

February 24, 1999

MEMORANDUM FOR HILLARY RODHAM CLINTON

FROM: NICOLE RABNER
SUBJECT: MEETING TODAY WITH DEAN ORNISH

I wanted to provide you with some background information for your meeting today with Dean Ornish. Chris Jennings met with Ornish yesterday and provides the following update on Ornish's work in securing permanent funding for his nutrition funding through Medicare. Chris reports that over the past few weeks Ornish has refocused his attention away from seeking a demonstration project through Medicare (feeling that it would take too long to negotiate and carry out, and even then provides no guarantee of an eventual Medicare benefit), and has channeled his attention to securing a new benefit for his program under Medicare.

Chris has advised that Ornish on a strategy for getting allies in the Congress on this issue, and, in the context of Medicare reform, to focus on getting his program scored by CBO as cost-effective. To that end, Chris has urged Ornish to focus on furnishing CBO with the best data to achieve that result, *i.e.* focusing on targeting states with particular histories of heart disease and studying the effects of his nutrition program to achieve savings. Also, Chris has advised that Ornish structure his new benefit proposal narrowly, such as limiting it to cover plans covered by an outside certification entity, such as cardiologists.

Ornish was very receptive to these ideas, Chris reports, and grateful for the assistance the Administration has given to him. Ornish also met with the Vice President's Office in the last few days.

THE WHITE HOUSE
WASHINGTON

December 22, 1999

MEMORANDUM FOR HILLARY RODHAM CLINTON

**FROM: MELANNE VERVEER
NICOLE RABNER
ANN O'LEARY**

CC: SHIRLEY SAGAWA

**SUBJECT: POLICY PROPOSALS STEMMING FROM THE WHITE HOUSE
CONFERENCE ON PHILANTHROPY**

As a follow-up to the White House Conference on Philanthropy, three policy proposals are being considered in the context of the FY '01 budget: (1) eliminate the excise tax on investment income of private foundations, (2) allow tax deductions for non-itemizers, and (3) develop a Nonprofit Capacity Building Program (NCBP).

All of these proposals have general support from both the DPC and the NEC, but none of the proposals are top priorities in terms of new initiatives. Therefore, we are concerned that the budget will not include any of these proposals and, thus, we will have no substantive policy proposal following up on the Philanthropy Conference. At this point, the elimination of the excise tax is still in play, the tax deductions for non-itemizers are uncertain, and the NCBP is off the table. Please advise as to how you would like us to weigh in on your behalf. Our recommendation is that we push strongly for the non-itemizer option. Below, please find background on each of these proposals with information on where each stands in the process.

BACKGROUND

Eliminate Excise Tax on Investment Income of Private Foundations: Private foundations pay an excise tax on their net investment income, which includes interest, dividends, and net capital gains and is reduced by expenses incurred to earn this income. While the intent of the distinction between a 1 and 2 percent rate of tax on investment income was to prevent foundation disbursements from falling, the mechanism is unduly complicated and may even reduce foundation giving. This excise tax should be eliminated or modified. (Cost: \$3 billion over 5 years)

This proposal has received favorable play and, at this point, has been included in the FY '01 proposed tax package.

Deductibility of Charitable Contributions for Nonitemizers. One broad change that could affect both the level and composition of individual gifts would be to allow non-itemizers to claim a deduction (or tax credit) for charitable contributions above a certain floor. In addition to affecting the total amount of charitable contributions, allowing non-itemizers to take such a deduction could also affect the proportion of gifts going to different types of recipients since non-itemizers gifts disproportionately benefit religious organizations and social service groups as opposed to educational institutions and private foundations. (Cost: \$2 to \$6 billion a year).

This proposal was raised in the President's tax meeting on Thursday and, while it received a tentatively favorable consideration, it is not yet included in the proposed FY '01 tax package. Of all the proposals, this one has the most likelihood of being included with your strong support.

Nonprofit Capacity Building Program (NCBP). This program would provide capacity and technical assistance to train and manage assistance for nonprofit and community-based organizations through development centers nationwide. The NCBPs would provide counseling, training and technical assistance in all aspects of nonprofit management. These services may include: assisting nonprofits with start-up, budgeting and financial management, marketing, fundraising, board development, technology assistance, volunteer management, human resources, strategic planning, personnel management and program evaluation. They could also assist in creating and maintaining a centralized access point of information and databases about nonprofit organizations. The structure of the program could be through grants made by the Corporation for National Service to statewide nonprofit associations or technical assistance providers 501(c)(3) organizations that would then provide services to other nonprofit and community-based organizations. (Cost \$100 million)

Currently, DPC has been pushing for this proposal, but it is no longer on its list of priorities. We would recommend that you push for this proposal. At this point, however, it would take very strong support from you to get it back on the table.

THE WHITE HOUSE
WASHINGTON

June 22, 1999

MEMORANDUM FOR HILLARY RODHAM CLINTON

FROM: NICOLE RABNER
NEERA TANDEN
RUBY SHAMIR

CC: MELANNE VERVEER
SHIRLEY SAGAWA
PATTI SOLIS DOYLE
MARHSA BERRY

SUBJECT: ISSUES UPDATE

Crime -- Juvenile Crime/Gun Bills. As you know, last week the House leadership divided the juvenile crime bill the Senate had passed into two bills -- a gun bill and a juvenile crime bill. The gun bill was defeated by a vote of 147 to 280, with almost all Democrats voting against it. The bill contained a number of amendments throughout the process, including provisions to: (1) ban the importation of large capacity ammunition clips (voice vote); (2) require child safety locks for handguns (311-115); (3) ban juvenile possession of semiautomatic assault weapons (354-69); (4) ban violent juveniles from owning guns as adults (395-27); (5) allow current and former law enforcement officers to carry concealed weapons (372-53); (6) revise background check requirements for guns redeemed at pawnshops (247-181); and (7) allow D.C. residents to keep handguns in their homes (213-208). However, Democrats decided to oppose the final bill after the House passed the Dingell gun show amendment, which would weaken existing requirements for background checks, late Thursday night by a vote of 218-211, and rejected the McCarthy gun show substitute by a vote of 235-193.

Since the overall gun bill failed, the juvenile bill passed by the House (287-139) will proceed to conference without significant gun provisions. Before completing work on the juvenile crime bill, the House approved a number of amendments including an amendment which would allow states to post the Ten Commandments in public buildings, including schools (248-180); an IDEA amendment allowing schools to expel disabled students for bringing weapons to school; and a bipartisan Goodling amendment on juvenile prevention. In addition, they adopted the McCollum amendment by a vote of 249 to 181, which contained revisions of the federal juvenile justice system, such as increased mandatory minimums for such criminal activities as using kids to sell drugs and selling drugs to kids, amongst other prohibited activities.

The President is likely to make a public statement this Friday that will call on the Congressional Leadership to move the bills to conference. The President's senior advisors are also considering whether the President should eventually issue a veto threat against the bill if it does not contain a provision on gun shows.

Bankruptcy. The Senate will not take up the bankruptcy bill for floor action until after the July 4th recess. (Senator Lott pulled the bill to focus on various appropriations bills and other measures.) This delay, which means that the earliest floor action will be in mid-July, represents great news to opponents of the bill, who feared that the bill would be rushed through the Senate floor with Senators eager to break for recess. This delay also gives us time to polish the op-ed by you which highlights the flaw in the bill and look for a strategic placement. While you've been away, there has had some behind-the-scenes movement on the bill. Senator Torricelli continues to negotiate with Senators Grassley and Hatch, the key Republicans, on changes to be included in the manager's mark. Senator Torricelli, however, has been able to make only minimal improvements to the bill through this process. The one issue on which he has made some gains, however, is on credit card disclosures. Senator Torricelli has reached a deal with the credit card companies and the Republicans that is not sufficient to gain the Administration's support but is a move in the right direction.

In addition, Senators Grassley and Sessions have offered the Administration a deal on another important issue – reaffirmations. Under their proposal, we would agree to indicate support for an amendment that Senator Sessions will offer to include part of the Administration's reaffirmation proposal in exchange for eliminating from the current Senate bill a provision that Senator Sessions abhors. The language deleted bars creditors from threatening to do something they have no intention of doing, thus eliminating one basis for bringing suit to end abusive creditor practices. However, the language gained would help almost every debtor who is pressured to reaffirm a debt, by giving the court an analysis of whether they have the capacity to repay that debt before the court approves the reaffirmation. The Administration working group has concluded that the trade-off is a net gain for consumers. However, we are seeking a member-level commitment to preserve both parts of the deal in conference. Grassley and Sessions meet with Senators Lott and Hatch this Friday to see if they will agree to protect the agreement in conference. In general, however, continued meetings with Grassley and Hatch staff have not been productive. Although they have politely listened to our concerns, they have not moved on any of our key issues other than the reaffirmation proposal.

New Data on Bankruptcy and Women. On Monday, Harvard Law professor Elizabeth Warren released new data demonstrating that women are resorting to personal bankruptcy more frequently than men and married couples. Her data show that 39 percent of bankruptcy court filings in the 12 months ending March 31 were made by women. That compares with 28 percent for men and 33 percent for married couples, according to the study of filings in eight of the 94 federal bankruptcy districts. Warren and other opponents of the pending legislation are using this data to demonstrate that the bill's new restrictions will disproportionately affect women.

Foster Care. We expect that the Foster Care Independence Act, sponsored by Johnson-Cardin, will reach the House floor this Thursday and pass easily. The White House will issue a Presidential statement on its passage. Similar to the proposal in the President's FY 2000 Budget that you unveiled in January, this bill would provide youth leaving foster care with access to health care and would expand and improve educational opportunities, training, housing assistance, counseling, and other support and services for these youth. We will forward to you a detailed memo about the bill's provisions shortly.

Adoption. There are three adoption-related events that we hope to schedule in the coming months (perhaps in tandem): (1) the release of the new adoption numbers and bonus dollars to states (with the President) in late July or Early August; (2) the unveiling of the new adoption stamp with Dave Thomas and the Post Master General in October; and (3) a follow-up meeting with foundation leaders on adoption issues. Unfortunately, we are not able to schedule the first two announcements for the same event (the bonuses must be released before October 1st, and the stamp must be unveiled mid-October). We can, however, schedule the foundation leaders meeting in tandem with either of the two announcements, and therefore invite the leaders to the event and the discussion.

Dean Ornish. Dean Ornish was successful with HCFA in securing a Medicare reimbursement demonstration project for his nutrition therapy.

Proposed Rule Change for Federal Procurement Regulations. You asked about a Washington Post article that charged that the Administration had not acted on a promise the Vice President made to the AFL-CIO that the Administration would require businesses contracting with the government to "maintain a safe workplace and respect civil, human, and union rights." Under current law, government contract officials have fairly wide latitude to decide which companies receive government contracts, but they must ensure that the business has a "satisfactory record of integrity and business ethics." The proposed rule change, expected to be released for public comment later this month or in early July, will clarify that phrase giving the contracting official the opportunity to make contracting determinations on the basis of tax, labor, health, safety, environmental and other laws. Opponents of this rule change charge that the contracting officials would not have the ability to determine objectively a business's level of compliance and that some businesses would be effectively "blacklisted."

New Markets. From July 5 to 8, the President will lead a bipartisan delegation of CEO's and Members of Congress to untapped markets in six U.S. cities to highlight his New Markets Investment Initiative and to identify the economic potential for investment in these underserved areas. The President will begin his trip in the Kentucky Highlands, to discuss investment in Appalachia. Then the President will proceed to Clarksdale, Mississippi, a rural community in the Mississippi Delta, East St. Louis, which is an empowerment zone community, and the Pine Ridge Indian Reservation in South Dakota, which is the first Enterprise Zone on a reservation. On Wednesday, July 7, the President will travel to South Phoenix, Arizona, an Enterprise Community with a large Hispanic population, and then to the Watts neighborhood in Los Angeles, where he will discuss the need to provide job training to disadvantaged youth, and the new market potential of a new, productive workforce. The President will end his trip at a CEO

Conference in Anaheim, California, to encourage private sector workforce investments in disadvantaged youth. Now that the sites have been determined, the President's staff is working to solidify commitments from the business community to announce during the trip. Cabinet participation in making announcements in other regions is expected.

Father Absence in Black America. A politically diverse coalition of black and white scholars, community and religious leaders, joined together last week to release a compelling report and call to action on the crisis of fatherlessness in the black community. Seventy percent of African American children are born to unmarried mothers, up from one-third when Senator Moynihan released his then-controversial report 34 years ago. They called for significant investments to improve the economic prospects and marriagability of black men, federal support for community-based fatherhood programs, and changes in policies which discourage marriage (such as the marriage penalty in the EITC). They also called on the black leaders to give the same priority to reuniting fathers and children as they have to civil rights, asked churches to focus on family healing, recommended that communities support faith-based marriage education and mentoring programs, and urged the criminal justice system to help reconnect fathers and children.

This report is especially significant because the participants managed to find substantial areas of common ground on both the significance of the problem and proposed solutions, despite historical differences regarding the role of marriage and competing theories of socioeconomic versus cultural factors in the breakdown of the black family. The report grew out of a conference last Fall sponsored by Morehouse College, with diverse participants including Bill Raspberry, William Julius Wilson, David Blankenhorn, and Wade Horn. Our FY 2000 initiatives address some of the recommendations in the report, including the enhanced focus on fathers in our Welfare-to-Work reauthorization that the President announced in January. The DPC will carefully review the recommendations to see what else we might do.

Young Child Poverty Rate. A report released recently by the National Center for Children in Poverty highlighted positive trends in both the number and rate of young children (under six) in poverty. Consistent with data we have highlighted before, the young child poverty rate declined from a high of 26 percent (6.4 million children) in 1993 to 22 percent (5.2 million children) in 1997. This decline came after a 52 percent increase between 1978 and 1993. With a higher proportion of poor young children with working parents and a declining percentage receiving public assistance, the study also confirms earlier findings that families are relying less on welfare and more on work. The report also finds: (1) without our 1993 EITC expansion, the 1997 young child poverty rate would have been 24 percent higher; (2) key determinants of young child poverty are single parenthood, low educational attainment, and part-time or no employment; and (3) the gap between races continues to narrow.

October 19, 1999

**MEMORANDUM FOR MELANNE VERVEER
SHIRLEY SAGAWA**

**FROM: NICOLE RABNER
ANN O'LEARY
RUBY SHAMIR**

SUBJECT: SETTING PRIORITIES AND STRATEGIES

This memo is intended to help begin a conversation about the priorities and strategies for the First Lady's issues team over the next 12 months. We hope to be able to set priorities and goals for reaching Administration goals on specific policies related to Children, Youth, and Families, as well as clarify the mission and operation of the issues team to carryout these priorities.

Priorities and Issue Areas – Operational

Over the next several weeks, the issues team would like to set specific goals on three fronts:

- (1) **Major Issues This Year:** Major issues that the First Lady would like to address and highlight in the last year of the Administration, e.g. a youth development agenda and/or a conference on teenagers;
- (2) **On-Going Issues:** Detailed goals and strategies for on-going policy priorities related both to the work of the DPC Children, Youth and Families team, as well as the broader work of the First Lady (see attached memo); and,
- (3) **New Issues:** Brainstorming and clarification of new issues that the First Lady would like to track and propose in the next year.

Work on Legacy

In addition to the on-going policy work, the issues team would like to support the First Lady's effort to establish her legacy in the policy arena. In order to accomplish this task, we suggest a number of strategies:

- Legacy documents and messages. We propose several ideas for consideration: (1) the First Lady could put out a series of "white papers" or longer articles on the policy accomplishments of the Clinton Administration in areas that she has worked hardest, e.g. adoption; (2) the First Lady could give a series of legacy speeches on these policy areas; and/or, (3) the First Lady could consolidate her legacy in preparation for a book that would highlight her policy work as part of her role as First Lady.

- Close-Out Meetings. At the beginning of December, the First Lady could hold a series of meetings to receive reports on accomplishments and suggestions for the final year from coalitions (e.g. the Prescription for Reading partnership).
- Check-in meetings. In addition, the First Lady and/or staff could hold a series of meetings with individuals who have been helpful in the policy arena to help brainstorm on how best to focus our efforts in the next twelve months, e.g. Bob Greenstein could come in to give a briefing and hold a discussion on priorities in areas of TANF, Foodstamps, WIC, etc.

Issues Coordination

Finally, the issues team would like to have a discussion about how to most effectively develop and coordinate policy issues with other offices and entities with which the First Lady will be working over the next year.

**Strategies and Priorities for First Lady's Issues Team
October 1999-October 2000**

Helping Parents Balance Work and Family

CHILD CARE

Continue to assume primary WH responsibility for advancing the Administration's request to boost child care subsidies, provide greater tax relief on child care, improve child care quality, and expand Head Start. This year to date, there has been no movement on authorizing legislation for CCDBG increases or the creation of Early Learning Fund, but our child care tax proposals were a part of the objectionable Roth tax cut. Further, in the FY 2000 Labor-H appropriations context: (1) the Senate increased the CCDBG by \$818 million, while the House did nothing; and (2) the Senate increased Head Start by \$507 million (\$100 below the President's request level).

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AFTER-SCHOOL PROGRAMS

Continue to monitor the Labor-H bill to push for the Administration's request for \$600 million in FY 2000. This year to date, the House has allocated \$300 million and the Senate \$400 million. In addition, the issues team will work with the DPC to develop possible ideas for the State of the Union around universal access to high-quality after-school programs, and will continue to push for, foster and facilitate public-private partnerships such as the 21st Century Community Learning Centers' partnership with the Mott Foundation.

FAMILY AND MEDICAL LEAVE / PAID LEAVE

Continue to monitor the advancement of our FMLA-expansion proposals: (1) lowering the employer-covered threshold from 50 to 25 workers; and (2) providing an additional 24 hours of leave each year to FMLA-covered workers to allow them to attend parent-teacher conferences and routine doctors' appointments with a son or daughter. The Issues team will continue to take a lead DPC role in advancing proposals to achieve wage-replacement for workers on some form of FMLA-leave, such as through the Unemployment Insurance system.

LONG TERM CARE

Continue to track the Administration's long-term care agenda, including the long term care tax credit and the National Family Caregiver Support Program. To date, the long-term tax credit has not seen action and the National Family Caregiver program has not been included in Labor-H appropriations.

Addressing the Needs of America's Children and Youth

EARLY CHILDHOOD DEVELOPMENT

Continue to monitor the national early childhood discussion, advance the Prescription for Reading partnership agenda, and urge child care and Head Start funding in FY 2000 appropriation and the development of the FY 2001 budget request, and the early literacy components of the Elementary and Secondary Education Act reauthorization.

FOSTER CARE AND ADOPTION

Continue to advance the foster care and adoption agenda, most specifically to urge passage of the Independent Living Act, passed by the House and pending in the Senate.

YOUTH

Highlight the need as a society to better work together to support teenagers in their healthy development by putting forward a positive agenda for youth development. Possibly hold a youth development summit (ideas memo forthcoming).

NATIONAL SERVICE

Highlight the success of AmeriCorps through the 5th anniversary event on October 29th. Announce the Call to Action for AmeriCorps Alums and work on potentially bigger announcement of an AmeriCorps reserves program for SOTU.

SUPPORT FOR THE WORKING POOR

Monitor issues such as Food stamps, WIC, TANF.

Strengthening America's Public Schools

SCHOOL IMPROVEMENT/TEACHER QUALITY

Follow and support the reauthorization of the Elementary and Secondary Education Act of 1965. Specific issues that the First Lady may want to follow and focus include: accountability provisions – turning around failing schools and social promotion; teacher quality provisions; support for public school choice; and, support for high school reform. Currently, the House is taking up the bill in a piece-meal fashion. The Senate has not yet begun work on the bill.

CHARTER SCHOOLS

Charter School legislation was reauthorized in 1998. At this point, it will be important to continue to push for quality and accountability in the ever-increasing number of charter schools throughout the nation.

Improving Health Care for all Americans

HEALTH CARE REFORM

Continue to monitor Patients Bill of Rights and other reforms.

CHILDREN'S HEALTH

Continue to monitor the progress of the CHIP program/Medicaid enrollment. Explore opportunities to improve CHIP/Medicaid enrollment in D.C.

MEDICARE

Continue to monitor Medicare reform and modernization, as well as Medicare BBA givebacks, and prescription drug benefits. Currently, Administration positions being developed vis-à-vis BBA giveback proposals and congressional legislative action.

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GME's

Continue to monitor the GME proposal through FY 2000 as well as pending legislative proposals.



WOMEN'S HEALTH

Continue to monitor family planning, mammography, breast cancer issues.

DISEASE PREVENTION AND RESEARCH

Continue to monitor appropriations status of various diseases, including asthma, epilepsy, and colon cancer.

- funding → mark?

Crime

JUVENILE JUSTICE

Continue to monitor this legislation with regard to a number of issues including treatment of children in prison, disproportionate minority confinement, and prevention programs.

YOUTH VIOLENCE/SCHOOL CRIME

We are working on the development of a comprehensive youth agenda for FY 2001, including a possible expansion of after-school programs and a White House Conference on Youth which would focus on a range of issues in the adolescent years. We also continue to be involved in the development of the National Campaign Against Youth Violence and the White House Council on Youth Violence.

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GUNS

Currently, we are unsure about the standing of the Juvenile Justice bill with regard to guns. Apparently, the Senate and House Republicans (Senator Hatch and Rep. Hyde) have been working on language, but it does not seem as if the House Democrats (Rep. Conyers) have seen or evaluated the language. We will continue to monitor the progress of this legislation.

RACIAL PROFILING

In June, the President issued a directive to the Secretary of the Treasury, the Attorney General and the Secretary of the Interior to design and implement a system to collect and report statistics relating to race, ethnicity, and gender for law enforcement activities within those departments (this directive only reaches federal law enforcement). Within the next few weeks, the agencies will submit to the President reports on current policies and data collection implementation plans. By December 2000, the DoJ will issue an evaluation of the first year of field tests.

Economic Development, Security and Empowerment

NEW MARKETS

Follow the progress of New Markets legislation which includes: the New Markets Tax Credit, America's Private Investment Companies (APICs), and New Markets Venture Capital (NMVC) Firms. We may want think about ways to incorporate New Markets message into First Lady's economic development agenda, and find creative ways to ensure that her priorities impact future

planning in this area. We should also consider making sure that the First Lady is appropriately referenced for her work in this area (i.e. microcredit)

MICROCREDIT

Chronicle the First Lady's travel in and outside the U.S. and her work for and commitment to microcredit. Perhaps develop report/white paper following up on selected communities where the First Lady's work on the issue has made a significant impact.

SOCIAL SECURITY

Continue to track the Administration efforts to save and strengthen Social Security; continue to track importance of issue to women.

ECONOMIC SECURITY ISSUES

Continue to monitor bankruptcy reform, minimum wage, financial modernization, pensions, and other issues.

THE WHITE HOUSE
WASHINGTON

October 22, 1999

MEMORANDUM FOR HILLARY RODHAM CLINTON

FROM: NICOLE RABNER
ANN O'LEARY
RUBY SHAMIR

CC: MELANNE VERVEER
SHIRLEY SAGAWA
PATTI SOLIS DOYLE
MARSHA BERRY

SUBJECT: ISSUES UPDATE

The purpose of this memo is to provide you with brief updates on a variety of issues.

Health Care: Medicare Provider Give-Back Update. The administrative actions the President took this week to relieve some of the excessive payment reductions to health care providers as a result of the BBA of 1997 were well received. The Medicare outpatient department (OPD) issue that has been outstanding for months continues to be unresolved, but the DPC continues to work with OMB, HHS, DOJ, and the Congress to reach an acceptable conclusion to this issue. The primary committees of jurisdiction in the House and Senate marked up their legislative give-back proposals this week. Although they both dedicate about \$1 billion in 2000 and at least \$15 billion over 10 years, both bills remain unfinanced and neither one dedicates surplus dollars to the Medicare trust fund to finance the provisions. Because of this, they decrease the projected life of the trust fund by at least one year, to 2014. Both bills take a "give a little for everyone" approach to this issue, with the primary difference between the Senate and House bills being that the Senate is more generous to teaching hospitals. Notably, both the Finance Committee and the Ways and Means Committee rejected the Medicare modernization amendments offered by Senator Graham, that we advocated. Interestingly, those who voted against these amendments said it was due to the timing, not the substance, and indicated that they would be open to considering these provisions in the context of broader reform next year. Finally, Chairman Roth pledged that he would move to hold hearings on broader reform next year, but made no commitment on a markup schedule.

Agriculture and VA/HUD Appropriations. This week, the President signed into law the Agriculture appropriations bill and the VA/HUD appropriations bill:

- **Food and Nutrition:** The Agriculture appropriation bill included a \$227 million increase over FY 99 in funding for food and nutrition programs, including WIC, Food Stamps, and the National School Lunch program. However, the bill failed to fully fund the President's request for WIC, thereby failing to ensure that we can achieve the full participation level.
- **National Service:** The VA/HUD appropriations bill funded AmeriCorps at \$438.5 million, which is roughly level funding with FY99. While it will help to fund nearly 50,000 AmeriCorps members, it does not help the President reach his goal of 100,000 AmeriCorps members serving annually.

Labor-HHS-Education Appropriations. The Labor-HHS-ED appropriations bill continues to be negotiated among conferees. The following information is from the latest report out from the conferees:

HHS Appropriations:

- **Child Care Subsidies:** The Senate adopted the Dodd-Jeffords floor amendment to increase the discretionary title of CCDBG by \$818 million forward funded for FY 01. (Administration request was for \$7.5 billion over five years in new mandatory CCDBG funds.) The draft conference report strips increase for FY 01 forward funding.
- **Foster Care:** House and Senate Labor-H marks provide for \$35 million increase in the Independent Living program (Administration request), but do not include other items of our proposal: (a) \$5 million increase in Transitional Living program, (b) \$50 million over five years in other supports, and (c) Medicaid coverage for these young people. The Independent Living Act of 1999, which awaits Senate consideration, provides all of these items.
- **Asthma:** As you know, the Administration's \$68 million children's asthma proposal is split in two parts: \$18 million additional funds are designated through EPA for asthma education, outreach, research and an expansion of EPA's outdoor pollution air monitoring network; and \$50 million in demonstration grants to states to test innovative asthma disease management techniques for children enrolled in Medicaid to help these children receive adequate care and keep their asthma in check. The EPA portion of the proposal was included in the VA-HUD Appropriations bill that the President signed last Wednesday. Senator Durbin has introduced a proposal to direct \$50 million to CDC for asthma research which was attached to the Labor-H bill. Currently, the Labor-H draft conference report mark is at \$10 million for FY01 for Senator Durbin's proposal. The Administration's Medicaid disease management proposal has not been introduced by anyone at this point in the Appropriations process.
- **GMEs:** Currently, the Administration's \$40 million proposal to support graduate medical education at free-standing children's hospitals is funded in Labor-H at \$20 million, however,

there is no authorizing language in the bill for it. OMB is working to ensure that authorizing language is enacted.

- **Family Planning:** The draft Labor-H conference report provides a \$7.5 million increase to \$222 million in Title X family planning – the Administration request was for a \$25 million increase to \$240 million.

Education Appropriations

- **After-School:** House and Senate Labor-H underfund the Administration request for \$600 million (a \$400 increase from FY 99) for the 21st Century Community Learning Center program. The draft Conference report mark is at \$300 million (the House allocated \$300 million and the Senate allocated \$400).
- **Class-Size Reduction:** House and Senate Labor-H appropriators have not kept their commitment to the Administration's class-size proposal. The House chose to provide zero funding for class-size reduction and, instead roll the funds with Goals 2000 and Title VI into the unauthorized Teacher Empowerment Act passed by the House over the summer with a veto threat from the President. The Senate appropriated 1.2 million for class-size reduction (flat-funded at FY99 level and \$200 million below President's request), but appropriators have not agreed on authorizing language. The Senate is expected to allow the class-size funds to be used for a wide-range of activities on teacher quality and class-size reduction across the board instead of dedicating the funds to reducing class-size in the early grades.
- **Charter Schools:** House and Senate Labor-H provide funds above the Administration's request of \$130 million (\$30 million above FY99). The House allocated \$130 million and the Senate allocated \$150 million. The draft conference report shows Charter schools at \$145 million (\$45 million above FY99).

Education: Title I of ESEA, H.R. 2. On Thursday, October 21, 1999, the House passed H.R. 2, Title I of ESEA, with bipartisan support. The bill continues the commitment to standards-based reform and strong accountability. The House was also able to reject several voucher amendments with a strong bipartisan majority. The bill does need to be improved in several areas – it is not as targeted to poor students as current law, it does not incorporate the Administration's proposal to improve the quality of Title I teachers and paraprofessionals, and the provisions for LEP students are weak.

Education: DC College Access. On Wednesday, October 20, 1999, the Senate passed HR 974, the DC College Access bill. The bill included the Thompson amendment backed by the Administration that would allow DC students to retroactively benefit from 1998 and would allow the Mayor to means test for income. The bill will now go to the House where it is expected to pass by voice vote.

Financial Modernization. Attached is a background on the agreement reached on the Community Reinvestment Act (CRA).

Bankruptcy. Senator Lott reportedly approached Senator Daschle to reach a time agreement on the Bankruptcy bill. Senator Lott offered that one non-relevant amendment be considered (*e.g.* minimum wage), and Senator Daschle countered by asking for five. Because appropriations negotiations are ongoing (and therefore Senators are around with open floor time), there is still a possibility that bankruptcy is considered before recess.

Partial Birth Abortion. The Partial Birth Abortion Act of 1999, sponsored by Senator Santorum (R-PA), passed the Senate on Thursday, 63-34, with Senators Mack, Gregg, and Chafee not voting (of those three, only Chafee is with us). While uncomfortably close, the vote is still veto-sustaining. This bill, like the two previous bills the President has vetoed, fails to address the Administration's primary concern that the prohibition on this type of abortion procedure not apply when the attending physician considers the procedure necessary to preserve the health of the woman. (The bill only would allow this type of abortion in cases where it is needed to save the life of the woman.) Senator Durbin's alternative, which is a ban on all post-viability abortions with life and health exceptions, failed, 61-38. The Senate also voted on a Harkin-sponsored Senate of the Senate supporting the Supreme Court's decision in *Roe v. Wade* – it narrowly passed, 51-47.

Child Care. On Tuesday, in an event on Capitol Hill with Senators Dodd and Jeffords, Secretary Shalala released a new report, *Access to Child Care for Low-Income Working Families*, which shows that only 10 percent of children eligible for federal child care assistance are receiving support. The report compiled state-by-state data of the number of children eligible for federal funds and found that the percentage of children helped ranged from a low of 4% in Mississippi to a high of 24% in West Virginia. Overall, the report estimates that 14.7 million children in low income families were eligible to receive a subsidy under federal income limits, but only 1.5 million children in 1998 received assistance. The Administration's child care initiative would invest \$7.5 billion over five years to provide child care subsidies to 1.15 million additional children. Senators Dodd and Jeffords won a Senate floor amendment to the Senate Labor-HHS-Education appropriations bill to add \$818 million for child care subsidies, forward funded for FY 2001; the provision, which the Administration has supported, is so far stripped in conference. Senator Dodd sent the attached letter to the President urging him to press for the additional dollars.

POTUS Message Schedule

Saturday, Oct. 23	Taped Radio Address on extending the solvency of Social Security
Monday, Oct. 25	Prescription Drug Event Travel to New York
Tuesday, Oct. 26	DOWN

Wednesday, Oct. 27	Congressional Gold Medal Ceremony for President Ford
Thursday, Oct. 28	Blue Ribbon Schools Event Meeting with President of Nigeria
Friday, Oct. 29	Departure Statement, topic TBD
Saturday, Oct. 30	Radio Address, topic TBD
Monday, Nov. 1	Oslo, Norway
Tuesday, Nov. 2	Oslo, Norway
Wednesday, Nov. 3	DOWN (tentative)
Thursday, Nov. 4	New Markets Travel
Friday, Nov. 5	New Markets Travel
Saturday, Nov. 6	Radio Address, topic TBD

THE WHITE HOUSE

WASHINGTON

October 19, 1999

The Honorable William V. Roth, Jr.
Chairman
Committee on Finance
United States Senate
Washington, D.C. 20510

Dear Mr. Chairman:

It was a pleasure to meet with you and Senator Moynihan earlier this month to discuss our mutual commitment to strengthening and modernizing Medicare. It continues to be my hope that the Congress will take action this year to, at minimum, make a down-payment on needed reforms of the program. I look forward to working with you toward that end.

In 1997, the Medicare trustees projected that Medicare would become insolvent in 2001. Working together across party lines, the Congress passed and I enacted important reforms that contributed towards extending the life of the Medicare trust fund to 2015. As with any major legislation, the Balanced Budget Act (BBA) included some policies that are flawed or have had unintended consequences that are posing immediate problems to some providers and beneficiaries. In addition, the program faces the long-term demographic and health care challenges that will inevitably result as the baby-boom generation ages into Medicare. As we worked together in 1997 to address the immediate threat to Medicare, we must work together now to address its short-term and long-term challenges.

Preparing and strengthening Medicare for the next century is and will continue to be a top priority for my Administration. For this reason, I proposed a plan that makes the program more competitive and efficient, modernizes its benefits to include the provision of a long-overdue prescription drug benefit, and dedicates a portion of the surplus to help secure program solvency for at least another 10 years. However, I also share your belief that we need to take prompt action -- whether in the context of broader or more limited reforms -- to moderate the excessive provider payment reductions in the BBA of 1997. I believe that legislative modifications in this regard should be paid for and should not undermine the solvency of the Medicare trust fund.

You have requested a summary of the administrative actions that I plan to take to moderate the impact of the BBA. In the letter that you sent to me last Thursday, you also asked about four specific issues related to payment for hospital outpatient departments, managed care, skilled nursing facilities, and disproportionate share hospitals.

Attached is a summary of the over 25 administrative actions that my Administration is currently implementing or will take to address Medicare provider payment issues. The Department of Health and Human Services is taking virtually all the administrative actions possible under the law that have a policy justification, which will accrue to the benefit of hospitals, nursing homes, home health agencies, and other providers.

We are finishing our review of our administrative authority to address the 5.7 percent reduction in hospital outpatient department payments. We believe that the Congressional intent was to not impose an additional reduction in aggregate payments for hospitals and I favor a policy that achieves this goal. The enactment of clarifying language on this subject would be useful in making clear Congressional intent with regard to this issue. I have attached a letter from Office of Management and Budget Director Jack Lew, which was sent at the request of Congressman Bill Thomas, detailing how such language would be scored by OMB.

With regards to managed care, we share your commitment to expanding choice and achieving stability in the Medicare+Choice marketplace. The BBA required that payments to managed care plans be risk adjusted. To ease the transition to this system, we proposed a 5-year, gradual phase-in of the risk adjustment system. This phase-in forgoes approximately \$4.5 billion in payment reductions that would have occurred if risk adjustment were fully implemented immediately. The Medicare Payment Advisory Commission and other experts support my Administration's risk adjustment plan. Consistent with this position, most policy experts believe that a further slowdown of its implementation is unwarranted. However, we remain committed to making any and all changes that improve its methodology. Moreover, as you know, any administrative and legislative changes that increase payment rates to providers in the fee-for-service program will also increase payments to managed care plans.

On the issue of skilled nursing facilities, we agree that nursing home payments for the sickest Medicare beneficiaries are not adequate. I intend to take all actions possible to address this. Administratively, we can and will use the results of a study that is about to be completed to adjust payments as soon as possible. While we believe that these adjustments must be budget neutral, we are continuing to review whether we have additional administrative authority in this area.

Finally, it appears that there has been confusion about the current policy for disproportionate share hospital (DSH) payments. Hospitals across a considerable number of states have misconstrued how to calculate DSH payments. The Department of Health and Human Services (HHS) has since concluded that this resulted from unclear guidance. Thus, as reported last Friday, HHS will not recoup past overpayments and will issue new, clearer guidance as soon as possible.

We believe that our administrative actions can complement legislative modifications to refine BBA payment policies. These legislative modifications should be targeted to address unintended consequences of the BBA that can expect to adversely affect beneficiary access to quality care.

I hope and expect that our work together will lay the foundation for much broader and needed reforms to address the demographic and health care challenges confronting the program. We look forward to working with you, as well as the House Ways and Means and Commerce Committees, as we jointly strive to moderate the impact of BBA on the nation's health care provider community.

Sincerely,

A handwritten signature in black ink, appearing to read "Bill Clinton". The signature is fluid and cursive, with a long horizontal stroke at the end.

**ADMINISTRATIVE ACTIONS BY THE
CLINTON ADMINISTRATION TO MODERATE IMPACT OF THE
BALANCED BUDGET ACT OF 1997 ON MEDICARE PROVIDERS**

ISSUE	STATUS
HOSPITALS: GENERAL	
✓ Capping hospital transfer policy at 10 DRGs for 2 years, through '02	Now being implemented
✓ Stop administrative recoupment of DSH payments based on unclear guidance	Now being implemented
HOSPITALS: OUTPATIENT	
** Eliminate the 5.7 percent payment reduction resulting from drafting problem in the Balanced Budget Act	Under review
✓ Delay implementation of the volume control mechanism for 2 years, which would reduce payment reductions	Planned for regulation early next year*
✓ Moderate payment reductions for rural, cancer and other hospitals experiencing large changes, in budget-neutral manner, in transition to prospective payment system (PPS)	Planned for regulation early next year*
✓ Delay implementation of prospective payment system for cancer hospitals until additional data are collected	Planned for regulation early next year*
✓ Make technical refinements to the Ambulatory Payment Classification (APC) system	Planned for regulation early next year*
✓ Allow for temporary cost-based APCs for certain new technologies	Planned for regulation early next year*
✓ Create additional APCs for certain high-cost drugs (e.g., chemotherapy drugs)	Planned for regulation early next year*
✓ Create separate APCs to pay for blood and blood products	Planned for regulation early next year*
✓ Pay, at least temporarily, for corneal tissue at acquisition costs rather than as part of the payment for overall corneal transplant surgery	Planned for regulation early next year*
✓ Eliminate use of diagnostic codes in payments for medical visits and reassess in the future	Planned for regulation early next year*
SKILLED NURSING FACILITIES	
✓ Increase payment for high acuity patients	Will be implemented
✓ Exclude certain types of services furnished in hospital outpatient departments from SNF PPS: CT scans, MRIs, cardiac catheterizations, emergency services, major ambulatory surgical procedures, and radiation therapy	Now being implemented
HOME HEALTH	
✓ Delay tracking patients and pro-rating payments	Now being implemented
✓ Provide for extended interim payment system repayment schedules for agencies	Now being implemented
✓ Postpone the requirement for surety bonds until October 1, 2000	Now being implemented
✓ Change surety bond requirement to \$50,000, not 15 percent of annual agency Medicare revenues	Now being implemented

ISSUE		STATUS
✓	Eliminate the sequential billing rule	Will be implemented
✓	Phase in reporting of services in 15-minute increments	Will be implemented
PHYSICIANS		
**	Improve annual updates in payments for physicians' services to correct for erroneous projections through administrative actions	Under review
RURAL PROVIDERS		
✓	Change the average wage threshold percentages so more rural hospitals can reclassify	Will be implemented
✓	Use same wage index for inpatient and outpatient PPS	Planned for regulation early next year*
✓	Provide stop-loss protection in the transition to the outpatient PPS	Planned for regulation early next year*
**	Modify Health Professional Shortage Area designations	Under review
AMBULATORY SURGICAL CENTERS		
X	Postpone implementation based on 1999 survey	
MANAGED CARE		
✓	Phase-in risk adjustment over a 5-year period	Now being implemented
✓	Extending EverCare frail elderly demonstration through 12/31/01 and exempt from risk adjustment during this extension	Now being implemented
X	Phase-in risk adjustment over a 7-year period	
✓	Improve beneficiary protections and access to information	Now being implemented
✓	Ease provider participation rules	Now being implemented

"X" indicates that this policy is not advisable, as described in the attachment.

*Federal law requires that the Administration cannot commit to changes in a proposed rule before the final publication.

**Under review.

Financial Modernization Keeps CRA Strong CRA Applies to Newly Authorized Activities

While final details remain to be agreed upon, the draft legislation assures that CRA remains vital and relevant in the new financial landscape. The legislation preserves the current CRA review and comment process when a bank acquires or merges with another bank, and expands CRA to cover banks or bank holding companies commencing new activities, or acquiring or merging with non-bank companies.

- **For the first time, CRA will apply to banks and their holding companies in the context of expansion into newly authorized activities, such as securities, insurance underwriting and merchant banking.** For the first time, having and maintaining satisfactory CRA performance is an essential condition for a bank or its holding company expanding into non-banking activities. Each time the holding company or bank commences such an activity, or acquires a company in these new areas, all of its insured depositories must meet this test. Until now, regulators have permitted banks to make very large acquisitions of securities firms and to engage in other non-bank activities without any statutory CRA performance requirements at all. Under this draft bill, no bank or bank holding company with an unsatisfactory CRA record can become involved in these new activities.
- **The bill deletes the Senate bill's CRA exemption for small rural banks.** The small bank provisions of the Senate bill would have exempted from CRA a full 38 percent of all banks, many of which are the only significant credit sources in rural communities. The new draft bill deletes this loophole. Although many small rural banks serve their communities well, their record is not uniform -- small banks receive a disproportionately high number of less-than-satisfactory CRA ratings.
- **The bill deletes the Senate's "CRA safe harbor" that would block community comments on most banks' CRA applications.** A bank's CRA performance can change over time for a variety of reasons, including mergers or changes in management. The Senate bill created a presumption that a bank was compliant with CRA even if its last satisfactory rating was based on a 'stale' evaluation. This unwarranted safe harbor has been dropped.
- **The bill deletes Senate's unfair burden of proof requirements on the public.** Instead of allowing regulators to consider all CRA comments fairly, the Senate bill would have blocked regulators' consideration of public comments unless they met a substantial legal hurdle. This is an unfair burden for community groups, which often provide information based on first-hand experience that is valuable to regulators making CRA evaluations. The final bill deletes this unfair provision.
- **For small banks, the bill targets CRA regulatory resources on banks with the poorest CRA records, creating an incentive for better community reinvestment performance.** Regulators will examine banks with less than satisfactory CRA ratings much more frequently than banks with satisfactory or outstanding ratings. These provisions complement streamlined CRA exam procedures for small banks put in place in 1995, which focus on five performance measures and impose no additional CRA reporting burdens on these banks.
- **The bill provides for "sunshine" on CRA agreements,** while narrowing the overbroad provisions of the Senate bill. The bill provides regulators with discretion to implement the provision consistent with its purposes, in order to avoid undue burdens. In order to ensure that community reinvestment funds are used for the community, the bill also provides for penalties if an individual diverts funds for personal financial gain

CHRISTOPHER J. DODD
CONNECTICUT

COMMITTEES:
BANKING, HOUSING, AND
URBAN AFFAIRS

FOREIGN RELATIONS

LABOR AND HUMAN RESOURCES

United States Senate

WASHINGTON, DC 20510-0702

October 21, 1999

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The Honorable William Jefferson Clinton
President of the United States
1600 Pennsylvania Avenue
Washington, DC 20500

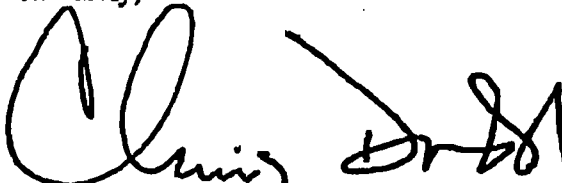
Dear Mr. President:

Since the beginning of your term as President, it has been an honor to work closely with you and the First Lady on issues affecting our most vulnerable citizens -- children. As we complete action on the FY 2000 funding bills, I believe we have been presented with one of the best opportunities yet to secure additional and much needed resources for children. I hope you will make this issue one of your top priorities as you and your Administration proceed with final budget negotiations.

Four times this year -- in the context of the budget resolution, the tax bill and the Labor/Health and Human Services appropriations bill -- the Senate has voted in favor of significantly increasing funding for the Child Care and Development Block Grant (CCDBG). Beyond the overwhelming Democratic support, more than a dozen Republicans joined with us to repeatedly demonstrate their commitment to child care. In addition to the momentum generated by these strong bipartisan votes, the path for increased funding for CCDBG is further eased by the fact that this program is already forward funded. Consequently, no offset would be required to double funding for the program to \$2 billion, the level in the Senate appropriations bill and in your own child care proposal.

Mr. President, we have before us a promising, but finite, window in which to achieve a significant victory for working families. I urge you to continue your efforts on behalf of America's children by insisting that this year's appropriations agreement contain a substantial increase in funding for child care.

Sincerely,



CHRISTOPHER J. DODD
United States Senator

Quality Day Care, Early, Is Tied to Achievements as an Adult

By JODI WILGOREN

WASHINGTON, Oct. 21 — Good early childhood education has a powerful influence on poor children that lasts into young adulthood, affecting things like reading and mathematics skills and even the timing of childbearing, researchers announced today, citing the first study ever to track participants from infancy to age 21.

Those who received high-quality day care consistently outperformed their peers who did not on both cognitive and academic tests, and also were more likely to attend college or hold high-skill jobs, the researchers found. The program also helped participants' parents, with teen-age mothers far more likely to have completed high school after their babies received the intervention.

"The so-called efficacy question, whether you can affect development in the preschool years, is resoundingly answered in the affirmative," Craig T. Ramey, director of the study, said at a news conference at the Department of Education. "It has become crystal clear that if you wait until age 3 or 4 you are going to be dealing with a series of delays and deficits that will put you in remedial programs."

The study of children on the lower rungs of society, called the Abecedarian Project, involved 111 African-American families in Chapel Hill, N.C., whose infants were medically healthy but, demographically, at risk for failure in school and beyond. Half the children were randomly assigned to full-time day care from infancy to age 5, while the others received only nutritional supplements and some social work. They attended comparable public schools from kindergarten on.

With low adult-child ratios and a stable, professional staff, the educational program consisted of a series of 200 simple games focused on language development, starting with visual stimulus for tiny infants and leading to scavenger hunts and mazes for older toddlers.

Although the newest findings will not be published until the spring, nearly 300 peer-reviewed articles based on the study, which began in 1972, have already appeared in a variety of academic journals.

The project has been praised by Hillary Rodham Clinton and other advocates of early childhood education, but criticized by other authorities who have attacked its research methods.

Pediatricians and psychologists hope to use the barrage of new data to persuade Congress and the states to broaden access to care for poor families, particularly those on welfare, and to improve conditions and curriculum in the current cadre of day-care centers. The announcement comes amid increased attention to the issue, with a group of experts scheduled to meet here next week to applaud France's universal preschool program.

"Most child care in America is borderline kooky and, at best, safe but not developmentally stimulating," said Michael H. Levine, who oversees early childhood development projects for the Carnegie Corporation in New York. "Whether or not there's a Government solution to providing high-quality care for all working families or not, there certainly needs to be a more balanced responsibility for responding to this research."

Abecedarian — the word, echoing the ABC's, means novice learner — for 1 that children in the intensive educational program were more successful than their peers by virtually every measure:

¶Thirty-five percent of those in the day care program attended a four-year college before their 21st birthday, compared with 14 percent of the comparison group.

¶At age 21, twice as many of the day care graduates (40 percent) were still in school; 65 percent of those who received the intervention either had a good job or were in college, compared with 40 percent of the others.

¶Fewer of the participants in the child care program had children of their own by age 21; those who did became parents, on average, past their 19th birthday, while the parents in the other group were about 17.

¶By age 13, twice as many of the children in the control group had been placed in special education classes as their peers who received the educational day care. Only 30 percent of the day care children had to repeat a grade in school, compared with 56 percent of the others.

¶While test scores were below average for both groups and dropped over time, those in the child care program kept an edge of about 5 percentage points through age 21. The gap in I.Q., however, fell from about 17 points at age 3 to just 5 points by age 21.

¶The study did not find significant differences in criminal activity between the two groups, researchers said.

"This is the most intensely studied group of children on earth," said Dr. Ramey, who is now a professor of psychology, pediatrics and neurobiology at the University of Alabama at Birmingham. He and his colleagues at the University of North Carolina are vigorous advocates of early childhood education. They hope to continue tracking the participants to age 28 or 29. The research has been financed by the Department of Education and the State of North Carolina, among others.

The Abecedarian results echo results of several similar studies that indicate educational day care improves both academic achievement and social behaviors. It is the first program that began with infants — fed 6 weeks to 4 months — and followed them to adulthood, and shows more significant gaps at age 21 than a similar project, based in Michigan, that began with developmentally disadvantaged children aged 3 or 4.

"What's really important is that it's not just any child care, that it is high-quality early care and intervention," said Augusta S. Kappner, president of Bank Street College of Education in New York, who recently toured France with a group of 13 educators to study that country's program of universal free preschool.

"What is high quality? Usually you're talking about the really important factors, such as the qualifications of the staff, the constancy of the staff, the quality of the curriculum, group size, parent participation."

The Abecedarian Project, based at the Frank Porter Graham Child Development Center in Chapel Hill, had a staff with qualifications akin to teachers in public schools, and virtu-

ally no turnover. Ratios ranged from 1 adult to 3 children to 1 to 7, depending on the children's ages.

On its Internet site, the Graham center says that "an important goal of the project was to break the so-called 'poverty cycle' by better preparing children for success in school — and eventually life."

The learning games, like waving a scarf over an infant until he grabs it, or leading a toddler to identify like items among several pieces of silverware, are integrated into a high-stimulus day of art projects and playground visits.

"Many of the learning games happen during mealtimes," said Joseph Sparling, co-author of the curriculum, which was published in two

books. "They happen during diapering; they happen when you're going outdoors. You could hardly distinguish them from good adult-child interaction."

Abecedarian cost the equivalent of \$11,000 per child per year in today's dollars, but researchers said similar results could probably be achieved for less, since there were extra expenses associated with being a demonstration project.

"The argument that we can't afford this is absolutely bogus," Dr. Ramey said. "We get what we pay for. We're the richest country on the face of the earth; we're the richest we've ever been. We're not No. 1 in the world in education, in health care, in social services."

THE WHITE HOUSE
WASHINGTON

file - poverty
subs -
1999

October 1, 1999

MEMORANDUM FOR HILLARY RODHAM CLINTON

FROM: NICOLE RABNER
ANN O'LEARY
RUBY SHAMIR

CC: MELANNE VERVEER
SHIRLEY SAGAWA

SUBJECT: 1999 INCOME AND POVERTY REPORT

As you know, yesterday, the Census Bureau released its annual report on poverty in the U.S. Attached is the White House press paper on the report, Gene Sperling's speech to the National Press Club on the Administration's record on poverty, and Q&A on the Administration's record on poverty and welfare reform.

KEY FACTS ON CENSUS INCOME AND POVERTY REPORT

September 30, 1999

TODAY, THE CENSUS BUREAU RELEASED THEIR ANNUAL REPORT ON INCOME AND POVERTY IN AMERICA FOR 1998. HERE ARE SOME OF THE RESULTS:

Strong Broad-Based Income Gains:

- **All Groups Have Seen Their Incomes Rise – From Richest to Poorest.** For the second year in a row, all five quintiles of the income distribution saw their incomes, adjusted for inflation, rise. Since 1993, all five quintiles have seen their incomes rise strongly, after 12 years in which there was little if any improvement for the bottom 60 percent of Americans.
- **Household Income Up 3.5 Percent – Tied For the Largest Gain Since 1978.** Income for the median household rose \$1,304, from \$37,581 in 1997 to \$38,885 in 1998, adjusted for inflation. Real median household income is now at the highest level ever recorded.
- **Typical Family Income Up Over \$5,000 Since 1993.** Another measure of income -- family income, which excludes single individuals and counts only related members in any household -- shows a similar trend. In 1998, the median family's income, adjusted for inflation, increased 3.3 percent (or \$1,475) -- the fifth consecutive annual rise. Median family income is also at an all-time high. Since President Clinton's Economic Plan passed in 1993, median family income has increased from \$41,691 in 1993 to \$46,737 in 1998 -- that's a \$5,046 increase in income, adjusted for inflation. From 1988 to 1992, median family income *fell* \$1,864, adjusted for inflation.
- **Income Growth Up for All Regions of the Country in 1998 for the First Time on Record.** For the first time since data were reported by region (in 1975), all regions of the country saw significant increases in median household income. The incomes of households living in the Midwest rose 4.4 percent in 1998, with a rise of 3.0 percent in the West, 2.8 percent in the Northeast, and 2.6 percent in the South.
- **Income of Typical Hispanic Household Up \$3,880 in Past Three Years.** In 1998, the income of the median Hispanic household, adjusted for inflation, increased from \$27,043 in 1997 to \$28,330 in 1998 -- that's an increase of \$1,287 or 4.8 percent. Over the past three years, the income of the typical Hispanic household has risen \$3,880 -- or 15.9 percent -- the largest three-year increase in Hispanic income on record.
- **Under President Clinton, The Typical African-American Household's Income Is Up \$3,317.** While median income of African-American households was unchanged in 1998, it is up 15.1 percent (or \$3,317) since 1993, from \$22,034 in 1993 to \$25,351 in 1998, adjusted for inflation.
- **After Rising Sharply for 20 Years, Inequality Has Stabilized.** After rising for nearly 20 years, income inequality has not changed significantly over the past five years -- and fell slightly in 1998. In the 1970s and 1980s, income inequality increased, while the economy expanded. In the 1990s, all parts of the income scale are benefiting from a growing economy.

Large Reductions in Poverty:

- **Poverty Rate Fell To 12.7 Percent in 1998 -- Its Lowest Level Since 1979.** In 1998, the poverty rate dropped to 12.7 percent from 13.3 percent the year before -- that's the lowest poverty rate in two decades. Since President Clinton signed his Economic Plan into law, the poverty rate has declined from 15.1 percent in 1993 to 12.7 percent last year -- that's the largest five-year drop in poverty in nearly 30 years (1965-1970). There are now 4.8 million fewer people in poverty than in 1993. (In 1998, the poverty threshold was \$16,660 for a family of four.)
- **In 1998, The Largest One-Year Drop in Child Poverty in More than Two Decades.** While the child poverty rate remains too high, in 1998, it declined from 19.9 percent to 18.9 percent -- that's the lowest child poverty rate since 1980 and the largest one-year drop in child poverty since 1976. Under President Clinton, the child poverty rate has declined from 22.7 percent to 18.9 percent -- that's the biggest five-year drop in nearly 30 years (1965-1970).
- **Elderly Poverty Rate As Low As It's Ever Been.** In 1998, the elderly poverty rate remained at 10.5 percent -- as low as it's ever been. In 1959, the elderly poverty rate was 35.2 percent.
- **The Hispanic Poverty Rate Dropped To Its Lowest Level Since 1979.** In 1998, the Hispanic poverty rate dropped from 27.1 percent to 25.6 percent -- that's the lowest level since 1979. While there is still more work to do, since President Clinton took office, Hispanic poverty has dropped from 30.6 percent to 25.6 percent. In the past two years, the poverty rate among Hispanics has dropped from 29.4 percent to 25.6 percent -- that's the largest two-year drop in Hispanic poverty in more than 20 years (1975-1977). The Hispanic child poverty rate fell from 36.8 percent to 34.4 percent -- and is now 6.5 percentage points lower than it was in 1993.
- **The African-American Poverty Rate Down To Its Lowest Level on Record.** While the African-American poverty rate is still far above the poverty rate for whites, it declined from 26.5 percent in 1997 to 26.1 percent in 1998 -- that's its lowest level recorded since data were first collected in 1959. Since 1993, the African-American poverty rate has dropped from 33.1 percent to 26.1 percent -- that's the largest five-year drop in African-American poverty in more than a quarter century (1967-1972).
- **Child Poverty Among African-Americans Down To Lowest Level on Record.** While the African-American child poverty rate is too high, it fell from 37.2 percent to 36.7 percent in 1998 -- its lowest level on record (data collected since 1959). Since 1993, the child poverty rate among African-Americans has dropped from 46.1 percent to 36.7 percent -- that's the biggest five-year drop on record.
- **4.3 Million People Lifted Out of Poverty By EITC -- Double The Number in 1993.** In 1993, President Clinton expanded the Earned Income Tax Credit, providing a tax cut for low-income working families. In 1998, the EITC lifted 4.3 million people out of poverty -- that's double the number of people lifted out of poverty by the EITC in 1993.

Poverty and Welfare Reform
Question and Answer
September 30, 1999

Q: How is welfare reform going?

A: In 1992, President Clinton promised to end welfare as we know it, and three years after the enactment of the welfare reform law, welfare reform is working. We've seen revolutionary changes to promote work and responsibility: welfare rolls are down by nearly half to their lowest level in 30 years, nearly four times more of those on welfare are working, and the employment rate of people receiving welfare in the previous year has increased by 70 percent. All fifty states are meeting the law's overall work requirement. Numerous independent studies also confirm that record numbers of people are moving from welfare to work.

Background

Caseloads: The number of welfare recipients is at its lowest level since 1969 (30 years) and the percentage of Americans on welfare is at its lowest level since 1967 (32 years). The welfare rolls have fallen by 48 percent, or 6.8 million, since January 1993, when they stood at 14.1 million. State-by-state numbers show 31 states have had declines of 50 percent or more. A recent report by the Council of Economic Advisers finds that the implementation of welfare reform is the single most important factor contributing to the widespread and continuous caseload declines from 1996 to 1998. CEA estimates that the federal and state program and policy changes implemented as a result of welfare reform account for approximately one-third of the caseload reduction from 1996 to 1998. The strong economy has also played an important role, accounting for approximately ten percent of the decline.

Employment and earnings of current welfare recipients: Nationally, the percentage of welfare recipients who work rose from 7 percent in 1992 to 27 percent in 1998, with the remainder fulfilling their participation requirements through job search, education, and training. The earnings of those on welfare have increased about 11 percent between 1997 and 1998 (from \$506/month to \$553/month).

Employment and earnings of former welfare recipients: Results from a national survey released in August by the Urban Institute found 69 percent of recipients had left welfare for work, and 18 percent had left because they had increased income, no longer needed welfare, or had a change in family situation. The report found that women leaving welfare were working at nearly identical rates, types of jobs, and at salaries as other mothers with incomes up to 200 percent of poverty or \$32,000 a year for a family of four. This study found former welfare recipients had a median hourly wage of \$6.61, which is actually higher than other low-income mothers whose median hourly wage is \$6.06. More than two-thirds of employed former recipients are working 35 hours per week or more, which is slightly higher than other low-income mothers.

A recent General Accounting Office report based on state surveys found that between 63 and 87 percent of adults have worked since leaving the welfare rolls, results similar to state studies

funded by the Department of Health and Human Services. GAO found annual earnings ranging from \$9,512 to \$15,144 among those who had left welfare. When we factor in other supports for working families, such as EITC, food stamps, and child care, families are better off than they were on welfare.

Q: Has poverty among young children increased under the Clinton/Gore Administration?

A: No. From 1993 to 1998, the poverty rate among children under age six has declined from a high of 26 percent (6.1 million children) to 20.6 percent (4.8 million children). This recent decrease came after a 52 percent increase between 1978 and 1993. There has been a decline in poverty not only among young children, but all children. Overall, there are now 2.2 million fewer children living in poverty than in 1993 (15.7 million in 1993 compared to 13.5 million in 1998) and, under President Clinton, the child poverty rate declined from 22.7 percent to 18.9 percent – the largest five-year drop in nearly 30 years. There have also been historic declines in the African-American and Hispanic child poverty rates, though both remain too high.

Q: Do these new numbers show more children living in extreme poverty?

A: No. We're encouraged to see that the number of children living in extreme poverty (50% of the federal poverty level or \$6,400 for a family of three) dropped by nearly 600,000 between 1997 and 1998 (from 6.4 million to 5.8 million). The rate of extreme child poverty also dropped, from 9 percent to 8.1 percent. Since President Clinton and Vice President Gore took office, 1.2 million fewer children are living in extreme poverty – a drop of 18 percent, from 7 million in 1993 to 5.8 million in 1998.

Q: Why are these trends different from those reported by the Children's Defense Fund on August 22 showing an increase in the number of children living in extreme poverty?

A: The new numbers released by the Census Bureau reflect data through 1998 and use the official measure of poverty. The CDF numbers go through 1997 and use an expanded definition of income. Using that expanded definition of income, CDF found that the number of children living in extreme poverty rose by 426,000 between 1996 and 1997, from 2.3 million to 2.7 million. Under the official measure, the number of children living in extreme poverty held steady between 1996 and 1997. The actions the President announced on July 14th to ensure working families' access to food stamps (see below) will help address the loss of benefits that leads CDF to find a rise in extreme child poverty.

Q: Do these numbers show those at the bottom are worse off as a result of welfare reform?

A: No. The new Census data show record increases in income, a slight decrease in income inequality, and record decreases in the poverty rate. In 1998, every income group

experienced a real increase in their income, showing that all parts of the income scale are benefiting from the growing economy. Under Reagan and Bush, average household income for the poorest one-fifth fell 4 percent; under the Clinton/Gore Administration it has increased over 10 percent. [NEC has more detailed analysis]

Background

An analysis by the Center on Budget and Policy Priorities released in late August compared income trends for families headed by single mothers between 1993-1995 and 1995-1997. They found, again using an expanded definition of income, that incomes of single-mother families rose substantially between 1993 and 1995, especially among the bottom 60 percent of these families, but that the story between 1995 and 1997 was mixed. In the later period, while incomes continued to grow for those in the second and third quintiles, the average disposable income of the poorest fifth of single mother families fell. This decline was primarily the result of a drop in receipt of TANF and food stamp benefits. While it will take more time to do a comparable analysis of 1998 data using alternative measures of poverty, the strong positive trend in the official measure is encouraging news. While the number of poor female-headed households with children stayed constant between 1995 and 1997, there were significant improvements in 1998. This means that between 1995 and 1998, the number of poor female-headed families with children dropped by nearly 5 percent (from 3.6 million to 3.5 million). The actions the President announced on July 14th to ensure working families access to food stamps (see details below) will go a long way to address the loss of benefits which the Center finds to be a key factor contributing to the loss of income among the poorest families.

Q: What has this Administration done to help families move out of poverty?

A: President Clinton and Vice President Gore have worked for the last six and a half years to raise incomes, make work pay, help families make a successful transition from welfare to work, and extend opportunity to all. This includes raising the minimum wage, expanding the Earned Income Tax Credit, enacting the Children's Health Insurance Program, and promoting investment in underserved communities. The latest data released by the Census Bureau show we are making tremendous progress.

The President has warned Congress not to renege on the bipartisan commitment to help states and communities finish the job of welfare reform and. He vigorously opposes attempts to cut the welfare block grant and the EITC tax refund for low income workers. The EITC lifted 4.3 million people out of poverty in 1998. To finish the job, we need to reauthorize the Welfare-to-Work program, raise the minimum wage, and increase our investment in childcare, transportation and housing vouchers. (See attachment).

Q: What has the President done to help welfare reform succeed?

A: The President started reforming welfare early in his first term, granting waivers to 43 states to require work and encourage personal responsibility, expanding the Earned Income Tax Credit and the minimum wage to make work pay, and pushing the Congress

for nationwide welfare reform legislation which he signed into law in August 1996. Since 1996, he has: launched The Welfare to Work Partnership, which now includes 12,000 businesses that have hired an estimated 410,000 welfare recipients; issued an executive order to ensure the federal government hired welfare recipients (over 14,000 to date); and supported the launch of the Vice President's Coalition to Sustain Success, an array of national civic, service, and faith-based groups working to help new workers with the transition to self sufficiency. He has also fought for and won additional funds for welfare to work efforts, including a new tax credit to encourage the hiring of long term recipients, funding for Welfare-to-Work transportation (\$75 million in FY 1999), and Welfare-to-Work housing vouchers (50,000 enacted to date): And on April 10, the President put in place new welfare rules that make it easier for states to use TANF funds to provide such as child care, transportation, and job retention services for working families.

Q: What is the Administration doing to make sure families get the food stamps and Medicaid for which they are eligible?

A: In July the President took executive action that will go a long way to ensure working families access to food stamps, by: (1) allowing states to make it easier for working families to own a car and still be eligible for food stamps; (2) simplifying food stamp reporting rules to make it easier for families to get food stamps; and (3) launching a nationwide public education campaign and a toll-free hotline to help working families know whether they're eligible for food stamps. Families with earnings up to 130 percent of poverty (\$8.50 an hour for a family of three) can be eligible for food stamps to supplement their income and help buy food for their families, but only two of five working families eligible for food stamps actually apply for and receive them.

HCFA has been working hard with states to ensure that people who should be enrolled in Medicaid are, in fact, enrolled. Medicaid is a joint partnership between HCFA and the states. States have primary responsibility for operating their programs. Nevertheless, HCFA continues to provide technical assistance and intends to be aggressive in ensuring that states follow all federal rules involved with Medicaid eligibility determinations.

Since the beginning of 1997, HCFA has issued numerous letters designed to inform and educate States of their responsibilities under Medicaid. A new guidebook for states released last month is just the latest of our efforts to work with states to ensure that people moving off cash assistance programs, and working families who may not realize they are eligible for assistance, still get Medicaid benefits. The guidebook also makes clear that states' TANF-Medicaid application must furnish a Medicaid application upon request and may not impose a waiting period. States must also process Medicaid applications without delay. Extensive outreach efforts are also under way in all 50 states to enroll children in health insurance as part of the implementation of the Children's Health Insurance Program (CHIP).

In addition, both USDA and HHS are working aggressively to enforce the law requiring states to provide Medicaid and Food Stamp applications upon request and ensuring they process them without delay, regardless of the state rules governing the TANF application.

Background:

Between 1995 and 1998, the number of people receiving food stamps fell more than 3 times faster than the number of people in poverty. Recently released estimates from the Bureau of the Census show that the number of people in poverty fell from 36.4 million in 1995 to 34.5 million in 1998. Administrative data from the Food and Nutrition Service show that over the same period food stamp participation fell from an average of 26.3 million to 20.0 million. (Food stamp participation has fallen still further since then: in June, the program reached 17.8 million people).

There are a number of factors contributing to the decline in food stamp participation. One is the strength of the nation's economy, which allowed participants to find work, reducing their need for food stamps. Another is the success of welfare reform in moving participants from welfare to work. At the same time, some working families don't realize they are eligible for food stamps and have difficulty obtaining them, leading some participants to leave the program unnecessarily and discouraging others from applying for benefits. Finally, some changes in program rules under welfare reform restricted the participation of immigrants and unemployed childless adults.

GENE B. SPERLING
REMARKS ON THE CLINTON ADMINISTRATION'S
ANTI-POVERTY AGENDA
October 1, 1999

I. INTRODUCTION

I wanted to use the occasion of the release of the new Census numbers on income and poverty to do an overview of the effectiveness of the Clinton-Gore Administration's policies at addressing one of the most important missions of any Administration: reducing poverty and increasing opportunity for our most disadvantaged families.

In a nutshell, the record is one of significant progress in the right direction and a frank recognition of the significant distance still left to travel. I believe a fair analysis must make both of those points.

Sometimes in politics when there has been a significant accomplishment, the White House or a political party takes a victory lap. There is no cause for that here. But there is cause for understanding that significant progress has been made – and a reason to understand what has worked and what still needs to be done.

Recognizing that there has been progress – even stunning progress – does not and should not dull our sense of concern over the distance remaining. Take one example: poverty among African-American children was 46.1 percent in 1993. Yesterday, we learned it had fallen to 36.7 percent. That represents a 20 percent drop in African American child poverty – the lowest on record. On one hand, this is an enormous achievement. On the other hand, the fact that more than one-third of African American children are being raised in poverty stands as one of the most disturbing and disappointing facts in American society.

From the 1970s to the early 1990s, the Nation witnessed a slowdown in growth and a widening of inequality. The result was that the incomes of the bottom sixty percent of Americans fell, after adjusting for inflation, while the poverty rate rose. In the last several years, the economic performance of the Nation has improved substantially, with strong growth, low unemployment, low inflation, and low interest rates. It is important to recognize that the economic policies and excellent economic performance of the Nation over last several years has brought gains to all segments of society and stemmed the long rise of economic inequality. This can be missed when simply looking at trends over 20-25 year periods.

From 1993 to 1998, poverty has fallen across the board and incomes have risen for each and every income group. Consider the following (see Tables 1-4 at the back for more detail):

- The poverty rate has fallen from 15.1 percent in 1993 to 12.7 percent in 1998, lifting nearly 5 million people out of poverty.
- The poverty rate has fallen by 15 percent or more for all persons, African Americans, Hispanics, children, African American children, Hispanic children, single mothers, and many other groups. The poverty rate is now the lowest on record for African Americans, African American children, Hispanic children, single mothers, African American single mothers, and Hispanic single mothers.
- At the same time, incomes have grown by 9.9 –11.7 percent for every quintile of the income distribution. For the bottom three quintiles, this is the strongest growth since at least the 1970s. The 10.3 percent increase in incomes for the bottom quintile over the last 5 years represents an especially dramatic turnaround from the 4.4 percent decline between 1981 and 1993.
- Over the last 5 years typical families have seen their income rise by 12.1 percent and African American families have seen their incomes rise by 21.0 percent. That represents more than \$5,100 in income for the typical African American family.
- In 1998, the Earned Income Tax Credit (EITC) lifted 4.3 million people out of poverty – twice the number of people lifted out of poverty by the EITC in 1993.

II. CLINTON VISION

Despite this impressive progress a common critique of the Administration's record goes something like this: The President came into office with an ambitious investing-in-people agenda that might have addressed poverty, but he had to sacrifice it to take on increasing deficit projections.

Behind this critique lies two false premises. First, as I will establish, this President has fought – successfully – for significant investments in anti-poverty initiatives. The second, and the most fundamental misconception is that only significant government investments and not sound fiscal and macroeconomic policies are tools to reduce poverty. However much any of us believe in the power of wisely-crafted public policies to invest in people, no one should be blind to the fact that the last 6 years demonstrates definitively that macroeconomics and fiscal policy do matter for poverty reduction and they can matter big time.

The old paradigm assumed that fiscal discipline would hurt poverty reduction efforts for two reasons: one, public investments would have to be sacrificed or put on hold and two, deficit reduction would lead to short-term economic contractions that could freeze or hurt economic opportunities for poorer Americans even if in the long-run it led to savings, capital formation, and faster productivity growth.

The new fiscal paradigm of the last six years has told a rosier story – even and especially for the short-term. Serious debt reduction took away what Bob Rubin called the “deficit premium” leading to a virtuous cycle of lower interest rates and higher investment that increased capacity enough to allow for continuing expansion without inflation. Experts from Alan Greenspan to Paul Volcker credit the fiscal deficit reduction since 1993 as a key component of our near record expansion.

In short, strong deficit reduction helped create the conditions for an exceptionally strong, steady, and long expansion that has, in turn, led businesses to seek out more, and more often, minority and economically disadvantaged Americans who had traditionally been left behind, ignored, or at least left on the fringe of the labor market.

The significant impact of this new recruitment of workers who had previously been on the fringe of the labor market how misguided it is to discount the contribution that fiscal and macroeconomic policy has made to our efforts to reduce poverty. Consider the following:

African American unemployment has fallen from 14.3 percent at the end of 1992 to 7.8 percent last month – and this year reached the lowest level on record. Over this period, Hispanic unemployment fell from 11.5 percent to 6.5 percent, the lowest on record. At the same time, the expanding economy, and the policies I will discuss in a moment, have brought new workers into the economy. The labor force participation rate of single mothers has risen from 73.7 percent in 1992 to 84.2 percent in 1997. At the

same time, the percentage of single women with children who received welfare has fallen from 19.3 percent in 1992 to 8.3 percent in 1997.¹

Furthermore, the low unemployment rate may be creating a virtuous employment circle. The European economies saw large increases in their unemployment rates in the 1980s translate into what appears to be permanently higher levels of unemployment, a process some economists have called “hysteresis.”² One explanation for why this might happen is that high unemployment rates lead to people being unemployed for longer periods, during which time they start to lose both their productive skills and their ability to search for jobs effectively. As a result of these changes, the unemployment rate could stay permanently higher. Although the definitive evidence for the United States is not in yet, there is good reason to hope that if we keep the expansion going with so many previously disadvantaged and unemployed workers in the workforce for so long, we will create a far larger pool of ready and able American workers for years to come.

¹ Council of Economic Advisers, “Good News for Low Income Families: Expansions in the Earned Income Tax Credit and the Minimum Wage,” *A report by the Council of Economic Advisers*, December 1998.

² Olivier Blanchard and Lawrence Summers, “Hysteresis and the European Unemployment Problem.” In Stanley Fischer, ed., *NBER Macroeconomics Annual*, Vol 1, 1986, MIT Press: Cambridge.

III. WHY MACROECONOMIC POLICY IS NECESSARY, BUT NOT SUFFICIENT

However flawed the premise that fiscal discipline has no impact on poverty reduction, the notion that there should be a sole and exclusive focus on deficit reduction is equally if not more flawed. Shared and inclusive growth is not an automatically assured outcome.

Growth has not always led to higher incomes for the poorest and falling poverty rates for the Nation. After observing the poverty rate rise and incomes at the bottom fall despite the expansion of the 1980s, David Cutler and Lawrence Katz published a paper arguing that “a long-standing, positive relationship between the economic well-being of the poor and the growth of the economy has changed.”³ The experience of the 1980s shows that growth, by itself, is not sufficient.

In the 1990s, falling unemployment rates and higher growth have once again led to falling poverty rates and higher incomes for all Americans. In fact, some economic evidence suggests that the fall in poverty may be even larger than one would have predicted just from the relationships that prevailed in the past.⁴ The President’s policies have played an important part in giving people the tools, incentives and opportunities so that they can all benefit from, and contribute to, the strong economy. Macroeconomic policy is necessary, but not sufficient.

Furthermore, fiscal discipline and resulting low-interest rates can fund investment growth and give more disadvantaged Americans job opportunities, but it won’t ensure that a generation of young children won’t be lost to poor schools, poor nutrition, and crime and drug ridden opportunities. Fiscal discipline may lead businesses to help some Americans who have fallen behind to get new training opportunities, but new technological and capital investments without a skilled and motivated workforce is like a bat without a ball. Necessary but not sufficient.

The new economy has the potential to create a skills gap, between those who know how to take advantage of our new technologies and those who do not. Closing this gap, and ensuring that everyone has access to the higher returns to work, is one of the major challenges as we move forward.

In the new economy, productivity growth is being driven by the high technology sector. Workers succeed best when they have the skills to succeed. Improvements in technology and other changes continue to raise the gap between the wages of college educated workers and those with only a high school degree or less. In 1997, the average

³ David Cutler and Lawrence Katz, “Macroeconomic Performance and the Disadvantaged.” *Brookings Papers on Economic Activity* 2:1991.

⁴ Findings by Robert Haveman and Jonathan Schwabish “Macroeconomic Performance and the Poverty Rate.” Institute for Research on Poverty Working Paper DP 1187-99 imply that increasing GDP growth by 1 percentage point, and lowering the unemployment rate by 0.5 percentage points, results in a 0.4 percentage point reduction in poverty in the 1993-97 period. This compares with a 0.2 percentage point reduction in 1959-72 and no reduction in the 1980s.

college graduate made 77 percent more than the typical high school graduate, compared to only 58 percent more in 1995.⁵ In the last 7 years, the unemployment rate for high school dropouts has averaged 9.3 percent, while the unemployment rate for college graduates has only averaged 2.5 percent.

Study after study has documented that each additional year of a college can increase a worker's future earnings by 5 to 15 percent with evidence that such returns have risen in recent years.⁶ Caroline Hoxby, for instance, finds that the return to a College education was 12 percent from 1992 to 1996, compared to 5 percent from 1972 to 1978.⁷

That is why even in a period of fiscal contraction, a sound growth strategy must be able to bring down deficits and increase educational investments and work incentives. The 1993 Budget was an example of such a balanced approach. While it called for \$505 billion in deficit reduction – the total gross savings were over \$600 billion. In other words, the 1993 budget made over \$100 billion in additional tough choices so that the largest EITC increases could be passed and solid investments could be made in Head Start and the Special Supplemental Income Program for Women, Infants, and Children (WIC) – even in the midst of deficit reduction. Indeed, dropping the President's bold increase in the Earned Income Tax Credit could have allowed the President to avoid his most politically costly decision – raising the gas tax by 4.3 cents. Yet the new Census data show that there are at least 2.3 million fewer Americans in poverty, the direct result of the expanded EITC, because the President made tough decisions and chose a balanced approach over a sole focus on deficit reduction.

Contrary to any notion that poverty reduction initiatives were put on hold until the budget was balanced, the President has sought the right balance between debt reduction and creating and expanding upon programs that enhance economic opportunities for poorer Americans. Even in the midst of the dramatic deficit reduction we have seen over the past 6 years, President Clinton has successfully increased funding for several anti-poverty programs and indeed has passed several new economic opportunity initiatives.

While one can turn to Table 5 and see a number of poverty reduction programs, three examples of improvement to existing programs are Head Start, WIC and EITC. We now spend nearly \$3 billion more each year for Head Start and WIC than we did in 1993 even as discretionary spending as a percentage of our economy has been reduced from 8.4 percent in 1993 to less than 6.6 percent in 1999.

⁵ U.S. Department of Commerce, Bureau of the Census, *Educational Attainment in the U.S. Current Population Reports*. December 10, 1998.

⁶ See Thomas Kane and Cecilia Rouse, "Labor Market Returns to Two and Four-year College: Is a Credit a Credit and Do Degrees Matter?" *American Economic Review*, 85:3, 1995 and Orley Ashenfelter and Alan Krueger, "Estimates of Economic Returns to Schooling From a New Sample of Twins." *American Economic Review* December 1994.

⁷ Caroline Hoxby, "Tax Incentives for Higher Education." *Tax Policy and the Economy* 12 1998 MIT Press: Cambridge.

Likewise, the President has proposed and signed an impressive number of new initiatives that either focus on lower income Americans or which are at least targeted to disproportionately benefit more economically distressed Americans. One can see a complete list in Appendix 1. Initiatives that focus on lower-income people include:

- Empowerment Zones, Community Development Banks, Community Reinvestment Act (CRA) reform, Child Health Initiative, Welfare to Work programs, Brownfields, GEAR-UP, Youth Opportunity Grants, and Individual Development Accounts.

Other programs that disproportionately target low-income Americans include the Reading Excellence program and the Technology Literacy Challenge.

IV. BURDEN OF FISCAL UNCERTAINTY SHOULD NOT FALL ON THE POOR

In making the difficult choices between fiscal discipline and investments, any government should be guided by the principle that the burden of fiscal uncertainty should never fall first on the poor. This is not to say that low-income programs should never ever bear any burden of fiscal discipline – but it should be a last resort – not a first. This principle is based not only on equity but because any government should feel concern about imposing irreparable damage in the name of deficit reduction – only to find out that altered budgetary projections made the cuts unnecessary. Even if one believed that balancing the budget should be the sole motivation of fiscal policy, those who called for major cuts in Medicaid, Food Stamps, and the EITC in 1995 turned out to be asking a painful sacrifice from the poorest and most politically powerless population that was proven to have been unnecessary. On the other hand, freezes or even cuts to those most able to handle them are easily reversed when times improve.

V. REWARDING WORK

The Clinton-Gore focus on poverty reduction has been very much grounded in a vision of rewarding work for poorer families. This coherent and comprehensive vision is a consistent strand running from sections of Putting People First to a comprehensive set of policies to reward work.

Economists are in strong agreement that lower income Americans are quite responsive to both economic incentives to enter the workforce or to disincentives that punish work efforts. In the past a single mother who wanted work risked losing health care for her children, while facing large child care, transportation, and clothing costs for the choice to enter the workforce. At the same time, if she were on Aid to Families with Dependent Children (AFDC), she would face one-for-one reductions in welfare payments for each dollar she earned above a relatively small amount. These child care, health care, and transportation costs, together with AFDC, served as a prohibitive tax on work for too many poor Americans.

The Clinton-Gore agenda has been to launch an all-out assault on such work disincentives by seeking to reward work and by aspiring to the goal that no full-time working parent should have to raise his or her child in poverty. The assault included a successful effort to dramatically increase and defend the EITC while raising the minimum wage.

EITC and Minimum Wage

Consider what this can mean for our most hard-pressed working families. A working parent with two children earning the minimum wage in 1993, made \$10,569 with the EITC (in 1998 dollars). With increases in the EITC and minimum wage, that same family is above the poverty line – making over \$13,000 – a more than 25 percent inflation-adjusted increase in their standard of living.

Indeed, both Census data and academic studies show how powerful the impact of the EITC has been. The latest poverty statistics from the Census provide alternative measures of poverty with and without the EITC (see Tables 6 and 7). They show that in 1998, 4.3 million people were raised out of poverty by the EITC – of which more than half were children. This is an increase of 2.3 million over the number of Americans lifted out of poverty by the EITC in 1993. The result suggests that more than one-quarter of the reduction in poverty between 1993 and 1998 (7.7 million people according to the poverty measure that includes the EITC) is directly attributable to the expansion of the EITC.

In reality, the benefits of this tax credit have probably been even greater than these simple statistics suggest. There is now an increasing academic literature confirming that the EITC has been effective in bringing people, particularly single women, into the workforce:

- Liebman and Eissa find that the EITC significantly increases labor force participation among single mothers, especially less educated women. Dickert, Hauser, and Scholz present findings consistent with this, predicting that the 1993 EITC expansion would induce 516,000 families to move from welfare to work.⁸
- Partly as a result, 84.2 percent of single mothers were in the labor force in 1997, up from 73.7 percent in 1992.

The minimum wage has also played an important role in increasing the return to work, while expanding labor force participation. Previously, there was a concern that raising the minimum wage created a trade-off between higher wages and lower employment. A series of studies by David Card and Alan Krueger, however, debunked this premise, showing that higher minimum wages could enhance the income of working people while maybe even increasing employment.⁹ At the same time, they showed that low-income families receive most of the benefits of higher minimum wages. This is especially true if one takes into account recent research at the Urban Institute and Council of Economic Advisors which shows the interaction of the minimum wage with the EITC, and their effectiveness in moving people from welfare to work.

A study by Mark Turner of the Urban Institute and Johns Hopkins University indicates that increases in the minimum wage can create an important incentive to move from welfare to work.¹⁰ He found that raising the minimum wage by 50 cents would lead to a 1.3 to 2.5 percentage point decrease in the welfare rolls, as between 97,000 and 187,000 women chose to move from welfare to work. This finding is consistent with a recent study by the Council of Economic Advisors which found that the expansion of the minimum wage explained between 10 and 16 percent of the decline in welfare caseloads between 1996 and 1998.¹¹

Health Care, Child Care, and Welfare Reform: Removing the Disincentives to Work

We also took decisive action to remove the disincentives to work.

Health Care

Limited access to health insurance in entry-level jobs – as well as poor health to begin with – can discourage work. Historically, government assistance in providing affordable, accessible health insurance was limited to poor, single-parent families receiving welfare. As a result, work would end Medicaid coverage – keeping many

⁸ Nada Eissa and Jeffrey Liebman, "Labor Supply Response to the Earned Income Tax Credit." *Quarterly Journal of Economics*, 111(2) 1996, Bruce Meyer and Dan Rosenbaum, "Welfare, the Earned Income Tax Credit, and the Employment of Single Mothers." Joint Center for Poverty Research Working Paper May 1998 #2, and Stacy Dickert, Scott Houser, and John Karl Scholz, "The Earned Income Tax Credit and Transfer Programs: A Study of Labor Market and Program Participation." *Tax Policy and the Economy* 9 1995 MIT Press: Cambridge.

⁹ David Card and Alan Krueger, *Myth and Measurement*, Princeton: Princeton University Press.

¹⁰ Mark Turner, "The Effects of Minimum Wages on Welfare Reciprocity," Joint Center for Poverty Research Working Paper July 1999 #4.

¹¹ Council of Economic Advisors, "The Effects of the Economic Expansion on Welfare Caseloads: An Update." *A report by the Council of Economic Advisers* August 3, 1999.

people on the welfare rolls out of fear of losing their health coverage.¹² This can be an especially serious problem because many low-wage jobs lack employer-sponsored health insurance, many Temporary Assistance to Needy Families (TANF) parents have health problems, and uninsured children typically have more sick days at school.¹³

Clearly, passage of some variant of the President's health care plan in 1994 would have been a major pro-work, anti-poverty step. Since that didn't happen, the President has focused on targeted policies to achieve similar goals. Three major policy initiatives have provided access to affordable health insurance to low-income working families. First, the President has de-linked Medicaid from welfare program, making Medicaid accessible to working as well as poor families. This has been accomplished within the context of welfare reform in 1996, but also before that through state waiver programs and aggressive administrative action. This approach is working, as can be seen in one study which found that the proportion of Medicaid-enrolled children with an unemployed parent fell from 75 percent in 1987 to 47 percent in 1996.¹⁴

Perhaps the most important step was the Children's Health Insurance Program (CHIP) – the largest children's health care investment since the creation of Medicaid in 1965. This program is targeted at working families who lack health insurance for their children but have too much income to qualify for Medicaid. Too many of these parents skip work to care for children who are sick but lack access to doctors or needed medicines. CHIP was created in 1997 with bipartisan Congressional support at a cost of \$24 billion dollars over five years. To date, about 1.3 million children have been enrolled in state programs, all of whom come from working families – a number that is expected to double by September 2000.¹⁵

Finally, the President has taken a first step – and continues to push for legislation – that ensures that people with disabilities are not kept from productive employment by their fear of losing their health insurance. In 1997, the President created an option that would allow people with disabilities who have income below 250 percent of poverty to buy into Medicaid. However, this doesn't go far enough. The Work Incentives Improvement Act, which was funded in the President's FY 2000 budget and has

¹² See Robert Moffitt and Barbara Wolfe, "The Effect of the Medicaid Program on Welfare Participation and Labor Supply." *Review of Economic Studies*, November 1992 and Aaron Yelowitz, "The Medicaid Notch, Labor Supply, and Welfare Participation: Evidence from Eligibility Expansions." *Quarterly Journal of Economics* 110(4) November 1995 for two good studies documenting this point.

¹³ One study finds that only about 43 percent of people in near-poor families have employer-sponsored insurance (O'Brien E; Feder J. (May 1999). *Employment-Based Health Insurance Coverage and Its Decline: The Growing Plight of Low-Wage Workers*. Washington, DC: The Kaiser Commission on Medicaid and the Uninsured.). It may be worse for people leaving welfare, with one study finding that less than one in four received health insurance on the job: Loprest P. (1999). *Families Who Left Welfare: Who Are They and How Are They Doing?* Washington, DC: Discussion Paper: Assessing the New Federalism.

¹⁴ Bantnin JS; Cohen JW. (August, 1999). Changes in the Medicaid Community-Based Population: 1987-96. Rockville, MD: Agency for Health Care Policy and Research. MEPS Research Findings No. 9 AHCPR Pub. No. 99-0042.

¹⁵ Smith V. (July 30, 1999). Enrollment Increases in State CHIP Programs: December 1998 to June 1999. Washington, DC: The Kaiser Commission on the Future of Medicaid and the Uninsured.

unanimously passed the Senate, would take additional steps to ensure that no person has to choose between work and health coverage.

Child Care

Research shows that women are highly responsive to the costs of child care in making decisions to work. A recent National Bureau of Economic Research working paper finds that if the costs of childcare could be lowered by 50 cents per hour, the result would be an 18 percent rise in labor force participation by unmarried women with kids and a 39 percent rise for unmarried High School dropouts with kids.¹⁶

Under the Clinton-Gore Administration, federal funding for child care has increased by 80 percent, helping parents pay for the care of about 1.25 million children out of the 10 million that are eligible. The 1996 welfare reform law increased child care funding by \$4 billion over six years to provide child care assistance to families moving from welfare to work. Last year, the President succeeded in securing \$140 million in new funds for after-school care and \$173 million for child care quality activities. Over the next five years, the President has proposed to expand child care to another 1.15 million kids.

Welfare Reform

The President's health care and child care initiatives have been an integral part of his strategy to make welfare reform work, by providing people with the opportunities to move into the workforce. The President's efforts began in the first days of the Administration, with the Secretary of Health and Human Services granting waivers to 43 states between 1993 and 1996 to try a broad range of experiments to help provide an incentive for people to move from welfare to work. These measures included "sticks" like time limits and work requirements, but also incentives like allowing welfare recipients to keep more benefits when they went to work or to exclude items like cars when calculating their assets for the purposes of program eligibility.

Welfare reform in 1996 pushed this further, abolishing AFDC and replacing it with TANF – a new program based on block grants with time limits and a wide latitude for states to design their own rules. One consequence has been the proliferation of rules that allow people to continue to receive benefits when they first work and other incentives like childcare, transportation, reimbursement of work-related expenses, and earnings supplements. The result has been a powerful incentive for people to move from welfare to work – with evidence documented in one study indicating that these measures like these increased the employment rate by 2.8 to 11.8 percentage points in different experiments across the United States and Canada.¹⁷

¹⁶ Patricia Anderson and Philip Levine, "Child Care and Mother's Employment Decisions." *NBER Working Paper No. W7058* March 1999.

¹⁷ Rebecca Blank, David Card, and Philip Robins, "Financial Incentives for Increasing Work and Income Among Low-income Families," Joint Center for Poverty Research Working Paper February 1999 #1.

Welfare reform is working. Welfare rolls are down by nearly half to their lowest level in 30 years, nearly four times more of those on welfare are working, and the employment rate of people receiving welfare in the previous year has increased by 70 percent. All fifty states are meeting the law's overall work requirement.

Recent studies by the Urban Institute, the General Accounting Office, and others have documented that the vast majority of recipients leave the rolls for jobs.¹⁸ The recent poverty statistics bear witness to the tremendous gains that have been made by single mothers as a result of the wide-range of policies I have discussed: poverty rates for single women with children have fallen from 46.1 percent in 1993 to 38.7 percent in 1998 – a 16 percent decline.

At the same time, we cannot let ourselves lose sight of the fact that the job is not done. More still needs to be done for families struggling to balance childcare needs for jobs. More needs to be done to ensure that the many people who need and are eligible for food stamps and Medicaid actually sign up for these programs. And we need to continue monitoring to ensure that people are indeed leaving welfare for good jobs.

¹⁸ Pamela Loprest, "Families Who Left Welfare: How Are They Doing?" Urban Institute Discussion Papers 99-02, 1999 and General Accounting Office, "Welfare Reform: Information on Former Recipients Status," April 1999.

VI. CLINTON ECONOMIC OPPORTUNITY AGENDA: LIFTING UP PEOPLE AND PLACES

The most frustrating and frequent debate in any policy circle on economic development is whether the focus should be on empowering people or places. The President's policies and common sense dictate a focus on both.

As I will discuss, policies that give people the skills or mobility to move to jobs, training, or houses in other neighborhoods can be quite successful in creating opportunity and a better, safer standard of living. Yet these strategies only confirm that neighborhoods and schools matter – it hardly seems right to only rely on strategies to move people out of poor neighborhoods into better neighborhoods without any effort to strengthen the distressed neighborhoods where people live.

When the President and the Vice President ran for office there was an increasingly counter-productive tug-of-war between government and laissez-fair approaches to our Nation's struggling urban and rural communities. The President and Vice President believe that there is a third way, an activist effort by government to bring capital, free enterprise and entrepreneurial activity to our nation's underserved areas.

In order to breathe life into their Third Way vision, President Clinton and Vice President Gore set out in 1993 to put in place a comprehensive empowerment agenda to tackle the problems of distressed communities. This administration created the first-ever federal Empowerment Zones and Enterprise Communities. With Vice President Gore's leadership, we have completed two rounds of Empowerment Zones, which are helping to bring growth and opportunity to some of the most economically distressed communities in our nation. We have also passed a brownfields tax incentive to help clean up nearly 11,000 environmentally contaminated sites in our inner cities and rural areas, and bring them back to life – and we have proposed to Congress that this incentive be a permanent part of our tax code. We have also established a network of Community Development Financial Institutions (CDFI's) and expanded the nation's affordable housing stock by making the Low-Income Housing Tax Credit (LIHTC) permanent, reinventing the Department of Housing and Urban Development, and increasing the number of housing vouchers.

Perhaps as significant as any economic development initiative has been the reform of the Community Reinvestment Act (CRA). The CRA today is restoring healthy markets in distressed communities, helping to build homes, create jobs, and restore hope all across the country. Community Development experts estimate that over \$1 Trillion of CRA-related lending commitments had taken place by 1997. More than 95 percent of this activity occurred since 1992. While it is very difficult to say how much of this activity would never have occurred without the CRA, the structure of accountability is a modest regulatory imposition in comparison with the dividends. The CRA and other programs that support investment in low-income communities are invaluable tools. This year, the President has challenged the private sector to join him in a New Markets initiative to

bring equity capital, jobs, and economic opportunity to America's most underserved urban and rural communities.

The New Markets Initiative is designed to spur equity investment in low and moderate-income communities through our New Markets Tax Credit and loan guarantees. This Initiative was developed in response to the need to create access to equity capital in underserved communities. Government can help provide the tools for businesses to grow through other efforts that are part of the New Markets Initiative, such as BusinessLINC which is a program launched by the Vice President and supported by the Business Roundtable that encourages mentoring and protégé relationships between small businesses and large companies. These are just examples of our efforts to encourage more private sector investment and partnerships in economically distressed areas.

VII. NEW DIRECTIONS: INVESTING IN PEOPLE

I will not even attempt to catalog all of the efforts that the Clinton-Gore agenda for investing in people has made to reduce poverty and create economic opportunity – but I do want to point to six areas that we feel are critical to future poverty reduction and are at stake in our current budget battle.

Moving to Opportunity

Research dating back to the Chicago Gautreaux case has shown that poor families who are given the opportunity to move to better neighborhoods have better education and job experiences. New research on HUD's experimental housing mobility program – moving to opportunity – in two separate studies in Boston and Cleveland are showing that increased housing mobility brings not only economic opportunity but also a significant reduction in behavioral problems for children including reduced juvenile arrest rates, injuries, victimization of crime, while having positive health and mental health impacts for parents and heads of households.¹⁹ These are some of the reasons that this President and the Vice President believe that Secretary Cuomo's efforts to add 100,000 housing vouchers is a valuable anti-poverty proposal and worth fighting hard for in the current VA-HUD appropriations bill. HUD's Economic Development Initiative (EDI) provides grants to be used in tandem with Section 108 guaranteed loans for economic revitalizations projects. EDI has helped bring development and jobs to underserved areas across the country. Notably, the EDI initiative funded the Good Hope Marketplace in Anacostia here in Washington, which includes a full-service, 55,000-square foot Safeway supermarket.

Closing the Digital Divide

As our nation seeks to close the race and income gaps that have too often divided us, it's critical that we not allow a new divide. We all know children who have become computer literate at a young age and watched their knowledge accelerate as their older relatives stagnate – still uncomfortable and awkward with the computer age. If we let a generation of middle-class children grow up whizzing from one computer to another while a generation of poorer children stays computer illiterate, we will be sitting by as a new divide helps widen the race and income gap we are seeking to close.

History shows that public policy can make a difference in determining whether or not the demand for higher-skilled workers that creates higher wages across the board or instead leads to increasing wage inequality.²⁰

¹⁹ Lawrence Katz, Jeffrey Kling, and Jeffrey Liebman "Moving to Opportunity in Boston: Early Impacts of a Housing Mobility Program." Harvard University, Princeton University, and NBER. September 1999 and Jens Ludwig, Greg Duncan and Paul Hirschfield, "Urban Poverty and Juvenile Crime: Evidence from a Randomized Housing-Mobility Experiment," Joint Center for Poverty Research, Northwestern University and University of Chicago, working paper.

²⁰ See the discussion in Lawrence Katz, "Technological Change, Computerization, and the Wage Structure." Harvard University and NBER, September 1999.

In the first three decades of this century, the flood of newly educated workers went to the burgeoning high schools the United States, which helped us meet the recent job demands of the electrified economy. In turn, this caused wages to rise and inequality to decrease. The question we face today is whether policy can help spur a wave of technology literate workers who can meet the demands of the information economy with broadly shared gains in income. The challenge is significant. Households with incomes over \$75,000 are 20 times more likely to be connected to the Internet than the poorest families and nine time more likely to have a computer. Black and Hispanic families are less than 40 percent as likely as white families to access to the Internet at home.²¹

The President and the Vice President deserve significant credit for seizing on this issue at an early stage. Under their leadership, investment in educational technology has risen by more than 3,000 percent – from \$23 million to over \$800 million proposed for FY 2000. Today, our new Technology Literacy Challenge initiative asks each state to create a plan to close the digital divide. The E-Rate provides \$2.25 billion in discounts to community schools and libraries that want to connect to the Internet – where poorer schools are eligible for 90 percent discounts.

This year we are fighting – so far unsuccessfully – to fully fund our next steps and effort to ensure middle schools have teachers trained in technology and to expand dramatically our Community Technology Centers – to bring computer learning to the places in our poorest neighborhoods most likely to serve disadvantaged young people.

Investing in Children From Birth

Everything we know about the importance of learning and everything we know about the exceptionally high poverty rates for African-American and Hispanic children, and everything we believe about the value of a fair start in life, compels us to focus attention on the education and health of a child from the earliest possible time. That's why in even the toughest budget fights, the President has always insisted on budget increases in WIC and Head Start.

As Mrs. Clinton emphasized in her 1997 White House conference on early childhood development, pre-school that begins at age 4 may be too late for America's children.

Scientists have determined that the human brain achieves approximately 90 percent of its total growth by age 3.²² And the data demonstrates that experiences in a baby's earliest months help determine a person's physical and mental health, and ability to learn over a lifetime.

²¹ NTIA, "Falling Through the Net: Defining the Digital Divide", July 1999.

²² Rand Foundation, "Investing in Our Children, What We Know and Don't Know About the Costs and Benefits of Early Childhood Interventions." 1998.

To do this, we have not only expanded Head Start and set a goal of reaching 1 million participants by 2002 – participation is now at 833,000 – but also created Early Head Start in 1994 to provide comprehensive early childhood development services for 0-3 year olds.

And we've also proposed the creation of an Early Learning Fund that would boost community efforts to improve child care for the youngest children through home visitation (where a nurse or trained professional comes in to counsel new parents about development and health issues), parent counseling, efforts to help parents find child care, and a variety of other activities focused on early childhood. (This is based on a North Carolina program that has been successful – our proposal is \$3 billion over 5 years.)

Inspiring Disadvantaged Kids to Go to College and Finish

We are clearly proud of the efforts we have made through the Direct Student Loan programs, our income contingent loan repayment plans, national service, HOPE Scholarships, and increases in Pell Grants to open the doors of college to all young and older Americans. This is no doubt a wise public policy investment when we consider that each year a person from a disadvantaged background goes to college, they increase their projected lifetime earning by 5 to 15 percent.

Yet, if we are serious about the importance of a college education, we need to do more in two often-neglected areas – giving adolescents from disadvantaged backgrounds the hope, expectations and incentives to choose college over dropping out and secondly, to ensure that economically disadvantaged people who choose college – stay in college.

First, we have too often failed to focus on encouraging adolescents to stay in school and go to college. While excellent programs like TRIO do exist, when one considers the differential between the difficulty of getting dropouts back on track and the benefits of higher education, this is an area that deserves considerably more attention from public policy makers.

In seeking to get dropouts back on track we know that it is important to reject the congressional impulse to distribute funds geographically. Instead we have focused on providing concentrated benefits so that enough opportunities are offered in particular neighborhoods so that a dropout who says no to the streets will face some critical mass of peer support instead of ridicule and being ostracized for doing the right thing. Our new \$250 million Youth Opportunities Act – which Sec. Herman calls the "YO" program – follows that research by concentrating its benefits in 25-30 communities to help 58,000 disadvantaged youth between 14-21 years old. The fact that this has been zeroed in the House Republican budget is one more reason that this budget truly matters.

Although the YO program is smart and well-designed, there is also no question that getting young people back on track after they have dropped out has historically been one of the most difficult public policy tasks.

The best approach – confirmed by both research and common sense – is to reach disadvantaged youth at the youngest age, to give one-on-one mentors, role-models, and most of all the expectation that they will finish high school, and go to college. Eugene Lang’s “I Have A Dream” program challenges private sector individuals to play that role. This has been shown in city after city when the overwhelming majority of young people in this program graduate from high school in neighborhoods where the overwhelming majority of their peers drop out.

Last year, we took a bold step forward with the new GEAR-UP initiative. GEAR-UP asks colleges to work with non-profits to adopt classes of 6th and 7th graders from nearby disadvantaged schools and stay with these classes through all of high school, providing information about college, one-on-one mentoring with college students or local professionals, and most of all giving many young people the gift that many of us were lucky enough to have automatically: the strong and sustained expectation that whatever the temptation of adolescence, we would graduate and go to college. The Ford Foundation has highly praised this new initiative and is working with the first partnerships. This type of initiative that gives hope and high expectations to disadvantaged young people, is one of the best things we can do. While several Republicans have supported this, including Congressman Mark Souder of Indiana, it was eliminated in the House as we seek to increase its funding to help meet the overload of demand expressed in the first competition.

Secondly, while there has been great and deserved focus on getting disadvantaged and minority young people into college, too little attention has been paid to ensure that those young people who enter college – either two- or four-year institutions – stay there.

Roughly one-third of community college students drop out by the end of the first semester – and about one-half leave within the first year. Among four-year students, attrition is highest in the first two years. This problem is particularly acute in certain minority communities – only 21 percent of African-American and 18 percent of Hispanic students who begin college complete a bachelor’s degree within five years compared to 30 percent of White students.

This is a great crisis of college education that needs more attention from all of us. We need to carefully analyze the funding and support service issues as well as programs around the country that provide intensive summer programs or pre-college education boot camps, to help low-income and minority high school students enter college ready to succeed.

Ending Widow Poverty

While policy makers often celebrate the dramatic reduction in elderly poverty, particularly since the creation and expansion of Medicare, the recent policy debate on Social Security has opened the eyes of many Americans to the fact that within those low elderly poverty rates lie very different circumstances for different portions of the elderly population. While married elderly women for example have extremely low poverty rates

of less than 5 percent, the poverty rates for elderly widowed women who often live alone is at a disturbingly high rate of 18 percent.²³ One of the important reasons for addressing Social Security reform sooner rather than later is not only the opportunity to extend solvency for most of the 21st century, but also to address the flaws in the Social Security system that are certainly contributing to this unacceptable high poverty rate for elderly women living alone. There are several ideas for how best to address this including proposals to increase the percentage of Social Security benefits that a widow is eligible for after her husband passes away. On a related issue, experts who are examining whether or not the measure of the poverty rate should be altered have become increasingly concerned that the current poverty rate formula does not adequately count for the huge degree of out of pocket health cost that many elderly Americans pay for. If a new standard is devised, the adjustment for the poverty of single elderly women could be even higher, showing again further evidence that comprehensive Medicare and Social Security reform addressing both solvency and such poverty related issues should remain a top goal for Congress and this Administration.

Closing Wealth and Equality Through Universal Savings

Before closing I want to briefly move from the issue of income and wage inequality, to wealth inequality. Over the last decade, and particularly over the last several years, Americans who were fortunate enough to have savings they could invest in the stock market or through tax preferred IRAs or employer provided pensions have experienced a significant increase in their wealth and retirement security. Those without the savings to have invested in the market have certainly been left behind. The gap between the financial involvement of the poor and the rich is enormous. According to the Department of the Treasury, 73 million American workers and their spouses do not have any employer-sponsored retirement plan. According to Census data, only 10 percent of the bottom 40 percent of households have IRAs or Keoghs.

In our tax system we today give significant incentives – tax deductions – to employer provided pension, IRAs and 401ks to encourage Americans to save. Our choice to provide incentives for such savings is clearly based on the public policy determination that we benefit as a nation when our savings rate is higher and when individuals take more responsibility for their retirement security. Yet the unfortunate irony is that by designing such incentives only in the form of tax deductions, we leave out in the cold the very Americans who have the lowest income and the hardest time savings because of their very high marginal propensity to consume any disposable income on the basic necessities of life. Yet by what possible public policy rationale do we justify the fact that only 7 percent of tax incentives for savings and retirement go to families making under \$50,000? For the large number of families in the bottom 2 quintiles that pay little income tax, such incentives are an empty offer. Most can not afford to save virtually anything; many owe no income taxes because of their low income and even those who can save a little get only 15 cents to the dollar as an incentive – far below what is offered to those in the upper-income brackets. If we are serious about closing the wealth

²³ National Economic Council, Interagency Working Group on Social Security, "Women and Retirement Security", October 1998.

inequality gap, if we are serious about encouraging more low-income Americans to save for their retirement to participate in the process of investment, wealth creation and the wonders of compound returns, then we need to find new proposals that will let all Americans participate in savings and wealth creation. The President's Universal Savings Accounts (USAs) sought to do just this. They gave an automatic tax credit to any working family regardless of income so that everyone could have an individual savings account and then it provided matching returns to encourage Americans to contribute their own savings as well. Whether or not the USA account is the only way to achieve this goal, I believe that this is the type of savings and wealth creation incentives that must be provided for all Americans--even those at the lowest income bracket-- if we are to close the wealth and equality gap in the future.

VIII. CONCLUSION

I have tried today to marshal evidence to demonstrate that public policy efforts to reduce poverty and increase economic opportunity have significant cost-benefit savings for our society and are consistent with a pro-growth economic strategy. Yet I would be being less than straight-forward if I suggested that I believe that the justification for our anti-poverty and economic opportunity efforts rest solely on efficiency or economic growth.

We are a country that not only tolerates, but truly celebrates the wealth and riches any American can fairly earn by virtue of their hard work, skill, innovation, entrepreneurship, or even dumb luck. But at the core of our strong belief in our unique American virtue of enterprise is the specific American value that any one person can rise by virtue of their individual talent and efforts.

And while there will always be the rare individual who will rise from the cruelest of situations, there are too many neighborhoods, too many streets, too many families where a child born today faces overwhelming obstacles. When the accident of birth and not the content of one's efforts and God-given talents becomes the best indicator of too many children's life opportunities, it strikes at the heart of our belief system in our strongly-held value that every American should have a fair opportunity to rise to the best of their ability.

When more than one-third of all African-American and Hispanic children are born into poverty, when a single street in a single city marks a divide between children born into a home with computerized Pokemon games and children born into homes with inferior nutrition and resources, and neighborhoods with failing schools and mean crime-filled streets, we fail to live up to the values and aspirations we hold dear. Yet every dedicated mentor, every successful pre-school program, every excellent teacher, every creative after-school program, every additional college grant can bring to make our ideals a little more real for each child touched by such an opportunity who chose to accept the responsibility to take advantage of it.

Beneath the big picture politics, the headline soundbites, and the defining issues for the next election, are a multitude of below-the-screen budgetary decisions that each

by themselves will determine whether another 10,000 or 100,000 or even million young people will get such an opportunity. Shame on all of us if we ever forget that.

TABLE 1				
POVERTY RATES FOR SELECTED GROUPS				
	1993	1998	Percent Change	1998 Is the Lowest Since
All Persons	15.1	12.7	-15.9%	1979
Black	33.1	26.1	-21.1%	Record
Hispanic	30.6	25.6	-16.3%	1979
Children	22.7	18.9	-16.7%	1980
Black children	46.1	36.7	-20.4%	Record
Hispanic children	40.9	34.4	-15.9%	Record
Single mothers	46.1	38.7	-16.1%	Record
Black single mothers	57.7	47.5	-17.7%	Record
Hispanic single mothers	60.5	52.2	-13.7%	Record
Elderly	12.2	10.5	-13.9%	Record

(Note: the poverty threshold for a family of four is \$16,660)

TABLE 2			
NUMBER OF PEOPLE IN POVERTY FOR SELECTED GROUPS (thousands)			
	1993	1998	Change
All Persons	39,265	34,476	-4,789
Black	10,877	9,091	-1,786
Hispanic	8,126	8,070	-56
Children	15,727	13,467	-2,260
Black children	5,125	4,151	-974
Hispanic children	3,873	3,837	-36
Single mothers	4,424	3,831	-593
Black single mothers	1,780	1,397	-383
Hispanic single mothers	706	707	+1*
Elderly	3,755	3,386	-369

Note: This population grew 16.1 percent between 1993 and 1998.

TABLE 3			
CHANGE IN INCOME			
	1993	1998	Increase
All families	41,691	46,737	+5,046
Black families	24,300	29,404	+5,104
Hispanic families	26,682	29,608	+2,926
Married couple	25,816	28,330	+2,514
Single female	43,256	46,637	+3,381

TABLE 4					
INCOME GROWTH FROM 1981-1998					
	1981	1993	1998	1981-93	1993-98
All families	40,502	41,691	46,737	2.9%	12.1%
Black families	24,000	24,300	29,404	1.3%	21.0%
Hispanic families	29,671	26,682	29,608	-10.1%	11.0%
Bottom quintile	8,749	8,361	9,223	-4.4%	10.3%
Second quintile	20,966	21,044	23,288	0.4%	10.7%
Third quintile	34,628	35,276	38,967	1.9%	10.5%
Fourth quintile	51,581	54,821	60,266	6.3%	9.9%
Top quintile	90,350	114,216	127,529	26.4%	11.7%

TABLE 5

Programs Created Before Clinton Administration					
Selected Programs that Reduce Poverty					
	FY93	FY99 enacted	FY00 Request	Growth 93-99	Increase 93-99
Head Start					
Total Dollars in Millions	2,776	4,660	5,267	67.9%	1,884
Total Participants	714,000	835,000	880,000	16.9%	121,000
WIC					
Total Dollars in Millions	2,928	3,924	4,105	34.0%	996
Total Participants	5,700,000	7,400,000	7,500,000	29.8%	1,700,000
EITC (calendar year estimates)					
Total Dollars in Millions	15,537	31,855	32,809	105.0%	16,318
Total Participants	15,117,000	19,771,000	19,951,000	30.8%	4,654,000
Dislocated Worker Funding					
Total Dollars in Millions	517	1,406	1,596	172.0%	889
Total Participants	279,000	689,100	858,500	147.0%	410,100
Job Corps					
Total Dollars in Millions	966	1,309	1,347	35.5%	343
Total Participants	60,419	69,700	70,432	15.4%	9,281
Pell Grants Max Award					
Total Dollars in Millions	\$2,300	\$3,125	\$3,250	35.9%	825

TABLE 6						
POVERTY WITH AND WITHOUT THE EITC						
	POVERTY RATE			PEOPLE IN POVERTY (thousands)		
	w/o EITC	w/ EITC	Lifted Out	w/o EITC	w/ EITC	Lifted Out
1992	16.2	15.2	1.0	41,561	38,995	2,565
1993	16.3	15.5	0.8	42,262	40,188	2,074
1994	15.8	14.6	1.2	41,335	38,196	3,139
1995	14.8	13.4	1.4	39,032	35,340	3,692
1996	14.9	13.3	1.6	39,666	35,407	4,259
1997	14.3	12.7	1.6	38,393	34,097	4,296
1998	13.6	12.0	1.6	36,864	32,527	4,337

Note: poverty without the EITC is Census definition 1a and with the EITC is Census definition 1b

TABLE 7						
POVERTY WITH AND WITHOUT THE EITC IN 1998						
	POVERTY RATE			PEOPLE IN POVERTY (thousands)		
	w/o EITC	w/ EITC	Lifted Out	w/o EITC	w/ EITC	Lifted Out
Americans	13.6	12.0	1.6	36,864	32,527	4,337
Black	27.6	24.5	3.1	9,626	8,545	1,081
Hispanic	27.4	23.6	3.8	8,635	7,438	1,198
Children	20.2	17.0	3.2	14,410	12,127	2,283
Black children	38.5	32.9	5.6	4,357	3,723	634
Hispanic Children	36.6	30.9	5.7	4,082	3,446	636
Single mom	43.2	36.7	6.5	12,614	10,716	1,898

Note: poverty without the EITC is Census definition 1a and with the EITC is Census definition 1b

APPENDIX 1 – Strengthening America’s Working Families

Making Work Pay

Expanded EITC to Put Money Back in Working Families’ Pockets.

- The EITC helps working families supplement their earnings through tax credits. In President Clinton’s 1993 Economic Plan, EITC was expanded to make work pay for 15 million working families.
- In 1998, the EITC lifted 4.3 million Americans out of poverty – more than twice as many as in 1993. The average family received an EITC credit of \$1,890.

Minimum Wage Hike Increased Pay By \$1,800 for Full-time Workers.

- In 1996, the President and Vice President fought for and won a minimum wage increase from \$4.25 to \$5.15 per hour for nearly 10 million workers.
- Now, the President is fighting for another minimum wage increase – \$1 over two years – to make work pay for 11.4 million workers and help ensure that parents who work hard and play by the rules can raise their children out of poverty.

Initiated \$3 Billion Welfare-to-Work Initiative

- The Clinton-Gore Administration fought for a \$3 billion Welfare-to-Work initiative as part of the Balanced Budget Agreement.
- During FY 1998 and FY 1999, nearly \$2.7 billion in grants have been awarded to states, local communities, and tribes across the nation to help long-term welfare recipients, and certain low-income fathers, work and support their families.
- Funds are targeted at individuals and communities facing the greatest challenges. To date, these resources are helping nearly 100,000 individuals to get or keep a job.

Passage of Welfare-to-Work Tax Credit and Work Opportunity Tax Credit.

- The Welfare-to-Work Tax Credit, enacted in the 1997 Balanced Budget Agreement, provides a credit equal to 35 percent of the first \$10,000 in wages in the first year of employment, and 50 percent of the first \$10,000 in wages in the second year, to encourage the hiring and retention of long-term welfare recipients.
- This credit complements the Work Opportunity Tax Credit, which expands eligible businesses to include those who hire young adults living in Empowerment Zones and Enterprise Communities.
- In FY 1999, the President requested and Congress accepted extending the credit through June 30, 1999.

Established of Individual Development Accounts (IDAs)

- In 1992, the President proposed to establish IDAs to empower low-income families to save for a first home, post-secondary education, or to start a new business. The 1996 welfare reform law authorized the use of welfare block grants to create IDAs.
- Last year, the President signed legislation creating a five-year IDA demonstration program for low-income households. The first 40 grants announced in September will match the savings of 10,000 working families.

Supporting Working Families

Introduced \$500 Per-Child Tax Credit.

- 27 million families with 45 million children are receiving the \$500 per-child tax credit included in the 1997 Balanced Budget Agreement.
- Because of the President's efforts, 13 million children from families with incomes below \$30,000 will receive the tax credit.

Improved Access to Affordable and Quality Child Care.

Under the Clinton-Gore Administration, federal funding for child care has increased by 80 percent, helping parents pay for the care of about 1.25 million children.

- The 1996 welfare reform law increased child care funding by \$4 billion over six years to provide child care assistance to families moving from welfare to work. Last year, the President succeeded in securing \$140 million in new funds for after-school care and \$173 million for child care quality activities.

Expanded Head Start By Nearly 70 Percent.

- Since 1993, President Clinton and Congressional Democrats have expanded Head Start by 57 percent, from nearly \$2.8 billion in FY93 to nearly \$4.7 billion in FY99.
- The program now serves an estimated 835,000 children, reaching more kids than at any time since its creation in 1965 and more than 200,000 additional children than in 1992.

Provided Health Care to Low-Income Working Families.

- The President has successfully fought to increase low-income families' access to health care by allowing states to expand Medicaid to cover low-income families, providing Medicaid coverage to low-income two-parent families who work, and helping states to ensure that families receive Medicaid for which they are eligible.

Enacted Single Largest Investment in Health Care for Children since 1965.

- The President, with bipartisan support from the Congress, created the Children's Health Insurance Program (CHIP). The Balanced Budget Act of 1997 allocated \$24 billion over five years to provide affordable health insurance to children in families with incomes too high to qualify for Medicaid but too low to purchase private insurance through State-designed programs.
- On September 8, 1999, President Clinton announced that all 50 states and every territory are participating in this new program, bringing us closer to our goal of providing insurance for up to 5 million children through a combination of Medicaid and CHIP.

Increased WIC by \$1 Billion.

- Under President Clinton, participation in WIC has expanded by 1.7 million – from 5.7 million in 1993 to 7.4 million women, infants, and children in 1999. Funding has risen from \$2.9 billion to \$3.9 billion.

Helping Working Families to Buy Food

- In July 1999, the President took executive actions to help ensure working families who need Food Stamps have access. These steps include:
 - ✓ new policy guidance making it easier for working families to own a car and still receive food stamps
 - ✓ new regulations simplifying rules so that families don't have to report income as often and states won't be penalized for small errors in projecting families' future earnings
 - ✓ a new public education campaign to educate working families about food stamps.

Welfare-to-Work Housing Vouchers.

- In 1999, the President proposed and Congress approved \$283 million for 50,000 new housing vouchers for current and former welfare recipients who need housing assistance to get or keep a job.
- Families will use these welfare-to-work housing vouchers to move closer to a new job, to reduce a long commute, or to secure more stable housing that will eliminate emergencies which keep them from getting to work every day on time.

Helping People Get to Work.

- With the Administration's leadership, the Transportation Equity Act for the 21st Century (TEA-21) authorized \$750 million over five years for the President's Job Access initiative and reverse commute grants.
- The Omnibus Budget Act included \$75 million for this program in FY 1999, and in May, Vice President Gore awarded grants to 179 communities in 42 states around the country to assist states and localities to develop flexible transportation alternatives for welfare recipients and other low income workers.

Eighty Percent increase in Child Support Collections.

- Tougher measures under the Clinton-Gore Administration have resulted in a record \$14.3 billion in child support collections in 1998, an increase of \$6.3 billion, or 80 percent since 1992. Not only are collections up, but the number of families that are actually receiving child support has also increased.
- In 1997, the number of child support cases with collections rose to 4.2 million, an increase of 48 percent from 2.8 million in 1992.

Investing in Our Future**Opening the Doors to Higher Education.**

- To boost families' take-home pay and increase individuals' potential to secure higher-paying jobs, the 1997 Balanced Budget agreement made the first two years of college universally available for nearly 6 million students with the \$1,500 HOPE Scholarship credits.
- It also provided a 20 percent tuition tax credit to help offset tuition costs for college or lifetime learning. More than 7 million students will benefit from the lifetime learning tax credit.

Expanding Work Study and Pell Grants.

- President Clinton and the Congressional Democrats have increased the Pell Grant maximum grant amount from \$2,300 in FY 93 to \$3,215 in 1999. In 1999, nearly 4 million students will receive a Pell Grant of up to \$3,125, the largest maximum award ever.
- This year, nearly one million students will be able to work their way through college because of the President's expansion of the Work Study Program.

Creation of the GEAR-UP Initiative.

- Under the Clinton-Gore Administration, the new mentoring initiative GEAR-UP was created to better prepare up to an estimated 260,000 low-income middle school children for entrance to and success in higher education.
- GEAR UP grants will fund partnerships involving more than 1,000 organizations, such as the YMCA, Boys and Girls Clubs, 4-H programs, Salvation Army, libraries, arts organizations, local chambers of commerce, and individual companies such as Wal-Mart, Unisys, Hewlett-Packard, Bell Atlantic, and the New York Times Newspaper in Education Program.

- In August 1999, \$120 million in grants were awarded to 164 partnerships and 21 grants to states (for statewide program).

Launched the Reading Excellence Program.

- Two years ago, President Clinton launched the America Reads Challenge, a multi-faceted effort to help states and communities ensure that all children can read well and independently by the end of the third grade.
- The program received \$260 million in FY99 and another \$286 million has been requested in FY2000 to allow the program to continue. The funds help to train reading tutors and coordinate after-school, weekend and summer reading programs linked to in-school instruction. In addition, over 1,000 colleges have pledged to use federally-financed work-study positions for tutoring programs.

Strong Investments in Educational Technology

- The Clinton-Gore Administration has made strong investments in educational technology. Funding for education technology at the Department of Education has increased from \$23 million (FY1993) to \$698 million (FY1999) to \$801 million (FY2000 request).
- States and local communities are given a great deal of flexibility in how they use the money for computers, teacher training and software -- but they are required to develop a plan for ensuring equity.
- The "E-rate" provides \$2.25 billion in discounts to connect schools and libraries to the Internet. Discounts are 90 percent for the poorest schools that need it most, and 20 percent for the wealthiest schools. E-rate was a critical part of the Telecommunications Act of 1996, which the President signed into law.

Creation of Youth Opportunity Grants

- President Clinton proposed the \$1.25 billion Youth Opportunities Grants program, a five year grants initiative that was authorized as part of the 1998 Workforce Investment Act. The Youth Opportunities program will receive \$250 million this fall and will make a significant attack on concentrated poverty and unemployment. This initiative represents a strong investment in Empowerment Zones and Communities and other urban and rural communities that are considered high-poverty areas.
- The program focuses primarily on out-of-school youths. The program provides them with job training and has a strong emphasis on mainstreaming youth into the private sector, both in terms of immediate job placement and work-based learning opportunities to increase long-term employment prospects.
- The main goal of the program is to increase employment in the private sector, increase college enrollment and decrease dropout rates.

Providing Safe After-School Opportunities.

- Under the Clinton-Gore Administration, the 21st Century Community Learning Centers program have been expanded to provide safe and academically enriching after-school opportunities for nearly 400,000 school-age children in rural and urban communities each year.
- In his FY 2000 budget, the President proposed to triple funding to \$600 million, reaching 1.1 million students.

Helping Students Most in Need.

- Title I funds provide over \$8 billion to help 11 million low-income students benefit from higher expectations and a challenging curriculum geared to higher standards.

Assisting Migrant Children and Families.

- Migrant families face difficult obstacles to gaining the education and training they may need to improve their standard of living. President Clinton improved the Migrant Education Program in the 1994 reauthorization, and won a 16 percent increase in FY 1999.

Ensuring Opportunities for All Citizens**Providing Community Resources.**

- Community Development Block Grant (CDBG) funds activities such as economic and neighborhood revitalization, job creation, public services, community development and renewal of distressed communities.
- In 1999, CDBG funds assisted nearly 200,000 households in up to 900 communities around the country that are eligible for CDBG funding.

Restoring Fairness and Protecting the Most Vulnerable.

- The President made a commitment to fix several provisions in the welfare reform law that had nothing to do with moving people from welfare to work.
- The Balanced Budget Act of 1997 and the Noncitizen Technical Amendment Act of 1998 invested \$12 billion to restore disability and health benefits to 380,000 legal immigrants who were in this country before welfare reform became law.
- The Agricultural Research Act of 1998 provided Food Stamps for 225,000 legal immigrant children, senior citizens, and people with disabilities who enter the United States by August 22, 1996.

Helping People Who Want to Work but Can't Find a Job.

- The Balanced Budget Act, as amended by the Agricultural Research Act, also restores \$1.3 billion in food stamp cuts.
- The welfare reform law restricts food stamps to 3 out of every 36 months for able-bodied childless adults, unless they were working.
- Acknowledging that finding a job often takes time, the BBA provided funds for work slots and food stamp benefits to help those who are willing to work but, through no fault of their own, have not yet found employment.

Helping to Bring Private Enterprise and Capital to Distressed Areas.

The Clinton-Gore Administration has renewed the commitment of the Federal government to help bring private enterprise into underserved communities and improve access to capital for low-income households, minorities, and traditionally underserved borrowers.

Created the Community Development Financial Institutions (CDFI) Fund.

- In 1994, President Clinton proposed and signed into law the CDFI Fund. Through grants, loans, and equity investments, the Fund has created a network of approximately 270 CDFIs in distressed areas across the nation. CDFI activities leverage investments from banks, foundations, and other sources.
- Since the Fund's creation, it has made more than \$190 million in awards to community development institutions and financial institutions. This investment is expected to leverage three to four times the amount of the investments in total capital raised for CDFIs over the next few years. In FY 1999, funding for the CDFI Fund was increased 19 percent to \$95 million.

Strengthened and Simplified the Community Reinvestment Act (CRA)

- In April 1995, the Clinton-Gore Administration reformed the CRA regulations to emphasize performance.
- According to the National Community Reinvestment Coalition (NCRC), the private sector has pledged more than \$1 trillion going forward in loans to distressed communities – and more than 95 percent of these financial commitments have been made since 1992.
- Banks made \$18.6 billion in community development loans in 1997 alone. Lending to minority and low-income borrowers is also on the rise.

135 Empowerment Zones and Enterprise Communities.

- After pushing to have Empowerment Zones (EZs) and Enterprise Communities (ECs) passed into law, the Clinton-Gore Administration has designated 135 urban and rural EZs and ECs across the country. The First Round EZ/EC initiative, which included 105 EZs/ECs, was proposed by President Clinton and passed by Congress in 1993. The Second Round of 30 EZs/ECs was also proposed by the President, and in FY 1999 the President and Congress provided first-year funding for the new EZs and ECs.
- Designated communities were chosen on the basis of their strategic revitalization plans, and receive special incentives and resources to help carry out their plans. The EZ/EC initiative has already leveraged over \$10 billion in additional public and private sector investment in community revitalization efforts.

The Economic Development Initiative and Section 108 Loan Guarantee.

- EDI grants are used to infuse capital into community development projects, enhancing the debt financing provided by the Section 108 loan guarantee program. Together, the programs support critical economic development in distressed communities.
- Estimated jobs supported by EDI and the Section 108 loan guarantee have grown by 300,000 from 1994 to 1998. During this time period EDI and the Section 108 loan guarantee program have funded \$3.5 billion for more than 650 separate project commitments.

Cleaning Up the Urban Environment through Brownfields Redevelopment.

- The Clinton-Gore Administration has launched a landmark effort, including the Brownfields Tax Incentive, to clean up and redevelop Brownfields sites.
- In total, the Brownfields action agenda has marshaled funds to clean up and redevelop up to 5,000 properties, leveraging between \$5 billion and \$28 billion in private investment and creating and supporting 196,000 jobs

THE WHITE HOUSE
WASHINGTON

September 10, 1999

MEMORANDUM FOR HILLARY RODHAM CLINTON

FROM: NICOLE RABNER
ANN O'LEARY
RUBY SHAMIR

CC: MELANNE VERVEER
SHIRLEY SAGAWA
PATTI SOLIS DOYLE
MARSHA BERRY

SUBJECT: ISSUES UPDATE

The purpose of this memo is to provide you with brief updates on a variety of issues. Attached please find a compilation of strategy memos from the policy councils to the President, which include the Presidents comments.

Bankruptcy. Next week, Senator Lott is expected to take up the bankruptcy reform bill. As you know, the Senate bill, S. 625, is an improvement over the House-passed bill (which the Administration said his senior advisors would recommend he veto), but not enormously so. We have been working closely with Senate Democrats (principally Senators Schumer, Kennedy, Feingold, Durbin, Leahy, and Dodd) to devise an amendment strategy for the Senate floor. Currently, the Democrats have about 50 amendments to offer – many of which represent the Administration's specific proposals to improve the bill – and no time agreement has yet been struck. Amendments which are likely to pass include a deal on curbing coercive reaffirmations, some (fairly insignificant) new credit card disclosure requirements, a cap to the homestead exemption, and some, limited improvement to the means test formula. The challenge will be for these improvements to survive conference (last year, as you'll recall, the final conference report stripped all balancing provisions gained by Senate Democrats). Unfortunately, the numbers don't look good – by the latest whip count, 80 plus Senators (and as many as 90) plan to support the underlying bill. Currently, the President's senior advisors are waiting to watch the bill's progress on the floor early next week before signaling our position. Many foresee passage with a veto-sustaining margin, and hope that the marginal improvements will allow him to sign the bill, while stating his reservations. (For additional information, see page 14 of the NEC report, which is tagged.)

Importantly, many Senators see the bankruptcy bill as the only remaining vehicle for legislative action, and Senate Democrats are considering offering a host of non-germane amendments such as minimum wage, guns, Patients Bill of Rights, etc. Senator Kennedy's minimum wage proposal will certainly be offered and debated – reports suggest that a deal may be in the works to allow it to be attached to the bankruptcy bill.

Crime. Yesterday, at a meeting with Mayors and Police Chiefs from around the country, the President urged Congress to pass common sense gun legislation. The President also unveiled new reports and initiatives aimed at keeping guns out of the wrong hands and reducing gun violence.

The President released a report by the FBI and the ATF showing that in its first seven months of operation the National Instant Criminal Background Check System (NICS) has conducted over 4.7 million background checks and blocked an estimated 100,000 prohibited guns sales, bringing the number of gun sales blocked to felons, fugitives and other prohibited persons to over 400,000 since the Brady Law took effect in 1994. The report showed that the vast majority of NICS checks are completed very quickly – 75 percent within 30 seconds and 95 percent within two hours. It also indicated that of the sales denied by the FBI, 76 percent were based on a felony conviction, and 11 percent for domestic violence misdemeanors or retraining orders. Finally, the report showed that if the FBI had only 24 hours to complete background checks, instead of three business days under current law, 20,000 prohibited purchasers – over 41 percent of FBI denials – would have received guns.

In addition to the report, the President announced a \$15 million HUD initiative to help public housing authorities partner with local law enforcement departments to establish gun buyback programs – removing up to 300,000 guns from circulation by the end of the year. Additionally, the President released \$146 million in COPS grants to fund nearly 1600 new officers. \$61 million will be provided to 151 state and local law enforcement agencies to hire over 850 new officers for our streets; and \$85 million will be awarded to 319 state and local police departments to put over 750 police officers in schools. Please see attached for a listing of the local grantees for the COPS grants.

Education. ESEA: The reauthorization of the Elementary and Secondary Education Act is progressing slowly. In May the President transmitted his proposal to Congress – the Educational Excellence Act for All Children of 1999. As you know, the main focus of the Administration bill is: a firm commitment to high standards in every classroom; the improvement of teacher and principal quality; strengthened flexibility coupled with accountability; and a guarantee of safe, healthy, disciplined, and drug-free learning environments for all children.

The House leadership has chosen to break apart the ESEA by considering and voting on the proposal one Title at a time instead of offering an alternative comprehensive package or considering the Administration's omnibus bill. The House first took up the issue of Teacher Quality through HR 1995, Title II of ESEA – the Teacher Empowerment Act. This bill would consolidate Title II, Class-Size Reduction, and Goals 2000 into one program. It would provide formula funding to States and school districts and require the funds to be used for both professional development and class-size reduction. The professional development aspect of the

bill includes similar language to the Administration's proposal – calling for on-going intensive on-site professional development for teachers. The Class-Size reduction provision, however, does not include a dedicated funding stream for class-size reduction nor does it include a focus on reducing class-sizes in the early grades. It would not allow the President to meet his goal of hiring 100,000 teachers to reduce class-sizes in grades 1-3. The House passed HR 1995 in July and the President has threatened to veto the bill if it comes to his desk. The Senate has introduced this bill, but is not expected to vote on it.

The House is currently considering Title I – Helping Disadvantaged Children Meet High Standards – and is expected to mark-up Title I at the full-committee level on September 23rd. A bipartisan working group is using the Administration's proposal as a base and drafting an alternative proposal. Possible hot button issues include: Republicans would like to dilute the targeted funding to our highest poverty areas; neither side has come to an agreement on how to ensure that failing schools receive the additional resources needed to improve; and, the issue of increasing the training and education of paraprofessionals and ensuring that they are placed in appropriate roles has not been resolved. Democrats and Republicans agree with the Administration that that students should be taught by highly qualified individuals and that paraprofessionals should have additional requirements for education and training, but Democrats are very concerned that these requirements will result in massive job displacement.

The Senate is expected to take up the entire ESEA package as one bill. Currently, Senator Jeffords is drafting a bill, but it is not expected to be completed until the end of the month at the earliest. In the meantime, Jeffords continues to hold hearings on issues throughout ESEA.

In both the House and the Senate, the Administration expects to have difficulty passing the President's Educational Accountability Act. The Republicans continue to claim that the provisions amount to Federal intrusion and heavy handedness, while some Democrats are concerned that there are not enough supports and resources in place to effectively implement the provisions.

Recent Research on School Finance, including call for Voucher Experiment: On September 10, the National Research Council released a study on school finance, "Making Money Matter: Financing America's Schools" arguing that money can and should be used more effectively to make a difference in improving U.S. Schools. The study outlined three goals as a framework under which to improve school finance: promoting high-achievement for all students in a cost-effective way; reducing the nexus between student achievement and family background characteristics; and, raising revenue fairly and efficiently.

The report supports many of the same types of investments that the Administration has proposed: investing in professional development of teachers throughout their careers; promoting comprehensive educational reforms; reducing class-sizes; and modernizing school buildings.

It also, however, calls for a ten-year large-scale voucher experiment to determine if vouchers can successfully empower schools and parents to make better decisions about public funds and improve student achievement in a cost-efficient way.

U.S. News & World Report and *Education Week* are expected to pick-up this report and cover the voucher angle. Secretary Riley is prepared to respond by lauding the recommended investments and stating that we do not have ten-years to wait to find out what we already know from small-scale experiments that vouchers are not a magic-bullet solution to comprehensively fixing our failing schools.

District of Columbia: The DC College Access bill, HR 974, passed the House by voice vote in May and is now being considered in the Senate. The Senate Committee on Government Affairs reported it out of Committee on September 9, 1999. The Administration is currently working with a bipartisan group (including leadership from Senators Voinovich and Durbin with Representatives Norton and Davis) to develop a compromise bill that could be passed by unanimous consent in both the House and Senate. Currently, \$17 million is included in the President's FY 2000 budget to support DC College Access. H.R. 974 would: (1) allow the Federal Government to pay the difference between in-State and out-of-State tuition at public colleges and universities in Maryland and Virginia (or in other States under certain circumstances) on behalf of qualified D.C. residents; (2) provide grants to D.C. residents who choose to attend private colleges and universities in the Washington, D.C. area; and (3) authorize financial support to the University of the District of Columbia (UDC). The Administration supports the bill, but is concerned about provisions in the bill that would phase-in eligibility over time. The Administration is concerned that this phase-in would postpone the true cost of the program, thereby encouraging the D.C. Mayor to expand the program in its early years (by awarding grants for attendance at institutions in States other than Maryland and Virginia), which may result in serious funding constraints and dashed student expectations in future years. The phase-in could also skew initial program evaluations and understate operational requirements.

National Campaign Against Youth Violence. In this week's radio address (for broadcast, Saturday, September 11), the President highlighted the prevention of youth violence by announcing grants to local communities. The President announced the award of \$180 million in Safe Schools/Healthy Students grants to 54 communities. These grants are the result of a joint effort between the Departments of Justice, Education, and HHS to promote coordinated policies and programs at the local level between schools and community, health, and law enforcement agencies. Funds can be used for three purposes: to hire law enforcement personnel to provide security in schools; for early intervention and prevention programs designed to make schools and students safer and free of drugs; and for mental health services and early childhood development programs.

On Tuesday, September 14, 1999, Senator Specter is holding a hearing on youth violence. Secretary Shalala, Secretary Riley, Secretary Herman, and Deputy Attorney General Eric Holder will all testify at the hearing. Their testimonies will focus on the work of their respective agencies on preventing youth violence.

New Markets. All three components of the New Markets Initiative that require legislation have Democratic sponsors. For the most part the bills reflect the Administration proposal, with a few modifications. The New Markets Tax Credit, a tax credit worth 25 percent for investments in a wide range of vehicles to help spur \$6 billion in equity capital for investment in New Markets (likely to be folded into our tax bill), is being sponsored by Rep. Rangell and Senator

Rockefeller. America's Private Investment Companies (APICs), modeled after our Overseas Private Investment Corporation to encourage private investment in America's untapped markets, is being sponsored by Rep. Lafalce and Senator Sarbanes. The New Markets Venture Capital (NMVC) Firms, which would make both capital and expert guidance available to small business entrepreneurs in inner-city and rural areas (most likely to be introduced next week), is being sponsored by Rep. Velasquez and Senator John Kerry.

In November the President will lead a second New Markets tour. The NEC is looking eagerly for thematic and geographical suggestions that will distinguish this tour from the previous trip.

POTUS Week Ahead

Following is a list of upcoming POTUS message events for next week.

Friday, 9/10 - Wednesday, 9/15	New Zealand Visit
Saturday, 9/11	Radio Address (taped at WH Thursday 9/9) Topic: Safe Schools, Healthy Students/COPS grants
Thursday, 9/16	Arrive WH -- No Event Planned
Friday, 9/17	No Event Planned

NOTE: The message schedule for Sept. 16 and 17 may change pending Hill activity – i.e. the GOP tax cut veto.

THE WHITE HOUSE
WASHINGTON

September 10, 1999

MEMORANDUM FOR HILLARY RODHAM CLINTON

FROM: NICOLE RABNER
ANN O'LEARY
RUBY SHAMIR

CC: MELANNE VERVEER
PATTI SOLIS DOYLE
MARSHA BERRY
SHIRLEY SAGAWA

SUBJECT: MESSAGE EVENT OPPORTUNITIES

We understand that your schedule for late next week will likely not allow you to add to your schedule. The purpose of this memorandum, however, is to outline a few opportunities for official message events late next week. While not definite, September 17th (Friday) will likely be the day that the President vetoes the Republican tax cut proposal (the Republicans have not yet sent us the bill); if it happens, you may want to consider joining that ceremony.

- **Minimum Wage Event.** As you know, Kennedy's minimum wage proposal is expected to be considered as an amendment to the bankruptcy bill next week (prospects for passage reportedly have improved). To engender support for his proposal, on the morning of Wednesday, September 15, Senator Kennedy, Rep. Bonior, and Secretary Herman will release a new report on the effects of the minimum wage on women. The report will show that the majority of beneficiaries of an increase in the minimum wage are women (58 percent of the 11.8 million workers who would receive a pay raise), and that about 7 million women nationally, 12.6 percent of all working women, would be directly affected by an increase in the federal minimum wage. The report will also feature state-by-state data on the numbers of women impacted by an increase in the minimum wage. Senator Kennedy has invited you to join this event. Since you will be in New York on Wednesday, however, we are exploring a message event there that would highlight the new report and urge passage of the minimum wage increase. Senator Kennedy also plans to pen an op-ed next week on the minimum wage and has offered to share a byline with you. Let's discuss this offer.

- **Children's Health: Health Care Coverage Report and Initiative.** On the morning of Thursday, September 16th, Secretaries Shalala and Riley and Attorney General Reno are participating in an event at Eastern High School in Washington D.C. which will serve as a national kickoff for community CHIP enrollment events in 25 communities during the last two

weeks of September. They will launch a series of radio PSA's that will air in 21 cities and announce HHS's commitment of \$1 million for a radio campaign to promote CHIP outreach event and the 877 KIDS information line. They have invited you to join the event. If you are unable, you might consider joining the President for a likely CHIP event in mid-October, where the President and you could release a new Families USA report stating: that enrollment in the new CHIP program is increasing; enrollment in some states is lagging behind; and that that we still face some challenges in Medicaid enrollment, especially in regards to welfare reform. In addition, you both could (1) release a new TANF regulation establishing financial incentives to enroll eligible individuals in the Medicaid program; (2) announce a new Back to School campaign to distribute applications for and information about CHIP through school systems around the country; (3) release the second Federal Interagency Task Force Report on Children's Health Insurance Outreach, including new outreach efforts by the Postal Service, Americorps and the Department of Transportation; and (4) direct the Department of Education and HHS to develop a plan to make school-based screening for health insurance a standard part of school enrollment, like immunizations.

- **Education: Teacher Quality Conference of Higher Education Presidents.** On September 15-16, approximately 150 college presidents will meet in Washington D.C. to develop recommendations for reforming schools of education. The two-day summit will also include other education leaders, foundation representatives, and Congressional staff. You could join the Secretary in challenging the college presidents to take a strong leadership role in improving teacher education to ensure that all children are taught by high quality teachers. Senators Jeffords and Kennedy will speak to the group from the Indian Treaty Room on Wednesday evening, September 15, and, if you were able, you could address the group at lunch on September 16 or later in the afternoon for closing remarks.

- **Education: Charter Schools.** You have expressed interest in visiting a D.C. charter school to highlight your commitment to the issue. Two charter schools in particular could serve as good vehicles for this message. The Maya Angelou Public Charter School in Ward 1 helps young people who have been in the juvenile justice system re-enter the educational system. Another charter school, the Cesar Chavez Public Charter High School in Ward 2, focuses on getting young people involved in public policy. This event could serve as a follow-up to the day long meeting and workshop that you hosted for D.C. public charter schools last year, and a celebration of the successful start-up of the schools. You could also hold this event at another time – perhaps during the Holiday season.

THE WHITE HOUSE
WASHINGTON

September 27, 1999

MEMORANDUM FOR HILLARY RODHAM CLINTON

FROM: NICOLE RABNER
ANN O'LEARY
RUBY SHAMIR

CC: MELANNE VERVEER
SHIRLEY SAGAWA
PATTI SOLIS DOYLE
MARSHA BERRY

SUBJECT: ISSUES UPDATE

The purpose of this memo is to provide you with brief updates on a variety of issues.

Appropriations. The Labor-HHS-ED Appropriations bill was marked-up in the Labor, Health and Human Services, and Education Subcommittee (Chairman Porter, R-Ill.) of the House Appropriations Committee on Thursday, September 23, 1999. The package is an \$89.4 billion spending proposal. The bill stays within its \$73 billion allocation by including \$15.7 billion in advanced appropriations.

The bill will be considered in full committee on Thursday, September 30th and is expected to go to the Floor shortly thereafter. The White House is planning a series of responses leading up to the Thursday mark-up by releasing paper outlining the cuts to each agency and a possible Hill rally with the three Secretaries and key Congressional Democratic leaders.

The bill's most egregious act is that it significantly undercuts critical education funding. The bill is \$2.8 billion below the President's request on a gross basis for key education priorities. In addition to gutting the President's education priorities, it also significantly weakens critical investments in programs for children, youth, and families overall. Highlights include:

Education:

- **Eliminates Class-Size Reduction priority.** The bill would eliminate the Class-Size reduction initiative by block granting class-size, Goals 2000, and the Eisenhower Professional Development program into a \$1.8 billion allotment for the Teacher Empowerment Act, which is \$426 million below the request for the three combined

programs. The President threatened to veto the Teacher Empowerment Act when it passed the House because it makes it impossible to meet the President's goal of reducing class-sizes to an average of 18 students per teacher in grades 1-3.

- **Terminates GEAR-UP.** Completely eliminates funding compared to \$120 million in FY 99 and \$240 million in the President's budget. Over 260,000 children who received support in FY99 to help them succeed in school and prepare for college would receive no services, nor would the 400,000 expected to receive support in FY2000.
- **Significantly reduces key funding for after-school, educational technology, and Title I accountability.** Provides only \$300 million of the President's request for \$600 million for after-school programs serving 900,000 less than the 1.8 million students expected to be served in the President's budget; provides \$251 million less than the President's request for \$801 million for a variety of innovative educational technology programs; and, the bill does not honor the President's request to set-aside \$200 million in Title I to turn around failing schools.
- **Guts Investment in Hispanic Education.** The House bill barely increases funding for the Hispanic Education Agenda, providing only \$53 million of the \$444 million increase requested in key programs, such as migrant, bilingual, and adult education, to raise achievement and reduce dropout rates in the Hispanic community.

Health and Human Services:

- **Major cut in Head Start.** The bill funds Head Start at \$507 million below the President's request. The mark would freeze Head Start participation at its current level making it the first time in a decade that Head Start participation would not increase.
- **Jeopardizes Temporary Assistance for Needy Families (TANF).** The bill delays the availability of \$3 billion in TANF funds (the welfare block grant), sending the wrong message to states who have prudently set aside "rainy day" reserves, and to states otherwise preparing to invest in new programs for welfare recipients with multiple barriers and for those who have already begun the transition to work. Through the first quarter of FY 1999 states have obligated 88% of their TANF dollars and have met all maintenance of effort requirements. By cutting billions from the program, the federal government would undermine the true goals of welfare reform and abandon its commitment to provide a fixed level of funding to states who live up to their commitment to invest their own dollars in assistance to needy families.
- **Cuts the Social Service Block Grant (SSBG).** The bill cuts SSBG by \$471 million below the President's request. SSBG provides funding to states to support a wide range of programs including child protection and child welfare, as well as services focused on the needs of the elderly and disabled.
- **Eliminates the President's Family Caregiver Support Program.** The House bill

does not include funds for the President's \$125 million new initiative to support those who care for the over 5 million disabled Americans who have long term care needs. The Family Caregiver Program is one piece of the Administration's four-part Long-Term Care proposal to provide comprehensive services to support caregivers.

- **Fails to Increase Funding for Home-Delivered Meals.** The House bill funds the widely supported home-delivered meals program at \$112 million, which is \$35 million below the President's request. The President's funding level would provide 27 million additional meals to at-risk older adults. These meals allow many of these adults to remain in their homes and communities, avoiding or delaying the need for costly institutionalization.
- **Cuts Important Health Initiatives.** The bill cuts public health priorities, including preventive health, mental health and substance abuse, health care access for the poor, and efforts to reduce racial health disparities and the spread of AIDS worldwide. The bill would also threaten our ability to manage key entitlement programs, such as Medicare and Medicaid. It would prevent us from continuing to provide important patient protections to American workers, and improving our nation's organ distribution system.

Labor:

- **Terminates Youth Opportunity Grants.** The Youth Opportunity Grants Program is an initiative to provide comprehensive employment and training assistance to all out-of-school young people in high poverty areas. The program was passed last year as part of the bipartisan Workforce Investment Act. Eliminating this program would deny essential support for up to 58,000 of the most disadvantaged young people in central cities and rural communities across America. The President's budget provides \$250 million for Youth Opportunity Grants, which are a critical component of the New Markets Initiative
- **Cuts Summer Jobs Program and Youth and Adult Training.** The House bill provides almost \$200 million below the President's request of \$ 1.96 billion for Youth and Adult Training. These cuts would result in lost job training, summer employment, and education opportunities to some 60,000 disadvantaged youth, and 38,200 adults would not have access to essential job training and placement services.
- **Cuts Dislocated Worker Assistance.** The House bill cuts Dislocated Worker Assistance by \$335 million below the President's request of \$ 1.6 billion. The Dislocated Worker Employment and Training program provides core services, intensive services, training and support to help permanently separated workers return to productive, unsubsidized employment. The President's Universal Reemployment initiative would put us on a five-year path toward universal job training services to all dislocated workers, by gradually increasing funding for Dislocated Worker Assistance. Instead of taking a step forward for dislocated workers, the House is proposing a giant leap backward by proposing cuts that will deny 176,000 dislocated workers access to these vital services. The bill also cuts funding for One-Stop Career Centers and Reemployment Services.

- **Threatens Enforcement of Labor Protections.** The House bill freezes or cuts all Department of Labor domestic workplace enforcement programs at or below FY 1999 levels, resulting in a \$112 million reduction below the President's request. For example, OSHA is cut \$51 million below the President's budget. As a result of this cut, some 5,000 fewer OSHA compliance inspections would be performed.

The Senate Appropriations Committee is expected to mark-up the Labor-HHS-ED appropriations bill on Tuesday, September 28th. The Senate mark is expected to be more in line with the President's budget request, including the requested funding for class-size reduction, after-school programs, and Head Start.

Bankruptcy. Prospects for the bill's consideration on the Senate floor this year, after last week's failed attempt by the Republican leadership to invoke cloture on a strictly party-line vote and end all debate, are unclear. Many predict the bill is dead for the year, but the creditor lobbyists reportedly are not satisfied with Republican attempts to blame Democrats for the bill's fate. The White House continues to work with Senate Democrats to ready balancing amendments for a floor battle, in case a time agreement is reached.

Abortion. This Thursday, the House is expected to vote on H.R. 2436, the "Unborn Victims of Violence Act of 1999," which would make it a separate federal offense to cause "death or bodily injury" to "a child in utero" in the course of committing any one of 68 listed federal crimes. This bill, sponsored by Representatives Charles Canady, Lindsey Graham, and Christopher Smith, is a clever and not so thinly veiled attempt to bestow upon a fetus the status of life under federal law and, in so doing, to erode the tenets of *Roe v. Wade*. Rep. Zoe Lofgren is expected to offer the alternative she advanced in Judiciary Committee. This alternative would create a new federal crime for injury to the mother, without establishing a new legal status for the fetus. While considered objectionable by some pro-choice House members (such as Rep. Nita Lowey), the substitute hopefully will provide cover for Democrats to vote against the underlying bill and therefore achieve a veto-sustaining margin. Because the substitute does not include an "intent standard" (*i.e.* the perpetrator need not *know* the victim is pregnant to be punishable), the Administration will not embrace the substitute. Still, the Administration will likely issue a Statement of Administration Position (SAP) which states that the President's senior advisors recommend that he veto the bill if it reached his desk – the women's groups have strongly urged that we take this stance. There is no similar bill pending in the Senate.

Education. On Thursday, September 23rd the House Budget Committee held a hearing on state, local, and private education reforms. Witnesses for the hearing included Gov. Jeb Bush (R-FL), Secretary Riley, and Governor Voinovich. The undertone of the hearing was a focus on vouchers with Bush urging the Federal government to allow flexibility for accountability including supporting the State's effort to provide vouchers. Secretary Riley focused on the need for comprehensive reform and highlighted the Administration's record of and commitment to public school choice. Voinovich talked about the need for a strong Federal role, but encouraged the Federal government to be less intrusive.

Crime: Juvenile Justice Bill. Lack of activity by the Juvenile Justice conferees led several Members to offer motions to instruct the conferees on the gun control provisions of the legislation. Rep. Lofgren (D-CA) offered two motions: the first instructs conferees to produce a loophole-free system that does not weaken current law, and enforces current laws (passed, 305-117); the second motion instructs conferees to require background checks at gun shows, ban the juvenile possession of assault weapons, and require child safety locks (passed, 241-167). Rep. McCarthy (D-NY) moved that the conferees hold regular, open meetings (failed, 190-218). And, Rep. Doolittle (R-CA) moved to instruct the conferees to produce a conference report that comports with the requirements of the Second Amendment (passed, 337-73).

The hottest issues holding up the conference are the gun provisions and the provision requiring the display of the Ten Commandments in public schools.

The co-chairs of the Juvenile Justice Coalition, from the Children's Defense Fund and the Youth Law Center, briefed Ann and Ruby on issues that they hope you will continue to monitor as the JJ bill moves forward. Their overarching message was that while they understand the importance of focusing on the gun provisions, they want to urge the Administration not to lose sight of the comprehensive message around juvenile justice that includes both prevention and protecting youth in the juvenile justice system. Specific issues of concern included:

- **Protections for Children in the Juvenile Justice System.** First, they very much appreciated the column you dedicated to the issue of children in jails in October of 1998. The Coalition is focusing on the need to fix certain provisions in the House bill that could erode the traditional protection of children in jail from adults. The House bill would weaken the policy by allowing "incidental" contact between adults and juveniles. Additionally, the House bill includes a loophole that could allow youth as young as 13 prosecuted in Federal Court to have unlimited exposure to adult inmates. The Administration has come out in preference of the Senate version that maintains current protections, but has noted some technical difficulties with the bill.
- **Disproportionate Minority Confinement (DMC).** Current law requires States participating in the formula grants program to address efforts to reduce disproportionate minority confinement in their State plans. States must assess reasons for its existence and design and implement strategies to reduce the problem. The Senate changes this requirement in an attempt to be race neutral and only calls for addressing problems of over-representation by any segment of the juvenile population. Both the Coalition and the Administration have been outspoken about maintaining the requirements in the current law.
- **Prevention.** Both bills include a "prevention block grant," but the funding does not have to be spent on primary prevention. The Coalition is urging the passage of the Senate bill that requires a 25% set-aside for primary prevention. The Administration is urging that the conferees consider maintaining a greater portion of the prevention block grants for primary prevention efforts (targeting youth who are not yet in the juvenile justice system).

Census Poverty Number Release. On September 30, the Census Bureau will release its annual report on poverty in the U.S. This report measures poverty data by characteristics such as age, race, work experience, and geography and also presents an overall national picture of poverty in the U.S. Selected White House staffers are privy to a preview of the data a day before the public release. In preparation for the meeting we have asked the Census Bureau to develop timed sequences of some specific data that we anticipate will be favorable indicators of the progress of some of our policies. An event announcing the results of the report is tentative on the President's schedule on September 30.

New National Center for Health Statistics Release. In early October, the National Center for Health Statistics (NCHS) will release its latest data indicating that homicide deaths are down by about 14 percent, for the fifth straight year in a row and that homicides, HIV/AIDS deaths, and the teen birth rate are all down. The data will also show that there is no improvement in the infant mortality rate and that there has been an increase in the out of wedlock birth rate.

AmeriCorps. Last week, the Senate voted 61-38 to defeat an amendment introduced by Senator Smith (I-NH) that would have removed all funding in the VA-HUD bill -- \$224.5 million -- for AmeriCorps grants and redirected the funding to veteran's programs. Sixteen Republicans joined all of the Senate Democrats to vote against the amendment. Sen. Smith argued strongly against "paid volunteers" and suggested that AmeriCorps is un-American. Sen. Bond (R-MO), who chairs the VA-HUD appropriations committee, argued against the amendment, citing the value of AmeriCorps. He also pointed out that there is no chance the President would sign a VA-HUD bill that does not fund AmeriCorps. Sen. Mikulski also spoke strongly against the Smith amendment.

Last year, Senator Sessions (R-AL) offered a similar amendment that failed 58-37. Sessions' amendment would have moved \$33 million from AmeriCorps to the space program. This week's vote against the Smith amendment was even bigger and potentially more controversial because he pitted AmeriCorps against the needs of veterans.

POTUS Message Schedule

9/28	Religious Leaders Breakfast Meeting w/PM Ecevit of Turkey
9/29	Arts & Humanities Awards Meeting w/Foreign Minister of Syria
9/30	Departure Statement -- Income/Poverty Numbers (possible CR signing) Address "Achieve, Inc." National Education Summit, Palisades, NY
10/1	Departure Statement -- Social Security Mailing (tentative)
10/2	Radio Address -- topic TBD

10/4 Message Opportunity (pending Hill action)

10/5 Patients' Bill of Rights Event at the White House

10/6 Comprehensive Test Ban Treaty Event

10/7 Healthcare Event (possibly Medicare -- Health reporters have been
invited to spend the day at the White House)

10/8 Travel to Ottawa, Canada for Embassy Event and Federalism Conference

10/9 Radio Address -- topic TBD

THE WHITE HOUSE
WASHINGTON

September 21, 1999

MEMORANDUM FOR HILLARY RODHAM CLINTON

FROM: ANN O'LEARY

CC: MELANNE VERVEER
SHIRLEY SAGAWA
✓NICOLE RABNER
RUBY SHAMIR

SUBJECT: IDEA DISCIPLINE POLICY

In reference to the attached article in the August 16, 1999, issue of Time Magazine, "Is This the Meanest Kid in Alabama?" you asked about the claim that "students with disabilities are shielded from expulsion by Federal law." The article references a case in Alabama in which a student with extreme attention deficit disorder continually disrupted class and acted out in school culminating in an event in which the child punched a teacher's aid on a school bus and threatened to grab the wheel of the bus. The district sued the boy in civil court and the judge ruled to ban the child from attending "all Alabama public schools." The mother in turn sued the district claiming that this ruling would violate IDEA.

The purpose of this memo is to give you the background on the history and implementation of the IDEA discipline policy, as well as caution you on the implications of opening up the IDEA discipline policy in favor of giving schools more authority to suspend and expel disabled students.

IDEA discipline policy: Prior to enactment of the IDEA Amendments of 1997, the statute only specifically addressed the issue of discipline in a provision that allowed school personnel to remove a child to an interim alternative educational placement for up to 45 days if the child brought a gun to school or to a school function. The 1997 Amendments incorporated prior court decisions and Department policy that had held that --

1. schools could remove a child for up to ten school days at a time for any violation of school rules as long as there was not a pattern of removals;
2. a child with a disability could not be long-term suspended or expelled from school for behavior that was a manifestation of his or her disability; and
3. services must continue for children with disabilities who are suspended or expelled from school.

The amendments did provide schools with additional tools needed to remove disruptive or potentially dangerous students:

1. schools have the authority to remove children with disabilities to an alternative setting for misconduct involving weapons or drugs;
2. schools also have the ability to go to a hearing officer to request removal of a dangerous child; and
3. schools have the ability to suspend a child for up to 10 days and for longer if the parent agrees to the disciplinary action.

Background on IDEA discipline policy: The goal of the 1997 discipline amendment was to strike a balance between giving schools additional tools for addressing disciplinary problems while maintaining the critical protections of the law that ensure children with disabilities are not treated unfairly. In developing the amendment and the final regulations for the IDEA amendments, the discipline policy became the center of a heated debate over how to best strike this balance. Those in the disability community wanted to ensure that the amendments focused on addressing the behavioral problems of students and decreasing the need for those students to be removed from the classroom, as well as ensuring that if students were removed that they continue to receive services in order to successfully complete school. Others argued that these policies would tie the hands of school administrators and would, in effect, encourage school administrators to keep behaviorally disruptive students in the classroom thus adversely affecting the learning environment for all students.

Current Concerns: Current concerns stem from questions of whether the IDEA provisions limit the ability of school officials to remove disruptive and potentially dangerous students from school and whether the differences in disciplining students with disabilities and other students provide for inequitable discipline policies (see attached article from *The New Democrat*).

During recent Congressional debates regarding school violence, Congressman Charlie Norwood (R-GA) and Senator John Ashcroft (R-MO) have proposed amending IDEA to allow school personnel to suspend or expel students with disabilities for unlimited periods of time, without any educational services, and without the impartial hearing now required by IDEA, for carrying or possessing a gun or weapon to school or at a school function. These amendments would cancel out the provisions added in the 1997 amendments ensuring that students with disabilities are provided with due process prior to expulsion or suspension. Secretary Riley has raised strong objections and concerns about these amendments fearing that children with disabilities would not be adequately protected if these amendments were to pass (see attached letter from Secretary Riley to Chairman Hyde).

This issue is expected to be a debated point in the Juvenile Justice conference with the same underlying tension and goal of trying to provide protections for students with disabilities while trying to provide for safe and disciplined learning environments for all children.

Other upcoming debates over school discipline policies: During his SOTU last year, the President called for every school district to have a sensible discipline policy that would help to create and reinforce positive learning environments. The Administration's ESEA reauthorization

proposal includes a provision under the President's "Education Accountability Act" to ensure that all school districts have a sound and fair discipline policy in place that is consistent with IDEA. It also requires that the discipline policy ensure that all children that are expelled or suspended from school are provided with appropriate counseling and educational services that will help them meet the State's challenging standards. ESEA does not, however, include the same specificity in terms of allowances for the number of days of suspension or services to be provided.

Recommendations: At this point in an environment that is reacting post-Littleton, opening up the IDEA discipline amendment would most likely tip the balance away from protecting children with disabilities. Instead, using the bully pulpit to raise this issue and ensure that school districts understand that IDEA does afford them with the flexibility they need to remove disruptive children to alternative educational settings and suspend or expel them for behavior that is not related to their disability may help to raise awareness. Currently, it is publicly popular to support the notion of "getting the troublemakers out" and this message resonates well with most suburban communities, but the backlash of implementing policies such as the ones proposed by Ashcroft and Norwood would likely have a disparate impact on minorities. It would also work to move away from the trend of trying to mainstream children with disabilities and ensure that they receive appropriate services aimed at curtailing their behavioral problems.

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Summer Living

AMERICAN SCENE

AUGUST 16, 1999 VOL. 154 NO. 7

Is This the Meanest Kid in All of Alabama?

His mom says he needs treatment, but a judge bars him from all public schools

BY TIMOTHY ROCHE/GULF SHORES

In kindergarten, Lance Landers lunged at his teacher with a sharp pencil. In sixth grade, he drew pictures of himself clobbering kids with a baseball bat. By the time he reached middle school in the resort town of Gulf Shores, Ala., he would spit into trays of food in the cafeteria, hurl batteries at other students and disrupt classes by jabbering nonsensical words he claimed were Spanish. Most mornings he greeted the principal with "Hello, motherf---!" Lance taunted bus drivers by saying he paid no price for misbehaving.

Until recently, he was right. A 15-year-old ninth-grader, Lance had been declared "emotionally conflicted," and was shielded from expulsion by federal laws that protect children with disabilities. But last April he went too far. On a school bus full of children, he punched a teacher's aide and threatened to grab the steering wheel and cause a wreck. District Attorney David Whetstone sued the boy in civil court, describing him as a "clear and present danger," and persuaded a state judge to bar him from all Alabama public schools. "It was a little creative," says Whetstone, "but we were out of resources."

The boy's mother, Anne Vinson, appealed the judge's order last week and is now suing the school district, accusing it of violating the federal Individuals with Disabilities Education Act. Vinson says her son suffers from extreme attention-deficit disorder and needs treatment, not banishment. "He wants to be like everyone else, but he can't help himself."

Most of the time, Lance doesn't seem very menacing. He mows lawns for spending money and collects Matchbox cars. But when somebody challenges him, says his mother, "he

AMERICAN SCENE:

The meanest kid in Alabama

NOTEBOOK



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can get very ugly and mean." Where does that come from? Vinson doesn't know. She has a degree in early-childhood development, and she has six other children (three by her first husband, one other by Lance's father, whom she divorced shortly after Lance was born, and two by her current husband), none of whom have been in trouble.

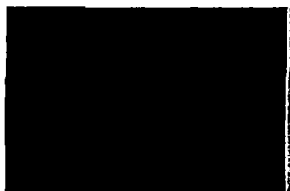
Vinson has taken Lance to psychologists and neurologists, who have tried half a dozen drugs, including Ritalin. Nothing has worked. "His mouth," she says, "goes 10 times faster than his brain." Counselors say Lance's violent tantrums are learned behavior. He knows that acting out wins him attention.

His teachers say they can't help anymore. In elementary school, they told the judge, they referred Lance to a psychiatrist, and he was later sent to an alternative school. But he was sent back because he wouldn't take his medication. His mother home-schooled him for a semester, after which he returned for eighth grade. The school hired aides to sit beside him in class and on the bus, but Lance mocked and assaulted them.

The day after the Columbine High School shootings in Littleton, Colo., last April, Lance brought a newspaper to school, showed an aide the story and asked, "Did you see this?" He said nothing else, just stared in a way the aide found threatening. More chilling, say school officials, are Lance's drawings of cities that he says he wants to destroy. Hank Vest, the Gulf Shores Middle School principal, says, "He made the statement that I did not know what all he was capable of doing."

Lance's lawyer, James Sears, says the teen is "stuck in the politics of Columbine." District Attorney Whetstone, who knows the boy's family from church, showed no interest in him until after the Colorado school shootings. Now, he says, he hopes to use Lance's case to make a larger point. Whetstone says all the advice on preventing another Littleton "gives us a list of things to watch for, but everything on it describes emotionally conflicted kids" like Lance, and they are shielded from expulsion by federal law. "I may not know what the answer is, but I know what the answer is not. You don't let them stay in school."

When Alabama schools reopen this week, Lance will be at a treatment center and wilderness camp near Birmingham. A juvenile judge sent him there for assaulting the school-bus aide. His mother and lawyer don't think it's the best place for him to get help, but until his court appeal, he has no place else to go.



"He's not some two-headed monster with a tail,"
says Sears. "He's just a kid with a disability."
END

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DANGEROUS IDEA

Does the Federal Special Education Law Contribute to Violence in Schools?

BY WILLIAM J. CAHIR

Benny Gooden, superintendent of schools in Fort Smith, Ark., remembers the 1996 incident well. Four youths were involved. One sold the .345 pistol, another bought it, a third hid it in his locker. And the fourth — a student with a disability — stole it.

Gooden expelled the first three for a full academic year. But he suspended the disabled student, provided a tutor at the boy's home, and subsequently returned the boy to his previous educational placement in school. Parents were furious.

"That doesn't play well down at the Rotary Club," Gooden said. "Taxpayers do not understand that. They don't think that's justice."

Gooden wasn't indulging the disabled student. He was complying with the nation's main special education law, the Individuals with Disabilities Education Act.

IDEA requires public schools to provide physically, mentally, and emotionally challenged children with equal educational opportunities. To prevent schools from routinely expelling disabled kids with behavior problems, IDEA curtails administrators' ability to punish them — including those who might be psychologically disturbed but otherwise blend into the student body.

A Dangerous Catch-22

The recent spate of mass murders in public schools has kept school safety high atop the national agenda. As this magazine went to press, it was not known whether the two teenagers who killed 12 classmates, a teacher, and themselves last month at Columbine High School in Littleton, Colo., were special education students; federal law forbids public disclosure of student records. According to media reports, one of the shooters, Eric Harris, had agreed to undergo a mental health evaluation and had been prescribed an anti-depressant drug as part of a plea bargain last year on charges of breaking into a car along with the other shooter, Dylan Klebold.

If the young men who committed the Littleton murders were in fact deemed disabled, they would have been eligible for treatment that could have prevented their



Students at Columbine High School console one another after the April 20 shooting.

bloody rampage. On the other hand, if they were special education students, they also would have been protected against routine punishment for serious misbehavior by the federal law's heightened due process standards.

Many school officials argue that IDEA creates a dangerous Catch-22: If a student's violent or antisocial behavior stems from a disability, the officials' disciplinary options become limited. Only when a child's education team determines that his misconduct is unrelated to his disability may the school discipline the student as it would others.

IDEA generally lets educators suspend a disabled child for no more than 10 school days. Disabled students charged with weapons and drug-related offenses can be removed from their school and sent to an alternative placement for a maximum of 45 calendar days. (In contrast, the 1994 federal Gun-Free Schools Act *requires* that any non-disabled child who possesses a gun in school be expelled for at least one year.) Schools also can move a disabled student to an alternative placement if a hearing officer determines the student poses a threat to himself or others — a litigious, appealable, time-consuming process.

Dual National Discipline Code

In the eyes of the nation's school superintendents, IDEA has created a dual national discipline code, mandating one set of rules for disabled students and another for everyone else.

David Wolk, superintendent of schools in Rutland, Vt., wants Congress to modify IDEA so that children with emotional and behavioral disorders can be more easily removed from regular classes. He has discussed the idea with Sen. James Jeffords (R-Vt.), chairman of the Senate Health, Education, Labor, and Pensions Committee.

"If a student poses a threat, regardless of any individualized differences, then that student should be removed from the educational setting," Wolk says.

John Jordon, superintendent in Oxford, Miss., and an adviser to Senate Majority Leader Trent Lott, says Congress could simplify IDEA by creating a separate discipline policy for students with learning disabilities. "We're not talking about kids with autism," he says, explaining that they are not the discipline problem. "We are talking about specific learning-disabled children."

Educators complain that discipline problems are rampant in schools today, with offenses ranging from cursing to sexual harassment, from fighting to assault. Not surprisingly, school administrators' complaints about IDEA have caught the attention of Congress. Lawmakers have introduced three bills to repeal IDEA's due-process standards and let schools punish students with and without disabilities in the same manner — this just two years after Congress revised IDEA.

Lawmakers concerned about the nexus between special education and school discipline are treading lightly, however, for fear of incurring the wrath of disability interest groups.

IDEA discipline policy is only part of the debate, says Delaine Eastin, chief of public instruction in California. "People are a lot more concerned about the lack of special education funding overall than they are about this issue."

The Littleton massacre is certain to raise the profile of school safety and discipline in Congress, which is slated this year to reauthorize both the Elementary and Secondary Education Act (*see related story on page 28*) and the Juvenile Justice and Delinquency Prevention Act.

President Clinton has called on schools to adopt "sensible" discipline policies. Republicans, meanwhile, have introduced bills that would require states to prosecute children ages 14 and older as adults for crimes committed at school or anywhere else.

School safety has already worked its way into the 2000 presidential campaign. Republican candidate Lamar Alexander, for example, argues in a television spot that "it's time to put discipline back in the classrooms and get the troublemakers out."

"Give teachers clear authority to remove disruptive students," says Alexander, the education secretary under George Bush. "Support teachers who maintain discipline instead of suing them."

Hard-Line Approach Criticized

Some academics warn that the hard-line approach Alexander favors holds little promise of curtailing school violence. According to Jeffrey Sprague, co-director of the University of Oregon's Institute on Violence and Destructive Behavior, research suggests that schools using punishment, including expulsion and suspension, as their primary discipline tools have higher rates of student aggression, vandalism, and truancy. Sprague advises schools to adopt clear punishment policies, teach expected standards of conduct to children, and enforce rules consistently. Students learn what to expect, he contends, and erupt less frequently.

Kevin Dwyer, president of the National Association of School Psychologists, begs lawmakers and school administrators to resist the temptation to expel all troublesome children.

"We're neglecting children," Dwyer says. "That's why we're ending up with all this violence and kids being impulsive and difficult to deal with in school. ... It's overwhelming out there, the lack of services for kids."

Other educators raise a more hard-boiled objection to kicking violent or unruly students out of school. "The smart people, including fairly conservative school leaders, are saying you don't want [kids] out there on the street," says California's Eastin.

Chicago has adopted a citywide discipline code for its 559 schools. Any student who gets into a fistfight can expect to participate in a parent conference and get a three-day suspension.

"It's most important to us that we have a structure, that everyone can understand 'here's what to expect,'" explains Cozette Buckney, chief education officer for the Chicago system.

The school district modified its zero-tolerance policy for guns and drugs two years ago to include offenses committed off school grounds. So a Chicago student arrested on a Friday night for possessing drugs can count on disciplinary action when he returns to school on Monday.

New York State United Teachers, the state affiliate of

the American Federation of Teachers, recently surveyed 605 of its members on school safety issues. Forty percent said they had either been attacked by, broken up fights among, or otherwise had physical confrontations with students during the past three years. Sixty percent said students' profanity and defiance were problems in class, and 66 percent said they wanted parents to be better disciplinarians.

"Many students who are chronically disruptive or violent are on the fast track to even bigger trouble," says Antonia Cortese, NYSUT's first vice president. "With good alternative programs, we can turn a lot of these kids around." The union has asked the state to empower its members to eject misbehaving students from their classes and send them to new state-financed alternative schools.

Texas is one of only seven states to give teachers such wide discretion. Backers of the state's 1995 Safe Schools Act say it has reduced the incidence of verbal abuse, threats, vandalism, assault, and other serious offenses in schools. "Now the teacher has the right to keep these hooligans who don't care if they disrupt the learning environment from doing that," says John Cole, president of the Texas Federation of Teachers. "If the only thing we accomplish is getting these kids out of the class so others can learn, then that's worthwhile."

In April, Sens. John Kerry (D-Mass.) and Gordon

Smith (R-Ore.) introduced a bill that would give school districts federal grants to open alternative schools, crisis centers, and in-school suspension rooms. But this problem-solving approach runs against the current tide in Congress, which is to consolidate rather than create federal education programs.

Alternative placements for antisocial students are an imperfect solution. Many students who return to their home schools from such centers slip back into bad social and academic patterns. Long-term placements are just as problematic; few of the programs help troubled youths make the transition to employment or higher education. But educators say such specialized schools do have one crucial advantage: They isolate dangerous children from teachers, school staff, and other students.

According to Carol Kochar of the University of Oregon violence institute, the best alternative programs share one characteristic: "the presence of caring, dedicated adults." Clearly, if we as a nation decide to begin segregating more and more "problem children" in their own schools, we are going to have to find more money to fund those schools and a new generation of highly trained instructors and counselors to staff them. ♦

William J. Cahir is senior reporter for Education Daily, an independent news service based in Alexandria, Va.

TRADING SIDES

How the Left Joined the Right in League Against Trade

BY SUSAN ARIEL AARONSON

Rep. Barney Frank (D-Mass.) doesn't mince words. At a February 1998 conference on trade held in Washington, he bluntly explained why he and many other House Democrats oppose restoring President Clinton's "fast track" authority, which would empower the President to negotiate trade agreements that Congress could approve or reject but not amend.

"We are taking a hostage [for the sake of] equity," Frank said. "[Clinton] has walked away from poverty alleviation. Unless you reduce poverty, I don't want to play."

Frank was referring in part to equity for Americans injured by trade. But many of his Democratic and Republican colleagues on Capitol Hill are concerned about different inequities, such as human rights abuses and wretched environmental conditions overseas. Others argue that it is inequitable for the United States to expand trade agree-

ments because our trading partners treat U.S. producers unfairly. And some nationalists argue that trade agreements are inherently unfair because they place international economic interests above the national interest or the interests of some U.S. commercial sectors.

Despite these widely divergent concerns, trade agreement critics of the left and right have found common ground. As a result, since 1993 Congress has effectively denied the President authority to negotiate new bilateral and multilateral trade agreements.

How did Frank and other American liberals come to believe that trade agreements are so inequitable that they would make a compact with their political opposites to restrict them? And what can trade proponents do to convince liberals and other Americans that trade agreements have promoted equity in the past and can continue to do so?



THE SECRETARY OF EDUCATION
WASHINGTON, D.C. 20202

August 24, 1999

Honorable Henry J. Hyde
House of Representatives
Washington, DC 20515

Dear Congressman Hyde:

I am writing to express my serious concerns relating to certain provisions of the two juvenile crime bills recently passed by the House of Representatives and the Senate, respectively, H.R. 1501, the "Juvenile Justice Reform Act of 1999" and S. 254, the "Violent and Repeat Juvenile Offender Accountability and Rehabilitation Act of 1999." Improving the effectiveness of the Nation's juvenile justice system is a goal we all share, and is vitally important to the maintenance of our schools as safe and orderly centers of learning. Because the overwhelming majority of the provisions of both bills relate directly to the operation of the juvenile justice system, I defer overall to the Attorney General with respect to both bills.

However, both bills also contain a variety of provisions, added during floor debate, that would directly affect the administration of Federal education programs at the elementary and secondary education level as well as the ability of local school systems throughout the Nation to provide a safe, high-quality education. I urge the conferees not to include these provisions in the final bill, but to consider them, instead, as part of a more comprehensive and deliberate review of Federal elementary and secondary education programs that will occur as the Congress debates the upcoming reauthorization of the Elementary and Secondary Education Act of 1965 (ESEA). In this connection, I urge the Congress to act favorably on the President's ESEA reauthorization proposal, the "Educational Excellence for All Children Act of 1999," and, in particular, the many improvements that proposal would make to Title IV of the ESEA, the "Safe and Drug-Free Schools and Communities Act." If, however, the conferees feel compelled to address these issues in conference, I urge you to delete or modify the provisions described below.

IDEA. My strongest objections are to the amendments in both bills to the Individuals with Disabilities Education Act (IDEA). These amendments would allow school personnel in public elementary and secondary schools, for the first time, to suspend or expel children with disabilities from their schools for unlimited periods of time, without any educational services (including behavioral intervention services), and without the impartial hearing now required by the IDEA, for carrying or possessing a "gun or firearm" (Senate) or a "weapon" (House) to, or at, school or a school function. Congress need not, and should not, make these changes. Just two years ago, Congress, after thoughtful deliberation, amended the IDEA to give school

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officials new tools to address the issue of children with disabilities bringing such weapons to school, or otherwise threatening teachers and other students. For example, school officials may remove, for up to 45 days, a child with a disability who takes a weapon to school, and may request a hearing officer to similarly remove a child who is substantially likely to injure himself or others, if the child's parents object to the removal. Furthermore, the IDEA currently allows hearing officers to keep these students out of the regular educational environment beyond 45 days if they continue to pose a threat to the rest of the student body. Finally, the 1997 amendments to the IDEA help prevent dangerous situations from arising, by encouraging schools to address misbehavior before it becomes serious, through the provision of behavioral interventions and other appropriate services. I am convinced that these new tools will be effective if given a chance to work.

In contrast, the amendments now under consideration would deny vital educational services to children with disabilities who are removed from school, including behavioral interventions that are designed to prevent dangerous behavior from recurring. Continued provision of educational services, including these behavioral interventions, offers the best chance for improving the long-term prospects for these children. Discontinuing educational services is the wrong decision in the short run, and, in the long run, will result in significant costs in terms of increased crime, dependency on public assistance, unemployment, and alienation from society.

Also, the applicable definition of "weapon" (current section 615(k)(10)(D) of the IDEA), as used in the House bill, is very broad and open to subjective application -- covering anything, such as a rock picked up on the way to school or a baseball bat intended for an after-school ball game -- that is "readily capable of causing death or serious bodily injury," whether or not it is designed as a weapon and without regard to the student's intention in bringing it to school. A statutory standard this broad is sure to lead to inconsistent application at the local level and widespread confusion.

The exclusion of children with disabilities from school -- without the impartial due-process hearing and the continued services that the IDEA now requires -- is the wrong response. I urge you to reject these amendments to the IDEA.

Religious Expression. Both bills contain amendments relating to the expression of religious beliefs at public schools. This Administration has a strong record of protecting religious expression in schools. In 1995, the President directed the Attorney General and me to issue guidelines that would help schools preserve the religious freedom of students. I sent these guidelines to every school district in the Nation in 1995 and again last year, to ensure that parents, teachers, students, and school officials understand that schools need not be religion-free zones. These guidelines make clear that schools may not forbid students from expressing their religious views or beliefs solely because of their religious nature, and that any student in an American public school may pray, bring a Bible to school, say grace at lunch, or voluntarily participate in "see you at the flagpole" gatherings. In addition, I share the Department of Justice's concerns over the constitutionality of the provisions in H.R. 1501 and S. 254.

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Internet Filtering. The House bill contains an amendment that would require elementary and secondary schools and libraries receiving universal-service assistance to select, install, and use filters that block access to child pornographic and obscene materials, as well as materials deemed harmful to minors, on computers with Internet access and to certify to the Federal Communications Commission that they have done so. A school or library that fails to meet these requirements would be liable to repay immediately the full amount of all universal-service assistance it received after the date of its failure to comply.

I strongly support the goal of protecting children from inappropriate material on the Internet. However, I do not believe the House provision would effectively accomplish this goal. As written, the House provision could result in the blocking of material that may be appropriate for educational and other uses, raising constitutional concerns, and would place a disproportionate burden on our poorest and most rural schools and libraries.

Appropriately crafted legislation would empower schools to protect children from unsuitable material while also protecting First Amendment values. Accordingly, I support a provision that would require every school and library that receives assistance from the universal service fund to certify that it has developed and implemented a plan to protect children from inappropriate material on the Internet. These plans should be developed in consultation with parents and other interested parties so that schools and libraries can adopt local approaches that best serve the needs of their students and communities. I would be pleased to work with the conferees to develop such a provision.

Safe Schools. The Senate bill would expand the Gun-Free Schools Act of 1994 -- which requires school districts to expel from school for at least one year any student who brings a firearm to school -- to require States to pass a law that would compel the same punishment for students who possess at school a "felonious quantit[y] of an illegal drug." Clearly, the presence of illegal drugs at school is unacceptable. However, I oppose this provision as drafted. First, I do not favor expanding the number of students who are expelled from school for long periods of time -- for the sake of the students themselves, and their communities. Many students who are expelled for a long period of time never return to school, which ends their education and casts them troubled and ill-prepared onto the streets. We cannot afford to lose these children. Secondly, expelling students in this manner based on whether the amount of illegal drugs they possessed at school did, or did not, constitute a felony under State or Federal law would not only lead to inconsistent results -- and confusion -- across the country in the application of this Federal requirement, it would force school administrators to become expert in the application of criminal law and to function, in effect, as prosecutors.

I believe that the criminal justice system should be brought to bear vigorously on any student who brings illegal drugs to school. Accordingly, I believe a better approach would be to require schools that have not already done so to adopt and enforce sanctions against students who bring

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illegal drugs to school, and to make it mandatory that school authorities refer to the appropriate law-enforcement authorities any student who brings an illegal drug to school, whether felonious or not.

The Senate bill would also amend current Titles IV and VI of the ESEA to expressly permit school districts to use an unlimited amount of their resources under those two titles to "purchase school security equipment," such as metal detectors. While such equipment can be an important part of local efforts to make schools safe, it is vital that school districts continue to look at a variety of other approaches to addressing their individual needs, because we know that metal detectors alone will not make schools safe. Our reauthorization proposal for the Safe and Drug-Free Schools program would provide school districts additional flexibility to purchase such equipment. I urge the conferees to omit the Senate provision from the final bill, so that the Congress and the Administration can work together to address this issue as part of the pending reauthorization of the entire Safe and Drug-Free Schools program and the rest of the ESEA.

Thank you for the opportunity to present these views.

The Office of Management and Budget advises that there is no objection to the submission of this report from the standpoint of the Administration's program.

Yours sincerely,

A handwritten signature in black ink, appearing to read "Dick Riley", with a stylized flourish at the end.

Richard W. Riley