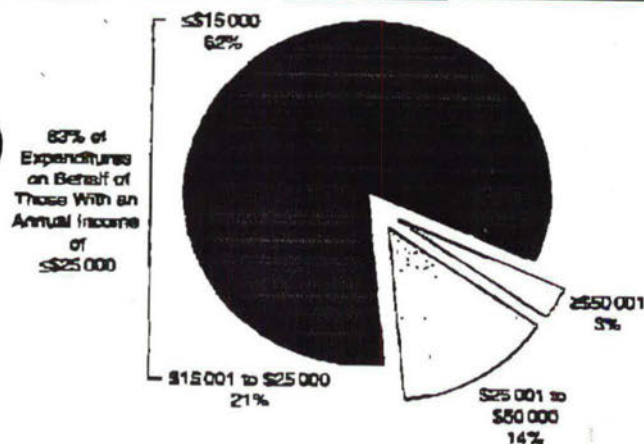


Figure 1.—Share of program expenditures by income of Medicare individuals or couples, 1992 (from the Office of the Actuary, Health Care Financing Administration).

verages 35 cents for every \$1 paid. Sole community hospitals will receive more than \$200 million or an extra 12 cents for every dollar paid. Medicare also plays a broader societal role in financing graduate medical education. It is the only health insurer to make payments earmarked specifically for training physicians. In 1996, Medicare will pay hospitals \$1.8 billion for direct costs of training physicians and other health professionals (HCFA, unpublished data, 1995).

Precisely because of its size and national character, Medicare also has a profound effect, whether intended or not, on the shape and character of health care and medical practice throughout the country. Medicare pioneered the development of a prospective payment system for inpatient hospital care, a resource-based fee schedule for physicians' services, both in-hospital and external utilization review programs, quality standards for new services such as hospice and ambulatory surgery, and outcome measures in nursing home care. In recent years, Medicare too often lagged behind, rather than led, the private sector in the development of new methods of defining and ensuring access and quality. Through the Medicare Health Care Quality Improvement Program and similar initiatives in facility certification and managed care monitoring, Medicare is once again reasserting its leadership role.⁵⁴

Comparison of Medicare and Private Health Spending

The rate of growth in Medicare spending has come under sharp attack in recent months. Critics point to data showing that private health spending in the last few years increased more slowly than Medicare spending as proof of Medicare's inefficiency. The fact that Medicare spending per enrollee increased less rapidly than private spending from 1983 through 1991 is not, however, cited as evidence that Medicare was more efficient than private health plans during those years (Office of the Actuary, HCFA, unpublished data, 1994).

These criticisms miss their mark on several counts. First, data from 1 year, or even 2 years, are not a sufficiently accurate or reliable source on which to base conclusions or major changes in public policy. At least several years of data are needed to determine whether the trend represents a real

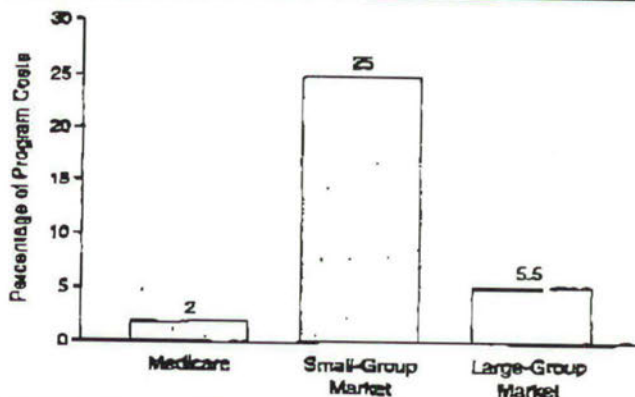


Figure 2.—Administrative costs for Medicare vs private plans (from the Office of the Actuary, Health Care Financing Administration; Congressional Research Service. *Costs and Effects of Extending Health Insurance Coverage*. Washington, DC: Congressional Research Service; 1998). Small-group market indicates firms with less than 50 employees; large-group market, firms with 10,000 or more employees.

shift in behavior or merely an aberration. Second, Medicare beneficiaries are different from workers in large companies—the source of most of the private-sector data. Medicare beneficiaries are older and sicker than working people, so it is unrealistic to expect the rate of expenditure growth to parallel that of other health plans. On average, expenditures for health services for elderly people are four times greater than for their younger counterparts.⁵⁵ Further, as discussed herein, Medicare is much more than a health insurance program for the elderly and disabled; it also plays a key role in supporting graduate medical education and institutions that serve vulnerable populations. Medicare also covers some services not typically covered by private health plans, including home health care services and skilled nursing care. Spending for these services has been increasing much more quickly than for other services. If Medicare expenditures for hospital and physician spending only are compared with private-sector expenditures for the last several years, the rates of growth are comparable. And in at least one area—administrative expenses—Medicare's performance far exceeds that of the private sector. Medicare spending for administrative expenses has averaged less than 2% of program spending in recent years, compared with an average of about 17% in the private sector—about 5.5% in the large-group market and 25% in the small-group market (Figure 2).

The Future of Medicare

Medicare is highly effective, but there is considerable room for improvement. Although Medicare beneficiaries have lower incomes, on average, than other insured persons, their out-of-pocket expenses for health care are far greater. Medicare requires beneficiaries to make substantial payments for co-insurance, co-payments, deductibles, and premiums. On average, older Americans spend 14% of their disposable incomes on health care, compared with 4% for the nonelderly (Office of the Actuary, HCFA, unpublished data, 1995). Further, Medicare does not cover outpatient prescription drugs or most institutional long-term care. Many elderly people are forced into poverty to pay for nursing home care, while the high cost of prescription drugs means that some beneficiaries

do not get the drugs they desperately need. Obviously, in the current political climate, adding these two benefits appears unrealistic, but, over time, these problems need to be addressed.

Medicare covers some preventive services, such as screening mammography and flu vaccination. However, use of these services is not as high as it should be. From 1992 through 1993, only 37% of female beneficiaries had screening mammograms; the rate among African-American women was even lower at 28%.⁸ Steps have been taken to improve this record. A new consumer information initiative is providing beneficiaries with more information about Medicare coverage for preventive services and encouraging appropriate use of these services.

Changes should also be made to allow beneficiaries to choose from a broader range of health plans. Medicare beneficiaries should have as many choices as the most forward-thinking employers provide to their workforce. Historically, enrollment of Medicare beneficiaries in managed care has lagged behind the private sector. Since 1993, however, enrollment in Medicare managed care has increased rapidly; enrollment in risk contracts increased more than 25% and enrollment among all health maintenance organizations (HMOs) increased slightly more than 16% between 1993 and 1994. Currently, more than 9% of Medicare beneficiaries (3.1 million people) are enrolled in managed care options, and 74% of beneficiaries have access to a managed care plan (Office of Managed Care, HCFA, unpublished data, 1996).

The US Department of Health and Human Services is committed to increasing the range of managed care options and to making current options work more effectively. An option to allow Medicare beneficiaries to enroll in preferred provider organizations (PPOs) is under development and should receive legislative attention in the next few months. PPOs are networks of health care clinicians and institutions who agree to provide services to beneficiaries enrolled in the network at a discount. (Some PPOs select providers who have cost-efficient practice styles or agree to abide by certain utilization review criteria.) Many consumers have access to PPOs in the private-insurance market, and we would like to offer Medicare beneficiaries the same option. Our objective is to allow beneficiaries to go to any health care clinician or facility at any time, if they are willing to pay more for services outside the network. We also hope that PPOs would result in savings for both Medicare and beneficiaries because plans would limit their selection of network physicians to those with high-quality and cost-effective practice styles.

The Department of Health and Human Services has also been working to improve the performance of our current managed care contracts and to increase the number of contractors. Some caution is warranted, however. The HMO industry has expressed reservations about its capacity to absorb a large infusion of Medicare beneficiaries within a short period. While it welcomes the opportunity to enroll more Medicare beneficiaries, the industry urges that expansion be phased in during a longer period as capacity increases. The industry is also concerned that accelerated expansion and formation of managed care plans could jeopardize the ability of both the government and private accrediting bodies to maintain the highest standards of certification and oversight.

The Department of Health and Human Services' goal of expanding the number of managed care options is impeded by

some difficult technical and policy issues. Perhaps the most important, at least from a financing standpoint, is that flaws in the payment mechanism established by Congress cause Medicare to pay, on average, 5.7% more for every enrollee in managed care than it would have paid if the beneficiary had stayed in Medicare's traditional fee-for-service system. The Medicare payment level for risk contracts is set at 95% of fee-for-service costs in the area where the beneficiary resides. Beneficiaries enrolled in risk contracts are healthier than those in fee-for-service systems (HCFA, unpublished data, February 1993). As a result, the 95% payment level is higher than it would have been if Medicare had made fee-for-service payments for these beneficiaries. The reason for this higher payment is "favorable selection"—the fact that HMOs attract enrollees who are healthier than the average beneficiary and tend to use fewer services than the average beneficiary. One of the reasons for this occurrence is that beneficiaries in poor health typically have established relationships with physicians and are hesitant to enroll in managed care plans. Although both we and the HMO industry have undertaken several research projects to develop a payment adjustment to account for the fact that healthier people tend to enroll in managed care plans, neither of us has been successful yet.

Another troubling issue revolves around the use of fee-for-service data in setting the HMO payment rate. The current formula adversely affects some regions of the country where fee-for-service costs are low. These low costs result in low Medicare HMO payments, making some managed care plans reluctant to participate in Medicare risk contracts. In other areas with high fee-for-service costs, the Medicare HMO payment rate is probably excessive.

The persistence of technical problems such as these suggests that proposals to shift large numbers of Medicare beneficiaries into managed care plans within a short period is neither feasible nor likely to result in large savings to Medicare. A more rational strategy is to expand choice, improve the information available to consumers and purchasers, and develop better payment and oversight methods. This strategy will permit consumer choice to drive the program in the direction of managed care during a relatively short period if managed care plans can indeed deliver better services and higher consumer satisfaction at lower costs.

Conclusions

Efforts to improve Medicare's performance as a purchaser of managed care services also serve as a paradigm for choices about Medicare's future as these efforts are debated in the Congress and elsewhere in the nation. Like any 30-year-old program, Medicare has flaws and idiosyncracies that can and should be corrected. Over time these corrections should make Medicare less costly as well as more effective. There is significant danger, however, in the current political climate. Congressional pressure to balance the budget could produce payment reductions and policies that will permanently weaken Medicare and make long-term improvements impossible.

Medicare currently accounts for about 10% of the total federal budget, yet for reasons having little to do with health care and everything to do with politics, it has become a major target for balancing the federal budget. At the same time, Congress is considering significant tax reductions for large businesses and wealthy individuals, while the elderly and

children would bear the brunt of the reductions. Cuts driven by arbitrary budget targets would not only leave some of America's most vulnerable citizens significantly worse off, but also would jeopardize Medicare's continued existence and inflict substantial damage on health care clinicians and institutions and the structure of the US health care system.

Some have also suggested that Medicare spending could be controlled by turning Medicare into a voucher program—where the federal government would give beneficiaries a fixed amount of money to purchase private health insurance of their choosing. While this may appear to be an appealing concept, it is a shortsighted approach that would disadvantage many beneficiaries, particularly the oldest or most disabled ones. Relatively young and healthy beneficiaries would probably be able to obtain adequate private health insurance, but few insurers would be willing to sell comprehensive insurance to 85-year-old people or those with significant health problems. Moreover, if the fixed payment were set too low initially or not increased at roughly the same rate that the costs of providing health care are increasing, the value and the benefits of this insurance would erode over time.

Despite the fact that Medicare is now at the vortex of the balanced budget debate, HCFA cannot lose sight of its mission to administer Medicare in a responsible, cost-effective way and to think strategically about how Medicare can serve the beneficiaries of the future. One of the more difficult tasks will be to plan for the impact of the baby boom on Medicare. The increase in the number of enrollees is currently less than 2% a year and is expected to remain at that level for the next

16 years. After that, the increase will be between 2% and 3% annually as the baby boom retires between 2010 and 2030 and much less than 1% annually after that (Office of the Actuary, HCFA, unpublished data, 1995). There can be no doubt that retirement of baby boomers will pose serious challenges, but it is shortsighted to consider it as a Medicare problem only. Many other public programs, including education, public safety, and housing, will need to be reexamined and reconfigured in light of changing demographics. Careful stewardship in the short run combined with strategic planning for the long term will ensure Medicare's viability far into the next century—so that it will be there when both we and our children need it.

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HEALTH STATUS AND ACCESS

Over the past thirty years, Medicare has been the significant source of health insurance for our nation's most elderly and disabled citizens. One of the primary goals of Medicare was to provide access to health services for extremely vulnerable populations — the elderly, and later, the disabled. The program has enabled these populations to receive the health care they need and is responsible for major improvements in the health of elderly and disabled citizens.

- ◆ Although it is difficult to prove a causal relationship, Medicare — and the increased access to health care it provides — has undoubtedly contributed to increased longevity among the elderly. In 1965, women who survived to the age of 65 could expect to live to 78 years of age; by 1992, they could expect to reach 84 years of age. Men achieved similar gains in life expectancy.
- ◆ Medicare has dramatically increased access to health care. In 1964, just before Medicare's enactment, there were 190 hospital discharges per 1000 elderly people. By 1973, that number had increased to 350 discharges — one indication that Medicare helps elderly people get the health care they need at the time of their lives they need it most.
- ◆ Medicare has also helped to improve access to physician services. In 1964, 69.4 % of the elderly had visited the doctor within the last year. In 1993, the percent of people over age 65 with at least one visit to the doctor within the previous year had increased to 88.1%.
- ◆ Medicare also helps beneficiaries maintain a usual source of health care. Ninety-one percent of Medicare beneficiaries report a regular source of care — somewhere they usually go for services when sick, such as a particular medical professional or clinic.
- ◆ Medicare beneficiaries are pleased with the care they receive. Ninety percent of elderly beneficiaries are satisfied with the overall quality of the medical care they received in the last year.

* Office of the Actuary, HCFA, data from the Medicare Current Beneficiary Survey, 1992.

81
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attached

6 pages total

Policy Perspectives

The First 30 Years of Medicare and Medicaid

Medicare is a uniform national health insurance program for the aged and certain disabled persons. Medicaid is administered by the states within broad federal guidelines and finances health services for certain low-income groups.

Trends in Enrollment, Spending, Health Status, and Managed Care

Enrollment.—The enactment of Medicare and Medicaid in 1965 provided health insurance coverage to millions of Americans. Medicare enrolled 19 million elderly in 1966. Medicaid was phased in by states, except Arizona, and by 1972 enrolled 18 million poor elderly, disabled, and families with dependent children. In 1972, Medicare was amended to include persons younger than 65 years with disabilities who were receiving Social Security disability benefits for 24 months or persons with end-stage renal disease (ESRD), nearly 2 million people.¹

Since the mid 1980s, Medicaid eligibility has been significantly

expanded; enrollment increased 50% from 22 million in 1985 to 33 million in 1993. In recent years, the share of the population younger than 65 years with employer-sponsored health insurance has declined. Medicaid eligibility expansions have somewhat offset these reductions in private-sector coverage, thereby moderating growth in the uninsured population.²

Enrollment in each program has increased substantially since enactment, resulting in a larger share of the US population receiving coverage. Since the early 1970s, the share of the population covered by Medicare increased from about 10% to 14%, and Medicaid's share increased from about 8% to 13%.^{1,3} Thirty years after enactment, in 1995, Medicare and Medicaid provide health insurance coverage to about 70 million elderly, disabled, or low-income people: nearly 38 million in Medicare, 36 million in Medicaid, and about 5 million dually enrolled to Medicare and Medicaid, or about 25% of all Americans.

Spending.—The enactment of Medicare and Medicaid, coupled with expansions in private health insurance coverage, fundamentally changed the way US health care is financed. No longer would people pay more than half of their health bills out-of-pocket. Third-party insurance has become the predominant payer, with people now paying 18% of their

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determine limits on the amount, duration, and scope of covered services. Federal statute requires states to cover inpatient and outpatient hospital services; physician, midwife, and nurse practitioner services; laboratory, x-ray, nursing home, home health care, and family planning services; and early and periodic screening, detection, and treatment for children. The early and periodic screening, detection, and treatment requirement covers preventive services and attempts to detect and treat conditions early to mitigate disability in later years.

States have the option to cover additional services, and many do so, such as prescription drugs, hearing aids, prosthetic devices, and intermediate care facilities for the mentally retarded.

Where Does the Medicaid Dollar Go?—Poor adults and their dependent children comprise the vast majority of Medicaid beneficiaries, but they account for a small share of Medicaid spending (Figure 4). The small share of beneficiaries who are aged or disabled account for the majority of

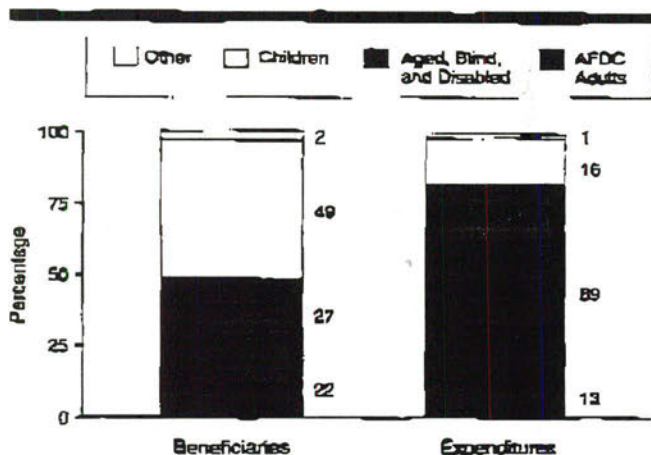


Figure 4.—Medicaid beneficiaries and expenditures by enrollment group, 1993 (data from Bureau of Data Management and Strategy, Health Care Financing Administration). Unknown represents 0.4% of recipients and 0.2% of vendor payments. AFDC indicates Aid to Families With Dependent Children.

Medicaid spending primarily because of their use of long-term care services. The average Medicaid payment per user of services in 1992 was \$971 per child, \$1762 per Aid to Families With Dependent Children-related adult, \$7759 per aged person, and \$7578 per disabled person.¹²

The cost of a long-term nursing home stay is beyond the means of many elderly who eventually "spend down" to Medicaid eligibility after exhausting their resources as private pay patients. Medicaid is the nation's primary payer of nursing home services; it covers more than half of the national nursing home bill. Medicare only covers short-term nursing home stays. Private long-term-care insurance, although growing, is still a small share of total nursing home spending.

Medicaid is a significant source of health coverage for certain population groups. For example, Medicaid covers 33% of all births, 25% of all children, and at least 40% of people with acquired immunodeficiency syndrome (AIDS). Many people with AIDS become disabled, lose employment and health insurance, and qualify for welfare (described herein) and hence Medicaid. Medicaid's increasingly important role in financing maternal and child health services reflects the impact of eligibility expansions noted previously, which have greatly increased Medicaid's coverage of low-income pregnant women and children.

The share of Medicaid spending by type of service has changed since 1975 as medical practice and the enrollment mix of Medicaid beneficiaries have changed (Figure 5).

Do Beneficiaries Have Access to Care?—Medicaid has improved beneficiary access to care to levels similar to those with private insurance. An Institute of Medicine study found that 8% of Medicaid beneficiaries in poor to fair health did not see a physician compared with 9% of those with private insurance and 22% of those with no insurance.¹³ Medicaid coverage has improved birth outcomes, childhood immunization rates, access to well-child preventive services, and the health of children (Office of Research and Demonstrations, HCFA, unpublished data, 1995).^{14,17}

The poor who are not covered by Medicaid have less access to health care than those with Medicaid. Moreover, those who lose Medicaid coverage and become uninsured are at risk of losing access to care for needed services.¹⁸ Because Medicaid

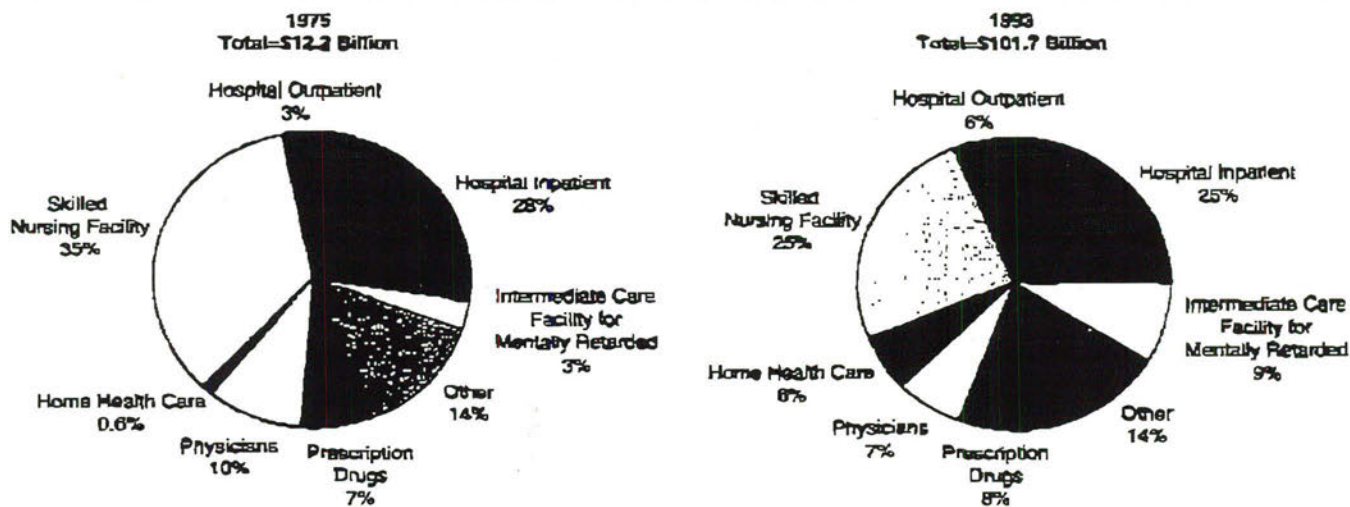


Figure 5.—Where the Medicaid dollar goes (data from Health Care Financing Administration^{17,19}).

eligibility is often tied to welfare programs, if a person leaves welfare to take a job without health insurance, they may risk losing their Medicaid coverage and access to needed services.

What Flexibility Do States Have?—Recently, states have been requesting waivers to undertake innovative managed care demonstrations and, in some cases, to expand eligibility to uninsured families. Eleven states (Arizona, Delaware, Florida, Hawaii, Kentucky, Massachusetts, Minnesota, Ohio, Oregon, Rhode Island, and Tennessee) have received federal approval; others have proposals under review. Generally, states have targeted these demonstrations to low-income adults and their dependent children rather than the aged and disabled. Managed care models range from primary care case management to networks contracting with providers at discounted rates to traditional HMOs.

All states have waivers of federal requirements to offer home-based and community-based services to beneficiaries at risk of nursing home placement.

Forty-five states have waivers of the freedom of choice of provider requirement to require certain Medicaid beneficiaries to enroll in managed care programs. Absent such waivers of federal law, Medicaid beneficiaries may receive services from any provider who participates in the Medicaid program and may not be required by states to enroll in managed care programs.

Conclusion

The enactment of Medicare and Medicaid 30 years ago extended health insurance coverage to our nation's poorest, sick, and most vulnerable population groups: the elderly, disabled, and poor families with dependent children. Before enactment, many of these individuals were unable to secure health insurance in the private marketplace because of inability to pay the cost of private insurance premiums or because of health conditions that insurance companies refused to cover. Many elderly, disabled, and low-income parents worried that the onset of serious illness could force them to go without care, turn to charity, or rely on family members to finance needed health services.

In the past 30 years, Medicare and Medicaid have improved access to care and health status for program beneficiaries. They have been a major source of financial support for the entire health care system, which has in turn benefited all Americans. Covering nearly one in four Americans and spending nearly \$1 in \$3 of all health care dollars, the importance of the two programs to the US health system can hardly be overstated.

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Table 1.—Medicare and Medicaid Spending as a Share of Federal and State and Local Budgets*

Program	Federal Budget, %		State and Local Budgets, %	
	1970	1993	1970	1993
Medicaid	1	5	2	5
Medicare	4	10	2	5

*Data from the Office of the Actuary, Health Care Financing Administration. These figures are based on total federal, state, and local government expenditures reported in the Survey of Current Business, July 1994, vol 74, issue 7, compiled by the US Department of Commerce, Bureau of Economic Analysis. Ellipses indicate not applicable.

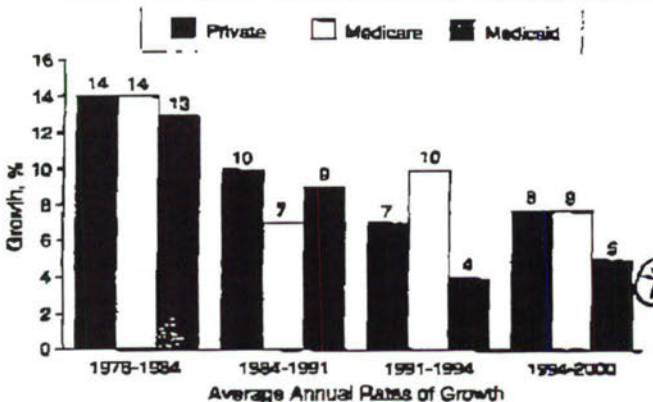


Figure 1.—Per enrollee rate of increase in expenditures for private health insurance, Medicare, and Medicaid (data from the Office of the Actuary, Health Care Financing Administration). For 1994 to 2000, the numbers indicate the projected rates of increase. For the purpose of the National Health Accounts, certain Medicaid disproportionate share payments to hospitals that were offset by donations and taxes paid by the same facilities were excluded. Medicare and Medicaid expenditures are per beneficiary; private health insurance benefits are per insured person.

health bills out-of-pocket.¹ Even with Medicare coverage, out-of-pocket payments for health expenses consume about 14% of the average Medicare beneficiary's income compared with about 4% for the population younger than 65 years (Office of the Actuary, Health Care Financing Administration [HCFA], unpublished data, 1995).

The federal government is the single largest payer for health care services, primarily through the Medicare and Medicaid programs. In 1993, these programs spent \$272 billion (including the \$55 billion state share of Medicaid). This amount represents 31% of all health spending and 70% of public funding for health care. Together, they financed 41% of all hospital spending, 28% of all physician spending, and 61% of all nursing home spending.¹

Health spending in the United States increased by 12% per year from 1970 to 1992. Annual spending in both Medicare and Medicaid increased faster at 14% and 16%, respectively.¹ This rapid spending growth outpaced that of federal and state and local revenues; thus, a growing share of public spending has been devoted to Medicare and Medicaid (Office of the Actuary, HCFA, unpublished data, 1970 and 1993) (Table 1).

One of the reasons for rapid spending growth has been increased enrollment, as noted herein, in Medicare and Medicaid. When spending trends are examined on a per enrollee basis, the rate of increase in spending on Medicare and Medicaid in recent years has slowed relative to historic trends (Figure 1).

From 1984 to 1991, the rate of increase in Medicare and

Medicaid spending was lower than that of the private sector. The slower rate of increase in Medicare spending has been attributed in part to implementation of the hospital prospective payment system and limits on provider payment levels.

From 1991 to 1994, the rate of increase in private-sector spending was higher than Medicaid, but lower than Medicare. The lower rate of increase in private-sector spending has been attributed to rapid growth in managed care enrollment, reductions in health benefits for current workers and retirees, and more aggressive negotiations with health plans and providers.

Medicare beneficiaries have greatly increased their utilization of skilled nursing facility and home health care services in recent years, which has contributed to Medicare's higher rate of increase in spending. When these services are excluded, and Medicare and private-sector spending for hospital and physician services are compared, Medicare and the private sector have similar per enrollee rates of increase at about 7% annually (data not shown).

From 1994 to 2000, similar rates of increase in spending are projected for both Medicare and the private sector with somewhat lower rates of increase for Medicaid. Medicaid's rate of increase in spending has slowed due in part to new controls on the ability of states to increase their federal matching payments through provider tax and donation programs.

Health Status.—During the past 30 years, Medicare and Medicaid have provided the nation's most vulnerable groups—the elderly, disabled, and poor—with access to health services.⁴ As a consequence, Medicare and Medicaid have made significant contributions to improvements in health status for beneficiaries whose health needs are greater than those of the general population. While the precise impact of the two programs on health status is difficult to determine, the country has made significant progress on key health status indicators, such as infant mortality and life expectancy at 65 years of age, in part due to access to health services financed by Medicare and Medicaid (Table 2). Moreover, the two programs have helped underwrite significant expansions in the health care system, including medical technology and capital facilities and equipment.

Managed Care.—Medicare and Medicaid have primarily paid providers on a fee-for-service basis. This arrangement is changing as beneficiaries increasingly enroll in managed care plans. Although enrollment levels are still lower than those in the private sector, there is strong growth. In 1994, Medicare accounted for 25% and Medicaid 42% of the enrollment growth in health maintenance organizations (HMOs) (Group Health Association of America and HCFA, unpublished data, 1994). Currently, 74% of Medicare beneficiaries live in areas where Medicare managed care plans are available, and 9% (more than 3 million) have chosen to enroll. About 23% of Medicaid beneficiaries (nearly 8 million) are enrolled in managed care plans in 45 states.

A Portrait of Medicare

Medicare is administered by HCFA.

Who Is Eligible for Medicare?—Workers and their dependents earn Medicare Part A eligibility, hospital insurance, through payment of the hospital insurance payroll tax (2.9% of wages, half of which is paid by the employer and half by the employee) during their working years. Those entitled to Medicare Part A receive coverage when they become 65 years old or earlier if they qualify for Social Security disability benefits or have ESRD.

16.3 19.1 12.7
81.3 84.1 87.9

Enrollment in Medicare Part B, supplementary medical insurance, is voluntarily obtained through payment of a monthly premium (currently \$46.10) when eligibility for Medicare is established or on reaching 65 years of age.

How Is Medicare Financed?—Part A is entirely financed by payroll tax contributions. Hospital insurance spending is increasing faster than revenues; the trust fund is projected to be exhausted in 2002.

Part B is financed by general federal revenues (about 75%) and beneficiary premiums (about 25%). Unlike the Part A trust fund, which is financed by payroll taxes, the Part B trust fund is financed on a yearly basis with premiums and federal revenues being drawn as needed to cover program spending. Rapid growth in Part B spending has increased both the beneficiary premium and taxpayers' contributions.

Who Are Medicare Beneficiaries?—The elderly comprise 90% of the Medicare population; the disabled and those with ESRD comprise the remaining 10%. People older than 85 years, the disabled, and those with ESRD have been the fastest growing groups of Medicare beneficiaries during the last decade (annual growth rates of 3%, 4%, and 10%, respectively).

The aging of the population coupled with increased longevity are expanding both the number of people eligible for Medicare as well as the proportion of beneficiaries older than 85 years. These trends will have an impact on the nation's health care spending; the elderly consume four times as much health care per capita as the population younger than 65 years, with those older than 85 years consuming an even larger share.⁴

More than 25% of Medicare beneficiaries (nearly 10 million) live alone. Many of these beneficiaries are in poor health: about 2.5 million rate their health as fair or poor compared with their peers, and 1 million have several functional impairments (eg, difficulty eating, toileting, or dressing) (Office of the Actuary, HCFA, unpublished data from the Medicare Current Beneficiary Survey, 1992). These people are most at risk for long-term nursing home placement, a service for which Medicare coverage is limited.

The elderly's poverty rate has declined dramatically during Medicare's history from 29% in 1966 to 12% today, lower than that of the general population, because of a number of factors, including Medicare's coverage of health expenses.¹⁰ While not as likely to be poor as in the 1960s, today's Medicare beneficiaries have modest incomes; nearly 80% have less than \$25 000 in gross family income (Office of the Actuary, HCFA, unpublished data from the Medicare Current Beneficiary Survey, 1992). Most aged Medicare beneficiaries depend on Social Security for the majority of their income: 60% rely on Social Security for at least half of their income.¹¹

What Services Does Medicare Pay for?—Medicare pays for acute care services including inpatient and outpatient hospital services, physician services, durable medical equipment, home health care, and short stays in skilled nursing facilities. Services such as long-term nursing home care, hearing aids, and outpatient prescription drugs are not covered. Medicare coverage has recently been extended to certain preventive services including hepatitis B, flu, and pneumococcal vaccines; screening mammography; and Papanicolaou tests.

Medicare pays 45% of the elderly's health bills, private sources (private insurance and patient co-payments) pay 37%, Medicaid pays 12%, and other public sources pay 6%.⁸ When long-term nursing home care is excluded, Medicare pays 55% of the elderly's health bills. Of the services that Medicare covers,

Table 2.—Health Status Indicators*

Indicator	Then (1965)	Now (1992)
Life Expectancy at Birth, y		
Female	73.7	79.0
Male	66.8	72.3
Life Expectancy at 65 Years of Age, y		
Female	18.3	19.1
Male	12.9	15.5
Infant Mortality Rate (per 1000 Live Births)		
Total	24.7	8.5
White	21.5	6.9
Black and other	40.3	14.4
Top Five Causes of Death		
Heart disease		Heart disease
Cancer		Cancer
Stroke		Stroke
Accidents		Chronic obstructive pulmonary disease
Chronic obstructive pulmonary disease		Accidents

*Data from US Dept of Health and Human Services, Health Care Financing Administration, 1995 Data Compendium, Baltimore, Md; Health Care Financing Administration; 1995; US Bureau of the Census, Statistical Abstract of the United States: 1994, Washington, DC; US Bureau of the Census, 1994; US Bureau of the Census, Historical Statistics of the United States, Colonial Times to 1970, Bicentennial Edition, Part 1, Washington, DC; US Bureau of the Census, 1975; and National Center for Health Statistics, Health, United States, 1993, Hyattsville, Md; National Center for Health Statistics, 1994.

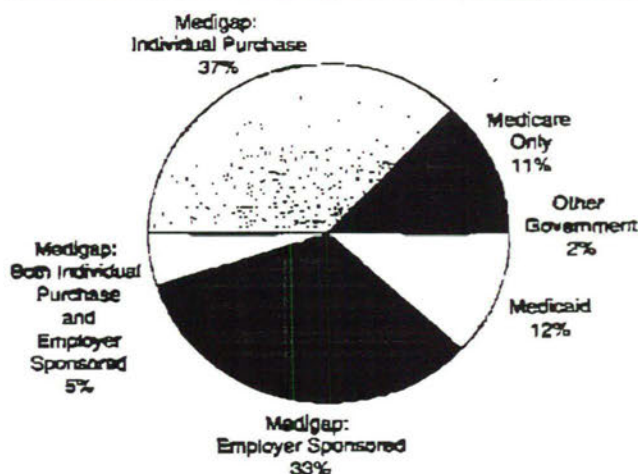


Figure 2.—Insurance holdings of aged Medicare beneficiaries (data from Charles G. Eppig, FJ, Hogan MD, Waldo DR, Arnett RM. Health insurance and the elderly, data from MCBS. Health Care Financing Rev. 1993;14:163-181).

it pays 85%, and beneficiaries pay the remaining 15% in the form of coinsurance and deductibles.¹² In 1995, Medicare cost sharing includes a \$716 hospital deductible, \$100 annual Part B deductible, \$46.10 monthly Part B premium, and coinsurance for skilled nursing facility, extended hospital stays, physician services, durable medical equipment, and supplier and hospital outpatient services. To meet these and other health expenses not covered by Medicare, the majority of aged Medicare beneficiaries have supplemental insurance called Medigap (Figure 2).

Where Does the Medicare Dollar Go?—Similar to other insurance programs, Medicare spending in any given year is concentrated on a small group of beneficiaries. Nearly 70% of program payments are made on behalf of 10% of beneficiaries. This

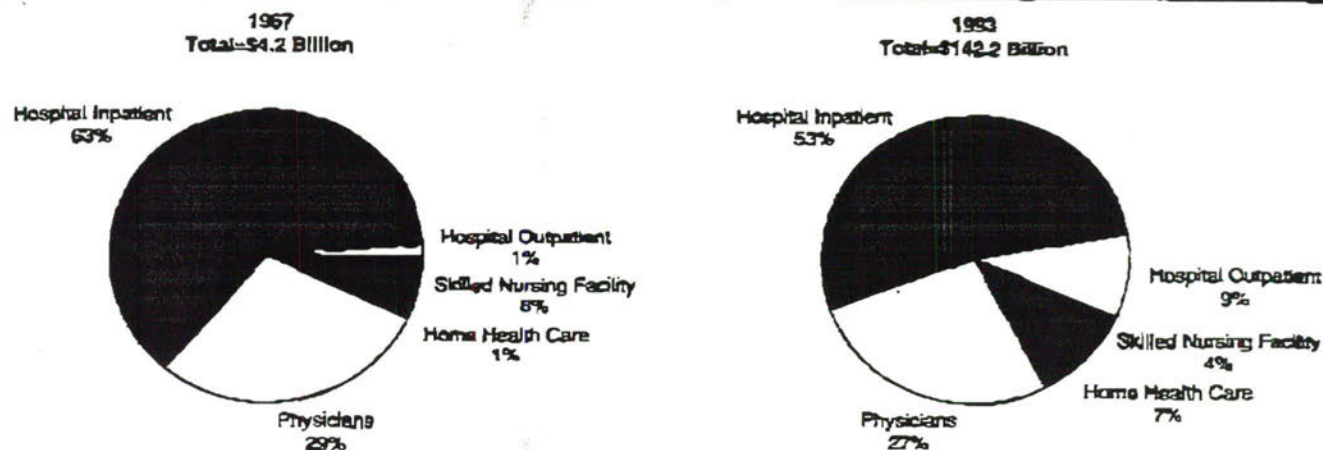


Figure 3.—Where the Medicare dollar goes (data from Health Care Financing Administration^{2,17}).

proportion has remained stable over time. High-cost groups include those with ESRD, those who died, and/or those who were hospitalized. About 22% of beneficiaries had no program payments made on their behalf, an additional 30% of beneficiaries incurred 2% of program spending or less than \$500 per enrollee. While spending is concentrated on a small group in any 1 year, over a lifetime Medicare beneficiaries may have high-cost and low-cost years, which may average out over time.¹²

The share of Medicare spending by type of service has changed significantly during the last 30 years as medical care moved from the inpatient hospital setting to numerous outpatient settings (Figure 3). Recent years have seen especially rapid growth in home health care and skilled nursing facility spending as coverage rules for both benefits were liberalized, patients were discharged earlier from hospitals, and the number of providers participating in the Medicare program substantially increased. From 1982 to 1993, the percentage of Medicare beneficiaries receiving skilled nursing facility or home health care services more than doubled.

Do Beneficiaries Have Access to Care?—Growth in the percentage of Medicare beneficiaries receiving covered services has been a significant factor in increasing expenditures; it also indicates improvements in access to care. While Medicare beneficiaries are generally considered to have good access to care, some groups, including the disabled, poor elderly, minorities, and the very old, have access problems.¹⁸

When physician payment reform was enacted, some were concerned about its impact on access. Physician visits per enrollee have increased since the fee schedule was introduced in 1992. Moreover, participating physicians (those physicians who accept Medicare's approved amount, plus the 20% beneficiary coinsurance, as payment in full on all claims) accounted for almost 90% of Medicare physician spending in 1994. Nearly 75% of physicians and other practitioners signed participation agreements in 1995, a record high since the participating physician program began in 1984.

A Portrait of Medicaid

Medicaid is administered by the states within broad federal guidelines regarding the scope of services, provider payment levels, and population groups eligible for coverage. At the

federal level, Medicaid is administered by HCFA.

Who Is Eligible for Medicaid?—Eligibility for Medicaid is determined by states within broad federal guidelines. Uniformly, states must cover certain persons who are poor, aged, blind, disabled, or pregnant or are either a child or the parent of a dependent child. States further define eligibility rules (eg, maximum income and assets) within certain broad parameters. Generally, people receiving welfare (Aid to Families With Dependent Children or Supplemental Security Income) automatically qualify for Medicaid. Some states opt to cover the "medically needy" (those whose medical expenses are high enough to reduce their income to Medicaid qualifying levels and who otherwise meet Medicaid eligibility requirements). Beginning in the mid 1980s, Medicaid eligibility was expanded to pregnant women and infants in families with incomes up to 133% of the poverty level and children in families with income less than 100% of the poverty level. Thirty states have opted to further expand eligibility to pregnant women and infants in families with income up to 185% of the poverty level.

On a national basis, Medicaid covered nearly 50% of Americans younger than 65 years below the federal poverty level in 1992. However, this percentage varies considerably, ranging from a low of 29% in Nevada to a high of 61% in Washington, DC. Individuals younger than 65 years who are not pregnant and have no children or disabilities do not qualify for Medicaid, no matter how poor they are or how high their medical expenses are. The share of the poor covered by Medicaid is expected to increase to 58% in 1994.¹⁴

How Is Medicaid Financed?—Medicaid is jointly financed by federal and state governments. Some states, such as New York and California, require local government contributions toward the state share. The federal government matches state spending on a sliding scale based on state per capita income. States with high per capita income, like New York, receive a 50% federal match rate. States with low per capita income, like Mississippi, receive a higher federal match rate, up to about 80%. The national average federal match rate is 57%.¹²

What Services Does Medicaid Pay for?—Because Medicaid is intended to provide access to health services for those in poverty, it covers a broad range of preventive, acute, and long-term care services with few or no cost-sharing requirements. States



UNITED STATES DEPARTMENT OF COMMERCE
The Assistant Secretary for
Communications and Information
Washington, D.C. 20230

JAN 19 1995

Gene Sperling
Deputy Assistant to the President
for Economic Policy
2nd Floor, West Wing
The White House
Washington, D.C. 20502

Dear Gene:

Every year during the State of the Union address, the President introduces American citizens who are making a positive contribution to their communities. Here are some compelling examples from the Administration's Information Superhighway initiatives that you may want to consider for inclusion in the speech.

You may recall that last November, I wrote to you about the importance of putting a human face on the Administration's technology initiatives. I am enclosing information about some of our most notable TIIAP projects, including a recent article about Bart Decrem, who was deemed by Newsweek as the "Cyber Robin Hood." Bart and one of his students, Benjamin Carson, participated in our 1995 TIIAP announcement last November. 12-year-old Benjamin, an African-American from a single-parent household, literally stole the show when he spoke on how having access to telecommunications technology changed his life.

From virtually a standing start, we have stimulated thousands of community connections to the Information Superhighway. Millions of Americans are benefitting from the President's vision. NTIA's Telecommunications and Information Infrastructure Assistance Program (TIIAP) is a Clinton Administration initiative that is assisting state and local governments, schools, libraries, hospitals, public safety entities and other non-profit institutions throughout the United States. TIIAP awarded 94 grants in 1994 and 117 grants in 1995.

TIIAP has brought together successful private and public sector partnerships that produce practical, innovative uses of technology to help bridge the information gap for citizens throughout the United States, particularly those living in rural and inner-city communities.

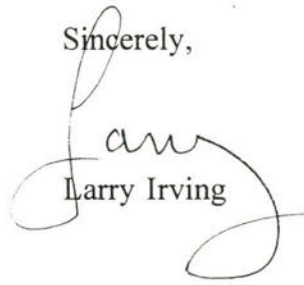
TIIAP grants address problems affecting the lives of real people, every day, in virtually every community. TIIAP projects are improving the delivery of education, health care, government services, and economic development in many communities throughout the United States and serving as models that can be replicated in similar communities.

Undoubtedly, the Department of Education and the Department of Health and Human Services have similar success stories about why technology matters -- how it is making a positive difference for Americans as workers, students, and members of their family and community. But we need to connect the message to people and to people's lives. I know that you share my belief in the importance of getting this message out.

Two years ago the President set forth a challenge to the American people to connect every classroom, library, hospital, and clinic to the Information Superhighway by the year 2000. This nation is capable of meeting the President's challenge. I believe that the State of the Union presents the most significant opportunity for the President to demonstrate how, through his technology initiatives, he is "Putting People First," how real-life, everyday people are benefitting as a result of this Administration's initiatives, and why the President's vision is of importance to all Americans.

I welcome your comments.

Sincerely,

A handwritten signature in cursive script, appearing to read "Larry Irving".

Larry Irving

Enclosures

The Net 50

A YEAR AGO ONLY A HANDFUL of computer cognoscenti had heard of Netscape's Marc Andreessen or Sun Microsystems' James Gosling. Now they're considered to be computerdom's hottest visionaries. Where to find the Big Thinkers of tomorrow? Start here, with NEWSWEEK's list of the 50 People Who Matter Most on the Internet. Many of them aren't household names, but they're supplying the vision, the tools and the content that are getting millions of people to turn on their modems.

Halsey Minor

NET PUBLISHER

In 1995 the 31-year-old founder of cinet, "The Computer Network," launched a cable-TV show and two Web sites, and lured big-name investors like Microsoft cofounder Paul Allen to help finance his burgeoning multimedia business. Minor's company is also at the forefront of new technologies that will let advertisers target their customers online. To trumpet his Web site, he's blanketed New York City buses with advertisements. Cinet doesn't yet deserve the name "network," but it might if Minor realizes his real goal: an "all computers, all the time" version of the Cable News Network.

Lawrence Landweber

INTERNET GUARDIAN

Landweber was one of the founders of CSNET, an early network for computer scientists. Today the University of Wisconsin professor is president of the Internet Society, and he's rallying companies around the globe to maintain technical standards for the Net. His goal: to ensure that your computer will be able to talk to others. His trade organization, made up of 5,000 Internet professionals from 120 countries, trains Third World engineers to create networks in their own countries, publishes a bimonthly magazine and is working to protect the term Internet from companies that are trying to copyright it.



Srinija Srinivasan

ONTOLOGIST

She may be the best-kept secret at Yahoo!, the company that produces the wildly popular Web search engine. Trained in library science, Srinivasan is the one who decides how the thousands of Web pages submitted to Yahoo! should be categorized and classified, making it as intuitive, expandable and maintainable as possible.

Bart Decrem

CYBER ROBIN HOOD

A native of Belgium and graduate of Stanford Law School, Decrem is bridging the gap between the low-income neighborhoods of East Palo Alto and the information-rich companies next door, in Silicon Valley. His nonprofit Plugged In provides a vast computer lab with Internet classes, open 70 hours a week to kids and adults from the community. He has also acquired a \$20,000 grant from the U.S. Commerce Department and recruited companies like Intel and Apple Computer to help make personal computers and online access available to low-income people.

Nicholas Donatiello

INTERNET STAT-MAN

Sen. Bill Bradley's former campaign manager is now the chief executive officer of Odyssey, a San Francisco-based market-research firm dedicated to tracking America's online behavior. His Homefront Survey, produced twice each year, provides a rare and reliable glimpse into the technology habits and hangouts of cyber-surfers everywhere. Odyssey's list of clients includes blue-chip companies like Microsoft, AT&T, all the online services and six of the seven regional phone companies.

Omar Wasow & Peta Hoyes

ONLINE INNOVATORS

Co-administrators of New York Online, a self-described "jazz

EXAMPLES OF TIAP FUNDED PROJECTS

Children's Alliance of New Hampshire Concord, New Hampshire

Access Project/Human Services

Federal Amount: \$82,741

Total Project Cost: \$207,358

During hurricanes, floods and civil disturbances, disaster relief is critical to meeting public needs. Response facilities often become overloaded with requests for information about safety, shelter, and social services. The people most affected by disasters are the poor, the elderly, the disabled, and those without access to information about community resources.

In this nationwide project, the Alliance of Information and Referral Services will establish standards for cataloging emergency resource information. It will increase the number of information access paths available to disaster professionals, disaster planning groups and community residents by installing World Wide Web sites in six test communities to house and protect data from disruption during emergencies. Another goal of the project is to train information end users in accessing procedures for emergency services networks.

It is expected that, because of the project, emergency service providers will be able to respond more quickly in crises. It will also mean that those most directly affected by emergencies will be empowered by having access to information about emergency response services.

Plugged In - Learning Through Technology East Palo Alto, CA

Access Project/Community Networking

Federal Amount: \$192,995

Total Project Cost: \$440,350

Plugged In is introducing electronic communications to East Palo Alto, a community which perhaps defines "have nots." East Palo Alto has no banks, no supermarkets, and 23,500 low-income residents poised to be left behind in the information revolution. Just blocks away is Palo Alto -- a community personifying "Silicon Valley," a vanguard in shaping the country's information infrastructure. Plugged In offers learning through technology, providing free access and training to kids and the community at large. Plugged In will introduce electronic networks to address the specific needs of a variety of community members -- children, teens, adults, and community leaders.

Children in East Palo Alto need special programs to help "level the playing field" with children in neighboring affluent communities. Access to Internet for information searches will open new vistas not only for homework assignments but also for job possibilities. Teens in

the community suffer from a lack of challenging yet engaging after-school activities; electronic teen discussion groups can help them develop job skills, leadership potential, and self-esteem.

Every day, kids drop by Plugged In to work in a state-of-the-art multimedia lab, setting up their own business for creating home pages, and videoconferencing with others around the nation and the world. But they just don't learn about file sharing. They learn about communications. Teamwork. As well as the creative process. The staff at Plugged In are activists in the best sense -- they care and are striving to teach kids new ways of learning and doing.

The low-income East Palo Alto community cannot afford this new technology, and Plugged In offers free access and training to the community at large. By using the information infrastructure to address the concrete issues and problems that the community struggles with on a daily basis, Plugged In will develop a successful model for introducing communications technologies to low-income, urban settings.

Federal funding for this project, less than \$200,000, makes sure that the project will continue with the instructors it needs. Matching funds to pay for additional equipment and other services comes from a variety of organizations, both local and national.

Foundation for Educational Innovation Washington, DC

Demonstration Project/Education (K-12)

Federal Amount: \$450,000

Total Project Cost: \$1,193,621

TIIAP funded the Foundation for Educational Innovation to develop ways to expand the horizons of school kids in Washington, DC by allowing them to make "virtual visits" to museums in the area and to create Technical Learning Centers in selected area schools. This initiative tie in with a substantial (\$16 million) grant the DC Public Schools received from the National Science Foundation (NSF) to reform the math and science curricula.

And, here's the really exciting part. Bell-Atlantic has made a commitment to the Congress to create a technology center on Capitol Hill to demonstrate the integration of technology into community and educational programs. Bell-Atlantic has adopted the Foundation for Educational Innovation's concept as THE MODEL for their facility and has merged the Foundation's development site with their demonstration site. Housed at the Giddings Elementary School in Southeast Washington, DC, the Center is available to Members of Congress and their staffs. Community organizations will also be housed in the facility. The Foundation will serve as the Executive Director of the Facility.

This is a public/private partnership that could NEVER HAVE HAPPENED without the

stimulus of a grant of \$450,000 from TIIAP. Since the commitment of Bell-Atlantic, other corporations have agreed to work with, and provide technical support to, the Foundation: Apple Computer, EDS Corporation, Eastman-Kodak, and Oracle Corporation -- not to mention the Freddie Mac Foundation, the Meyer Foundation, and the Council of Chief State School Officers. Also, the Foundation for Educational Innovation has been asked by the DC School System to function as an outside contractor to develop a technology plan for the city's schools.

**University of Delaware
Center for Applied Science and Engineering
Newark, Delaware**

Access Project/ K-12 Education

Federal Amount: \$223,183

Total Project Cost: \$447,183

Imagine that you are a 4th grade student with a disability. You want to be able to do the same things in the school's computer lab that everyone else is doing.

Technology, a tremendous resource for training and learning, can be an instrument of discrimination if not applied in a way that is accessible to all students. Students with disabilities are at particular risk in this regard, as their physical, sensory, or cognitive limitations may preclude access to technology-based learning via traditional means.

The Telecommunications and Information Infrastructure Assistance Program awarded a 1995 grant to the University of Delaware which will increase access to all types of educational opportunities for students with disabilities by using the Delaware Assistive Technology Information Network (DATIN). By implementing this network, on-line training, information, and other technology capabilities such as electronic mail and networked databases will be available to school district personnel, students with disabilities, and their families.

**Newark Public Schools
Newark, NJ**

Access Project/Health

Federal Amount: \$99,800

Total Project Cost: \$180,364

In an inner city neighborhood in Newark, New Jersey, residents are communicating with each other and with others outside of their community in a different way.

They use computers provided by a TIIAP grant in their homes or in the homes of their neighbors to access the MUSIC system, through which they can communicate directly with

local health and social services providers and participate in discussions with each other on topic such as HIV/AIDS and parenting. Information resources, such as a weekly calendar on available health services, school bulletins, on-line news from the Newark Star Ledger, and the Newark Public Library, are also available through the MUSIC system.

The community, which includes the residents of four public housing developments and the school that serves the developments, has been beset by exceptionally high rates of HIV infection, infant mortality, and teenage pregnancy.

Not surprisingly, residents are now using the MUSIC system to talk about issues other than health. Recently, when a 15-year-old girl was tragically murdered, residents used the network to communicate their feelings to each other about the murder. One woman posted a poem about the event to the bulletin board.

Using the MUSIC system is strengthening the community's bonds and resolve. After the murder, community residents organized, demanding and receiving a meeting with local police targeted on preventing similar incidents in the future.

This technology is clearly yielding benefits far beyond those initially envisioned.

To: Gene Sperling
From: Tom Kane
Re: Statement on College Costs
Date: January 19, 1996

1. Regarding your request for language urging colleges not to raise tuition, I offer the following suggestion:

"I would encourage states not to pull back in their commitment to public 2-year and 4-year colleges. When tuition increases are necessary to accomodate growing enrollments, both public and private colleges should protect their most disadvantaged students by raising need-based aid accordingly."

If the only goal were to keep tuition low, states could do so by cutting aid to low-income students or, perhaps even worse, capping enrollment and denying a college education to some of their citizens. The advantage of the above language is that it would keep the door open for states to pursue a high-tuition, high-aid, open-door strategy.

2. Between the 1980-81 and 1994-95 academic years, public two-year and four-year tuition increases *exceeded* inflation by 3.8 and 4.5 percentage points *per year*. There is little evidence that the increases in real tuition have slowed substantially. Even in the last year, nominal public tuition increased by 6 percent, implying a real increase of more than 3 percent. Keeping tuition increases at the rate of inflation would represent a fairly substantial slow-down in the rate of increase.

TO: Michael Waldman
Gene Sperling
FROM: Chris Jennings
Jennifer Klein *1.c.*
DATE: 1/18/96
RE: State of the Union

Assuming you want them, attached please find a few comments on the health care section of yesterday's draft of the State of the Union.

If you need language about what should be done to prevent fraud and abuse, how about: "I challenge the Congress to pass tough legislation to give our law enforcement agents more tools and guaranteed funding to investigate and prosecute fraud and abuse in Medicare and Medicaid." (Keep in mind that there is bipartisan agreement on the new guaranteed funding to fight fraud and abuse. However, the Republicans create exceptions to anti-kickback rules, limit prohibitions on physician referrals to laboratories in which they have a financial interest, and put new obstacles in the way of enforcing fraud and abuse.) The President can also talk about creative ways the Administration is fighting fraud. For example, we are about to begin a demonstration project that will reprogram the Los Alamos nuclear detection computer to detect fraud in Medicare. (If you are interested, we are getting the specifics.)

In addition, I have a few general thoughts. The health care section seems out of context. I think it's worth referring to the budget fight again for two reasons. First, because all of the things you talk about in the section after insurance reform have nothing to do with the challenge. If you start with a nod to the budget, the discussion of fraud and abuse and protecting the guarantee under Medicaid make more sense. Second, because it helps explain why the President is taking only a few small steps toward reform (albeit things that people really care about, like portability). You can remind people that the President is still committed to reform but that this year we are fighting hard to make sure we don't take steps backward -- so that people don't lose the critical services they get today from Medicare and Medicaid.

Please feel free to call if you need anything.

America. Second, a dramatic expansion of college work-study. I want to make it possible for 1 million young Americans to be working their way through college by the Year 2000.

And tonight I ask colleges and universities to make a promise to those hard-working students -- don't let the cost of college rise faster than Americans' incomes.

We owe our children something else as well. We must stand up together as adults to protect our children from the glorification of violence and degradation of values that assault them every day.

We must say to those in the entertainment industry: create TV shows as if your own children were going to watch them. And parents, if you don't like what your children are watching, turn the thing off.

To those who produce and market cigarettes, we must say: take responsibility for your actions. Sell your products to adults, if you wish. But draw the line on children.

We must challenge our schools to teach ethics and values. And if it will stop children from shooting children for designer shoes, then schools should be able to require student uniforms.

We must challenge our young people not to get pregnant or father a child until they are married. Tonight, I am pleased to say that a group of prominent media, business and civic leaders have answered my call for a new national campaign against teen pregnancy.

Higher standards. Technology in the classroom. An aggressive strategy to open wider the doors of college. Teaching our children right from wrong. That is the duty we owe our children.

America's third challenge is this: we must change the rules so people can take health insurance from job to job.

It is wrong that insurance companies compete by cutting off coverage to sick people. It is wrong that Congress has not passed a law to change that. We should enact reforms to stop insurance companies from denying you coverage or raising rates when you are changing jobs, because you or a member of your family have a preexisting condition. Republican Senator Nancy Kassebaum and Democratic Senator Ted Kennedy have introduced a bill to make the rules fair. It is bipartisan, and it is strong. Send it to me, and I will sign it.

We should help give small businesses the same purchasing power to buy health care as big businesses, and find a way to ensure that if you lose your job, you don't lose your health care.

We need to crack down on Medicare fraud, which costs [x billion] every year. But

None of the proposals being discussed would prevent this.

bipartisan

Might be that it is passed of comm. with uni support that Ne Johnson introduce similar legislation in

[It is not strong.]

can afford to keep

and Medicaid

5

I'm checking.

[NOTE: Our proposal and Kennedy-Kassebaum do allow insurance companies to impose pre-existing condition exclusions for a period of time.]

government should not have to do it alone. I challenge the American Medical Association to stop standing in the way of tougher prosecutions, and take responsibility for policing your own.

This is really unfair. They have never stood in the way. And the vast majority of doctors are honest. They don't need to be "poli

And I challenge Congress: It is one of the great strengths of our country that poor children, and ~~the disabled~~ ^{people with disabilities} have a guarantee of quality health care. It is a good thing that older Americans ~~know~~ ^{have a guarantee that} they will receive quality care, so they can live out their lives in dignity. As long as I am President, I will stand up for these basic values.

My fourth challenge is this: government and businesses must join to give our people the tools they need to become winners of economic change.

America's economy is growing, steady and strong. Over the last three years, we have had the strongest growth of any major economy. The combined rate of inflation and unemployment is the lowest in 27 years. Home ownership is at its highest rate in 15 years. Businesses have created over 7 million American jobs. Businesses owned by women employ more people than the Fortune 500 combined. Three years ago, we were losing jobs in construction; today, we have gained nearly 800,000. A decade ago, the auto industry was on its back. Today, Detroit is beating Japan for the first time since the 1970s.

Thanks in no small measure to the work of Vice-President Gore, the federal workforce is the smallest in 30 years, and getting smaller every day. We have cut 16,000 pages of unnecessary rules and regulations. Government works better, costs less, and produces results, not red tape.

Today's economy offers real opportunity for our people; our challenge is to ensure that all Americans reap the rewards.

That is why I challenge Congress to pass my GI Bill for workers. It would consolidate 70 overlapping job training programs, and give the money directly to American workers to pay for tuition at a community college or training at their next job. People who need new skills shouldn't have to waste their time waiting in line at a government office.

We should make it easier for small businesses to start pension plans, and easier for Americans to save for their retirement.

And businesses have a responsibility to make sure that pensions are secure. If Congress sends me legislation that lets big companies raid their workers' pensions, I will veto it.

And we all have a responsibility to honor work and make work pay. Millions of Americans -- many of them women with children -- earn the minimum wage, now at a 40 year low. A year ago, I called on Congress to raise the minimum wage. Since then, its value has dropped \$250 -- while Congress' pay has gone up [x]. That's wrong.

E X E C U T I V E O F F I C E O F T H E P R E S I D E N T

19-Jan-1996 01:55pm

TO: sperling_g
FROM: Edward Elmendorf

CC: AppleberryJ
CC: magrathc

SUBJECT: State of the Union and Policy Paper to Accompany It --

AASCU's Priority

Gene:

This statement is provided as promised in my call with you today. I hope you will make every effort to convince your colleagues to place such a statement in the State of the Union message.

Thanks for listening.

Ed

The State of the Union address provides not only an excellent opportunity for the President to articulate his vision for America's future, it also allows for a stark comparison between the administration's priorities and the priorities of the Congressional majority. A commitment to the federal role in education is one of the most visible differences between the policies of this administration and the GOP.

Poll after poll has found that education ranks as one of the top concerns of most Americans, and that higher education in particular is universally seen as key to success within the new economy. Given the extent of middle class anxiety about access to higher education, and given the prominent role federal student aid plays for middle-income students and their families, a forceful statement of administration support for student aid would one of the best ways of articulating the differences between the administration and the GOP.

A Presidential statement assuring all young Americans that he will fight to make sure that federal need-based aid will be there for them when they are ready to attend college would be especially powerful. Such a statement could be linked to the budget stalemate, in that the President is attempting to protect the future of 5th graders who would enter college by the 7th year of

' this budget cycle.

By restatement of his commitment to equal access to quality, the President can further solidify the great support he already received from the American people for his support of education.

THE WHITE HOUSE

WASHINGTON

January 18, 1996

MEMORANDUM FOR THE PRESIDENT

FROM: Robert Rubin *R. E. R.*
Alice Rivlin *AR*
Laura Tyson *LT*
Joseph Stiglitz *JS*

SUBJECT: Tax Issues and the State of the Union Speech

1. We understand that you will be discussing the Middle Class Bill of Rights, the expansion of the earned income tax credit (EITC) in 1993 and more generally your accomplishments in making the tax system fairer and reducing the deficit. All of us believe that these themes should be emphasized. But beyond these themes we also believe there are additional points you might consider.

2. You could mention some general principles of tax reform, that you will continue to follow as you improve the tax system -- that it should make the system simpler and fairer, help the economy, and reduce tax burdens on working families. You can then contrast this to Republican flat tax plans which would widen the deficit by cutting taxes on the wealthy. As part of this tax reform discussion, you could make two more specific announcements:

(i) Announce that the Administration will be releasing some interim proposals to simplify the tax system and refer specifically to the Treasury proposal to eliminate capital gains taxes on housing for most families. You may also want to remind people of recent efforts by the IRS to make tax filing easier.

The proposal to eliminate capital gains on housing was discussed with you in the fall. At the time you found it attractive and suggested it be considered as part of your State of the Union speech. We all believe it is a winner.

(ii) If you feel you need to do something else, you could announce that you have directed the Treasury Department to prepare a report for the National Economic Council (NEC) on broad-based tax reform alternatives. The report would be submitted to the NEC at the end of 1996.

These two announcements would give you maximum flexibility in the tax reform debate, depending on how the debate on the Republican side evolves. For example, the Treasury report could be expanded to include interim reports or have Administration officials hold public hearings on tax reform issues. Of course, while the study proceeds, Treasury will continue to prepare analyses of tax reform options for review by the NEC and presentation to you.

Conclusion

These issues were discussed at a recent NEC meeting. All of us agreed that we shouldn't wait for a broad tax overhaul, which no one is proposing to enact before 1997, to take some steps this year to make the system simpler for ordinary taxpayers. The simplification steps can be taken as downpayments on future reform and contrasted with the Republican legislative proposals you vetoed that would have made the tax system more complicated and less fair.

Members of the NEC favored both the tax simplification ideas and the idea of preparing a report on tax reform, but differed as to whether the State of the Union Address was the appropriate forum for announcing these initiatives. Some believed that the proposals were not sufficiently far-reaching to compete with the Republicans' proposed reforms. Others believed that the proposals indicated we were responsive to public concerns about the tax system.

Finally, you should know that over the next few weeks, the NEC will convene a series of meetings for Principals to discuss and evaluate numerous proposals for broad-based tax reform. The goal of these meetings is a decision memo to you regarding the desirability of broad-based tax reform, along with suggestions about how such reforms could be implemented. We will work with the Chief of Staff to ensure this project receives adequate attention from the relevant staff.

January 18, 1996

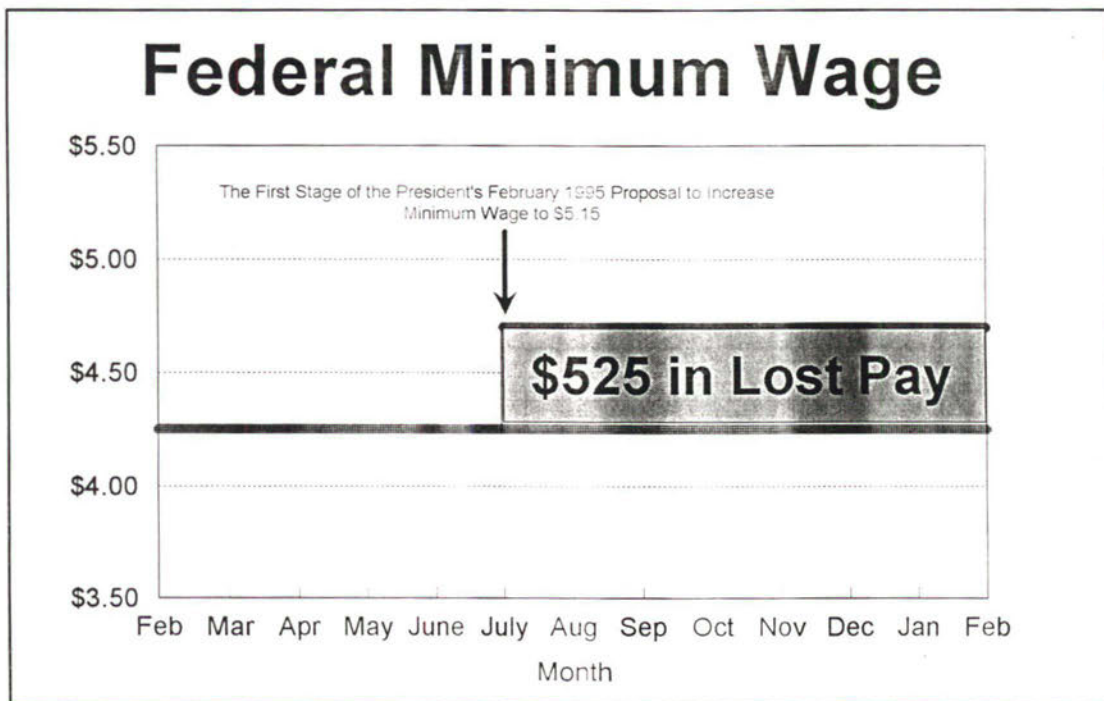
MEMORANDUM FOR GENE SPERLING

FROM: JON ORSZAG *Jo.*

SUBJECT: Background on \$500 Minimum Wage Statistic

In my fact checks for the State of the Union yesterday, I stated that for someone working full-time at the minimum wage, Congress' failure to act means more than \$500 in lost pay. You had some questions on how Lisa Lynch and I came up with that number. I think the graph below provides the best possible explanation.

The basic idea is as follows: In February 1995, the President proposed to increase the minimum wage from \$4.25 to \$5.15 an hour in two equal stages. The first stage would have raised the minimum wage to \$4.70 in July 1995. For a minimum wage earner working full-time, year round, this increase translates into 1,167 hours (7 months at 40 hours a week) of higher pay between July 1995 and February 1996. In other words, if Congress had passed the President's proposal, a full-time, year-round minimum wage worker would have earned \$525 more in higher wages (the shaded area in the graph or 1,167 hours * \$0.45 raise).





UNITED STATES DEPARTMENT OF EDUCATION
OFFICE OF THE SECRETARY

RUSH**FAX TRANSMITTAL**

TO: RUSH !! to GENE SPERLING
Organisation: _____
Phone Number: _____
Fax Number: 456-2878

From: TERRY PETERSON, Counselor to the Secretary
Phone Number: (202) 401-3414
Fax Number: (202) 205-5377, (202) 401-0596

What follows is an update overview of areas of educational improvement that we think are most significant and can be tied most directly to the impact of sustained nationwide school improvement and reform efforts in which the President and Secretary Riley have been involved as Governors and now as national leaders. This is not to say that we don't need dramatic and further improvement in these and other areas of education, but they do show that when we work aggressively together as a country and when we invest carefully in solving critical education issues, a significant difference can be made.

We are continuing to see if we can update the dropout and postsecondary enrollment data by one more year. I will let you know about any updates as soon as possible.

Also enclosed is the wording the Secretary used to describe the improvements because if it is not communicated well, any message about improvements could be ridiculed.

CONFIDENTIALITY NOTICE

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2 page(s) to follow

UPDATE ON TURNING THE CORNER: POSITIVE TRENDS IN EDUCATION

While it is true that U.S. education needs improving, that does not mean that the news is all bad. Indeed, the nation has turned the corner on many measures of student learning, especially in areas on which schools, communities and states have focused sustained effort to improve. Areas of long-term improvement include coursetaking, many measures of achievement, dropout rates, and postsecondary enrollment and attainment. The economic returns to further education are equally impressive.

Coursetaking has improved significantly. The proportion of high school graduates taking the core courses recommended in *A Nation at Risk* (4 years of English, 3 years of social studies, 3 years of science, 3 years of math) increased to 52 percent by 1994, up from 14 percent in 1982.

Student achievement is generally up. Student performance on the National Assessment of Educational Progress (NAEP) has generally increased, particularly in science and math, areas that have been the focus of national attention. The gap in performance between white and minority students has been narrowing. Scores of 13-year-olds, for example, increased by at least one grade level in math between 1973 and 1992; scores of African-American 13-year-olds rose by over two grade levels over the period.

Dropout rates have declined. Overall, the dropout rate for 16- to 24-year olds declined from 14 percent in 1982 to 11 percent in 1993. Dropout rates declined between 1982 and 1993 by 4 percentage points for whites and 5 percentage points for blacks.

Postsecondary enrollment and attainment have increased. Over the past decade total fall enrollment in postsecondary institutions increased 17 percent from 12.4 million to 14.5 million students. The proportion of people ages 25 and over who have completed four or more years of college increased from 18 percent in 1982 to 22 percent in 1993.

Education continues to be a wise investment for America and its people. Workers with bachelor's degrees earn on average almost \$14,000 more a year than workers with high school diplomas. Workers with associate degrees earn almost twice as much annually as workers who did not finish high school. Senior executives from *Business Week's* top 1,000 corporations agree: when asked in 1995 which issue is the most important to American business, 28% said "improving the U.S. educational system," rating it a close second to balancing the federal budget (31%).

the future of America. On the day that all eyes in America were on this outstanding athlete and role model, he had his eyes on letting his daughter know that her education, her school, and her principal were important to him.

Next Monday, I will visit the elementary school of my children and grandchildren -- Augusta Circle Elementary School in Greenville, South Carolina -- where my granddaughter, Hayden Riley, now goes to school. I will be joined in my visit by the astronaut, Charles Bolden, commander of four Space Shuttle missions.

On the same day, President Clinton will make his case against cuts in education funding to the student body of Southern Illinois University. During the week -- when America goes back to school -- there will be events all across the country. We want the education of this generation of children to be America's number one project.

On September 14th, for example, we will give students all over the country the opportunity to have on-line discussions on the Internet with an extraordinary group of American citizens -- Jim Lovell of Apollo 13 fame; Bill Gates, founder of Microsoft; artist Peter Max; and R.L. Stine, who is known far and wide as the author of the "Goosebumps" series.

This is all positive. We are also moving forward on other fronts as well. As many of you know, SAT scores are up. Our annual report on the "Condition of Education" tells us that many more students are taking the tougher core courses that prepare them for college and for life.

As a result, the national scores in math and science have gone up. Many more high school graduates are going directly on to college, an increase of 13 percent since 1980. Now, we still have a very long way to go. There have been a lot of peaks and valleys in our effort to move American education forward and there will be many more. We're not there yet. But let's recognize that we are starting to turn the corner.

We are also receiving very positive reports from school officials across the country regarding the religious guidelines that we issued at the direction of President Clinton. As the President said last July, our public schools must not be "religious-free zones." Public education should not be hostile to religion.

So all this is good and forward-looking. But let's also be serious and sober about where we are in the life of our great nation when it comes to education. There are two great education issues that trouble American families -- questions, if you will -- that will define the future of American education.

First, how do we finance a college education for our children -- especially the tidal wave of teenagers who are now just a few short years away from applying to college? Second, how do we prepare our children academically for the rigors of higher education and a complex world? We must put an end to the waste of time caused by having so many college freshmen taking



Department of Veterans Affairs
Office of Public & Intergovernmental Affairs

FAX: (202) 273-5717

TELEPHONE: (202) 273-5750/5751

FAX FACTS:

TO: Gene Sperling 456-2878

DATE: 1/17

FROM: Kathy Jurado

Transmitting: Cover page plus 4 pages

COMMENTS: Gene:
I am lobbying for the attached
text regarding the budget to be included
in the State of the Union. Enclosed is a memo
to Don Baer for your review. Thanks for your
help. Kathy

Memorandum To: Don Baer, Director, White House Communications
From: *Kathy Jurado* Kathy Jurado, Department of Veterans Affairs
Subject: Suggested text for State of the Union
Date: January 16, 1996

The following text was sent to Cabinet Affairs last month through our Chief of Staff. I am sending it again to you today for the following reasons. The President often speaks of the agreement signed with Congress to balance the budget, but he doesn't include a reference regarding the protection of veterans benefits. We hope he will include that reference in the his State of the Union speech. Secondly, you may have read Sunday's New York Times front page article "Hospitals of V.A. Expanding in Face of Nation's Cuts." The speech text below addresses the theme of the article which has been a rallying cry from some members of Congress. I have attached the New York Times article for your review. Please let me know if I can provide you with any additional information.

Text for State of the Union Speech

The Congress and I agreed that veterans benefits would be protected while we strive to achieve a balanced budget in seven years. Last year, I proposed a budget that would have ensured that veterans seeking health care from the VA would receive that care. Since then, some people have argued that we no longer need a veterans' health care system -- that the number of veterans is declining and so should VA.

This nation has a time honored commitment to our veterans -- whether to the WW II veteran, older now and in need of nursing home care, or the Persian Gulf veteran suffering from an unexplained illness.

America's veterans are directly responsible for the freedom's we enjoy and a way of life which we must not take for granted. As long as we continue to send young men and women into harm's way, we should have a health care system in place that honors their sacrifice.

That is why I will send Congress a budget that lives up to that commitment, and I hope you will join me.

HOSPITALS OF V.A. EXPANDING IN FACE OF NATION'S CUTS

REPORT ASSAILS SYSTEM

As Veterans' Numbers Drop,
a Quarter of Beds in 173
Institutions Are Empty

By PETER T. KILBORN

PHILADELPHIA — At a time when the Federal Government is driving down the cost of health care and forcing hospitals across the country to close, the Department of Veterans Affairs keeps expanding its own hospital system, the nation's largest, and spending more for health care.

Government reports call the Veterans Health Administration a bloated bureaucracy, with surgeons who have gone a year without lifting a knife, and rife with wasteful practices like admitting clients to hospitals for conditions that outpatient clinics everywhere else treat in an hour or two.

A quarter of the beds in the V.A.'s 173 hospitals stand empty as the surviving soldiers of World War II move into their 70's and 80's and the veteran population shrinks. There are 26 million veterans now, down from 30.1 million in 1980.

Yet in Washington's battle over the 1996 budget, President Clinton has proposed an increase of more than \$700 million for the Veterans Health Administration, mostly for new construction, and the Republican-dominated Congress has approved an increase of \$400 million. At the same time, Medicare, the Government insurance program for the elderly, and Medicaid, the program for the poor, face sizable cuts in projected spending.

V.A. jobs have grown with the spending. The Federal work force sank 8 percent, to 2 million, since the Clinton Administration took office through September, according to the Office of Personnel Management. But the V.A. work force climbed 1.4 percent, to 264,000.

The veterans hospital system

The New York Times, 1/14/96

bucks the trends in health care because no one can touch it politically. President Clinton, denounced by many veterans for avoiding the Vietnam War draft, has bent backward to court them.

Members of Congress, sensitive to jobs the hospitals provide in all 50 states, recoil at shutting one in their own. And lobbies like the American Legion, the Disabled American Veterans and the Veterans of Foreign Wars boost the interests of veterans unchallenged by other groups.

V.A. officials themselves say they have too many hospital beds.

"Every place is overbedded," said Kenneth W. Kizer, the department's Under Secretary for health, who is attempting to reorganize the system. Dr. Kizer said he was also cutting his headquarters staff to 600 from 802.

But he blames Congress for some of the redundant capacity and for writing some of the regulations that discourage the department from turning to less expensive outpatient care, a development that is rapidly changing the American hospital system. "People are admitted to hospitals who don't have to be admitted," he said. "But the only way they can be treated is to be admitted."

Officials in Congress acknowledge the political difficulties of cutting the budget of an agency that serves the nation's veterans, even at a time when they are struggling with some of the deepest budget cuts in history.

"You mention the word 'veteran,' and you're supposed to pitch forward on your sword," said Senator Alan K. Simpson, Republican of Wyoming and chairman of the Veterans' Affairs Committee. He said no one begrudges a battle-scarred infantryman a lifetime of medical care, a disability check and a pension for him and his widow.

But the veterans' lobbies "raise tremendous amounts of money," Mr. Simpson added. "They tell their public this Congress doesn't care about their vets. I'm a veteran. If I weren't, they'd have cremated me by now."

Veterans' groups forced Edward J. Derwinski to resign as President Bush's Secretary for Veterans Affairs in 1992 after he suggested admitting nonveterans to a few underused V.A. hospitals.

"With welfare, abortion, gun control, the death penalty," Mr. Derwinski said, "you've got legitimate pro and con positions. But there's no anti-vet lobby. No one's going to come in and say, 'Don't waste any more money on veterans.'"

An Aging Group With Growing Needs

With its network of hospitals and more than 500 clinics, nursing homes and other facilities, including about 20 golf courses, the Department of Veterans Affairs runs the nation's largest health system.

That system, which cares for about 2.6 million veterans, is in line to receive \$16.6 billion in the fiscal year 1996. By contrast, said a Senate aide who specializes in veterans affairs, the Department of Defense spends about half as much for the care of 8 million soldiers and dependents.

In defense of the system, veterans advocates say the budget, while growing, has fallen behind the pace of rising health care costs and that veterans, while declining in number, are reaching ages when they need two and three times more care than they did in their 30's and 40's.

The advocates say fewer hospital beds would be empty if the Government relaxed eligibility rules for free care. All veterans can use the hospitals, but just 10 percent do, mostly those whose expenses are paid. To qualify for free care a veteran — anyone who has served at least 180 consecutive days in the armed forces — must earn less than \$20,469 or be deemed at least 50 percent disabled by injuries or diseases contracted in the service.

The system's supporters also say that the hospitals have developed invaluable expertise in researching and treating service-related conditions, like spinal cord injuries, amputations, hypertension and acute mental disorders, and that they maintain a culture that is especially responsive to the concerns of veterans.

"It's a place where other things happen than health care," says Dr. John O. Lipkin, chief of staff of an immense old veterans medical center in Perry Point, Md. "Vets are protective of a system that treats them in a different way. They feel there is no net out there that meets their needs."

Waiting for a prescription to be filled in the Philadelphia veterans hospital the other day was John T. Edison, 62. He told of getting his left hip damaged by shrapnel in Korea when he was serving in the infantry. Much later he developed lung cancer. He had a lung removed and received chemotherapy and radiation, all here, all free.

(MORE)

(CONT.)

Robert C. Woerner, 63, was a boiler tender on a destroyer in the Korean War who emerged without injury or an illness. But recently, he mangled his left arm.

"I was drunk," he said, "and I fell off a building. Four stories." He said the hospital had sent him to a veterans alcohol treatment center. "It doesn't work," he said.

Also waiting for medication was Bill Berghandler, 42, who was a mechanic in the Marines in the Vietnam War.

After tests at a private hospital three years ago, Mr. Berghandler learned he had H.I.V., the virus that causes AIDS. "The doctor wouldn't come near me," he said. "He ignored my complaints."

On Medicaid then, Mr. Berghandler switched to the veterans hospital here. "I had to have my spleen taken out," he said. "The day after I was discharged for that, they found blood clots in my stomach and I had to have six feet of intestine removed. There's a new drug now they're letting me use."

He said he had decided not to go back to Wisconsin, where he grew up, because of the care he gets at the veterans hospital here.

Declining Numbers In All but Money

In spite of the declining number of veterans, the department shut only two hospitals since the 1960's, both in California and both because of earthquakes. It has mothballed or eliminated half the hospitals' beds since then, but it is filling fewer than 75 percent of those that remain.

Veterans hospitals would be even emptier if they were keeping up with the shift toward less expensive outpatient care that has been shutting community hospitals at a rate of three a month for nearly two decades. That process is sure to accelerate. Both the President and Congress are committed to cutting tens of billions of dollars from projected spending for Medicaid and Medicare.

The Clinton Administration and Congress are encouraging less hospital use. Special Medicare payments that help support teaching hospitals could be curbed. All parties in the debate agree that the country is glutted with hospitals and that in the long run it is likely to follow enactment of the 1996 budget, many more will close.

Yet in the dispute over the budget, few agencies have proven more immune to these pressures than the Veterans Health Administration. President Clinton and his Secretary for Veterans Affairs, Jesse Brown, proposed in this year's budget not to close hospitals but to spend \$343 million for two more, in California and Florida.

The Republican Congress's budget committees vetoed the new hospitals. But they approved spending \$50 million to build clinics at each site, and to pay for work at other hospitals.

As a result, the Veterans Health Administration is expected to receive at least \$400 million, or 2 percent, more in the fiscal 1996 budget than it was granted in 1995. Since 1990, spending on health care for veterans has risen 43 percent, four times the pace of all other spending whose levels are set by Congress or the Clinton Administration.

Despite Criticism, Immunity Is the Rule

The department's year-upon-year success in winning bigger budgets illustrates paradoxes of political expediency.

Republicans in Congress who stopped the President's overhaul of the nation's health care system in 1994 on grounds that it smacked of big government nevertheless condoned a big-government health care system for former soldiers. And in the budget debate, lawmakers who would restrict guaranteed care for the poor through cuts in Medicaid go along with unrestricted care for all poor and many better-off veterans.

Meanwhile, President Clinton has assiduously sought the favor of veterans. In picking Mr. Brown, he chose a former president of the Disabled American Veterans who calls himself a career lobbyist for veterans.

Mr. Brown, who declined to be interviewed, has said he shares the view of veterans' organizations that anyone who serves in the military is special and deserves privileged care.

Yet in audits, both the General Accounting Office and the department's own Inspector General have raised fundamental questions about the department's health care mission and management.

In a look at six hospitals, in 1990, the Inspector General found that 21 of 131 surgeons "spent no time in the operating room at all during the year." Four years later, in an audit of three other hospitals, it found that 13 of 79 surgeons went a year without lifting a knife.

By dwelling on building and renewing hospitals, the reports showed, the V.A. resists the trend toward outpatient care and keeps patients in hospitals much longer than community hospitals do.

The department's annual report for 1994 shows a 17 percent increase in outpatient visits from 1987 to 1994. But over the same period outpatient visits in the private sector jumped about 50 percent.

Part of the problem is regulations like those that require hospital stays for many procedures, including cataract operations, that are routinely performed by outpatient clinics in the private sector. Dr. Kizer said such regulations even apply to giving a patient a pair of crutches.

"A patient comes in with a broken ankle," he said. "It is casted in the emergency department. He needs crutches. Well, crutches are called a prosthetic device. Prosthetic devices are only given on an inpatient basis. So he has to be admitted to the hospital. Every place else in the world just gives him a set of crutches and lets him go home."

Earl F. Falast, director and chief executive of the Philadelphia center, said he has cut some fat, reducing the number of hospital beds to 330 from 450 and raising the number of outpatient visits to 321,000 from 250,000. He has also reduced staff to 1,820 from 1,980.

But regulations intrude upon such initiatives. Because Congress has mandated that hospital employment systemwide be kept constant, Mr. Falast cannot cut staff members until officials in Washington have agreed to add positions elsewhere.

Critics say both veterans and taxpayers could be served at less cost by wholly different means. "The real question is whether there should be a veterans health care system at all," said Richard Cogan, a senior fellow at the Center on Budget and Policy Priorities in Washington.

Representative Bob Stump of Arizona, a Republican and chairman of the House Veterans' Affairs Committee, said closing hospitals was politically difficult.

"You're talking about something that would be worse than base closings," he said. But he added, "We're going to try a program of letting some guys go into any hospital and see what happens," he said.

Under Secretary Kizer appears to be pushing the department in that direction. An outsider appointed a little over a year ago after a career in health-system management, he is reorganizing the hospitals, linking them into regional groups, eliminating duplication and trying to force a faster shift to outpatient care.

(MORE)

(cont.)

But he said little can happen without Congress's help. "Our biggest impediment to change is the failure of Congress to give us the tools," Dr. Kizer said.

"Congress acknowledges that the laws aren't consistent with where health care is today," he said. "But they won't do anything."



Michelle V. Agins/The New York Times

After tests showed that Bill Berghandler, 42, a mechanic with the Marines in the Vietnam War, had the AIDS virus, he switched to the veterans' hospital

in Philadelphia from a private hospital, where he said doctors ignored him. He was at the V.A. hospital recently with one of his doctors, Carolyn Johnson.

January 16, 1996

To: Gene Sperling

Fm: Paul A. London

Re: Data on Semiconductors and Biotech.

This is additional material from the Technology Administration on these two industries. Number on telecom are difficult because the definition of the industry varies. We'll have to think about how to deal with this issue.

BIOTECH HIGHLIGHTS						
	(\$ Billions)					
	Public Companies			Industry Total		
	1994	1993	1992	1994	1993	1992
Sales	5.2	4.3	3.3	7.7	7.0	6.0
Revenues	7.1	6.0	4.4	11.2	10.0	8.3
R&D Expenditures	3.8	3.0	2.4	7.0	5.7	5.0
Net Loss	2.1	1.5	1.4	4.1	3.6	3.4
Market Capitalization	36.0	39.0	42.0	41.0	45.0	48.0
Number of Companies	265	235	225	1,311	1,272	1,231
Employees	53,000	48,000	37,000	103,000	97,000	79,000
Source: Ernst & Young Annual Biotech Industry report						

DATA

WORLDWIDE SEMICONDUCTOR SHIPMENTS (\$BILLION)															
	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994
U.S.	8.4	7.8	8	9.7	14	10.6	11.4	13.6	17.3	18.5	20.1	21.4	25.5	33.32	43.82
WORLD	13.9	13.4	14.2	17.9	26.2	21.8	27	33.4	46.3	49.7	50.5	54.6	59.9	77.8	101.9

P.04

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TO

JHN-1b-1996 15:18 FROM

U.S.- BASED MERCHANT SEMICONDUCTOR INDUSTRY WORLDWIDE SALES REVENUE

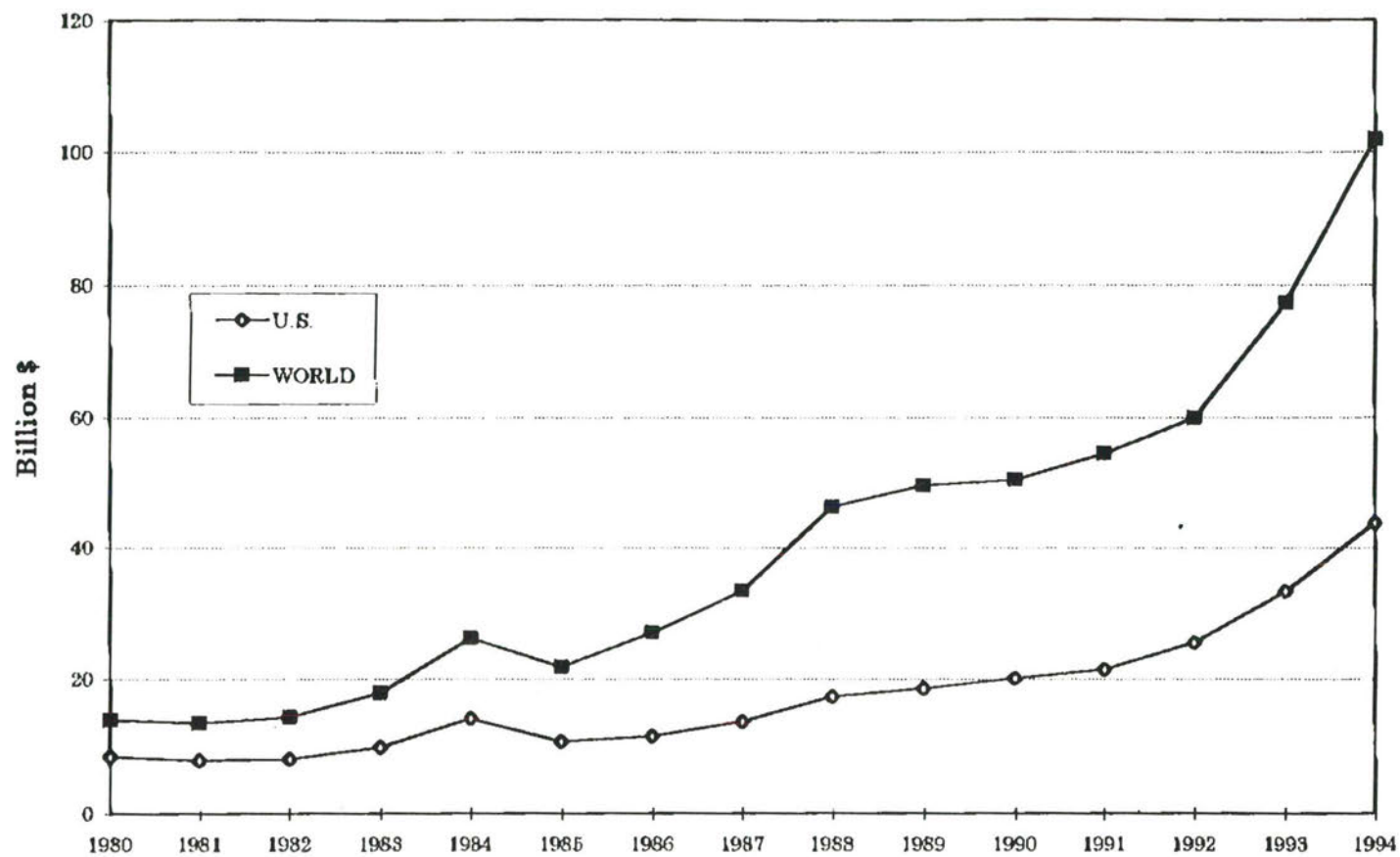
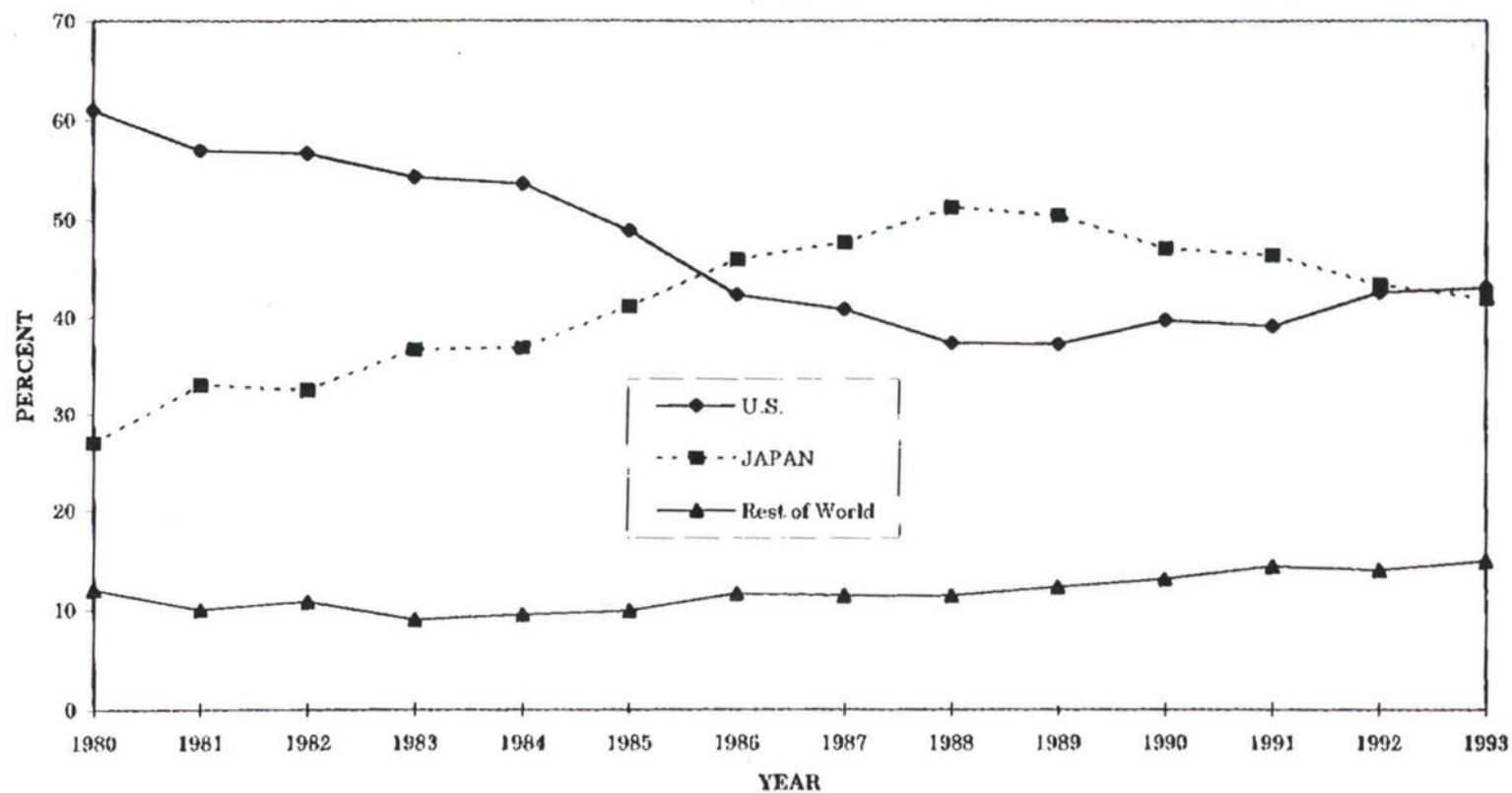


FIGURE 1
AVERAGE SEMICONDUCTOR MARKET SHARE



Fax 456-2878

January 16, 1996

To: Gene Sperling

From: Paul A. London *P*

Re: Supporting Data on Four Hi-tech Industries.

This is what I can give you for place holders right now. I will get more from the biotech and semiconductor associations and send it on.

I think it is worthwhile to link these high tech industries to increased efficiency in more prosaic ones like trucking. E.g. US sales of large, Class A trucks in 1994 and 1995 set consecutive records. This was in part because new computer technologies are lowering the cost of trucking so that the business is growing.

Software.

Worldwide sales of U.S. industry in 1994 = \$61 billion up 17.3 percent over 93.

US sales \$32 billion in 94, up 15.2 percent.

US world market share in 94 was 76.8 percent, up from 74.9 in '93. Source: International Data Corp.

Telecom.

Output of communications equip. up 18 percent during Clinton Administration and exports up by 62 percent. Real exports of communications services are up 13 percent during this Administration. Source: Inforum Model.

Will get real numbers.

Biotech.

US leads the world with over 70 percent of gene engineering patents, and dominate production of "world class" drugs.

Asking Biotech Industry Organization for numbers.

Semiconductors.

US market share for semiconductors (42 percent) surpasses Japanese share once again. Source: Commerce/TA

Real output of the computer industry up 21 percent during Clinton Administration, real computer exports up 38 percent. Source: Inforum Model.

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C.

SECRETARY OF THE TREASURY

January 16, 1996

MEMORANDUM FOR THE PRESIDENT

FROM: SECRETARY ROBERT E. RUBIN *RES*
SUBJECT: Your State of the Union Address

Introduction

The following is not a comprehensive recommendation, but covers instead three areas:

- * first, policy and rhetoric with respect to business;
- * second, the economy, urban issues and taxes; and
- * third, law enforcement.

I. Addressing Business in the State of the Union

Addressing the role of business in the President's vision for 21st century America requires striking the right balance between recognizing that it is because American businesses have been uniquely willing to respond to a changing world by innovating, investing, and restructuring that America's economic position is today so strong (a prosperous 21st century America requires dynamic flexible companies), while recognizing that mass layoffs are a source of insecurity and concern and the benefits of prosperity are not being shared by all.

Pitfall

I believe it is very important that the State of the Union avoid rhetoric that will appear anti-business, and I have little doubt that in the context of a Democratic President's State of the Union Address, the term "corporate responsibility" is likely to be seen this way. Such rhetoric could fuel perceptions that your Administration has reversed its earlier constructive attitude toward the competitiveness of American business and the American economy and is reverting to what is perceived as the more traditional Democratic position of being anti-business and too willing to sacrifice growth for other objectives.

It would be very unsound -- as a matter of policy -- in the name of "corporate responsibility" to call into question the basic premise that corporations should seek to maximize profits within regulatory constraints set by government. Notions that corporations should serve many constituencies or stakeholders easily lead to non-competitive companies, fewer jobs, and lower standards of living. European experience is that such approaches often benefit workers only in the short run, and actually raise unemployment in the long run. Europe, as you know, has persistent 10+ percent unemployment, virtually no job creation and slow growth.

The truth with respect to the AT&T lay-offs is that you'd have to know a lot more than we do to know whether this was right for the long-run economy, but I think it is clear that prior to recent years American industry's sin was complacency, empire building, and inefficiency, and that the U.S. paid a big price in terms of lost market share and lost jobs.

A response to the AT&T situation, and corporate lay-offs more generally, consistent with where you have been on the global and technology dynamism of the new economy, is to go back to the budget debate and education, training, etc. You have on other occasions said that restriction and protectionism are answers that simply won't work, and I would say the same of most ideas regarding additional burdens via "corporate responsibility". The rest of this section of this memo continues to address those questions.

An Approach

These considerations suggest a rhetorical approach to business that challenges them to succeed on their own terms because this will create jobs and drive the economy forward, and emphasizes the role of government in enabling all to share in the success that a successful economy and successful businesses bring through education, training, and the like. They suggest avoiding a rhetorical posture that will look old-Democrat or anti-business. Here is some language you might consider:

"I challenge American business to invest in its people, as well as plant and equipment, and to be innovative in creating competitive companies for the 21st century. Only in this way can we assure that businesses will be able to succeed in a rapidly changing global economy and that the American economy will be able to create high-wage jobs."

You might add additional language advocating that the focus of business should be on long-term maximization, not short-term.

The rest of this section on "approach" is a paraphrase of what you could say to complete this message.

Each year it is becoming more and more clear what it takes for companies to succeed in the new economy. The best companies take the long view -- they recognize the need to keep investing, even when the payoffs are not immediate. The best companies recognize that their people are their most important resource -- they provide them with the on-going training and the security that allows them to realize their full potential.

America has created 7.5 million jobs in the last three years, nearly 7.5 million more than Europe and Japan combined. An important reason is the strength of our businesses and their willingness to embrace change. We have to keep moving forward, but we must also make sure that no one is left behind.

For this reason, education and training are profoundly important. Our young people must learn not only skills that will land them jobs, but, even more importantly, they must learn how to keep learning because, increasingly, people will do many different things during their working lives.

While the pace of economic change may accelerate, we must strive to make sure that, whatever happens, working families are secure. That is why I am working to ensure that workers who lose their jobs do not lose their pension benefits or their health insurance. And that is why we have worked so hard to ensure that every American can send their son or daughter to college, no matter what their economic circumstances.

Regulation and Community Involvement

Optimal environmental regulation, community involvement, and the like involve a judgment that there are other benefits which have greater value than the profit being sacrificed. This is a complicated area (so-called externalities), involving cost/benefit trade-offs, and it can in substance easily become a slippery slope toward a non-competitive economy. The area of externalities would include the substance and rhetoric of "corporate responsibility", and I do not think you should get involved in either for the State of the Union, for the reason already discussed.

II. The Economy, Urban Issues and Taxes

The Economy

During the last three years, we have probably had the best economic conditions in several decades, taking into account all factors, e.g., growth in excess of 3 percent, inflation under 3 percent, unemployment rate falling from 7.1 percent to 5.6 percent, over 7.5 million new jobs, the deficit falling by roughly 50 percent, and the list goes on. The comparison is particularly stark when contrasted with the preceding four years or the circumstances of the other principal industrial nations.

I think our tone on the economy should be positive, and while many factors were involved, we should take credit by saying that the key and decisive factor was your Deficit Reduction Program of 1993, which lowered interest rates that, in turn, both drove and sustained recovery.

An international comparison provides an interesting way of demonstrating our economic success over the last three years: the U.S. has the lowest budget deficit compared to the total economy of any major industrial country; the U.S. has accounted for nearly all the job creation in the major industrial nations over the last several years; the U.S. economy has grown more rapidly over the last three years than those of Europe and Japan; and U.S. companies are competitive on a global basis for the first time in decades.

The challenge is to maintain economic health in the years and decades ahead. I would suggest a four-fold approach that is consistent with where we have been, although obviously other important areas could be added, like regulatory reform or, in the Republicans' view, tax cuts and tax reform.

- (1) continuing fiscal discipline by going to a balanced budget;
- (2) public investment in education, training, the environment and other critical areas; maintaining our social compact in Medicare and Medicaid; and a renewed emphasis on savings and thrift to help families save for retirement and assist the nation in funding private investment (Treasury can provide useful ideas in this area);
- (3) international engagement and leadership with respect to opening markets, promoting development and growth in the developing world, and dealing with crises in the international markets that vitally affect our interests; and
- (4) the economic equivalent of "do no harm", e.g., do not shut down the government or threaten the country's creditworthiness.

You could discuss increased income disparity as a threat to both our economy and our social fabric, and go back to your approach in the budget debate, e.g., investment in education and skills, health care, and other relevant areas. This can be done while avoiding class warfare language or criticism of economic success, by discussing the problem, the actions needed to improve the prospects of all Americans, and the fairness of the most affluent bearing a disproportionate share of the cost. A particular suggestion that I know others have made is to propose enabling all young Americans to participate in the new technological and global economy by wiring all of America's public schools by the end of the decade for the internet, as suggested by your National Information Infrastructure Advisory Group. This is analogous to Franklin Roosevelt bringing the benefits of electricity to rural America through the Rural Electrification Administration.

Urban Issues

The inner cities are not a politically popular subject, but you might consider the possibility of addressing the importance of our cities, and therefore our inner cities, to the future of the economy for all Americans. Again, that discussion could lead right back to the budget debate, and to your approach of empowerment to move the residents of the inner cities into the economic mainstream, as opposed to transfer payments. The Administration can point to many actions in this area -- increasing the EITC; increasing headstart; enactment of enterprise zones; creation and funding of CDFIs; fighting to save the Community Reinvestment Act and the low-income housing tax credit; and a pending project, microenterprise lending, where Treasury is borrowing an idea earlier articulated on the international front by the First Lady in Beijing.

You are now attempting to preserve requisite levels of support for investment in human capital and for providing access to financial capital, in accord with your view that the best social program is a job, and that the final answer to despair and decline is economic opportunity and personal empowerment.

Taxes

There is widespread dissatisfaction with our tax system, but no one has come up with an approach that seems better than our existing system. If you feel a need to address taxes, there are some specific reform proposals which we have developed, as in pensions, estate taxes, and telephonic filing, to improve the existing system; and you could address the difference in your approach to tax cuts and their approach.

III. Enforcement

I think we are extremely well positioned with respect to law enforcement. Having spent a lot of time this year with Republican Congressmen as we worked our way through Waco and other matters, I think they are fairly nervous about our position versus theirs on this issue. We have been in favor of the Brady bill, assault weapon ban, the crime bill, and supporting law enforcement, while they have been seeking to roll back the Brady bill and the assault weapon ban and, in the effort to do that, have tended to undermine law enforcement more generally. I have spoken at a number of large gatherings of local law enforcement officials, and my impression is that you and the Administration have enormous support among these people.

In this area, we have two ideas -- one substantive, one rhetorical. Substantively, our policy staff in the Enforcement Office at Treasury is designing a program that deals specifically with kids and guns. It can be made available as a policy proposal for your

address. Rhetorically, we have seen the dangers of extremism and the benefits of supporting law enforcement in the last several years. Treasury lost eight members of its family in the Oklahoma City bombing, and our enforcement people, particularly ATF, Customs and IRS, are repeatedly under threat of violence. At the same time, those who have stood with law enforcement and fought, as you have fought, to give Americans new tools in fighting crime (Brady, the assault weapon ban, 100,000 cops, etc.) see the results in declining crime statistics across the country. A statement about standing with law enforcement on behalf of public safety and against crime and extremism could put the opponents on the defensive.

Conclusion

An interesting question is where the edge in the speech should be, i.e., who should be the villains of the piece. My two nominees would be those who oppose your forward-looking approach on the economic issues that are encompassed in the budget and those who advocate protectionism and economic nationalism. I think all of this can be framed in the context of competitiveness and success in the global economy. Once again, I would avoid anything that can be interpreted as critical of economic success or anti-business.

E X E C U T I V E O F F I C E O F T H E P R E S I D E N T

11-Jan-1996 04:58pm

TO: Laura D. Tyson

FROM: Paul R. Dimond
 National Economic Council

CC: Gene B. Sperling
CC: Dena B. Weinstein
CC: Paul A. Deegan

SUBJECT: State of the Union -- Education and Education Technology

Laura,

Attached is a suggested education theme, with three policies (education technology, public school choice, and putting learning resources in the hands of adults).

Let me know what revisions and changes or alternatives you want.

Dimond

EDUCATION:

Putting the Lever of Opportunity in the Hands of Every American

Theme. We are in the midst of a great transition from the Industrial Age and the Cold-War Era to the dawn of a new century of unparalleled challenge and reward. More than ever before the key to change is the skill, commitment, imagination, cooperation and will that every American can use to build a brighter future for themselves, their families and children, their neighbors and colleagues, and their communities. Education offers the lever of opportunity by which every American can continuously learn how to meet the challenges and to seize the rewards of the next century. We are challenging the nation to put this lever of opportunity directly in the hands of every American so they can take charge of their own destiny.

1. 21st Century Schools and 21st Century Skills for our Children. The Information Age is emerging all around us. We call upon the private sector, teachers, parents, students, communities and states all across the country to build the little red electronic schoolhouse of the 21st century that will enable all children to learn -- at school and at home by connecting to the learning resources available throughout the world -- the skills they need to meet the challenges and to seize the rewards of the next century. The four pillars upon which people in every community can build 21st century schools are: (1) connections to the worldwide networks of knowledge and discovery on the emerging information superhighways; (2) interactive, multi-media computers; (3) teachers and parents able to serve as navigators, guides and coaches for their students to use these new learning resources; and (4) educational software that is as engaging as the best video game and as enlightening as learning with an expert tutor. All children who are challenged by such active learning will be able to learn the skills they need to realize Archimedes' 2300 year-old vision: "Give me a lever long enough, and a fulcrum strong enough, and single-handed I can move the world." With the four pillars providing a firm foundation for the fulcrum of 21st century schools, the new skills that all children can learn will provide each with a lever long enough to move the world in the 21st century as far and as fast as their own imagination and drive permit. [Note.: We have a multi-media presentation that captures this vision in moving pictures, as well as words. Major elements of the private sector, parents and teachers, many states and communities are already preparing to join in answering this call.]

2. Information and Public School Choice. Pursuant to Goals 2000, states and communities all across the country are now developing and implementing high standards -- for safe and disciplined schools; high levels of achievement in math, science, reading, writing, and communication; capacity to solve new problems and work cooperatively with peers. The ultimate goal is to enable all children to learn the skills they need to meet the challenges and to seize the rewards of the next century. It's time to take the next steps to realize this goal: First, we call upon each public school to report to parents the extent to which the performance of their students meets high standards and to publish the results by school in plain English. Second, we call upon states and localities to offer any parent who is dissatisfied with either their own child's or the school's performance the opportunity to choose a public school that will do better. Information, competition, and choice among

public schools should be the rule, not the exception, for all parents and their children. It's the best way to assure that all of our children -- and all of our schools -- are prepared to meet the challenges and to realize the promise of the next century. [Note: Charter schools are prime examples of such performance-based choice and competition -- the charter is contingent on the school meeting performance standards, and enrollment at the school is contingent on parental choice. But every public school should publish its goals and results so that parents can choose which school will best meet their own child's needs and aspirations.]

3. A G.I. Bill for America's Workers. In December of 1994, we called upon the Congress to consolidate dozens of federal education and job-training programs and to put the resources and responsibility for learning new and rewarding skills directly in the hands of the individual. The House and Senate have each passed bills that move in this direction, and we now call upon Congress to complete the job. That's also why we continue to demand that Congress revise the tax code so that parents who want to save or to invest in learning new skills for themselves or their children will be encouraged to do so. And that's why we are fighting so hard with Congress to fully fund more affordable and convenient student loans that can be made directly by community colleges, 4-year schools and universities to students of all ages where they choose to enroll. With good information on career opportunities and the curriculum and performance of schools, every American should have the opportunity to invest their own time, energy and commitment to learn the skills each chooses to get ahead. That's the way the G.I. Bill of Rights worked for America's returning veterans following World War II. A generation of Americans made their own choices about how to build a brighter future for themselves as the nation made the great transition from World War II through the Cold War. As the nation embarks on the next great transition, we should once again put our faith -- and our resources for learning new skills -- directly in the hands of individual Americans, confident that their own informed choices will provide the best ways to meet the challenges and to seize the rewards of the dawning of a new century.

E X E C U T I V E O F F I C E O F T H E P R E S I D E N T

11-Jan-1996 08:45pm

TO: Bruce N. Reed
TO: W. B. Cutter
TO: Gene B. Sperling

FROM: Paul R. Dimond
 National Economic Council

SUBJECT: State of the Union -- New Covenant with America's Communitie

Team,

Attached is my attempt to at least organize the three policy pieces around a central theme. The background is still too long, the theme needs punching up, and the specific initiatives under the three policy pieces could be pruned (or combined and characterized more geenrally). I have avoided much discussion of recod to date; that sounded too much like surplusage, at least these purposes. Any thoughts on how to turn this into a two-pager instead of six-pager so that it might actually get on the table? Maybe, Bruce Reed or Weinstein can take out the cutting shears and the defter pen.

Of the three policy pieces, "ending public housing as we know it" is the hardest to fit into the new compact theme. Do you want this written up as a separate piece (which it may deserve)....we could tell a compelling story here about the government's overall role in housing, contrasting the private market-based support for homeownership and the calls to private action inhernent in the homeownership strategy and the new GSE rules with the disastrous old federal approach to public and assisted rental housing.]

Let me know your thoughts. Maybe there is a pony (or two) in here someplace.

Dimond

DRAFT Places of Opportunity: DRAFT
A New Compact for Empowering America's Communities

I. Background. For too long, proposals to rebuild inner cities and rural America have focused on what's supposed to be wrong instead of what's right, on the declines they suffered during the maturing of the mass production industrial era under the old economy during the 20th century. Our cities and rural areas are not lost causes. They are fertile ground of new opportunity in the dawning of the information age in the new economy of the 21st century.

For too long, too many have viewed central cities and rural America as engaged in a zero-sum competition with suburbs. Instead, their destinies are interwoven: they are the integral components of local regional economies, whose networks of trade, service, exchange, and travel together forge the national economy. Like most neighbors, cities, suburbs and rural areas each have their own comparative advantages: all benefit as each prospers and become a more self-reliant friend and neighbor; most are hurt if many falter and become more isolated and dependent.

For too long too many have argued that the private sector won't work in some places in America and that government hand-outs are the only hope for poor communities and the families who live there who are isolated from the main streams of economic growth. In America, the world leader in free enterprise, it's time for the private sector, private capital and the entrepreneurial spirit of innovation to lead the restoration of our inner cities and rural America. The challenge is for the private sector to reclaim its rightful role as the driver of growth in all communities and to connect all Americans to the surest path from dependence and despair to self-sufficiency and self-respect -- a job. The challenge for individuals and families is to take personal responsibility for seizing the increasing opportunities for learning, working, and earning to support themselves and to build a brighter future for their children.

For too long too many have argued that a safe and clean environment conflicts with economic growth, community life and personal opportunity. Nothing could be further from the truth. Safety and security of person and property -- at work or play, at home or school, on the street and in churches, stores, hospitals and community centers -- is a precondition for any civil society and every business enterprise and family venture. Violent crime, dope peddling, and assault weapons have no place in any community. A clean environment is no different: all over America, strategically located parcels of land lie fallow or unused because they have been contaminated by the uncontrolled wastes from abuses of the old mass production industrial era. This pollution in the ground operates as just a big drain on the entire local economy and a blight on the lives of neighboring families and business as violent crime. It's time to enable the private sector to get to work cleaning up these brownfields, ports, distribution centers and industrial sites and putting them back into more productive and cleaner use in the new economy -- for businesses, for families, for communities and for each local region.

For too long, Washington has been in the business of prescribing "one-size fits all" solutions from inside the beltway to supposed problems, regulating by mandates and

prescription, and subsidizing costs rather than rewarding performance. It's time to enable local communities, businesses and non-profit enterprises, churches and schools, and individuals and families to develop their own answers and to build on what's right and what works. We've reduced mandates and promoted flexibility and innovation. We've thrown out the notion that government "has an answer or program for every problem" and adopted the idea that "local enterprises, communities and families know best." We've offered new tools so that local communities can provide safer and cleaner environments. We've increased the opportunity for all individuals and families to take greater personal responsibility for learning the skills they choose to build more rewarding careers. We've even challenged the poorest and most isolated communities in rural and urban America to join with the private sector to build businesses that can thrive in the new economy and to connect their residents to jobs.

And it's beginning to work -- the lowest unemployment rate in twenty years among persons living in rural and suburban America and central cities, and among individuals of every major color and national origin; a significant decline in murders and other violent crimes; rising test scores, high school and college graduation rates; more flexible regulation providing cleaner and safer -- and more productive -- workplaces, homes, and neighborhoods; a greater proportion of households than ever before now own the homes in which they live; 104 empowerment Zones and Enterprise Communities demonstrating that innovation, the private sector, and neighbors working together can revitalize rural and inner city places that many others claimed were lost causes; a total of almost 8 million new jobs. We've fought back the reactionaries attempt to turn back this progress, by blocking their attempts to repeal the Brady Bill and 100,000 more cops on the beat; to reduce the flow of private capital to credit-worthy families and businesses in hard-working communities all across America; to gut the nation's long-standing commitment to a cleaner environment and a safer workplace; to reduce the educational opportunities offered to children, families, students and workers; to end the bi-partisan commitment to assuring that every person who works at a full-time job will not be taxed into poverty. It's now time to take the next step to empower all American communities and families to seize the expanding opportunities available through the private sector at the dawn of a new era.

Theme: A New Compact with America's Communities. As the national economy continues to expand on a sustained basis into the next century, cities, suburbs and rural areas, and all of the families who live within each local region will have increasing opportunities to work, to grow and to prosper, together. There is no better time to establish a new compact with all of America's communities: if local private enterprises, communities and families are willing to take greater responsibility setting their own sights on a cleaner, safer and more prosperous future, and being rewarded for their achievements, then the federal government will provide new flexibility and offer incentive awards for performance.

New Initiatives. We offer three related sets of initiatives to all communities that want to join in this new compact:

- **Jump-Starting Private Enterprise for 5 years** -- By eliminating wasteful corporate subsidies and unjustified entitlements and by cutting low priority federal spending, we

can balance the budget in seven years, make the national economy more efficient, and offer new tax incentives and matching federal co-investments for a five-year period to communities that work with interested private sector firms to develop and to implement plans for finding and exploiting their own self-sustaining niches in the new economy.

* Tax Incentives to Spur Business Growth and New Capital. The time-limited incentives will spur the development of equity enterprise funds, reduce the cost of doing business for small business, and expand the capacity of tax-exempt bond support in communities that are now isolated from the main-streams of economic growth. The new goods, services and markets thereby created in these communities will also benefit their neighbors in the surrounding local regions.

* Cleaner and more productive communities. Accelerated expensing for environmental clean-up, expanded tax-exempt bonding authority, and common sense waiver of regulations will reward communities that are willing to take responsibility with the private sector for converting fallow brownfields or underutilized port, transportation, distribution and other industrial sites contaminated by the old economy into clean sources of prosperity and growth in the new economy. We simply can't afford to treat this land as a throw-away resource forever lost to current opportunities and future generations. Our local regions need to recycle rather than abandon these strategically located parcels, and the families who live and work near these contaminated parcels want them cleaned up and put to productive use.

* Access to Capital and Business Expertise. We will challenge the private sector to co-invest with our federal Community Development Financial Fund over the next five years in a network of local community development banks and venture funds that have the expertise and access to debt and equity capital to enable local businesses to grow and to thrive in communities all across rural and urban America. The United States -- the acknowledged leader of the free world, free trade, and free enterprise -- has no excuse for shutting any place out from access to capital and business expertise. It's time to let this lifeblood of free enterprise flow so that the private sector can once again show that it is the rightful driver of economic growth in all communities in America.

* Rural Fund for America. Through savings generated by reinvention at USDA, we will provide matching seed capital to leverage sustainable economic development in the new economy to communities in rural America. It's time to shift the resources for change from the archaic Washington fiefdoms inside the beltway and the halls of Congress to the people who want to live, to work and to thrive in rural America.

* Home-ownership as a Path to Neighborhood Renewal. Through the President's National homeownership Strategy, we will put the combined financial resources, innovation and expertise of the local partners of Fannie Mae, Freddie Mac, the Federal Home Loan Banks and FHA to work making home-ownership the foundation for building self-sustaining, self-reliant neighborhoods. Through home-ownership,

vital new urban villages and rural communities can replace isolated pockets of decline.

* 21st Century Technology, Communication, and Learning. We will challenge the private sector, states and local communities to make the new tools of the information age available to schools, homes, and business so that children, parents, seniors, workers, and entrepreneurs can connect to one another and to the burgeoning learning resources, medical assistance and business opportunities available on-line on the new information superhighways.

* Effective links to the Job and Education markets. Once it emerges from the House-Senate Conference and is enacted by Congress, the President's G.I. Bill for America's workers will offer the private sector the opportunity to work in partnership with local communities to forge effective new links between those individuals in every neighborhood who seek new jobs and the growing opportunities available in the job and education markets throughout each local region. Good information, competitive job search, and convenient "one-stop career centers" tailored to meet the needs of the local community and the private sector will be available to connect all who are looking for new and better jobs with the growing demands of new and expanding firms in each local region. As local labor markets continue to tighten all across the country, sustained growth depends more than it ever has on connecting willing workers wherever located with firms seeking to expand.

- **Ending Public Housing as We Know it --** When we walked into office, we inherited a hodge-podge of categorical housing programs, with an unending flow of rapidly mounting red ink to subsidize inefficient and non-competitive providers of public and assisted housing. It's time to complete the job of cleaning up this mess -- by transforming public and assisted housing so that it offers safe homes at a fair market value and encourages family self-sufficiency through work rather than continuing to blight whole neighborhoods or to subsidize family and neighborhood dependency at the expense of the federal taxpayer.

* Demolish dysfunctional, public housing ghettos. We will free local communities to demolish all projects that are incurable blights on their local neighborhoods and drains on taxpayers, and to return the vacant land to more productive use in the local communities and on tax rolls.

* Stop subsidizing inefficiency and mismanagement. We will require inefficient providers of public and assisted housing (a) to operate on the basis of real market values and competitive private sector costs and (b) to open management, operation and ownership to competitive bidding from tenants, community-based organizations and private companies. The federal taxpayer can't afford to pay for inefficient, mismanaged public housing authorities and assisted housing.

* Deregulate competitive Public Housing Authorities. We will deregulate providers of public housing that compete efficiently in the local housing market. Over 60% of

all public housing units in cities, suburbs and rural America are run by effective and accountable local housing authorities that provide affordable housing at a cost that is already very efficient compared to the local private market. By freeing these authorities from red tape and regulation, they can manage even more efficiently for performance and results.

* Offer communities flexibility and incentives to coordinate assisted housing with welfare reform. We will provide flexibility and incentives to States and to communities so that they can coordinate the terms of public and assisted housing with their own welfare reform strategies and personal responsibility conditions for work and child support. For working-age families, housing assistance can work as a springboard to self-reliance rather than as a debilitating trap for long-term dependency.

* Offer Welfare-to-Work Housing Vouchers. We will offer flexible housing vouchers that can be designed by states and communities to empower families that want to use this lever of choice, opportunity and responsibility as a means to achieve work and family self-sufficiency.

[* Encourage Campus of Learners. Public and assisted housing communities that are willing to accept responsibility for operating on the basis of market costs and for helping move tenants to self-sufficiency will be offered assistance in financing new information-age networks to connect current residents to learning and business opportunities available throughout the local region.]

- **Offering new flexibility and rewards for performance** -- It's time to stop federal micro-management and regulation by reviewing procedures and compliance with rulebooks. We can provide greater federal flexibility to communities and assure greater accountability by offering performance rewards to communities that want to take greater responsibility for results. We can offer far greater freedom from red tape and regulations for solutions that are developed from the ground up at the local level and achieve better results by rewarding performance.:

* A New, Right-Side Up Department of Housing and Urban Development. We will transform HUD from a top-heavy, top-down bureaucracy weighted down by reams of rules it can't enforce around the country into a smaller, bottom-up Department that is made up of three-performance-based enterprises to further its three missions -- home ownership, affordable housing, and community development. The three performance-based components of HUD will be continuously responsive to the unique demands of its customers, from the ground up, in local regions all across the country.

* Flexible funding in exchange for performance results. HUD and USDA will offer greater flexibility to all localities in using a few streams of funding. Bonus pools in each fund will reward communities that set high benchmarks and achieve results in implementing the nationals set by each fund. In addition, we will offer communities the option of one funding stream to meet

their own priorities if they are willing to engage the affected communities and the private sector in setting and implementing high performance benchmarks and to compete for performance rewards from all of the bonus pools based on results.

* Public School Choice; post-secondary reward. We will encourage local schools to be held accountable by reporting to parents and taxpayers each school's performance compared to high standards; any family that isn't satisfied with their school's performance should have the right to choose another public school that will do better. Every family should know that if their child works hard and learns in school, pathways will open to apprenticeships, good jobs, an affordable college education and rewarding careers. We'll also offer even greater flexibility, performance rewards, and post-secondary scholarships to states, localities and schools that join with the private sector, community service organizations, parents and students to take responsibility for achieving these national goals.

* A New Offer for Sustainable Development. We will make a new offer to every community, firm, locality and state: "if you are willing to increase public health and environmental standards, and to be held accountable for results, we will eliminate procedural red tape and categorical and statutory regulations that hinder those efforts." We've fought the efforts by extremists in Congress to gut our basic environmental and public health protection. Now we're proposing to reward those firms, localities, regions and states that want to take greater responsibility -- to design and to implement their own innovative plans to develop cleaner, safer and more prosperous communities.

* Local Flexibility Act. Finally, we will challenge the Congress again to provide much greater flexibility across all federal funding streams and program regulations to states and localities in exchange for rewarding those communities that succeed in promoting economic growth, a cleaner environment and personal self-reliance.

Americans from all walks of life and every region, all colors and creeds, in cities, suburbs and rural America are willing to ask more of themselves and to do more for their families and neighbors. America's communities offer fertile ground for their innovation, entrepreneurial spirit and old-fashioned cooperation, service and free enterprise. President Clinton and his entire Administration are committed to creating a smaller and more responsive federal enterprise that will reward communities that are willing to take greater responsibility to realize their full potential in the new economy. We have made a substantial start in the right direction, and we are now ready to take the next steps to offer a new compact with every community that is willing to take greater responsibility for building a brighter future for themselves, their children and families, their neighbors, their local regions and states, and the nation as a whole.

THE WHITE HOUSE
WASHINGTON

January 3, 1996

MEMORANDUM TO THE PRESIDENT

FROM: DON BAER
KITTY HIGGINS
MICHAEL WALDMAN

SUBJECT: Memoranda from the Cabinet

Attached are submissions from Cabinet secretaries on possible themes for the State of the Union.

Department of Education

December 22, 1995

Thoughts on 1996 State of Union Speech

Major Themes: Continue major theme of "opportunity and responsibility"

1. Increase Emphasis on responsibility

- o Responsibility to others, to society, to America
- o Taking advantage of opportunity requires hard work
- o Use concepts such as performance, accountability, standards, respect for others, discipline.

2. We are emerging into a new post cold-war, post balanced-budget era. We need to position America to be a strong democracy and economy in a diverse society with constrained spending.

- o Smaller, more responsive and efficient government
- o Focus on selected national purposes -- to support good citizenship and economy: Quality schools, clean water and air, healthy youngsters, safe streets and schools.
- o Performance Partnerships with states based on national purposes.

3. Provide leadership to address fundamental stresses and strains in society:

- o racial tensions
- o income inequalities
- o responsible role for youth who are not going on to college

4. Invest in Education: New Federal K-12 role based on leadership and high standards

- o Reaffirm national purpose of public schools -- to promote citizenship and create the public as well as serve the public.
- o Performance partnership with states around high state standards, local responsibility and flexibility with accountability.
- o National leadership through voluntary national standards, support for citizenship and service in schools, putting technology to use, and charter schools.

5. Invest in Education: Insure access to at least two years of college for all prepared high school graduates.

- o Scholarships based on merit for top two percent of all graduating classes.
- o Strong direct lending program with income contingent repayment allowing graduates to take low paying, service

oriented jobs.

- o Increase responsibility through greater work-study opportunities.
- o Reduce regulations for schools with strong administrative records.

6. Face issue of work for non-college going youth. "More recently he has proffered the wisdom that instead of simply yelling at the unskilled underclass to get off their duffs and go to work, we might spend some thought seeing to it that there is some entry-level work for them to do -- some modern-day equivalent of the factory." (WM Raspberry paraphrasing Hugh Price. WPost 12/22)

Department of Education

December 22, 1995

Other Thoughts on 1996 State of Union Speech:

Beginning to fleshing out some of the Themes

Emerging new federal role in post-cold war post-balanced budget era: Requires a new vision -- not a highly regulated government or the fragmented, rudderless vision of the Republicans. Government will be smaller, more responsive.

- o Need bold federal leadership in critical areas of national purposes and responsibilities -- clear direction in those domestic and international arenas required to keep our democracy and economy strong and to ensure "domestic tranquility."

- o Performance Partnerships around national purposes: Structure around clear standards of performance rather than conformity with process: Get incentives straight -- support and reward progress, quality, innovation, and hard work; emphasize responsibility; exercise accountability when progress is not forthcoming.

- o Tight budgets with new resources created by economic growth targeted to national priorities and a different way of doing business.

- o Key national priorities -- all where state and local governments are critical -- but where our national livelihood is at stake: To build a strong nation we need:

- * Strong schools that prepare all of our youth to be productive and involved citizens with good jobs through solid basic skills, high academic standards, and clear rules of conduct with consequences for mis-behaving.

- * Clean water, clean air

- * Healthy youngsters ... Basic safety net.

- * Safe streets, communities and schools ...

Education: A different Federal Role based on leadership, vision, identification of national purposes

o Reaffirm fundamental national purpose of public schools -- public schools do not only serve the public, they create the public.¹ Public schools are necessary to prepare our students to live and work in a challenging and internationally competitive democracy and economy.

o To meet this purpose public schools must prepare students to meet rigorous academic and occupational standards and to participate as Americans in our diverse democratic society. High academic standards as well as the basics, a safe and disciplined environment, well trained teachers, local flexibility and charter schools, occupational training for high paying jobs, support for all prepared students to attend college -- these are the ingredients of an effective education strategy. Clinton priority programs will help make this happen.

o A strong nation needs a strong school system -- while we have a long way to go the nation is beginning to move in the right direction: achievement is up in math, science and reading, 4 times as many advanced placement courses taken than in 1980, standards are having great effect in Maryland, NYC, KY and other states and communities throughout the nation.

o The federal government is beginning to move in the right direction -- put into place strong programs in support or state and local reforms for all students, reduced programs by over 70, reduced regulations in elementary and secondary education by over 75%, implemented large scale waiver program for the first time.

o At Elementary and Secondary level continued national leadership is necessary to make performance count. The need for increased national efforts is greater than ever as the school population will see a tidal wave of new students (over 20% increase) over the next decade to the highest levels ever.

- Support state and local reforms for challenging standards through Goals 2000 and School to Work.

- Strong Presidential and Secretarial support for voluntary national standards to help guide and challenge our schools. Strengthen National Assessment of Education Progress to give us regular performance feedback on our national and state efforts. Give public clear

¹ See recent Neil Postman book The End of Education.

expectations about what is high quality, internationally competitive work.

- Promote flexibility and accountability for results: Establish a system of performance partnerships with states to give incentives to states with improved achievement -- waive all federal education laws and regulations except civil rights laws and IDEA for states that have demonstrated improved achievement. In consultation with MD and other states to implement this plan.

- Presidential and Secretarial support for increased attention to citizenship in our schools -- public service, saluting the flag, clear guidelines for religious activities ...

- Technology -- public, private partnership to put computers to use in every classroom in the nation by the year 2000 -- wire all schools to the world wide web -- and train all teachers to use computers to enhance student opportunities to reach high academic standards.

- Provide strong incentives for the development and initial implementation of charter schools throughout the nation.

o At Post-Secondary level: Insure financial access to college for all deserving high school graduates. Simplify and strengthen other student assistance programs. (Could propose IRAs for college use -- Laura Tyson's plan: This would be expensive but powerful!!) Alternatively:

- Establish \$1000/year scholarship based on merit for up to two years for the top two percent of all graduating students in every secondary school in the nation (grade point average) for use in the college of their choice. 60,000 students per year cost up to \$120 million in the second year (when 120,000 students would have received awards).

- Increase Pell grants, the heart of the financial aid programs, to \$3128 by 2002!!

- Continue to have a strong Direct Loan program.

- Increase work-study by 50% phasing in over five years.

- Reward schools with strong records in administering student aid with dramatic reduction in federal regulatory requirements.

DRAFT 12/18/95

Connecting Education As A National Concern to Local Action and Support

1. *Given the long American tradition of local and state control, are education and its funding a national or federal concern of the public? Examples from recent polls show strong support:*

- * 81% oppose decreasing federal education funding to decrease the federal deficit; 19% would favor (Times Mirror, 1994).
- * 75% said federal aid to education should be expanded; 18% said "keep same"; and 4% said "cut back" (Gallup, 1995).
- * 80% of Americans think the federal Department of Education is necessary; 70% say "very necessary" (NBC/Wall Street Journal, 1995).
- * 76% disapprove of reducing federal funding for low-income schools to balance the federal budget; by comparison, 61% disapprove of cutting the rate of spending growth for Medicare; and 36% oppose cutting food stamp funding (Times Mirror, 1995).
- * 74% of Republicans in New Hampshire (10/25/95), said "no" to cuts in education to reduce the deficit as compared to 62% "no" to Medicare cuts; 33% "no" to defense cuts; and 43% "no" to cuts in assistance to the poor.
- * By almost 2-to-1, young voters (18-34) cite education as a top voting issue over the budget deficit, crime, and Medicare (NBC, Wall Street Journal, 11/2/95).

However, citizens clearly don't want micromanagement of detailed programs from the federal or state levels, but they do want accountability and want to reduce waste and red tape. They like encouragement of community-based solutions and local partnerships. They want all of us to work together on needed educational changes to reflect the changed realities of American society and the demands of today's and tomorrow's workplaces.

2. *What is the overall message on education that connects with local citizens?*

Celinda Lake has a framework that captures this well. Combining her findings with several others gives a good general message about needed focus and attention.

- * Quality education is absolutely necessary not only to the future of our children and our families but to the future of America. A good education is certainly essential to each citizen for full participation in the changing economy, but a well-educated citizenry is also essential to our country's democratic way of life. As a nation, we have a stake in giving our children a solid foundation to make the most of their lives and to be productive, responsible adults.

In addition to academics, a quality education is one that stresses discipline, hard work, respect and responsibility where guns, violence and drugs are not present. We need to set the highest standards in education and we need to make this a national priority. Parents should have the choice of public schools or charter schools to escape poorly run or disorderly schools. Schools should not allow hostility to religion or to good citizenship.

HeadStart, strong teacher training, extra help in the basics, getting computers in the classroom, and streamlined college loans are fundamental to helping our children get started on the right course. Along with better financial aid for college, providing specialized courses for career preparation with work-study experiences is also important.

We should be making all of these initiatives better, not cutting them back. They are essential to a strong economic future for our children and our families, and to our ability to compete in an international economy to bring us together as Americans.

Recurring critical issues:

- * safe, disciplined, and drug-free learning environment.
- * promoting parent involvement.
- * rigorously teaching the basics.
- * getting quality teachers and upgrading teacher skills.
- * setting high standards of discipline and achievement.
- * getting computer technology into the classroom as soon as possible.
- * access to student loans and financial aid for college.
- * teaching and connecting young people to real life skills that prepare them for adulthood, careers, and college.

3. *What are any opportunities to address these issues locally?*

- a. The proposed reconciliation and appropriation bills by the "new" Congress cut the very education areas people support the most. In fact, the public wants to improve and expand them. However, most people do not know about the cuts nor what to do about them. Showing direct impact on local schools, colleges, students, parents and teachers can make this a real and very important local issue.
- b. Citizens like to see local parent-teacher, business-school, and community-school partnerships that are solving education problems faced by real families and students. Many of the changes in new education legislation passed by the last Congress are beginning to create, and will create, new opportunities for building and expanding local partnerships and community-based solutions to solve the very education issues of most concern to the American public: *school-law enforcement partnerships through the Safe and Drug-Free Schools Act; school-community partnerships for educational excellence through the Goals 2000: Educate America Act; school-employer-community college partnerships through the School-to-Work Opportunities Act; school-parent compacts through Title I of the Elementary and Secondary Education Act; school-college partnerships through TRIO; and college student-direct financial aid through Direct Lending. Highlighting these partnerships solving the above critical issues shows leadership for effective change.*

Why Federal Education Funding Is Important

The Federal government plays a critical role in education. The most important contributions are:

- 1) **raising standards of achievement**
- 2) **improving basic skills of disadvantaged children**
- 3) **ensuring safe and disciplined schools**
- 4) **helping families pay for college**
- 5) **preparing youth for the world of work.**

The public overwhelmingly supports education, including the Federal role:

- ▶ 81 % oppose decreasing Federal education funding to decrease the federal deficit; 19 % would favor (Times Mirror, 1994).
- ▶ 75 % say federal aid to education should be expanded; 18 % say "keep same;" and 4 % say "cut back" (Gallup, 1995).
- ▶ In response to strong public demand and the outcome of the 1995 state election, Virginia's Governor George Allen this month submitted a new budget which substantially increases state expenditures for classrooms, technology, and higher education.
- ▶ 74 % of Republicans in New Hampshire say "No" to cuts in education to reduce the deficit as compared to 62 % "No" to Medicare cuts; 33 % "No" to Defense cuts; and 43 % "No" to cuts in assistance to the poor (10/25/95).
- ▶ By almost 2 to 1, young voters (18 to 34) cite education as a top voting issue over the budget deficit, crime, and Medicare (NBC/Wall Street Journal 11/2/95).
- ▶ 76 % of Americans disapprove of reducing Federal funding for low-income schools to balance the Federal budget; by comparison, 61 % disapprove of cutting the rate of spending growth for Medicare; and 36 % oppose cutting food stamp funding (Times Mirror 1995).

The Department of Education addresses critical areas of National concern, including:

- ▶ Provides \$32 billion in financial aid to help 6.5 million students attend college.
- ▶ Through Title I grants to local school districts, provides \$7 billions to more than 6 million

students each year in the highest poverty schools to improve basic and advanced skills.

- ▶ Provides \$3 billion a year to help communities meet the special needs of over 5 million children with disabilities to prepare them for further education and employment.
- ▶ Helps communities and States raise standards of student achievement, prevent drug abuse and violence in schools, and build partnerships to get computers and technology in classrooms.
- ▶ Assists States in helping youth move from school to careers.

Education works:

- ▶ Greater prosperity. In 1992, average annual earnings for those with a bachelor's degree were 74 % higher than for those with a high school diploma, and 155 % higher than for those who had not graduated from high school. Also, a student who graduates from high school earns \$200,000 more during his lifetime than a student who doesn't. A college graduate earns \$1 million more than someone who doesn't.
- ▶ Less welfare. Only 5 % of college graduates have ever participated in government assistance programs (AFDC, Supplemental Security Income, food stamps, housing assistance, or Medicaid), and only 10 % of high school graduates have, compared to 24 % of high school dropouts.
- ▶ Less crime. Although only about 18 % of the population has never finished high school, this group accounts for 41 % of state prison inmates and 47 % of prisoners on death row.
- ▶ More civic participation. Fully 85 % of college graduates and 75 % of high school graduates, but only 50 % of high school dropouts, are registered to vote.

Education programs work:

- ▶ The Rand Corporation found that the Title I program helped to close the achievement gap between disadvantaged students and their advantaged peers (from 1970 to the mid 1980's, the learning gap in reading, mathematics, and science was cut by over a third--NAEP). Bipartisan reauthorization in 1994 focused on improving the program to challenge low-income students to high standards to help continue closing the gap.
- ▶ The dropout rate is declining (from 14 % in 1982 to 11 % in 1993) , fewer students are taking remedial math courses, more students are taking advanced placement courses (150,000 in 1982, 450,000 in 1992), and the science test scores of both the highest- and the lowest-performing students are increasing.

- ▶ Comprehensive standards-based reforms, such as those supported by Goals 2000, in leading-edge states are showing impressive gains in student performance, such as in Kentucky, where 4th, 8th, and 12th graders demonstrated dramatic improvement on 1993-94 assessments over previous years' tests in mathematics, reading, science, and social studies.
- ▶ IBM Chairman Lou Gerstner, for example, says that "Goals 2000 is only a small portion of what we need. But it is a very critical portion because it is the fragile beginning of the establishment of a culture of measurement standards and accountability in this country. We must go beyond Goals 2000. But if we lose Goals 2000, it is an incredibly negative setback for the Nation.
- ▶ Goals 2000 has received widespread support because of its flexibility and its emphasis on high standards and accountability. The Wall Street Journal has reported that Goals 2000 is viewed "by many political analysts as the most flexible education plan ever produced by the Federal government." (WSJ 8/30/95)
- ▶ The New York Times reports that tougher graduation requirements in New York City public schools are spurring thousands more school students to take and pass college preparatory mathematics and science courses (5/9/95). Entering freshmen at CUNY are the best academically prepared in two decades (12/10/95).
- ▶ Increases in special education funding have contributed to major educational gains in children with disabilities, who now have opportunities that were unavailable before enactment of the Individuals with Disabilities Education Act.
- ▶ For 5 years, Maryland has been working systematically to raise academic standards and is showing significant improvement in achievement as a result.



THE SECRETARY OF COMMERCE
Washington, D.C. 20230

MEMORANDUM FOR The President
FROM: Ronald H. Brown 
SUBJECT: Your 1996 State-of-the-Union Address
DATE: December 26, 1995

Your election in 1992 and the Republican congressional victory in 1994 were both fueled in significant part by voter discontent. 1996 is the year when American voters will move to the next stage: Choosing between two different visions of the future.

Of course, our recent political success has been assisted by Republican extremism, a self-destructive impulse that has helped Americans understand how glib language can translate into hard-hearted policy -- if not rebuffed by strong Presidential leadership. You will continue to join battles with Republican extremists on the items of their own agenda.

Nonetheless, I believe that the last State-of-the-Union Address of your first term should be a time to sum up the past and present a compelling vision of what America can be. With the budget battle presumably over (hopefully, along the lines we discussed the other night), such a speech will demonstrate how Presidential leadership will be expressed in an era of smaller government and a balanced federal budget.

The key is to stand on common ground: Neither silly regulation that unnecessarily burdens businesses nor disavowal of efforts that protect our children from unclean air and water and our workers from unsafe conditions; neither disproportionate reliance on government as a force for economic growth, nor blind refusal to recognize the new, interdependent global environment in which we must compete.

Balance can be demonstrated both by your policies and by your battles. To begin, I believe that you must remind the American people of the outstanding performance of this economy and that it didn't happen by accident. Your 1993 budget plan was the first great step towards a balanced budget. The Republican naysayers of 1993 should be forced to confront the very success that they tried to obstruct.

The purpose here is not simply to paint a picture of economic success. It is, as well, to demonstrate that the path you have followed is the right track. You demonstrated great courage by fighting for lower budget deficits without any Republican support in 1993; fighting for the NAFTA against significant Democratic opposition; facing down Republican budget threats against our core values in a time when political pundits proclaimed the dawn of a new Republican revolution. Each time, you disdained the easy course and each time, America benefitted.

The path that took courage before is the same balanced course that will lead to a prosperous future for all Americans.

In this context, I believe that it is important to confront directly the problem of income stagnation and disparity. We spent a lot of time in 1992 rightly criticizing George Bush for his failure to grasp the impact of the slowing economy on working Americans. This Republican crowd has the same problem: As the current budget negotiations show, they're fixated on a return to Reaganomics while at the same time ripping out the social safety net (something even Reagan never really attempted).

It is the challenge of growing income disparity that shows just how out of touch the Republicans are (incredibly all of their proposals would make the disparity worse while ours would help close the gap). Moreover, it is the theme that ties together all of our constituencies: from traditional Democratic voters to the political center, which has fueled political revolt precisely because so many of our people feel that the traditional American dream is ever harder to realize.

Because income disparity is a real, recognizable problem, it also helps us ground our message on the importance of a growing economy -- and how to achieve it. You have clearly stated that economic growth will come from education and training, from new technologies, through the success of American firms in foreign markets. In the context of the budget battle, the emphasis has been, quite rightly, on values. In its aftermath, I believe that the emphasis should also include strategies, of the kind implemented in my own Department, that touch the lives of ordinary Americans.

By one calculation, for example, 60% of the jobs created in the year 2000 will demand technology skills now held by less than 25% of our workers. But the year 2000 is no longer some distant event; it arrives in less than 1500 days.

Finally, I believe that your vision of the future should stress the importance of reconciliation -- the same call to civility that you emphasized earlier this year.

Sometimes in popular culture, calls for tolerance are depicted as naive. That is because some people fail to understand that tolerance and reconciliation are ingredients of strength, not charity. We welcome diversity of background and a free expression of views because we know that using each person's talents will make us all stronger.

Just as the Brooklyn Dodgers were a stronger baseball team after Jackie Robinson took the field, so, too, we are a stronger nation when we understand that we are all on the same team -- fighting in a brutal world of international competition and foreign strife for the simple hope that our work will be rewarded; that our families will be strong and that our children will live even better lives.



THE SECRETARY OF TRANSPORTATION
WASHINGTON, D.C. 20590

December 21, 1995

MEMORANDUM

TO: Kitty Higgins
Don Baer

FROM: Federico Peña *Federico Peña*

RE: Themes and Messages for the State-of-the-Union Address

You asked for my recommendations concerning potential themes and messages for the President's upcoming State-of-the-Union address.

The four-prong message the White House has been using (Leadership/Family/Opportunity/Common Ground) has proven very effective indeed. I believe the element of Family -- particularly the view of broader family or community typified by Americans' support for victims of Oklahoma City and the many natural disasters that have occurred in recent years -- should particularly be emphasized.

Within each of these overall themes, however, we believe the State-of-the-Union should highlight another aspect of Administration policy -- "Keeping Promises." At base, voters are dissatisfied because they see a disconnect between the promises of political candidates and campaigns and the actual execution of government policy. It is particularly important to address this concern as we move into this next year. And we have a terrific story to tell -- promises kept that don't receive much attention in the conflict-focused national media. (An effective variation on this theme is to contrast talk -- especially from members of Congress and the rest of the Washington establishment -- with real change-oriented action.)

The revitalization of America's economy was the central theme of the President's 1992 campaign, and the results are plain. As part of this core message, the President also emphasized the importance of "Rebuilding America" to compete economically. Here, too, we have some real achievements worth highlighting. Several from the transportation world are outlined below, using speech-style rhetoric to illustrate how it might work.

-2-

REBUILDING AMERICA

In 1992, I saw the way our Nation's transportation system -- highways, bridges, railroads and ports -- affect Americans in their everyday lives. Vice President Gore and I traveled much of the country in buses, talking to all kinds of people -- at a truck stop in Carlisle, PA, along U.S. Highway 51 in Sandoval, IL and in countless towns along the highways. During our first bus trip, from New York City to St. Louis, Mo, I made a commitment to rebuild America. I'm proud to say my Administration has done just that. We've invested more in highway and bridge construction than any comparable period before -- more than \$40 billion. This means faster, safer travel for the American people.

But we've also done something more, because we know: it's not how much you spend, but how you spend the public's money. So we've worked hard to make better, more strategic investments -- to get more bang for the buck -- and to get the private sector to invest more. I'm proud to say that by cutting red tape and giving state and local government more flexibility, we've managed to jump start \$2 to \$3 billion worth of construction projects that otherwise never would have happened at all -- and without using any additional Federal funds. We've also built public-private technology partnerships like the one for Interstate 75 where high-tech transponders and micro-chips mean big rigs roll safer and more efficiently from Florida to Michigan, and cut millions of dollars in delivery costs.

The improvements to our infrastructure help us to move people and goods more quickly, so Americans can spend more time at home with their families and so we can solidify our position as the most dynamic economy in the world.

AVIATION

One of the first things I did when I came into office was to appoint a special Commission to look into the condition of the airline and aerospace industries. These industries, in which America had always led the world, were on the a tremendous downswing. The industry lost \$10 billion in 1990-92 and suffered as major carriers like Eastern and Pan Am went bankrupt.

Today, the airline industry is in the midst of the transportation turnaround of the decade, thanks in large part to the work of that commission and this administration's economic policies. I am proud to tell you that our major carriers earned over \$2.1 billion this year -- record levels, for many of them -- and not a single one is in bankruptcy. In fact, there are more new companies entering the aviation business than ever before. This means more jobs -- for people who build airplanes and work in airports, for example -- and it means better, cheaper airline service for all Americans.

Part of this success has been opening up new foreign markets for our airlines. In the past three years, the Administration has negotiated 28 new bi-lateral aviation agreements, including 10 "open-skies" agreements with European nations, a Canadian accord which has led to a 25

-3-

percent increase in service, and Asian treaties which will form the critical transportation links to these key emerging markets for our cargo and passenger carriers.

MARITIME

As a candidate, I visited this country's docks and shipyards and met with many of the tens of thousands of shipbuilding workers who had lost their jobs. I called attention to this national tragedy. And in San Diego, CA I pledged to help turn the industry around.

We came through. In 1993, the administration launched a five-part National Shipbuilding Initiative. Since then, there has been a tremendous industry resurgence. Given the tools and a level playing field, I knew that the workers in Mobile, Alabama and Newport News, Virginia could compete globally, and we've helped put them back in business building ships. My Administration's loan guarantee program has helped these and many other shipyards to completely modernize so they could compete with the Europeans and the Japanese. In 1995, the program paved way for construction of 36 commercial vessels and \$502 billion worth of business in American shipyard, creating thousands of new jobs. One of my proudest moments as President came when one worker from the San Diego shipyard who had come to Washington to participate in the announcement of our shipbuilding initiative said to me: "Thank you, Mr. President. We're used to politicians forgetting about us after the campaign. You didn't, and you came through." [Note: this is a paraphrase; exact quote to be checked.]



SOCIAL SECURITY

Office of the Commissioner

December 20, 1995

MEMORANDUM TO THE PRESIDENT

FROM: SHIRLEY S. CHATER
COMMISSIONER OF SOCIAL SECURITY

SUBJECT: STATE-OF-THE-UNION ADDRESS

As requested, I am forwarding my recommendations for themes and messages to possibly be included in your State-of-the-Union Address in January. My suggestions are as follows:

1. The need for intergenerational cooperation

All too often, debates on national issues divide generations of Americans instead of bringing them together. If we, as a nation, are going to develop long-term solution to issues facing our country, all of us, young and old alike, must be willing to work together for a common goal.

Social Security and Medicare are perfect examples of issues that require intergenerational cooperation. Today's seniors and tomorrow's workers must decide the future of these programs together because all Americans, regardless of their ages, are impacted by Social Security and Medicare.

For two of every three senior citizens, Social Security represents more than 50 percent of annual income. For 14 percent of Americans age 65 and older, Social Security is 100 percent of income.

In addition, Social Security benefits young workers through survivors and disability protection. Younger Americans face roughly a 1-in-5 chance of dying before reaching age 65. If the unthinkable happens, Social Security is there with average protection equivalent to a \$295,000 life insurance policy.

A 20-year-old worker stands nearly a 1-in-3 chance of becoming disabled before age 65. Once again, Social Security is there if the unthinkable occurs--with disability protection which on the average is equivalent to a \$203,000 disability policy for an average income earner with a spouse and two children.

Social Security is much more than retirement. It is a program that affects all Americans. As a result, we all must work together to preserve and protect it.

2. The need to make "tough decisions" about our country's future

"No pain, no gain" is a familiar phrase and one that all Americans should keep in mind. As we move forward in the resolution of national issues, Americans must be prepared for a series of "give and take." Individually, we may not be happy with the resolution of each issue, but as a nation we can be satisfied in the fact that we are doing what's right for America's future.

A specific example of a tough decision involves the future of Social Security. Although Social Security is solvent today, a time will come when Social Security cannot pay full benefits. Two groups--the Kerry-Danforth Commission and the Social Security Advisory Council--examined the issue of solvency earlier this year and could not agree on a solution.

Both groups did agree, however, that tough choices must be made in order to make Social Security financially sound. At some point, Americans of all ages must decide on the future of Social Security. The earlier the tough choices are made, the less drastic they will have to be. Ultimately, everyone will have to sacrifice a little for the good of the country's future.

It's not that young workers and Baby Boomers don't want a Social Security program. In fact, a study commissioned by AARP found overwhelming support by Americans for Social Security. The problem is that many young people don't believe Social Security will be there for them.

Since Social Security affects Americans of all generations, it's important that the voices of senior citizens, Baby Boomers and Generation X be heard in the debate. As in the past, any major change in the Social Security program must involve bipartisan cooperation and must be the result of an engaged American public.



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

M E M O R A N D U M

TO: Don Baer
FROM: Bruce Katz *B. Katz*
RE: State of the Union Themes
DATE: December 21, 1995

Over past few months, the NEC has led an interagency process to generate ideas on community empowerment (in fact a principals meeting was held as recently as this past tuesday). From these and other meetings, there is widespread consensus emerging among the Cabinet and key folks in the White House and OMB that the essential elements of a community empowerment strategy are as follows:

- increasing access to capital for business development
- reclaiming abandoned land in central cities
- transforming public housing -- which includes demolishing the worst of the public housing stock
- reinventing the federal government's relationship to local governments -- i.e. decentralize and "put communities first"
- linking people to work

What these concrete policy elements have in common -- and what could be a vital part of a powerful State of the Union message, are the following community empowerment themes:

- putting communities first
- strengthening our central cities
- getting devolution and decentralization right
- insisting on reciprocity for government benefits
- asserting that the government has a vital role to play

Focusing on these themes is not only the right substantive approach to community empowerment, but it also has strong appeal to middle-class values -- as these themes focus on work, personal responsibility, private sector leadership and public service.

Following are suggestions for articulating these themes. Many of these are elaborated on in *Where We Live*, a document which outlines HUD's plans for its second stage of reinvention. You should have already received this report from the Secretary.

Put Communities First

Generating economic opportunities (good jobs) is important to our ability to compete and succeed in the global economy. But many people will not succeed in these turbulent times unless their community roots -- families, neighborhoods, schools, churches -- are strong. To best help families thrive, we must first focus on strengthening our communities for the 21st century.

That means recognizing two realities: First, that our national well-being rests on the health of our communities; and second, in an era of budget belt-tightening, we need a laser-like focus of federal resources on meeting community needs -- maximizing those resources by building partnerships among local governments, businesses, non-profits and state/federal governments. In particular, it's right for the President to challenge the private sector, especially the business community, to take an active partnership role in fixing our most distressed communities. Facing the new century, we must ensure that all our actions support the foundations of economic and civic health, uplifting mainstream values. (Offer a Covenant with America's Communities).

Strengthen Our Central Cities

Focus on the importance of central cities -- and their links to the larger metropolitan area -- as the anchors of America's economy. Our national economy is increasingly a system of metropolitan regional economies which need economically vital central cities to thrive. The destinies of metro areas are tied to the performance of their cities; while some suburban residents may want to ignore the plight of cities -- and don't see it as connected to their lives -- we can't afford to abandon these engines of economic growth and must find ways to reinvest.

Decentralize with a Vengeance

If we are going to really put more power into people's hands to shape their destinies, we need to push federal programs to the front-lines, past state bureaucracies and into effective and flexible partnerships with communities. Block granting to states is short-sighted and will be ineffective; a real community empowerment strategy would radically restructure federal agencies to make them focus on building safe, strong and hopeful communities, not on enlarging Washington bureaucracies. (That means any community empowerment strategy we propose should extend federal reinvention to the federal government's relationships with

States and local communities).

To really decentralize, we must trust and listen closely -- and then help empower -- the people in the trenches -- parents, teachers, law enforcement, community leaders, social workers, shop owners and church leaders. As we pursue this kind of dramatic decentralization -- for the first time in decades -- we must also find the common sense balance between cutting communities loose with no federal help and strangling them to death with federal regulations and red-tape.

Insist on Conditionality

Americans, and often many poorer inner city residents, understand and support the balancing of rights and responsibilities. This acknowledgement of reciprocity in acceptance of society's benefits has led to a readiness to accept stricter personal and moral conditions on program benefits. Our society -- especially inner city residents -- is prepared to go a good deal further than many might expect in accepting the discipline of work, service and responsibility. This framework can, and should, be applied much more broadly than welfare reform.

The right to a good education means kids must do their homework and parents must hold their children accountable (and help out). Having safe streets mean community residents must work closely with local police. Program examples: Getting a job and work skills in a HUD lead-paint abatement program means that single fathers accept responsibility to attend pre-natal and pediatric appointments, complete a curriculum on fatherhood and participate in a support group. A public housing addiction recovery program assists single mothers if they pledge to stay away from drugs, go without TV, help their children with homework and keep their apartments clean.

"We Can Do This"

Americans are ready for someone to confront their pervasive feeling that nothing works and that none of the efforts we make at solving our most intractable national problems make a difference. Many still believe that government has a vital role to play in solving our national problems, but they're not confident of the federal government's ability to make programs work and deliver results. In addition to substantive reinvention efforts, the words "we can do this" are critical to our national sense of optimism and hope. People know that our major social and economic problems -- especially those in our urban areas -- are profoundly complex, but they also know these problems are not going to go away, and they're ready for strong leadership to tell them that we can overcome our challenges and show the way towards what's already working.



UNITED STATES
OFFICE OF PERSONNEL MANAGEMENT
WASHINGTON, D.C. 20415

OFFICE OF THE DIRECTOR

December 21, 1995

MEMORANDUM FOR KITTY HIGGINS
ASSISTANT TO THE PRESIDENT
AND SECRETARY TO THE CABINET

DON BAER
ASSISTANT TO THE PRESIDENT AND DIRECTOR OF
COMMUNICATIONS

FROM: JAMES B. KING
DIRECTOR

SUBJECT: State-of-the-Union Themes and Messages

I recommend the following two messages be included in next month's State-of-the-Union address:

- I. FEDERAL EMPLOYMENT DROPS BELOW 2 MILLION FOR FIRST TIME SINCE 1966 -- ELIMINATING AN ENTIRE GENERATION OF GROWTH IN GOVERNMENT

OPM data shows that, in October, the Clinton-Gore Administration attained a major achievement when the Federal government's total, on-board civilian workforce fell below two million for the first time since May, 1966. As the attached chart shows, Federal employment dropped to 1,980,170, which reflects a reduction of 204,530 employees since January, 1993. This figure includes part-time and seasonal workers.

While our figure is not the Full-Time Equivalent (FTE) number that is sometimes used, we believe the total, on-board workforce figure better reflects the actual size of the government and is easier to communicate to the public.

- II. FEDERAL GOVERNMENT SET TO SPIN-OFF FIRST ESOP -- REPLACING TAXPAYER-FUNDED JOBS WITH PRIVATE SECTOR OPPORTUNITIES

OPM is in the final stages of negotiations that will enable some 700 skilled investigators now on the Federal payroll to leave government and create a private, employee-owned company. This new private-sector enterprise will conduct background investigations both for the government and for the private sector.

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This is the Federal government's first privatization of its kind and can be a model for moving other employees from the public payroll to the private sector.

For more information, please call Janice Lachance on 606-1800.

Attachments

Trend of Federal Civilian On-Board Employment for Executive Branch (non-Postal) Agencies

These figures represent total on-board employment - not FTE's
and include all work schedules (full-time, part-time, intermittent),
and tenure groups (permanent and temporary)

January 1993 through October 1995

Month	Total	Change from Prev. Month	Cumulative Change since Jan. '93
1993			
January	2,188,700		
February	2,197,937	9,237	9,237
March	2,193,890	-4,047	5,190
April	2,186,245	-7,645	-2,455
May	2,188,755	510	-1,945
June	2,198,963	12,208	10,263
July	2,183,131	-15,832	-5,569
August	2,178,540	-4,591	-10,160
September	2,158,844	-21,696	-31,856
October	2,138,358	-20,486	-52,342
November	2,127,496	-8,862	-61,204
December	2,120,463	-7,033	-68,237
1994			
January	2,113,692	-6,771	-75,008
February	2,123,448	9,756	-65,252
March	2,119,019	-4,429	-69,681
April	2,117,292	-1,727	-71,408
May	2,110,334	-6,958	-78,366
June	2,112,533	2,199	-76,167
July	2,107,582	-4,951	-81,118
August	2,099,555	-8,027	-89,145
September	2,085,492	-14,063	-103,208
October	2,061,515	-23,977	-127,185
November	2,048,493	-13,022	-140,207
December	2,039,882	-8,611	-148,818
1995			
January	2,028,078	-11,804	-160,622
February	2,033,404	5,326	-155,296
March	2,030,048	-3,358	-158,654
April	2,027,480	-2,566	-161,220
May	2,037,427	9,947	-151,273
June	2,051,719	14,292	-136,981
July	2,047,573	-4,146	-141,127
August	2,037,190	-10,383	-151,510
September	2,011,870	-25,320	-176,830
October	1,984,170	-27,700	-204,530

Notes: By Executive Order 12839, on February 10, 1993, the President ordered a reduction of 100,000 full-time equivalent positions during the FY 1993-1995 period.

In a memorandum to Department/Agency Heads in September 1993, the President increased this number to 252,000 through FY 1999.

The Work Force Restructuring Act of March 30, 1994 further increased this number to 272,900 through FY 1999.

SOURCE: U.S. Office of Personnel Management
Office of Workforce Information
Monthly Report of Federal Civilian Employment (SF 113-A).

TREND OF FEDERAL CIVILIAN ON-BOARD EMPLOYMENT FOR EXECUTIVE BRANCH (NON-POSTAL) AGENCIES

Average Employment by Calendar Year

CALENDAR YEAR	EXECUTIVE BRANCH
1960	1,814,766
1961	1,814,225
1962	1,877,131
1963	1,895,670
1964	1,877,940
1965	1,891,580
1966	2,035,515
1967	2,206,636
1968	2,220,369
1969	2,235,199
1970	2,177,246
1971	2,123,176
1972	2,107,628
1973	2,068,135
1974	2,112,470
1975	2,134,410
1976	2,138,600
1977	2,145,771
1978	2,176,759
1979	2,181,739
1980	2,274,269
1981	2,180,837
1982	2,149,206
1983	2,164,132
1984	2,184,927
1985	2,218,346
1986	2,197,590
1987	2,222,589
1988	2,222,933
1989	2,237,528
1990	2,344,168
1991	2,228,974
1992	2,231,535
1993	2,171,277
1994	2,094,903

1995

DEPARTMENT OF HEALTH & HUMAN SERVICES

Office of the Secretary

Washington, D.C. 20201

M E M O R A N D U M

To: Kitty Higgins, Don Baer

From: Dan Porterfield, DAS for Public Affairs, HHS

Subject: State of the Union speech

Date: 12/21/95

Secretary Shalala mentioned two themes for the speech.

First, and most important, she believes the speech should be bold and visionary. The President should speak to the American people as citizens, and not simply as taxpayers. The speech should be about the future of our country, and about our obligation as Americans to protect the hard-won legacy of the 20th century while having the courage to address the new challenges of tomorrow.

This century we won two world wars and the Cold War. We met the challenge of Sputnik. We integrated our society and shattered glass ceilings. We built a strong safety net for children and transformed the experience of growing old.

How did this happen? At our best, we committed ourselves to bold and relentless progress. We put the common good and common ground first. And we moved forward in a true spirit of partnership -- with citizens, families, communities, and states all doing their part, and the national government helping and sometimes leading.

Today, this tradition has been placed under seige. There are some politicians and special interests who, under the misleading mantle of federalism, are really trying to abolish the partnership between the national government and its people. That may be an opportunistic campaign theme -- but it's be bad for the country. We need limited government -- not absent government.

Because we do have a national interest in ensuring that work pays in this country. In guaranteeing a quality education to every child. In making sure that seniors can see a doctor and poor children are able to eat. In keeping tobacco out of the hands of children and guns out of the hands of criminals. In preserving the freedom of parents to raise their children as they want. In opening new international markets for our products and preventing international anarchy when we can.

These are American values that define us as a nation -- and preserving and achieving them requires federal leadership. We have shown that leadership for three years. We have achieved truly national goals for all our people -- everything from lowering the homicide rate to lowering the welfare rolls; from

collecting record levels of unpaid child support to helping states increase the number of their citizens with health insurance; and from achieving the highest immunization rates in history to funding breakthrough discoveries against breast cancer and AIDS. This is good government, responsible government, limited government. We ought not give up on it.

Second, Secretary Shalala recommends that the President discuss the importance of a truly national partnership to help parents in the most important role any of us will ever: raising children.

The fact is, millions of parents are worried about the things their children are exposed to when they are outside the home: Alcohol. Tobacco. Drugs. Teen pregnancy. AIDS. Violence. As one parent said in The Washington Post, "I went from wanting my son to win the Nobel Prize to wanting him to survive."

Even as they worry about their children, parents are frustrated that they have less control than they would like. Many parents are working longer hours with less job security. They have less time to spend with their children. They're finding it harder to pay today's grocery bills while saving for tomorrow's college bills.

There are more families in which both parents are working. There are more single-parent families. There are fewer families that feel connected to strong, supportive communities. And there is more competition for their children's attention -- too often from influences like tobacco ads or glamorized images of drug use.

Secretary Shalala recommends that the President speak directly to the hopes, dreams and fears of these parents. As parents of a teenager, he and Mrs. Clinton deeply understand these concerns.

The President should tell America's parents that he stands with them. That's why he has taken on powerful interests -- the NRA, the media/entertainment industry, and the tobacco industry -- to put power back in the hands of parents. That's why he and his Cabinet have sent a clear and consistent message that it is illegal, dangerous, and wrong from children and teenagers to use drugs, alcohol, and tobacco. That's why he has led the fight for a private sector campaign to reduce teen pregnancy and lent his voice to the cause of AIDS prevention. That's why he has fought for young people in the budget battles -- gaining victories to ensure that summer jobs, drug free schools, and college loans are always there to give young people real options to say "yes" to. And that's why he has reached out to young people himself with a message of opportunity and responsibility.

Teenagers aren't just our national future -- they are our national present. They deserve safe passages, and we all must help them.

Thank you.



Administrator
General Services Administration
Washington, DC 20405

December 21, 1995

MEMORANDUM FOR

KITTY HIGGINS

Secretary, White House Office of Cabinet Affairs

DONALD BAER

Director, White House Office of Communications

FROM:

ROGER W. JOHNSON

Administrator, U.S. General Services Administration

SUBJECT:

Call for Suggestions for State of the Union Address

Thank you for the opportunity to share with you my ideas for themes and ideas for inclusion in the President's 1996 State of the Union address.

Domestic Policy

The President is perhaps never stronger than when he appeals to the American people's higher self and better nature. The President can rise above the nasty noise level of present-day ideologues by elevating his discussion with the Congress and the American people to a broader theme of what is needed in our political system to move the country forward and meet the challenges of the next century.

Much as he did in 1992 and since – although the message has been grossly distorted – the President can speak to the fact that old ideologies, as well as the newer, harsher mix of populist-libertarianism couched as conservatism, will not provide the solutions to new challenges brought on by economic and cultural transformations. He can recognize that old so-called liberal solutions will not meet the challenges, while pointing out the fact that the calls to dismantle the federal government by "devolving" federal programs to the states without measurements or standards of accountability is nothing more than an abdication of responsibility. There is a need for a strong federal government, but one that works in partnership with state and local governments and the private sector, and one that is flexible and more responsive to changing needs. Then the President can easily transition into his accomplishments under the National Performance Review framing them into language to which working Americans can relate (see attached letter to the Vice President, Columbus Dispatch article and *GSA Message from the Administrator* as examples).

Foreign Policy

In explaining why American involvement is needed in Bosnia and other foreign trouble spots, the President's speech before the British Parliament last month, which called for fighting the "forces of destruction," was again an appeal to our higher and better nature as Americans (see "Clinton Calls for a War on 'Forces of Destruction,'" L.A. Times, November 30, 1995). It was a concise message that best explained why America cannot retreat from its leadership role in foreign affairs. In fact, the President should repeat this message constantly until it becomes known as the Clinton Doctrine.

If you would like to discuss these issues in greater detail, please do not hesitate to call.





Administrator
General Services Administration
Washington, DC 20405

December 19, 1995

The Honorable Albert Gore, Jr.
Vice President of the United States
The White House

Dear Mr. Vice President:

It is not The Washington Post, The New York Times, or The Wall Street Journal (yet) but it sells in Columbus! (see enclosed article) A week earlier we put out a press release reporting a \$600 million savings from the latest FTS-2000 negotiations and got no coverage, to speak of - but 3 1/2 cents per minute gets attention.

I believe we should expand this approach across all of N.P.R. activities including specific customer service improvements, as well as stating savings and service improvements in "people understandable units." One easy step would be to put out a weekly/monthly N.P.R. talking points bulletin focused on unit bites. Agency and White House speech writers should also receive the bulletin. If you have any questions, please do not hesitate to contact me. See you soon.

Sincerely,



Roger W. Johnson

Enclosure

cc:
Elaine Kamarck
Bob Stone
John Koskinen
Don Baer



Thursday, December 14, 1995

The Columbus Dispatch

Federal government is saving money, GSA chief says

■ Employees are making day-to-day savings that don't make news, Roger W. Johnson says.

By Darrel Rowland
Knoxville Business Journal

For just a moment, forget the heated rhetoric over billions of dollars in the federal budget battle, says Roger W. Johnson, administrator of the U.S. General Services Administration.

Instead, consider a cheap phone ticket, an inexpensive long-distance call and an economical car rental rate.

Such little, publicized, day-to-day small-

ness shows that real savings can be made in the federal government, he said.

"You can make government work better and cost less," Johnson told about 400 county officials yesterday at the Greater Columbus Convention Center.

Johnson, in his first public sector job after 35 years in business, is the highest-ranking Republican in the Clinton administration. He formerly was chairman and chief executive officer of Western Digital, a Fortune 500 computer company in California.

People have become so cynical about the federal government that they don't believe true accounts of money being saved, he said.

The phone ticket he cited cost \$242 to fly round trip between Washington, D.C., and Los Angeles, which normally costs about \$700.

The rate he made yesterday in his Washington office from Columbus cost him 34 cents

a minute, compared with the best business rate of about 9 cents. And the rental car his agency provides to federal employees cost only \$136 a month for a four-door sedan.

These deals were negotiated by General Services workers who have brought competition and creative approaches to the business arm of the federal government, said Johnson, whose agency oversees \$80 billion in spending.

"Things do work better in Washington today," he said.

The more businesslike atmosphere gets little attention because "there's no political parity or reward in Washington for professional managing," Johnson said.

A lifelong Republican and "staunch moderate," Johnson openly complained about George Bush in an October 1991 article in the Los Angeles Times and speculated that he could support the right Democrat. A couple of

days later the governor of Arkansas called.

Johnson said Bill Clinton's reputation as a waffler is unjustified, calling him "the most issues-oriented president since Harry Truman."

Meanwhile, Johnson labeled the leadership of his fellow Republicans as "kind of nasty right now" and said the GOP push to balance the budget is really a subterfuge for dismantling portions of the federal government.

Johnson faulted Clinton for reducing the deficit for three consecutive years and hiring thousands of employees from the federal payroll. He said the federal government's operating budget (which doesn't include interest payments on the national debt) is balanced.

"The Democrats are the most marketers I've ever seen," he said. "Meanwhile, the Republicans are good marketers, but don't have a quality product."

MESSAGE FROM THE **Administrator**

This year, GSA continued to make President Clinton's promise to make "government work better and cost less" a reality. Although the environment in Washington has made this past year difficult and sometimes uncertain, we have continued to focus on our mission using customer service and common sense management. While others try to paint federal employees as "faceless," we have never forgotten that GSA is an agency of people serving people. They are our customers, and we know that the better we serve them, the better we can all serve taxpayers. It just makes common sense!

Working together, we have been reshaping our agency and rethinking our business for over two years. And as you can see in the accomplishments outlined below, we are making real, lasting changes:

- ***Time Out and Review of Public Buildings Yields \$1.36 Billion in Savings, Better Construction Management***

Our "Time Out and Review" of the federal building program cut \$1.36 billion from new real estate projects. An outgrowth of the review is the new Courthouse Management Group to ensure cost-effective and efficient construction of federal courthouses. Adopting business-like real estate principles into our program will ensure long-term savings.

- ***Changing Major Computer Purchases Avoids Over \$7 Billion in Unnecessary Spending***

Taxpayers were not getting a good return on their investments in major federal government computer systems, so we imposed a "Time Out" that avoided spending \$7.4 billion for computer systems with cost overruns and other problems. Greater use of interagency teams, independent auditors, performance measurements, and Chief Information Officers will produce more efficient, less costly systems.

- ***Unrestricted Coast-to-Coast, Round-Trip Airfares for \$242***

Our unrestricted airfares with major airlines are on average 50% lower than commercial rates. Where else can you get a round-trip ticket from Washington to California for \$242 on short notice?

- ***Rent a Car for \$136 a Month***

We lease four-door sedans to other agencies for \$136 a month, plus 11 cents a mile for fuel and maintenance. Consolidating vehicles from other federal agencies into its fleet management program last year saved taxpayers \$7.2 million, and other management improvements have saved an additional \$22.8 million.

- ***Long-Distance Service for Just Over 3 Pennies per Minute***

Our common sense management of the FTS2000 long-distance network has drastically cut costs. Due to a recompetition in the contract, federal customers now pay just 3 1/2 pennies per network minute, saving taxpayers \$200 million a year. Overall costs under FTS2000 during the past 7 years have been reduced by 80%, saving nearly \$5 billion compared to the old long-distance program.

(more)

- ***It Pays to Use the American Express Government Travel Card – Literally!***

Our contract with American Express Travel generates affinity refunds every time federal employees use the card for official travel. These refunds -- estimated at \$20 million a year -- go back to agencies to offset travel-related expenses.

- ***Government Purchase Card Saves Money and Headaches***

With the increased use of the government purchasing card, federal agencies get better, faster service and will save \$475 million by eliminating administrative headaches.

- ***Expansion of Electronic Commerce, 'GSA Advantage!' and Other Initiatives***

We are a leader among interagency teams working to eliminate burdensome, costly paper-driven procurement, while increasing accountability in government spending by expanding the use of electronic commerce. In fact, with *GSA Advantage!*, federal customers can get supplies through the Internet and have them directly delivered to their desks with a few strokes of a keyboard. And our energy and recycling programs are proving that sound environmental policies can also save tax dollars.

So far, our customer focus and common sense have netted taxpayers over \$12 billion in savings or cost avoidances. We've done all this with a workforce streamlined by 20% -- with no layoffs -- and operating costs cut by 17%. Our efforts have been recognized by Vice President Gore and the National Performance Review. GSA employees have received 17 Hammer Awards from the NPR to recognize excellence and creativity in public service.

As impressive as these accomplishments are, we must continue to define and shape GSA. And we are doing that, as we dig deeper into our operations through the FORM analysis to search for ways to improve our performance and service. In the end, this analysis will set us on a path of continuous improvement to create a culture of common sense management to build a common sense government that works better and costs less.

It has been a challenging year, but we have met those challenges and are moving forward. I thank you for all your hard work and perseverance. Let us now take time during this holiday season to rejuvenate our spirits and to celebrate the season with our families and friends. I wish you and your loved ones good health and happiness now and for the coming year.



Roger W. Johnson
Administrator

December 21, 1995