

THE WHITE HOUSE
WASHINGTON

February 16, 1993

MEMORANDUM FOR THE PRESIDENT

FROM: JOHN PODESTA

Attached is a decision memorandum from Secretary Bentsen concerning actions to alleviate the credit crunch.

I have been told by Bob Rubin that it is **urgent**, and as you will see from his note, his impression is that it is balanced and would have a favorable impact on credit extension. Therefore, I am forwarding it to you without input from the Vice President or other senior staff.

I have forwarded copies to the Vice President, Mack, Mark, George and Laura Tyson. I will forward comments/concerns if any, from those individuals to you as I receive them.

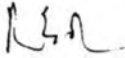
Following the two page decision memo is one page list of actions proposed by Secretary Bentsen. If you decide to approve the basic approach, please **strike** any actions which you think are inappropriate or for which you would like more information.

THE WHITE HOUSE

WASHINGTON

February 15, 1993

MEMORANDUM FOR THE PRESIDENT

FROM: ROBERT E. RUBIN 

SUBJECT: **Decision Memorandum on Short-Term Regulatory
Actions to Alleviate the "Credit Crunch"**

Attached is a decision memorandum from Secretary Bentsen recommending short-term regulatory actions to alleviate the "credit crunch". In addition to the decision memorandum, I have attached the two previous memos from Secretary Bentsen on the "credit crunch".

If you approve the regulatory actions recommended in the decision memorandum prior to Wednesday, and if you want this in your speech, we will work with Treasury and the speechwriters to develop the appropriate language for that purpose.

Although I am no expert on banking, I do have some knowledge of the field. My impression is that this set of recommendations is balanced and would have a favorable impact on credit extension.

Attachments



THE SECRETARY OF THE TREASURY
WASHINGTON

February 15, 1993

MEMORANDUM FOR THE PRESIDENT

FROM: Secretary Bentsen
SUBJECT: Actions to Alleviate the "Credit Crunch"

I. ACTION-FORCING EVENT: Banks have operated under burdensome regulations that have limited their lending, especially to small and medium-sized businesses that are key to job growth.

II. BACKGROUND:

1. Initial focus of proposals:

- A. Alleviate the "credit crunch."
- B. Maintain and improve safety and soundness.
- C. Assure equal opportunity lending and expand bank involvement in needy communities.

2. "Credit Crunch" Alleviation:

A. Treasury (including the Office of the Comptroller of the Currency and the Office of Thrift Supervision), in conjunction with the Federal Reserve Board and the FDIC, has developed a set of 11 specific regulatory actions that can be implemented over the next few months to remove needless impediments to lending (list attached).

B. The regulatory actions primarily address:

- Examination processes;
- Loans to small and medium-sized businesses;
- Real estate, which is often used as collateral for small and medium-sized business loans.

C. These steps, which have the support of all four regulatory agencies, should immediately and significantly improve both the procedures and the climate for lending to creditworthy borrowers.

D. Balanced and constructive cooperation by the SEC will be important for certain of these actions. No discussions have yet been held with the SEC on this topic.

E. It is likely that additional similar regulatory steps will be developed over the next few months.

F. Some additional potential actions may require legislation, but since significant improvements can be made purely through these regulatory programs, they have been given initial emphasis. Initial discussions with Congressional staff indicate that it would be advisable to postpone any public discussion of legislative initiatives until the Administration has formulated a comprehensive approach to banking issues.

3. Steps to Improve Safety and Soundness: Regulatory attention will be shifted from unproductive procedures to focus on key risks in today's banking environment, better utilizing regulatory resources to improve safety and soundness (see attached).

4. Equal Credit Opportunity and Community Support: Efforts to address both issues are beginning and programs will be developed in the next few months.

III. RECOMMENDATION:

Treasury has discussed these specific proposals with both the Federal Reserve and the FDIC at the board level. Chairman Greenspan has personally expressed his support and both organizations are eager to cooperate. Treasury has also advised Congressional staff of the general outlines of the plan and received positive reactions. These proposals should be well received by the banking and business communities.

I advise you to approve these regulatory actions.

IV. DECISION:

☐ Approve ☐ Approve as amended ☐ Reject
☐ No action

Attachment

DRAFT: FEBRUARY 15, 1993

"CREDIT CRUNCH" ALLEVIATION PROGRAM**A. Regulatory actions (by OCC & OTS, in coordination with Fed and FDIC)**

1. Establish workable appeals process for financial institutions to review significant differences in judgment directly with appropriate regulatory officials.
2. Increase coordination of examinations by regulatory agencies and reduce duplication in examinations to minimize uncertainty and disruption to bank and thrift operations, whenever backup or duplicate examinations are required by law.
3. Reduce uncertainty by getting required and backlogged regulations out soon.
4. Minimize documentation requirements for small and medium-sized business loans at well-capitalized, well-rated institutions.
5. Establish examination and rating procedures that more accurately separate "other mentioned" loans from higher-risk classifications. (This is especially important for loans to small and medium-sized businesses, and directly addresses loans where character is used as one of the primary determinants.)
6. Revise guidelines for returning partially charged-off loans to performing status, for loans where timely principal and interest payments are being made.
7. Insure that examination procedures for loans secured by real estate focus on the borrower's ability to pay over time, rather than presuming immediate liquidation.
8. Revise appraisal regulations and implementation procedures, consistent with law, to limit requirements for appraisals to times when they genuinely assist in making informed credit decisions.
9. Revise treatment of loans used to finance the purchase of real estate from banks to ensure reasonable standards.
10. Change bank and thrift-related regulatory reporting guidelines to avoid unnecessarily classifying a loan as "in substance foreclosure," when the borrower is reasonably expected to pay the loan.
11. Establish procedures for more efficient, effective evaluation of real risk in multi-bank institutions.

B. At the same time, increased regulatory attention will be focused on the following:

1. Undercapitalized and poorly rated institutions that pose real risk to the insurance funds.
2. Equal opportunity lending and bank involvement in needy communities.
3. Swaps and other "derivative" financial instruments.
4. Interest-rate risk.



THE SECRETARY OF THE TREASURY
WASHINGTON

BR/Bo/GS/SM

February 10, 1993

MEMORANDUM FOR: Robert E. Rubin
FROM: Lloyd Bentsen LB/R-1
RE: Credit Crunch

Treasury is working on proposals to alleviate the credit crunch and this is an update on where we stand. We believe that there are some immediate steps that the Administration can take that deserve inclusion in the President's February 17th speech.

We have operated using a couple of goals.

First, we need a coordinated response from all bank regulators. The Office of the Comptroller and the Office of Thrift Supervision are on board and the Fed and the FDIC have agreed in principle with our proposals. It is also important that the SEC agree on some of the measures.

Second, we can take immediate administrative action -- legislation will have to come later. There are a number of regulatory actions described below that can be implemented as soon as regulations are drafted.

Third, we need to send the right signals. We need to let Congress and other concerned parties know that we will not do anything that jeopardizes safety and soundness. At the same time, we need to send a strong message to bankers that we hear their concerns and are acting to alleviate them.

With these goals in mind, we are prepared to take approximately nine regulatory actions that we could take in conjunction with the Fed and FDIC. Most of these are highly technical, but should bring an immediate and positive response from the banking community. They include:

1. Changing loan review procedures to address the "character loan" problem.
2. Establishing examination procedures for loans secured by real estate that will focus on the borrower's ability to pay over time.

3. Establishing appropriate guidelines for returning partially charged-off loans to performing status.

4. Increasing coordination by regulatory agencies to minimize uncertainty and disruption.

5. Establishing workable appeals processes that would allow expedient resolution and direct input from Washington.

There will be two primary effects of these changes. They will make it administratively easier for lenders to lend. And, the psychological impact on lenders of such a regulatory shift will be considerable. We will develop estimates for the credit availability impact of these proposals.

We also plan to include some safety and soundness regulatory changes such as increasing attention on "derivative" financial instruments and interest-rate risks.

Treasury will also review possible legislative actions which could provide relief including bankruptcy reform and reduced reporting requirements. We will report to the White House within 90 days of the possibility of legislative initiatives. The President can make a statement to that effect in his speech.

We would, of course, like to review any specific language in this area which might be used in the President's materials.



THE SECRETARY OF THE TREASURY
WASHINGTON

February 11, 1993

500
FEB 12 12:05

Memorandum for: BOB RUBIN
From: Lloyd Bentsen
Re: Credit Crunch

Enclosed you will find information that has been prepared by Frank Newman and Gene Ludwig concerning proposed administrative actions on addressing the credit crunch. Roger Altman has worked with them in compiling this and I think it is an excellent start down the road to alleviating the problem.

Attachment

cc: Roger Altman
Frank Newman
Gene Ludwig

CREDIT CRUNCH ALLEVIATION PROGRAM

- A. Regulatory actions (by OCC & OTS, in coordination with Fed and FDIC)**
1. Reduce uncertainty by getting required and backlogged regulations out soon.
 2. Establish workable appeals process for financial institutions to review significant differences in judgement directly with appropriate regulatory officials.
 3. Establish examination and rating procedures that separate "other mentioned" loans from higher-risk classifications. (This is esp. important for loans to small and medium-sized businesses, and directly addresses "character loans.")
 4. Establish appropriate guidelines for returning partially charged-off loans to performing status, for loans that have reached fully collectible status.
 5. Establish examination procedures for loans secured by real estate, that focus on the borrower's ability to pay over time, rather than presuming immediate liquidation.
 6. Increase coordination of examinations by regulatory agencies to minimize uncertainty and disruption to bank of thrift operations, whenever backup or duplicate examinations are required by law.
 7. Change bank and thrift regulatory reporting guidelines to avoid unnecessarily classifying a loan as "in substance foreclosure," when the borrowers is reasonably expected to pay the loan.
 8. Revise treatment of loans used to finance the purchase of real estate from banks to ensure reasonable standards.
 9. Revise appraisal procedures to limit requirements for appraisals to times when they genuinely assist in making informed credit decisions.
- B. At the same time, increased regulatory attention will be focused on the following areas:**
1. Swaps and other "derivative" financial instruments.
 2. Interest-rate risk.

- C. Changes requiring legislation will be developed for proposal to Congress, dealing initially with:
1. Bankruptcy reform
 2. Paperwork burden.

February 10, 1993

FEB. 17 SPEECH

Credit Crunch Issues

I. Outline of Credit Crunch Issues

- * Credit critical to economic growth and development has not been readily available, particularly to small and medium sized businesses.
- * This "credit crunch" has been caused in part by an excessive regulatory burden imposed on banks and thrifts by their regulators.
- * Through sensible regulation that focuses on real risk as opposed to excessive burdens we can both ensure the safety and soundness of our financial services sector and put an end to this credit crunch.
- * Over the last several weeks the Treasury Department and the Office of the Comptroller of the Currency have examined this issue closely and have come up with a program that is a significant first step in achieving this balance.
- * This program includes primarily administrative and regulatory changes that will be implemented within the next several weeks by both the Office of the Comptroller of the Currency and the Office of Thrift Supervision. This program includes changes in the area of in substance foreclosure, treatment of OAEM loans, examination procedures for loans secured by real estate, limitations on required appraisals, and an appeals process for banks which believe they have been unfairly treated in the examination process.
- * We have consulted with the Federal Reserve Board and the FDIC and have reason to believe that they will adopt a similar program.

II. Text Related to Credit Crunch Issues

The availability of credit in our country is critical to our economic growth and development. In recent years credit has not been sufficiently available, particularly to small and medium sized companies, due in part to an overreaction to difficulties experienced by some banks with some borrowers.

This Administration does not intend to let the credit crunch continue. I believe that we can make credit available again to

creditworthy borrowers, without going back to a period of lax standards that characterized the 1980s. Moreover, I believe that through a more realistic analysis of lender risk and the application of this analysis to examination standards, we cannot only put an end to the credit crunch, but we can at the same time actually increase the safety and soundness of our financial services system. And, I believe that these goals can and must be accomplished in a manner that enhances our commitment to equal credit opportunity and community reinvestment.

To this end, we have developed a new program that is designed to do four things: (1) make credit available again to creditworthy borrowers; (2) maintain sound underwriting standards for loans and improve the safety and soundness of banks and thrifts through realistic risk analysis; (3) reduce unnecessary regulatory burdens that cost taxpayers money and weaken financial services institutions; and (4) advance our commitment to equal credit opportunity and community reinvestment.

Specifics of this program, much of which can be accomplished within the next few months administratively, will be developed in coordination with the Federal Reserve and the FDIC, who have already been consulted regarding the principles of the program. The program as it has been developed thus far includes changes in the area of "in substance foreclosure", treatment of OAEM loans, examination procedures for loans secured by real estate, limitations on required appraisals and an appeals process for banks which believe they have been unfairly treated in the examination process.

THE WHITE HOUSE
WASHINGTON



February 16, 1993

Mr. President:

Enclosed is the information you
requested concerning distribution
of tax changes.

John Podesta



February 15, 1993

MEMORANDUM TO THE PRESIDENT

FROM: Gene Sperling

SUBJECT: Distribution Tables

Distribution Tables:

You asked for specific facts about how much each income category pays both as a percentage of the overall revenue raised, and as a percentage of their income. As it turned out, these were needed for the chart we were considering, so you have probably seen much of the data. Here is the back-up charts as you requested them. The first one just groups from 0-\$30,000 and \$30,000-to-\$50,000. The second one breaks down the first \$50,000, by categories of \$10,000.

As you can see, those under \$30,000 are basically held harmless. It is worth noting that it would only take another \$4.1 billion -- perfectly placed -- to hold harmless those in the \$30,000 to \$50,000 category. They currently pay \$181 more a year, or \$15 a month or about \$3.50 a week -- though this is certainly not a trivial amount of money to many of the families in this category. Treasury is still finalizing these numbers.

Note: I will get you the capital gains indexing figures first thing in the morning. There is one important fact I need to check about how much our raising the top marginal rates changes all the calculations.

Administration's Revenue Proposals (1)
(Offsets: EITC expansion & increases in LIHEAP & Food Stamps)
[Includes Taxation of Social Security Benefits]
(1994 Income Levels)

Family Economic Income Class (2) (000)	Number of Families (millions)	Tax Change as a Percent of Income (%)	Average Tax Change Per Family (\$)	Total Tax Change	
				Amount (\$B)	Percent Distribution (%)
0 - 30	49.2	0.0	5	0.2	0.4
30 - 50	22.4	0.5	181	4.1	7.0
50 - 75	17.4	0.7	403	7.0	12.0
75 - 100	9.9	0.7	564	5.6	9.6
100 - 200	8.8	0.7	868	7.7	13.1
200 & over	2.4	2.9	14,140	33.7	57.7
Total (3)	110.7	1.0	527	58.4	100.0

15-Feb-93

Department of the Treasury
Office of Tax Analysis

- (1) This table distributes the estimated change in tax liabilities due to the Administration's revenue proposals. Taxation of Social Security benefits and increases in the EITC, LIHEAP, and Food Stamps are included.
- (2) Family Economic Income (FEI) is a broad-based income concept. FEI is constructed by adding to AGI unreported and underreported income; IRA and Keogh deductions; nontaxable transfer payments such as Social Security and AFDC; employer-provided fringe benefits; inside build-up on pensions, IRAs, Keoghs, and life insurance; tax-exempt interest; and imputed rent on owner-occupied housing. Capital gains are computed on an accrual basis, adjusted for inflation to the extent reliable data allow. Inflationary losses of lenders are subtracted and gains of borrowers are added. There is also an adjustment for accelerated depreciation of noncorporate businesses. FEI is shown on a family rather than a tax-return basis. The economic incomes of all members of a family unit are added to arrive at the family's economic income used in the distributions.
- (3) Families with negative incomes are included in the total line but not shown separately.

Administration's Revenue Proposals (1)
(Offsets: EITC expansion & increases in LIHEAP & Food Stamps)
[Includes Taxation of Social Security Benefits]
(1994 Income Levels)

Family Economic Income Class (2) (000)	Number of Families (millions)	Tax Change as a Percent of Income (%)	Average Tax Change Per Family (\$)	Total Tax Change	
				Amount (\$B)	Percent Distribution (%)
0 - 10	14.9	-0.2	(10)	-0.2	-0.3
10 - 20	18.4	0.0	2	0.0	0.1
20 - 30	16.0	0.1	21	0.3	0.6
30 - 50	22.4	0.5	181	4.1	7.0
50 - 75	17.4	0.7	403	7.0	12.0
75 - 100	9.9	0.7	564	5.6	9.6
100 - 200	8.8	0.7	868	7.7	13.1
200 & over	2.4	2.9	14,140	33.7	57.7
Total (3)	110.7	1.0	527	58.4	100.0

Department of the Treasury
Office of Tax Analysis

15-Feb-93

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- (3) Families with negative incomes are included in the total line but not shown separately.

CHRON

THE WHITE HOUSE
WASHINGTON

DATE: 2/15/0

TO: BOB BOORSTIN

FROM: JOHN D. PODESTA
Assistant to the President and
Staff Secretary

The attached has been forwarded
to the President.

THE WHITE HOUSE
WASHINGTON

DATE: 2/15/92

TO: PAUL BEGALA

FROM: JOHN D. PODESTA
Assistant to the President and
Staff Secretary

The attached has been forwarded
to the President.

THE WHITE HOUSE
WASHINGTON

DATE: 2/15/93

TO: Roger Martin

FROM: JOHN D. PODESTA
Assistant to the President and
Staff Secretary

The attached has been forwarded
to the President.

THE WHITE HOUSE
WASHINGTON

DATE: 2/15/93

TO: JOAN BAGGETT

FROM: JOHN D. PODESTA
Assistant to the President and
Staff Secretary

The attached has been forwarded
to the President.

THE WHITE HOUSE
WASHINGTON

DATE: 2/15/93

TO: MARK GEARAN

FROM: JOHN D. PODESTA
Assistant to the President and
Staff Secretary

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to the President.

THE WHITE HOUSE
WASHINGTON

DATE: 2/15/93

TO: MARCIA HALE

FROM: JOHN D. PODESTA
Assistant to the President and
Staff Secretary

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to the President.

THE WHITE HOUSE
WASHINGTON

DATE: 2/15/93

TO: RAHM EMANUEL

FROM: JOHN D. PODESTA
Assistant to the President and
Staff Secretary

The attached has been forwarded
to the President.

THE WHITE HOUSE
WASHINGTON

DATE: 2/15/93

TO: BARBARA CHOW

FROM: JOHN D. PODESTA
Assistant to the President and
Staff Secretary

The attached has been forwarded
to the President.

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WASHINGTON

DATE: 2/15/93

TO: MARK LONGABAUGH

FROM: JOHN D. PODESTA
Assistant to the President and
Staff Secretary

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to the President.

THE WHITE HOUSE
WASHINGTON

DATE: 2/15/93

TO: KATIE MCGINTY

FROM: JOHN D. PODESTA
Assistant to the President and
Staff Secretary

The attached has been forwarded
to the President.

THE WHITE HOUSE
WASHINGTON

DATE: 2/15/93

Will ITOH

FROM: JOHN D. PODESTA
Assistant to the President and
Staff Secretary

The attached has been forwarded
to the President.

THE WHITE HOUSE
WASHINGTON

DATE: 2/15/93

TO: Alexis Herman

FROM: JOHN D. PODESTA
Assistant to the President and
Staff Secretary

The attached has been forwarded
to the President.

THE WHITE HOUSE
WASHINGTON

DATE: 2/13/93

TO: *Bruce Reed*

FROM: JOHN D. PODESTA
Assistant to the President and
Staff Secretary

The attached has been forwarded
to the President.

THE WHITE HOUSE
WASHINGTON

DATE: 2/15/93

TO: *Jonathan Prince*

FROM: JOHN D. PODESTA
Assistant to the President and
Staff Secretary

The attached has been forwarded
to the President.

THE WHITE HOUSE
WASHINGTON

DATE: 2/15/93

TO: *Howard Pastes*

FROM: JOHN D. PODESTA
Assistant to the President and
Staff Secretary

The attached has been forwarded
to the President.

THE WHITE HOUSE
WASHINGTON

DATE: 2/15/93

TO: *REGINA MONTOLA*

FROM: JOHN D. PODESTA
Assistant to the President and
Staff Secretary

The attached has been forwarded
to the President.

THE WHITE HOUSE
WASHINGTON

DATE: 2/15/93

TO: *Nancy Soderberg*

FROM: JOHN D. PODESTA
Assistant to the President and
Staff Secretary

The attached has been forwarded
to the President.

THE WHITE HOUSE
WASHINGTON

DATE: 2/15/93

TO: *Stephanie Solien*

FROM: JOHN D. PODESTA
Assistant to the President and
Staff Secretary

The attached has been forwarded
to the President.

THE WHITE HOUSE
WASHINGTON

DATE: 2/15/93

TO: *Ricki Scidman*

FROM: JOHN D. PODESTA
Assistant to the President and
Staff Secretary

The attached has been forwarded
to the President.

THE WHITE HOUSE
WASHINGTON

DATE: 2/15/93

TO: *Carol Pasco*

FROM: JOHN D. PODESTA
Assistant to the President and
Staff Secretary

The attached has been forwarded
to the President.

THE WHITE HOUSE
WASHINGTON

DATE: 2/15/93

TO:

STEPHANIE STREET

FROM: JOHN D. PODESTA
Assistant to the President and
Staff Secretary

The attached has been forwarded
to the President.

THE WHITE HOUSE
WASHINGTON

DATE: 2/15/93

TO:

Jeff Watson

FROM: JOHN D. PODESTA
Assistant to the President and
Staff Secretary

The attached has been forwarded
to the President.

THE WHITE HOUSE
WASHINGTON

DATE: 2/15/93

TO:

GEORGE STEPHANDROULOS

FROM: JOHN D. PODESTA
Assistant to the President and
Staff Secretary

The attached has been forwarded
to the President.

THE WHITE HOUSE
WASHINGTON

DATE: 2/15/93

TO:

Gene Sperling

FROM: JOHN D. PODESTA
Assistant to the President and
Staff Secretary

The attached has been forwarded
to the President.

THE WHITE HOUSE
WASHINGTON

DATE: 2/15/93

TO: Amy Zisook

FROM: JOHN D. PODESTA
Assistant to the President and
Staff Secretary

The attached has been forwarded
to the President.

THE WHITE HOUSE
WASHINGTON

DATE: 2/15/93

TO: Maggie Williams

FROM: JOHN D. PODESTA
Assistant to the President and
Staff Secretary

The attached has been forwarded
to the President.

THE WHITE HOUSE
WASHINGTON

DATE: 2/15/93

TO: Martina Weiss

FROM: JOHN D. PODESTA
Assistant to the President and
Staff Secretary

The attached has been forwarded
to the President.

To: List
From: John Podesta/Todd Stern
Subject: **TASK LIST FOR PRESIDENT'S FEBRUARY 18-19 TRIP**
Date: February 15, 1993

We have drawn up this task list to smooth the process of preparing the President's trip books for his upcoming economic swing. A dozen copies of all materials for the 2/18 trip should be delivered to our office by noon on the 17th. Speeches should be triple-spaced in large type, with paragraphs divided so that no paragraph runs on to the next page.

1. Speeches/Remarks

- | | | |
|---|----------------------------|----------------|
| o | St. Louis (2/18) | Begala |
| o | Chillicothe, Ohio (2/19) | Communications |
| o | Hyde Park, New York (2/19) | Wilkie/Reed |

2. Event Memos

- | | | |
|---|-------------|----------------|
| o | St. Louis | Streett/Martin |
| o | Chillicothe | Streett/Martin |
| o | Hyde Park | Streett/Martin |

3. Local Political Background

- | | | |
|---|-------------|---------|
| o | St. Louis | Emanuel |
| o | Chillicothe | Emanuel |
| o | Hyde Park | Emanuel |

4. Special Local Impact of Economic Plan

- | | | |
|---|-------------|------------------|
| o | St. Louis | Emanuel/Sperling |
| o | Chillicothe | Emanuel/Sperling |
| o | Hyde Park | Emanuel/Sperling |

5. Economic Plan Talking Points

- | | | |
|---|---------------------------------------|----------------|
| o | Points on overall plan | Prince |
| o | Special one-pagers | |
| | -- Benefits of plan | Communications |
| | -- Faithful to "Putting People First" | Communications |
| | -- Social security benefits/\$32,000 | Communications |
| o | Constituency points | |
| | -- Enviro | McGinty |
| | -- Western | Solien/Watson |
| | -- Ag/rural | Chow/Podesta |
| | -- Seniors | Marina Weiss |
| | -- Veterans | Longabaugh |
| | -- Federal employees | Baggett |

6. General Talking Points/Qs and As

- o Foreign policy
- o Health care

NSC
Boorstin

List

Joan Baggett
Paul Begala
Bob Boorstin
Barbara Chow
Rahm Emanuel
Mark Gearan
Marcia Hale
Alexis Herman
Will Itoh
Mark Longabaugh
Katie McGinty
Roger Martin
Regina Montoya
Howard Paster
Jonathan Prince
Bruce Reed
Carol Rasco
Ricki Seidman
Nancy Soderberg
Stephanie Solien
Gene Sperling
George Stephanopoulos
Stephanie Streett
Jeff Watson
Marina Weiss
Maggie Williams
Amy Zisook

THE DEPUTY SECRETARY OF VETERANS AFFAIRS
WASHINGTON

TELEFAX TRANSMITTAL MEMO

ATTN:

John Podesta

ORGANIZATION:

TELEFAX #:

456-2215

93 FEB 23 18:16

FROM: OFFICE OF THE DEPUTY SECRETARY

Department of Veterans Affairs
Telephone #: (202)535-8623
FAX #: (202)535-8665

COMMENTS:

John,
Please call upon receipt.
Thanks much.

Heath

David Mochik
Please
edit, if necessary
to
get this
out
Thanks
Podesta
2.24.93

DRAFT

Mr. Bill B. Pearson
Deputy Under Secretary for Benefits
Department of Veterans Affairs
Washington, DC 20420

Dear Mr. Pearson:

Congratulations on your retirement from Federal Service. The record of excellence you achieved as Deputy Under Secretary of Veterans Affairs for Benefits exemplifies the finest in Federal Executive Service. The outstanding leadership, professionalism and integrity you brought to this vital position, as well as your impressive record of achievements throughout your government career, bring credit to you and to this Nation.

Thank you for your dedication and your commitment to serving America's veterans. You have my best wishes for continued success.

Sincerely yours,

BILL CLINTON

THE WHITE HOUSE
WASHINGTON

02/24/93
DATE: _____

TO: RAHM EMANUEL

FROM: JOHN D. PODESTA
Assistant to the President and
Staff Secretary

FYI.

THE WHITE HOUSE

WASHINGTON

February 24, 1993

*Send to
Rapp*

93 FEB 24 P3:04

FOR: Mack McLarty
John Podesta
Bruce Lindsey
George Stephanopolous
Dee Dee Myers
Michael Gill

FROM: Marsha Scott *MS/am*
Deputy Assistant to the President
Director of Presidential Correspondence

RE: Phone Calls to Comment Line

In an attempt to gain a better assessment of the origin and viewpoints of calls to the comment line, we collected more data than usual from callers, including their state, from Wednesday, February 17 through Friday, February 19. A total of 7710 calls were logged, not including the calls taken by the new voice mail system.

Attached is data on the majority of calls from the majority of states.

The operators simply answer the phone and ask for a comment. They do not prompt the callers on any issue. For the three days tracked last week, three issues dominated the calls:

- o Pro/Con economic plan;
- o Pro/Con middle class taxes;
- o Calls for greater spending cuts.

Attached please find the chart. Please don't hesitate to call if you have any questions.

State	Calls	Econ. Plan		Taxes		Cuts	
		Pro	Con	Pro	Con	Pro	Con
CA	989	232	263	49	52	95	2
MD	697	147	170	16	45	130	-
TX	585	151	186	4	21	82	-
NY	570	162	198	-	11	93	-
FL	490	230	229	12	-	77	-
NJ	483	227	234	2	66	144	1
IL	471	241	249	5	30	22	6
MI	452	178	201	16	45	130	-
PA	401	135	159	-	8	81	-
VA	397	123	156	-	13	119	-
DC	262	140	103	15	52	95	2
GA	190	82	92	-	16	32	5
NC	175	47	54	-	-	20	-
OH	95	43	44	1	14	14	-
IN	92	35	39	-	37	55	-
LA	84	29	32	-	11	24	-
WA	83	33	38	-	2	19	-
KY	75	21	32	-	6	27	-

THE WHITE HOUSE
WASHINGTON

DATE: 2/23/93

ELI SEGAL
CAROL RASCO
GEORGE STEPHANOPOULOS
RICKI SEIDMAN
MARCIA HALE
GENE SPERLING
SHIRLEY SAGAWA
HILLARY RODHAM CLINTON

NOTE FOR:

The President has reviewed the attached, and it is forwarded to you
for your:

Information ☐

Action ☒

Thank you.

JOHN D. PODESTA
Assistant to the President
and Staff Secretary
(x2702)

cc:

003096

2/23/93

THE WHITE HOUSE

WASHINGTON

February 16, 1993

MEMORANDUM FOR THE PRESIDENT

FROM:

JOHN PODESTA

SUBJECT:

Direction of National Service Initiative

We need to meet on this
 this memo indicates that
 all Green's work was
 misguided or wrong

Attached is a decision memo from Eli Segal regarding basic elements of your national service program. Because the national service program is such a high-profile aspect of your economic plan, these elements need to be resolved as quickly as possible.

The memo provides general background, and suggests meeting with key congressional leaders to hear their views. The key decision issues that the memo highlights are 1) whether to target more pre-college or more post-college participation, and 2) how large the education benefit should be, and whether it should be different for pre- and post-college participants.

Copy
 Mrs. Clinton has signed off on this. Her input has been included in the memo. Howard Paster thinks that the idea of meeting with key congressional leaders is a good one, if you are willing to live with the results. The meeting would help to bring them on board, but if you don't like their suggestions, it could backfire. This memo has also been cleared with Mark Gearan for Mack and Ricki Seidman for George.

To clarify one point: an issue that is not addressed in this memo is the equally large question of reforming college student aid and moving forward with an income-contingent repayment program. Eli is operating on the assumption that income-contingent repayment of student loans is on the table and will be part of the proposal, but it is not a subject of this memo. Alice Rivlin, on behalf of Leon, suggests deferring final decisions on the size of the national service payment until a student loan reform program can be developed.

*Must be
 still loan
 to outline 'dinger's
 loan idea*

2/16/93
1:05 PM

THE WHITE HOUSE
WASHINGTON

February 16, 1993

MEMORANDUM FOR THE PRESIDENT

FROM: ELI J. SEGAL *EJS*

SUBJECT: DIRECTION OF NATIONAL SERVICE INITIATIVE

The vision of national service that you expressed at last Thursday's NEC meeting differs significantly from the approach that evolved during the Transition. The purpose of this memorandum is to outline the differences and present two key issues for your decision. These decisions are essential to completing the design of a program and the drafting of legislation for submission to Congress.

Given the large commitment of resources to national service in the budget, and the fact that we will be responding to many inquiries when the numbers are released, it is all the more important to resolve these issues as quickly as possible.

Background: Competing Visions of National Service

There may well have been an intellectual disconnect between the middle class higher education program you articulated in the campaign and the view that evolved during the Transition. The following history, while oversimplified, gives a sense of how the Transition plan evolved.

DLC View

The DLC national service plan envisions a program to help mold good citizens at the earliest possible age -- preferably before college. The DLC stresses the value of economic diversity among participants, pointing to the social benefits associated with the military draft. To make the program attractive to middle class students (and assure participation by an economically diverse population) the DLC supports the highest possible post-service benefit.

The DLC model is Boston's City Year, in which an economically diverse group of mostly pre-college youths perform relatively low-skill tasks.

Service Community View

A significant segment of the service community aims to maximize the availability of national service opportunities to at-risk youth, particularly through youth corps that provide job skills training. They tend to favor smaller post-service benefits in order to accommodate more participants.

These advocates share the DLC view that pre-college programs should be emphasized. Their models include the Los Angeles Conservation Corps, in which poor and primarily Latino youths have worked to revitalize South Central Los Angeles.

Higher Education Community View

Those concerned about expanding access to higher education for low-income youth will be concerned about maintaining some parity between service program education benefits intended primarily for the middle class and the level of benefits available under the means-tested Pell Grant program.

Transition Synthesis

At a December meeting after visiting Boston's City Year, Al From, Senators Mikulski, Nunn, Kennedy, and Wofford, and Congressman McCurdy reached substantial agreement among themselves on guidelines for national service legislation.

Building on your Notre Dame speech during the campaign (Tab 1), the Transition proposal and the resultant outline for legislation (Tab 2) reflect the view that national service should place significant emphasis on pre-college, low-skill, group service.

Implementing the Campaign Promise

It is clear that you envision a national service program stressing post-college, high-skill individual service (such as teaching as opposed to corps). In particular, you made it clear at the NEC meeting last week that you view the service program as an extension of your promise to make college more accessible to the middle class, and that you do not view the service program as a social program.

In the following section I will present both the issues that you need to consider and the major policy issues which we are presenting for your decision. While you can simply indicate on this memo, or in a meeting with me what decisions you choose, I think the best course may be for you to meet with several key congressional leaders to hear the debate that will arise on the Hill.

A very useful meeting would include Senators Kennedy, Nunn, Wofford and Mikulski and Congressman Ford.

Issues to Consider

(1) Political Support: Either or both sides of the unlikely Nunn-Kennedy coalition might oppose the balance in your approach, one group on the basis of the pre/post college mix and the other because of the size of the benefit.

(2) Economic Diversity: By aiming for a lower age group, in which low income and middle class are equally represented, the Transition approach hopes to place middle-class and underclass youths side-by-side. By aiming the program at a post-college group (which is one quarter of the population and disproportionately middle class) a post-college approach would tend to result in less economic diversity.

(3) Absorption: While there are dozens of pre-college corps around the country (although only City Year has the economic diversity that is desired) there are fewer functioning models of post-college programs (Teach for America, VISTA, etc.). There may be problems creating the promised number of slots at the post-college level.

(4) Two-tier professional structure: If there are truly a large number of college graduates ready to serve, the real issue may be a shortage of funding for communities to hire teachers (and police officers, nurses, etc.). At the other extreme, creating "real" jobs may raise fears of job displacement by labor.

Decisions

As you can see from the attached outline, legislation can be drafted to permit a range of possible implementation approaches. The legislation can specify target pre/post college participation levels or leave that decision to administrative guidelines; the level of benefits could be left flexible up to a ceiling; and the types of service can be defined very broadly.

We are proceeding on the presumption that you want a legislative proposal to clearly articulate your vision, and in order to draft legislation which does so, the following decisions are critical.

*Guys attempt to clarify Body of Decisions
+ I thought it was clear that to displacement
would be like that for 1 or 2 yrs, teachers, would
work for pay & benefits (as per corps plan) by Feb*

Under local govt or non profit writers

to subside

(1) Pre/Post College Mix

Legislation should specify either a range or a specific mix of participants for whom the program is intended.

Please indicate your preference below:

_____ Most funding for post-college slots, lesser for pre-college

_____ Equal weighting

_____ Most funding for pre-college slots, lesser for post-college.

_____ Preferred ratio (e.g. 80/20; 60/40) _____

(2) Size of Education BenefitArguments for \$5,000 education benefit

- (1) A two-year, \$5,000 per year benefit would more than offset the average student loan of \$6,700. Particularly with regard to post-college benefits, level of indebtedness is a more important consideration than total cost of college, since other arrangements have already been made to cover non-financed costs.
- (2) With limited funding for means-tested programs and a limited number of national service placements available, offering higher benefits for middle class graduates able to get into the program than for most low-income students would create a political and perhaps a policy problem. Peter Edelman, for example, believes that a \$10,000 benefit would be "dead on arrival" in Congress.
- (3) Newt Gingrich et al. could parody the program describing the \$10,000 benefit as "paying volunteers" better than regular workers.
- (4) A lower post-service benefit would open the program up to more participants.
- (5) A higher benefit may create an incentive for students to go deeper into debt in the hope that they will be accepted to this program and have higher loans to repay.

Not
teacher
Melin office
They need
lot more

Arguments for \$10,000 education benefit

- (1) Many of your key campaign aides, such as Stan Greenberg, believe that only a very large benefit will be seen as fulfilling your campaign promise to let kids pay off the cost of a college education in exchange for serving.
- (2) A high benefit maximizes the program's appeal to the middle-class, ensuring that national service does not become a "poor people's program".
- (3) If you start with \$10,000, Congress may force you to go down to \$7,500 or even \$5,000; if you start with \$5,000, you may end up at a lower and utterly inadequate figure.

Arguments for differential benefits

At last week's NEC meeting you raised the possibility of a differential education benefit for pre and post college participants.

The argument for a differential benefit is that the value of work and the market wage for younger and lower skilled participants is not as high as the comparable value and wage for a college graduate.

The argument against a differential benefit is that it increases complexity of the program and risks unfairness when a talented high school graduate does essentially the same work as a less gifted college graduate but receives a lesser benefit.

Recommendation: I would recommend coming in at a single benefit level of \$7,500 or \$8,000. With regard to a differential benefit structure, it is an attractive idea which would shift the use of program dollars toward the post-college program that is your principal concern. However, I would reserve the option of a differential structure until later, if it becomes politically necessary.

Please indicate the benefit level you want:

_____	\$10,000
_____	\$7,500
_____	\$5,000
_____	\$10,000 post-college, \$5,000 for others
_____	Other _____

Conclusion

While there are other important issues to be decided, including the extent to which matching funding will be required to achieve a public/private partnership, in my view these will be relatively easy to decide compared to the philosophical issues presented above. If you agree, we would like to circulate the outline appearing in Tab 2 to our friends so that we can begin the discussion process right away. This will enable us to draft the legislation quickly.

TAB 1

Excerpts from September 11, 1992 Notre Dame Speech

Throughout this campaign I've talked about my plan to open the doors of college to every American. To offer every American in this country the opportunity to borrow the money to go to college and then require them to pay it back, either as a small percentage of their paychecks after they go to work or even better, by going back home and serving their community.

Frankly, I would much rather see everyone, whether they are rich, or poor, or middle class, pay back that debt by going home and working for two years in a peace corps here in America, to rebuild America. Just think of it. Millions of energetic young men and women serving their country by teaching the children, policing the streets, caring for the sick, working with the elderly, or people with disabilities, building homes for the homeless, helping children to stay off of drugs and out of gangs -- giving us all a new sense of home and real limitless possibilities.

I have offered this plan to help more young people go to college, but I have also offered it because I want America to send the message that our society values and honors service to community, just as Harry Truman's GI Bill honored the service of my father's generation, who fought and won World War II, just as the Peace Corps, which President Kennedy created with the help of you former president, Father Hesburgh and Senator Wofford, sent that message to my generation. Just as millions of Americans from all backgrounds and every walk of life are waiting for a summons to service and citizenship, not just for young people that are going on to college but for young people in our high schools and people of all ages who want to do something for their communities and for their country.

National Service Trust Fund Act of 1993**CONFIDENTIAL DRAFT****Fact Sheet****A. Establishment of the National Service Trust Fund**

Funds appropriated to the Trust Fund may be used to provide a benefit worth **up to \$10,000 for each year of service** to qualified individuals completing one or two terms of approved national service.

States and a new national service agency will approve national service positions in the areas of education, human services, environment, and public safety. These positions may include **youth corps, specialized service corps** dedicated to priority needs (such as an earth corps, education corps, and health corps), **individual placements in non-profit organizations** (including VISTA), **professional corps** (such as a police corps, Teach for America corps, and service-learning corps), a limited number of **public interest entrepreneurs** designing new ways to solve domestic problems, and **service in hard-to-fill employer-supported teaching, nursing, and other service jobs** in enterprise zones. National service positions may not displace any paid worker.

The program is open to recent college graduates of any age or out-of-school youth who apply to and are accepted into programs offering approved national service positions. To assist individuals in locating approved positions, a **national database** will be established which can be accessed through college placement offices, employment centers, and other appropriate locations.

The benefit may be used to repay qualified federal student loans. In addition, for those eligible for the program who have not completed college, the benefit may be used to pay for tuition, fees, room and board at institutions of higher education or to obtain employment training.

To promote **national esprit de corps**, the national service agency will arrange a national training program for participants, along with a national insignia to be used on uniforms, promotional materials, and other materials of approved programs. It will also arrange for a national visibility campaign promoting national service and facilitate creation of an alumni network of individuals who have participated in national service.

DETERMINED TO BE AN ADMINISTRATIVE

MARKING INITIALS: N DATE: 2/11/93

2018-0662-5

B. Funding for Stipends and Program Support

To support an infrastructure of national service positions, funding is authorized for stipends and benefits (health care, child care) for participants and for program support. Three types of support may be made available for programs participating in the National Service Trust Fund:

- Single-year venture capital grants for individuals, states, and public or private non-profit organizations including education institutions;

- Multi-year operations grants for states and public or private non-profit organizations to pay stipends and program costs.

- Multi-year grants for states and public or private non-profit organizations to replicate proven existing programs.

All program support and stipends will be made on a **challenge basis** and must be matched dollar for dollar with at least half of the match in cash.

C. Establishment of the National Service Agency

A new national service agency, building on the existing Commission on National and Community Service and ACTION agency, will have responsibility for establishing criteria for approved national service positions, ensuring against fraud and abuse, arranging for a national database of positions, arranging for a national training program, coordinating service programs within the federal government, administering the national service grant programs, and providing training and technical assistance to states and programs.

D. State Governance

The governor of each state may designate a lead agency and appoint a State National Service Commission responsible for overseeing national service programs in the state. The State Commission will include representatives of local service program directors and other citizens and will develop a plan for service, including proposed national service placements in the state. The plan must ensure equitable treatment of urban and rural areas within the state and be approved by the governor and the national service agency.

DRAFT

"Why National Service Can't Wait"

Since introducing my economic plan eleven days ago, I've talked to a lot of people. And whether they support the specifics of the plan or not, they've told me one thing: We want to help our country. After twelve years in which our nation's leaders celebrated greed and separated citizens, people are saying: We've had enough. We want to help our country.

Supporting my economic plan is one way to help. The plan will create jobs, invest in people, and lower the deficit. But we need to make sure there are other ways people can contribute. Though there is much good this plan will do, there is much more good it cannot do -- and that no plan could accomplish.

The plan will make vaccines available to children, but it will not administer the shots. It will put security guards in our schools, but it will not take gangs off our streets. And it will make more aid available for college, but it will not make the costs of college less daunting for the middle class.

We have a duty to fight our country's problems -- not "we" the government, but we the people. And with the commitment to contribute that our people feel today, we have a tremendous opportunity to make some progress.

That is why I am proposing a system of voluntary national service. Where government leaves off, people in service will pick up. It's a new way of meeting old needs.

And it is more. Through the talent and hard work of our people, national service can rebuild our nation's communities. Through the enthusiasm and idealism of our youth, it can lift up our nation's spirit. And through the change it will create and the unity it will restore, national service can bring back the excitement of being American.

I've been thinking about national service for about ten years, but the idea harkens back decades. After the Second World War, the GI Bill sent on to college millions of Americans who had served their country. In a matter of years, it transformed the youthful veterans who beat back fascism into the educated army that led our nation into a new era.

Half a century later, it's time for another GI Bill. But this time, our people will serve as civilian volunteers. Women and men of every age and race will work alongside one another. And our enemy won't be the fascism and communism that threatened America from outside; it will be the illiteracy, the disease, the drugs and the pollution that are threatening our country from the inside.

Our new initiative will embody the same principles as the old GI Bill. It will challenge our people to serve our country and do the work that should and must be done. It will honor those who serve as the heroes that they are. And for their heroism and for our country, to return what is right and create a future that is good, the new bill will invest in educating the people who serve.

National service is a challenge to the American people. And whatever the pundits say, I believe we are ready to take it up. Through national service legislation to be introduced to Congress shortly -- and I hope passed quickly there -- we'll encourage service in two basic ways.

The first will enable every American to borrow the money for college, and pay it back as a small percentage of his or her income over time. It's called "income-contingent repayment," and it will make college accessible again. All of our people will be able to borrow the money they need, and pay it back on a schedule they can afford.

While encouraging young people to go to college, income-contingent repayment will also enable Americans to serve their communities. Throughout the country, I have met many people who have given up public service work for better-paying jobs -- just to pay off their student loans. That's not just bad for our young people; it's terrible for our country. With income-contingent loans for everyone who needs them, our people will be able to do the work that our communities really need.

The second part of the legislation will create opportunities for Americans to serve our country for a year or two, and to receive a benefit for education or training in return. We'll offer ways to serve before and after college, for Americans young and old, to people going on to the oldest four-year universities and coming in from the newest two-year training institutes. In many cases, the work will not be pretty. But in every case, it will be work that desperately needs doing.

In order to focus our people's energies and maximize our funding's impact, we will direct special attention to a few key areas:

- * We'll ask thousands of people to serve in our schools -- some as teachers, but others as the tutors, mentors and role models who make sure all of our children get the help they need.

- * We'll send participants into public health clinics to provide the help that underserved areas need. Highly-skilled specialists and high school graduates alike will have roles to play.

* We'll set up a Police Corps to put 100,000 new officers on the streets. To meet the special demands of police work, those who become officers through the Police Corps will undergo longer training, serve a longer term, and enter work under different conditions from other participants.

* We'll put servers to work controlling pollution and recycling waste, to help ensure that we pass on to our children a nation that is clean, safe, and habitable for years to come.

To create service opportunities in these and other areas, we won't just provide a benefit. We'll offer venture capital to service entrepreneurs with the ideas and energy to make programs work. And in existing efforts with proven track records, we'll match funding from other sources to pay for operating costs.

The national service effort will grow year by year, building on the wonderful work that the American people are already doing from Boston to the Mississippi Delta to Los Angeles. Nothing would be worse than a national service initiative run by a big bureaucracy. We'll build the program right, from the bottom up.

To get our efforts moving quickly, this summer we'll create an intensive leadership training program. We'll ask 1000 youths to serve for eight weeks -- and to become service leaders for many months afterwards.

In the first year of our full-scale national service initiative, we hope to see 30,000 people serving and receiving benefits, and thousands more doing important work because of the income-contingent repayment option. By 1997, there could be 150,000 people serving with a benefit, and hundreds of thousands more on the better repayment schedule.

To pay for these efforts -- for the education benefits and the new service opportunities -- we have budgeted \$7.4 billion for national service over the next four years. And as I've said many times, I believe it will be the best money we ever spend.

The reason is that after twelve years when we drifted apart instead of working together, the time has come again for national service. It brings our country back to its rich tradition of honoring citizenship and service.

Lincoln's Homestead Act rewarded those who had the courage to settle America with the land to raise a family. Franklin Roosevelt's Social Security Act ensured that Americans who work a lifetime could grow old with dignity. Truman's GI Bill rewarded the service of my father's generation. And Kennedy's Peace Corps honored that of my own.

Thirty-two years ago tomorrow, President Kennedy created the Peace Corps and called my generation to serve. At its height, the Corps enrolled 16,000 people, yet it changed the way a generation of Americans look at themselves and the world.

In an effort of greater scope but the same intensity, let us recall the idealism of the Peace Corps and direct it to problems at home. Let us issue the call to serve to a new generation of leaders. And let us show all of our people and all of the world how much we value service.

THE WHITE HOUSE
WASHINGTON

DATE: 02/25/93

TO: MACK MCLARTY
MARK GEARAN
BRUCE REED

FROM: JOHN D. PODESTA
Assistant to the President and
Staff Secretary

The attached has been forwarded
to the President.



THE DIRECTOR

EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET

WASHINGTON, D.C. 20503

February 24, 1993

93 FEB 24 P6:19

MEMORANDUM FOR THE PRESIDENT

FROM: Leon E. Panetta 

SUBJECT: Washington Post (2/2/93) Article: "Clinton cautioned on 'Administrative Waste'"

This responds to your request about the Post article (TAB A) and the two pieces to which it refers, an article by James Colvard and a memorandum to you from the Heritage Foundation.

The Colvard Article (copy and OMB staff assessment are at TAB B)

- Colvard was OPM's Deputy Director during the second Reagan term. He was a career civil servant respected for his managerial skills. He argues:
 - Against across-the-board cuts in favor of "differential judgments."
 - For more flexible reduction-in-force (RIF) rules and giving managers wider discretion to avoid the imbalances in the workforce that occur if reductions occur only by attrition.

The Heritage Memo (copy and OMB staff assessment are at TAB C)

- Author, Donald Devine, who was President Reagan's first OPM Director, is a figure generally disliked by employee organizations. The Heritage memo recommends 10 actions in two broad categories:
 - Immediate actions such as a freeze on hiring, 3 percent across-the-board administrative cuts, and a 25 percent reduction in Executive Office of the President staff.
 - Changes in RIF procedures to give greater weight to performance over seniority; strengthening controls to limit the total number of Federal employees; greater emphasis on and reform of contracting out of Federal operations; and privatization.

Important Issues Raised

- Should we continue to use limits on the number of employees as a management tool? The authors disagree. Colvard argues for "managing to payroll." Devine argues that Reagan Administration hiring freezes and limits on the number of employees were effective. The essential arguments are:

Pro (limits on the number of employees)

- Hiring freezes and limits on the number of employees seem to have powerful short-term effects and can accelerate redistribution of staff. For example, after an initial hiring freeze at the beginning of the Reagan administration, the administration put strict budget controls and limits on the number of employees in what it considered to be low priority programs. As a result, total employment at Agriculture, HHS and GSA went down, while Justice, Treasury and VA went up.
- Limits on the number of employees and other controls such as limits on administrative costs are important management tools when there is no capability to measure program performance. In the staff's view, the current state of performance measurement in Federal agencies is uneven at best.
- The number of Federal employees is a political issue and limits are a visible way of showing a commitment to reducing the size of government.

Con (do not place limits on the number of employees)

- Controls on employment can lead to dysfunctional behavior including contracting out when it is not economical or sensible.
- The quality management movement (and authors like Peters and Osborne) argue for more managerial discretion and the elimination of input and procedural controls in favor of managing for results. Several other national governments and some States and localities are trying performance budgeting. The most successful thus far are at the local level; e.g., Sunnyvale, California.

- **What should be done about the RIF process?** Both authors and OMB staff agree that the process for reducing staff is "broken."
 - Without substantial reform of RIF procedures, the workforce gets, on average, older, whiter, more male, and more expensive.
 - Today's procedures (largely embodied in law) are the result of persistent pressure by employee organizations (1) to protect against arbitrary action; and (2) to protect jobs.

Possible Options to Address Concerns Raised

- Have OPM consider a legislative initiative, which would be highly controversial, to change the RIF process to avoid the previously described negative results. This will require developing the "grand bargain" with Federal employee unions proposed by David Osborne in Mandate for Change (pp. 271-272). Some union leaders, like John Sturdivant of the American Federation of Government Employees, have made public statements that suggest they may be receptive.
- Continue the work already underway to move to performance budgeting: to manage for results, not to control inputs and processes. Efforts underway are development of performance measures for commercial activities under the Chief Financial Officers Act and a legislative proposal sponsored by Senators Glenn and Roth (S.20) that would mandate broader tests of performance measurement and budgeting. We have not yet taken a position on S.20.
- In carrying out the across-the-board cuts in administrative costs and in the total number of Federal employees as announced on February 10, give cabinet secretaries as much discretion as possible. For example, give secretaries the maximum latitude on where to take administrative and personnel cuts, consistent with supporting Presidential priorities.
- Privatization includes selling off governmental assets and enterprises and redefining the role of the Federal government vis-a-vis the private sector. It is another way of reducing the number of Federal employees and raises larger policy issues of what constitutes the Federal role and Federal-State-local relationships that are far broader than managerial efficiency. Such issues are being treated in the context of particular programs; e.g., health care and education. (Privatization was a high priority in President Reagan's second term, but, in reality, little was accomplished.)

A

To Leon P / Phil Lader
 Please see Heritage allowed
 get this guy's paper - BCI

THE FEDERATION

Clinton Cautioned on Cut In 'Administrative Waste'

By Stephen Barr
 Washington Post Staff Writer

President Clinton's proposal to cut "administrative waste" at federal agencies and eliminate 100,000 "unnecessary positions in the bureaucracy" is not the most effective way to rein in the government's growth, a paper prepared by a specialist in public service contends.

"It is an illusion to suggest that, somehow, there is a category of work called 'administrative' which is separately identifiable from the mission-related outcome effort of an agency," writes James E. Colvard, a senior fellow at the Center for Naval Analysis and a member of the board of trustees at the National Academy of Public Administration.

Although Colvard basically agrees with Clinton's objectives, he calls the notion of an administrative cut just another way of telling the government to do more with less.

The only way to save money over the long term is not by cutting back on administrative costs but finding ways to improve efficiency and to trim the layers of internal rules in federal offices, he writes.

"Current rules and regulations are so complex that they represent barriers to effective action rather than defining the boundary condi-

tions under which actions can occur," Colvard says.

That means, Colvard writes, that "what the administration has to decide is what things it will not do."

Colvard's paper, to be published in the spring issue of Public Manager magazine, comes at a time when Clinton is considering how to act on some of his campaign pledges. During the campaign, Clinton promised to cut 100,000 jobs in the bureaucracy by attrition, eliminate wasteful spending programs

IDEAS AND FINDINGS

and require federal managers to achieve 3 percent in administrative savings in every federal agency.

In a memo to Clinton, the conservative Heritage Foundation endorsed the idea of an across-the-board administrative cut and suggested the president also order a freeze on federal hiring to help achieve his work-force cuts.

But Colvard, a former deputy director of the Office of Personnel Management in the Reagan administration, argues that such "politically attractive approaches" are nothing more than "delusions and snares."

"It would be far better for the administration to make differential judgments about what government

functions it values and what institutional forms it prefers and provide those—along with organization size numbers—as strategic guidance to agencies," Colvard writes.

He says agencies may need the authority to lay off workers, because attrition may take too long. Reliance on attrition also means "the shape of the work force will be driven by termination decisions of individual employees rather than organizational needs," Colvard says.

In fact, Colvard recommends that agencies have the discretion to hire even as they are "downsizing." While that rules out a hiring freeze, Colvard thinks agencies would be in a better position to improve performance if they managed by payroll rather than by personnel ceilings.

Among his proposals, Colvard urges that the government's retirement rules be changed so that management could exercise "an option to retire the employee" rather than leaving retirement decisions solely in the hands of the worker. Such a "bold initiative," he says, would allow the government "to maintain a technologically current work force that matches the changing needs of the government and the demographics of the society."

Colvard acknowledges that civil servants—more so than Postal Service and Defense Department employees—are governed by complex work rules designed to ensure fair treatment when it comes to layoffs. But allowing work force reductions to be shaped primarily by the seniority system, he argues, would undercut gains made by women and minorities.

The Washington Post

Phil Lader
 from memo

Bush-Postal Board Flap Leaves 1 Chair Empty

By Bill McAllister
 Washington Post Staff Writer

When the Postal Service Board of Governors convenes this morning at L'Enfant Plaza, there will be an empty chair at the table, a reminder

Bush hoped Ashley's vote would tip the board against the lawsuit. But Ashley never got to attend a board meeting before Bush left office.

The governors won an appeals court decision of their right to sue without the Justice Department's

the board until their replacements are confirmed by the Senate. Ashley's recess appointment does not require Senate confirmation and the Postal Service has asked the district court to rule on whether Ashley or Nixon is entitled to the

"Downsizing a Federal Case: Losing Weight and Keeping it off"
James E. Colvard, Prepared for The Public Manager

Summary

- There are three main groups of Federal employees: the military, the Postal Service, and the Federal Civil Service.
 - The military operates under rules that allow quick and rather precise downsizing.
 - The Postmaster General has substantial discretion in downsizing the Postal Service, and its homogeneity, singularity, and strong unionization can make change easier to accomplish.
 - Any attempt to downsize the Federal Civil Service is driven more by administrative rules rather than executive discretion.
- Because of these rules, across-the-board reductions in the workforce, while politically attractive, are delusional and snares. Far better to target cuts to specific functions.
- Agencies should be given tactical discretion to use reductions-in-force rather than attrition. (Agencies should also have discretion to hire selectively.)
 - Reductions achieved by attrition take too long to realize and impede getting the changes that are planned.
 - The shape and skills of the remaining workforce is dictated by who decided to leave, rather than by management.
 - Past general hiring freezes have been uniformly ineffective because different jobs have different turnover rates, and a skills imbalance results.
- The Administration's objective should be to reduce administrative costs through efficiency. To do this:
 - Give managers more discretion to act.
 - Reduce the level of internal bureaucratic regulation.
 - Hold managers accountable for their actions.
 - Refrain from enacting new laws or promulgating new rules every time an official fails to exercise discretionary authority properly. Penalize the individual, don't over-regulate the system.
 - Give agencies greater authority to offer positive incentives.
- Positing that fixed percentage administrative cuts can be made without affecting productive output is an erroneous notion. Administrative costs, however characterized, are not truly separable from mission or program costs. Cuts in administrative costs will affect the level of government services provided.

Staff Assessment

- On differences among military, postal, and Federal civil service practices.

- Defense has been granted several special authorities to help assure a balanced force as it downsizes including: (1) a variable separation initiative that gives extra monetary incentives for mid-level officers and enlisted personnel; and (2) a continuation, for a limited period of time, of certain benefits available to active-duty employees, such as medical and commissary privileges.
- The Postmaster General has substantial discretion to accelerate employment reductions in the Postal Service, such as through his ability to offer up to 6 months basic pay as a separation incentive for employees eligible for early retirement.
- Federal civil service employee reductions are more dependent on rules, (largely embodied in law) that provide certain preferences for veterans, handicapped persons, tenure, and, lastly, employee performance. Such a framework limits managerial flexibility and agency discretion.

- On the effectiveness of hiring freezes.

- The chief benefit of hiring freezes has been to demonstrate to the public and to the bureaucracy that the Government is serious about setting an example of austerity.
- Government-wide hiring freezes were approved by President Reagan in 1981, and by President Nixon in 1971, but typically only for one to two months.
- At the outset of the Defense downsizings in 1990, DOD imposed a civilian hiring freeze, but found almost immediately that it had to take a more flexible approach. Separations were concentrated heavily in clerical and blue collar skills. There was a substantial administrative burden in processing waivers to the freeze. The freeze also "dried up" job opportunities for military family members returning to the U.S.
- Employment reductions actually achieved through freezes have not been substantial because they have lasted for only one to two months. The initial hiring freeze in 1981 dropped employment by an estimated 10,000-15,000 jobs. Freezes have, however, been the precursors for further selective employment constraints in particular agencies. For example, the Reagan freeze in 1981 led to a more formal effort to reduce 75,000 FTE in domestic Federal agencies from 1982-1984 and shifts in

staff from agencies judged to be lower priority (e.g., HHS and Interior) to ones designated as high priority (e.g. Justice and Defense).

- Those agencies facing substantial personnel cuts may not be able to rely on attrition alone to provide sufficient flexibility. Younger workers and those in lower-paid administrative occupations have a higher attrition rate. For example, the annual attrition rate for secretaries/typists with 5 years of service or less has typically been double the average attrition rate. As a result, a "hard freeze" (no replacements permitted) or a low replacement rate freeze (e.g. one hire for every three departures) will result in a significantly unbalanced workforce.

- On the effectiveness of incentives, current incentive schemes do not work:

- Ratings of employees under the broadly-based pay for performance program for middle-managers have been inflating steadily. Average ratings on a five-point scale have increased from 3.88 in 1985 to 4.11 in 1990.
- Major pay incentive demonstration projects (at China Lake, California and at McClellan Air Force Base) have not been successful on either cost or productivity grounds. At China Lake, annual salary costs are 2 percent higher than at comparable installations. At McClellan, average salaries are running nearly 10 percent higher compared to control sites. There is no clear indication that productivity at these sites has improved to justify these higher salary rates.
- The existing performance-based pay system (PMRS) covering more than 150,000 Government supervisors and managers at the GM 13-15 levels has been ineffective because: (1) salary costs have increased with no quantifiable improvement in output and (2) employees have been dissatisfied with a system in which nearly everyone receives a token increase each year.
- Annual bonuses are provided to more than one-third of the Senior Executive Service members. The average amounts are small and provide little, if any, incentive for improved performance. All agencies annually give the maximum total amount of bonus as permitted by law.
- All recent legislative proposals have limited managerial discretion (e.g., they sweeten early retirement provisions, but let the employee decide).

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Draft

(Prepared for The Public
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VARIATIONS ON GRIDLOCK

Downsizing, a Federal Case:
Losing Weight and Keeping it off

James E. Colvard

Citizens in all democracies seem convinced that their government is too large, and all successful U.S. politicians in recent memory have run on the proposition that they will reduce the size of government. Most of those elected have not lived up to their advertised intentions, not from lack of intent or effort, but because this is a complex objective and good intentions are not enough to achieve it. Even when reductions are achieved they often have uneven results in terms of improving the quality and reducing the cost of government functions.

Three Fundamental Groups

First, it must be recognized that there are three fundamental groups of federal employees: military, postal service employees, and career civil servants. Each operates under different rules and regulations and has different power bases and clientele. Of these three groups most major downsizing has occurred in the military, particularly in periods following World War II and military actions in Korea and Vietnam.

The Military

The military operates under rules that permit downsizing to occur rather quickly and with a certain amount of precision as to individual components and even specific individuals involved. The challenge of a military drawdown is to retain the right force composition to deal with future threats that will occur at undetermined places and times and involve as yet undetermined opponents.

Briefly stated, the objective is to reduce capacity without losing capability when you don't know how much we will need and against whom we will use it. This is never an easy task; it is even more challenging given today's turbulent international scene. The problem is exacerbated by the fact that military bases and units such as national guard and reserves are political pork within the area where they exist. Cutting a force in such a fashion that you do not wind up with a hollow military requires clear strategic thinking by the secretary of defense (SecDef) and the joint chiefs of staff (JCS). It also requires an objective and nonparochial role for the Congress. This is almost a political oxymoron. The current base closure procedures insulate the Congress sufficiently to depoliticize that aspect of military downsizing. No such mechanism exists to insulate the Congress in making decisions on national guard and reserve forces.

Our previous national experiences with large military drawdowns has not been good. We have achieved the reductions, but at great loss of military capability: the objective of reduced

capacity has been achieved, but not the objective of retained capability. Two major reasons for this have been a lack of strategic thinking by the DOD and the overruling of military judgments by political judgments.

Given the undefined threat it is difficult to justify a categorical military need objectively. Thus decisions must be based on judgment--and in a democracy it is appropriate for political judgments to take precedence. An inversion of the power relationship between the political and military is not needed, but informed political judgments must give more weight to the advice of professional military officers.

With the current capability for strategic thinking that exists in the JCS, the SecDef and chairman of the Senate Armed Forces Committee it may be possible to overcome these two major contributors to past mistakes as this administration downsizes the military. We are a militia-oriented nation that has historically armed and fought when threatened and then quickly disarmed after achieving our military objectives. We tend to view disarmament as a decision rather than a complex process.

After 45 years of a significant standing military, and with the current all volunteer force, the nation faces a challenge in reducing its military capacity unlike any it has faced before in its history.

The Postal Service

Downsizing the second group of federal employees, the postal workers, presents different challenges. In their status as employees of a government corporation chartered by Congress 21 years ago, they are neither fish nor fowl. Run by a board of nine presidentially-appointed and Senate-approved governors, the Postal Service is more like a nonprofit corporation than it is a federal agency. The recent fight between the board of governors and President Bush over the degree of autonomy the Postal Service has in running its affairs highlighted the Postal Service's unique status in the government.

The Postal Service has discretion that other agencies working under the general civil service regulations do not have. The ongoing drawdown of 30,000 employees in the middle management and support positions initiated by postmaster general Marvin T. Runyon demonstrates that discretionary authority.

Due to their homogeneity, department singularity, and strong unionization, the postal employees have always had more political clout than other federal employees. In some respects this makes their downsizing easier because it is based in political negotiation and power brokering. The first step is to put in place a postmaster general with the vision of the administration and the skill to lay out a corporate plan and the will to follow it. The current postmaster general seems to have the latter two attributes with the only question being whether his vision coincides with that

of the administration. The Clinton administration is probably well equipped to deal with the postal service since it is a political problem and administrations come into power by being good at politics.

The Federal Civil Service

The third group, federal civil servants, represent a mixture of political problems and administrative or management problems. The federal civil service is controlled by a set of rules established in law that contain very specific provisions for reductions-in-force, or workforce downsizing. Thus control of the outcome of downsizing decisions becomes driven by administrative rules rather than executive discretion.

This is both good and bad. Good because it tends to insure fair treatment to everyone in the distribution of negative rewards, i.e., downgrading or separation--bad because the preponderance of factors in the rules favor seniority. An emphasis on seniority in reducing the civil service augurs poorly for gains of recent years in the hiring of women and minorities. It also is insensitive to current workforce needs since it is based on needs that existed 20 years ago when most of the currently protected employees were hired.

The political aspects of downsizing the federal civil service workforce have to do with the administration's decision about whether it will make cuts across the board or differentially on an agency-by-agency basis. If it opts for differential cuts it must decide which agencies to cut and which to hold constant or to increase. The politically attractive approaches of across-the-board reductions to be taken from administrative work and through attrition are delusions and snares.

It would be far better for the administration to make differential judgments about what government functions it values and what institutional forms it prefers. These judgments should then be provided--along with organization size limitations--as strategic guidance to agencies. Even better than workforce size numbers would be workforce payroll ceilings. Managing the agencies to payroll rather than personnel ceilings allows the agencies to factor in the quality of performance whereas personnel ceilings place a premium on head count, not cost of performance.

In addition to this strategic guidance the agencies must be given tactical freedom and some discretion to meet the objectives of the guidance. The discretion must include, for example, the authority to conduct reductions-in-force rather than wait for attrition.

This is critical for a couple of reasons. First, attrition may take too long to achieve the changes the administration wants in both the size and character of the federal workforce. Second, left only to attrition, the shape of the workforce will be driven by termination decisions of individual employees rather than

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organizational needs. Turnover rates, for example, are highest among secretaries and fire fighters, where daily availability of individuals to perform those functions are critical to organizations. Not filling a secretary vacancy while retaining the people the secretary supports is not good management.

Reductions through attrition are thought to be more sensitive to employees, and this is true in the narrow view. But in the broader view, the interests of all the citizens to whom the government has a responsibility are not well served by the resulting inefficient organizations that come from downsizing only by attrition.

Thus, agencies must have the discretion to hire at the same time they are reducing. This balance of controlled (as controlled as it can be under federal rules) reduction and selective hiring will maximize the leadership's ability to attain the workforce size and composition goals. Discretion to hire also means there can be no federal workforce hiring freeze while the downsizing is in process. Past general hiring freezes have been uniformly ineffective for the reasons previously cited.

Additional discretionary authority for the agencies must include the opportunity to offer positive incentives, such as early-out options with bonuses, to encourage attrition. Limited authority to grant such incentives has already been provided by Congress to the Department of Defense. Those and other carefully considered positive options should be made available to all federal agencies that are asked to undergo significant downsizing.

The notion also exists that an administrative cut of some percentage can be made without affecting productive output. This may be politically attractive, but it is an illusion to suggest that, somehow, there is a category of work called "administrative" which is separately identifiable from the mission related outcome effort of an agency. It further suggests that this can be incisively cut without pain. This is another way of saying "do more with less." In other words we want the same level of government services, but we want to pay less for it, so take it out of the "administrative" costs.

What the administration has to decide is what things it will not do. That is the only way in the long term to really save on administrative or any other kind of costs. The objective is to reduce administrative costs through efficiency and that comes by giving managers discretion to act which means reducing the level of internal bureaucratic regulation in the government. The need to obtain approval in advance and the attendant long decision chains are major contributors to "administrative" costs. A major difference between government agencies and private corporations is the level of discretionary authority that the executives and managers have. An organization that requires pre-action approval will never be as efficient as one that employs post-action reviews.

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In attempting to avoid mistakes, waste, fraud, and abuse the government has developed so many rules and regulations that it drastically slows decisionmaking and action and at the same time reduces accountability. It would be far more efficient and responsible to allow executives and managers discretion and to hold them accountable for their actions through subsequent assessment. If an objective of the new administration is to reinvent government based on managing to outcomes, it can only achieve that objective through granting discretionary authority to managers and executives throughout the government.

The most effective downsizing the Clinton administration could achieve would be through downsizing the administrative overburden of government rules and regulation. The Congress can help by refraining from passing a new law forbidding categorical actions every time some executive agency fails to exercise properly their discretionary authority. Appropriate action against the erring individual is the proper way to deal with improper exercise of authority. This requires a resolve, that no previous administration has had, to deal forcefully with poor performance and abuse of authority.

A bold initiative that would have long-term positive effect in downsizing and shaping the federal workforce would be to change the optional retirement rules to be optional for the employer as well as the employee. Currently when federal employees reach certain stages in their career--e.g., have 30 years of service and are age 55--they have an option to retire with an immediate annuity. It is totally the employee's option. If the law were changed such that when an employee has reached a point of qualifying for an immediate annuity (and to make it a reasonable annuity they should have a minimum of 20 years service) management has an option to retire the employee. This would allow government organizations to maintain a technologically current workforce that matches the changing needs of the government and the demographics of the society. This would remove no current employee options, but rather give management an additional one. (Editor's note: The employee would lose the option to stay on if the superior decided otherwise.)

Summary

In summary, it is easier to talk about downsizing the federal workforce than to do it. While there is one vocation of "public service," there are multiple communities of public servants. At least three of those workforces are sufficiently large and different that they require separate planning and thought about re-shaping and reducing them.

The military component supports the first requisite of the constitution--to provide for the common defense. The military establishment is always an attractive reduction target in time of peace with the allure of a peace dividend. Since the nation's sovereignty depends directly on the effectiveness of its military forces, their shaping and sizing must be done with great care and objectivity.

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Because every citizen is a client of the postal service, decisions about the service more directly affect the polity on a short-term basis than any other component of the government workforce. This, coupled with the Postal Service status as a semi-independent agency, makes the shaping and sizing of the service a political question. While actions concerning the postal service may be the most volatile, it is the area with which any incoming administration has the most experience and which it should best understand how to handle.

Both the military and the postal service have rather singular and clear missions. The bulk of the rest of the federal workforce is career civil servants with a diversity of functions that range from some as old as the nation itself, as in the case of customs collections, to such contemporary activities as disposing of nuclear waste and exploring outer space.

This group of employees has the least political clout and operates under the most administratively complex system. Due to its diverse nature, the most effective way of dealing with its shaping and sizing is to make policy and priority decisions centrally within the administration and then delegate execution, along with the discretion required to carry it out, to the agencies. This discretion must be coupled with simplified administrative rules and controls which will allow managers and executives to be held accountable for their actions taken within the boundary conditions that the rules establish. Current rules and regulations are so complex that they represent barriers to effective action rather than defining the boundary conditions under which actions can occur.

Finally, the administration must have the will to discipline those who abuse authority and the Congress must resist the temptation to pass laws in the face of inappropriate action that "protects against such acts for all time." *

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HERITAGE FOUNDATION MEMORANDUM
"How to Cut the Federal Bureaucracy"
SUMMARY AND ASSESSMENT

The Heritage paper recommends a ten-point action plan to reduce Federal employment and improve the responsiveness of the Federal bureaucracy.

Action #1: Implement a total Federal hiring freeze, as well as an across-the-board 3 percent administrative cut.

Staff Assessment

- A hiring freeze would be symbolically useful, but probably unnecessary to achieve a 100,000 reduction over three years, given a 6-7 percent attrition rate. Approximately 130,000 permanent employees leave annually.
- An underlying assumption of the action is that all Government needs trimming. However, since total freezes affect all activities, including high priority and essential ones, most freezes can be maintained for only a month or two.
- The substitute for a hiring freeze is to set specific targets by agency and let each decide how best to reach that target.
- Across-the-board administrative cuts that exceed the Heritage recommendation have been announced.

Action #2: Eliminate minimum staffing levels mandated by Congress.

Staff Assessment

- The Congress has included minimum staffing levels or "floors" for certain agencies through appropriation language. For example, the Congress has stipulated that the Customs Service must maintain not less than 17,871 full-time equivalent positions in fiscal year 1993, of which 960 must be allocated to air interdiction activities. Continued use of the floors is clearly problematic, particularly in those agencies where employment reductions should be made.

Action #3: If a total hiring freeze is approved, it should be followed by a flexible hiring freeze administered by OPM.

Staff Assessment

- A total freeze can only be held for a limited time
 - one to two months (see staff concerns under Action #1). It then becomes necessary to relax the restrictions at least for some essential activities. The two principal options are:
 - go back to "business as usual" where hiring proceeds as resources permit; or
 - continue to apply a selective freeze on those agencies with lower-priority programs.
- Currently, OPM does not have the authorities or experience to deal with issues of resource allocation and constraint.

Action #4: Reform RIF regulations to give more weight to employee performance.

Staff Assessment

- There is a broad consensus that the current process for reducing staff for performance reasons is essentially unworkable. RIFs under current rules result in a workforce that is more male, white, older, and more expensive.
- More flexible RIF rules would give managers wider discretion to avoid the imbalances in the workforce that occur when reductions are only taken through attrition.

Action #5: Re-establish OPM monthly accounting of FTE employment.

Staff Assessment

- OPM already maintains the data that permits tracking FTE employment by agency on a monthly basis. The data are not always current, however, because of delayed reporting by agencies.

Action #6: End limits on the number and function of political appointees; cut the EXOP by 25 percent.

Staff Assessment

- It is not apparent that existing limits on the number of political appointees represent a significant constraint. The President personally or through his appointees has broad discretion in appointing:
 - More than 1,150 Presidentially-appointed, Senate confirmed positions;
 - 10 percent of the Senior Executive Service or about 880 jobs;
 - About 1,800 positions of a confidential or policy-advocating nature (Schedule C jobs). Technically, there is no numerical limit on these jobs.
- The 25 percent EXOP cut has already been announced.

Action #7: Reaffirm commitment to the career civil service, and discourage "burrowing in" by political officials.

Staff Assessment

- The Ramspeck Act permits appointments in certain cases, principally from Congressional staffs to executive branch jobs, without going through the normal competitive process. Past GAO investigations have found few instances where the Act was abused.
- There were a few celebrated cases at the end of the Bush Administration, but they are the result of misuse of the Ramspeck Act. Congressional aides who had been appointed to political positions in the Bush Administration left those positions late last year and were re-hired as Congressional employees for a few days so that they could be certified as Ramspeck-eligible.

Action #8: Announce a major privatization initiative.

Staff Assessment

- The Reagan administration pressed for privatization, such as selling government assets, under OMB Director Miller. Privatization included both through contracting out and divestiture actions. Those efforts met with only limited success.
- Examples of attempts at privatization during the Reagan administration include the sale of helium production facilities, Alaska power, and loan assets. More recently, the Energy Policy Act of 1992 created the United States Enrichment Corporation, a government-owned corporation, to manage the government's uranium program and make recommendations to the President by July 1, 1995 regarding divestiture of assets.
- Privatization raises larger policy issues including the role of the Federal government vis-a-vis the private sector and Federal-State-local relationships.

Action #9: Modify existing contracting out rules.

Staff Assessment

- There is general consensus that the contracting out process is unduly cumbersome and that management of contractors is weak in some agencies. There is strong employee organization and Congressional interest in contracting out rules.
- OMB has had efforts underway since 1990 to improve the contracting-out process but, to date, has had little success in doing so. This lack of success has resulted from an inability to reconcile the concerns of the service industry, which itself is divided in how to simplify the process, and employee organizations, who see the process as a way of protecting jobs.
- OMB staff are working on a proposal to simplify procedures for contracting out activities and to make overall contract management more effective.

Action #10: Upgrade performance appraisals and extend performance pay.

Staff Assessment

- An effort is needed to overhaul the appraisal systems used by Government managers with more emphasis on results expected from the employee and, where appropriate, on tasks requiring effective teamwork.
- If performance pay is expanded to more categories of employees, one recurring problem will need to be addressed. Data show that for those groups currently under one set of performance pay systems there has been a tendency to inflate performance ratings so that more employees receive performance pay/bonuses.

December 14, 1992

HOW TO CUT THE FEDERAL BUREAUCRACY

We cannot put people first and create jobs and economic growth without a revolution in government. We must take away power from the entrenched bureaucracies and special interests that dominate Washington....

I will reduce the White House Staff by 25 percent and challenge Congress to do the same....[I will] eliminate 100,000 unnecessary positions in the bureaucracy. I will cut 100,000 federal government positions through attrition....I will require federal managers and workers to achieve a 3 percent across-the-board administrative savings in every federal agency.

Bill Clinton

Putting People First:

A National Economic Strategy for America.

EXECUTIVE SUMMARY

There are few campaign promises that will become due earlier than your pledge to cut 100,000 federal government employee positions. Your commitment to reform—or your lack of it—will be obvious to the American people from the very beginning.

You have apparently modelled your transition and initial legislative strategy on the early days of the Reagan Administration. You would be wise to examine that Administration's strategy on reducing the size of the federal bureaucracy, too, for it offers a tested means to achieve your campaign pledges. That experience, and the lessons from other Administrations, suggests a ten-point action plan for achieving your objectives:

Action 1: Institute on Inauguration Day a total freeze on federal hiring (except political appointments), accompanied by a 3 percent across-the-board administrative cut. This is the kind of blunt instrument approach needed if your goal is to be accomplished. Because it allows no exceptions, bureaucratic gaming cannot frustrate the achievement of the bulk of your personnel reduction target, allowing appropriate adjustments to be made later, after most of the targeted savings have been accumulated at the beginning.

- Action 2: Demand that Congress eliminate minimum staffing levels in all departments and agencies.** A reduction program cannot be effective if large areas of personnel are excepted from its control.
- Action 3: In the second phase of personnel reductions, institute a modified freeze.** This more flexible hiring freeze should be planned for an unnamed date at least six months in the future, and administered by the Office of Personnel Management. This will allow continued reductions but ones managed in accord with the efficient use of personnel resources.
- Action 4: During the modified freeze, reform the Reduction-in-Force (RIF) regulations to give more weight to performance and less to seniority, and to limit bump-and-retreat rights.** This change, designed to permit the government to retain its best employees, should be made part of an overall personnel reduction strategy.
- Action 5: Reestablish Office of Personnel Management (OPM) monthly accounting of full-time equivalent (FTE) employment.** Without accurate data prepared on a regular basis and some agency to oversee progress, the goal of trimming the bureaucracy will soon be forgotten.
- Action 6: Demand from Congress the elimination of legislative limits on the number and functions of political appointees, and reduce the Executive Office of the President staff by 25 percent.** You will need to maintain and even increase the number of political appointees if the bureaucracy is not to smother reform initiatives. It is political appointees who will determine whether or not the Administration will be successful. But the Executive Office of the President is bloated by its own bureaucracy, and its efficiency is impaired. Fulfilling your pledge to reduce it by 25 percent will give impetus to other agencies and Congress to do likewise, and most important, will make the White House a more effective and efficient decision-making body.
- Action 7: Reaffirm your commitment to the career service.** A strong core of political appointees still must rely upon a professional civil service to be effective. To achieve its support, you must protect the integrity of the career service by such things as limiting "burrowing in" by political appointees to career positions, and seeking changes in the law to protect the service, including the repeal of the Ramspeck Act.
- Action 8: Announce a major privatization and contracting-out initiative, with the responsibility for the initiative transferred from the Office of Management and Budget to the Office of Personnel Management.** States and local governments have used privatization extensively to cut costs and improve efficiency. The federal government lags behind the rest of the country in the use of private firms and organizations to perform government opera-

tions. To catch up, it needs a major new initiative that is effectively managed.

Action 9: Modify existing contracting-out rules to provide full-costing of federal government operations when these are compared with private bidders. The bidding process today requires would-be private contractors to factor all overhead costs into bids, yet allows government agencies to exclude many items from their calculations. Loading the dice in this way often deprives the taxpayer of the opportunity for more efficient service.

Action 10: Upgrade the performance appraisal and pay-for-performance systems, and extend performance pay beyond managers to the general work force. Better pay for better performance is at the heart of sound private sector personnel-incentive programs. The opportunity to do this is too limited in a federal sector that needs constant attention to appraisals and resulting rewards to overcome the disincentives of a rule-driven, play-it-safe civil service system.

Opportunities for Reform

If you take prompt and decisive steps such as these, you can make significant headway into cutting the overhead cost of government and toward making the federal work force function more efficiently. The federal bureaucracy is a bloated target for management and budgetary reform. Personnel costs (wages and benefits) equal 15.5 percent of total domestic spending, and other administrative overhead adds 24 percent more, so even minor efficiency gains will translate into big savings. For example, federal retirement alone accounts for 4 percent of the budget. While tougher options are possible, by simply limiting the cost of living increases to the maximum amount of the Social Security cost-of-living-adjustment (COLA) increase, it would be possible to save \$1 billion the first year, and \$20 billion over five years.

Of course, if you really mean to go beyond personnel savings and actually attack the deficit, the Administration of Ronald Reagan could give some additional guidance. After carefully taking out the effects of interest and savings and loan bailout costs, Heritage Foundation scholars Scott Hodge and Robert Rector have shown that the domestic spending Reagan targeted declined from 14.8 percent of gross domestic product to 12.2 percent under his initiatives.¹ Cato Institute scholar Stephen Moore documents that the growth rate of real government spending under Reagan was one-third that of the next closest Administration since World War II. Thus if you are prepared to take serious actions and plan well, there is proof that you can achieve results.

But why, you might ask, should conservatives urge you to learn from the Reagan period, so that you might successfully trim the federal government, allowing you to fulfill your campaign promise and making it more likely that the federal bureaucracy will carry out your policies? For two reasons. The first is that by indicating exactly how you can carry out your campaign pledge, and identifying actions you would have to take if you really do want to cut the bureaucratic overhead of the federal government, the American people will have a checklist on which

¹ Robert Rector and Scott Hodge, "What George Bush is Not Being Told About Federal Spending," Heritage Foundation Backgrounder No. 886, March 4, 1992, p. 2.

to compare performance with rhetoric. If you are serious—or not—they will be able to tell from your actions.

The second reason is that a serious threat to your strategy to reform government will come from inside the federal bureaucracy—as it did when Ronald Reagan came to power. It is the nature of bureaucracy: Pressure will come from those who do not want a lean, efficient government, but simply a large one. And it will come from those who will try to promote the old-style liberal “solutions” through bureaucracy and regulation that were rejected at the ballot box. It is in your interest, as well as the interests of conservatives, to ensure that these forces are not successful through omission. If you pursue these recommendations to make the federal bureaucracy work efficiently for you and these old-liberal policies are still pursued, then you will not be able to blame any failures on bureaucratic intransigence, and the American people will be able to judge fairly that it was the liberal policies that were the problem. And if you do reform the bureaucracy to make it carry out the policies of your White House, that also will provide an efficient executive branch to enable the next conservative Administration to correct the failed liberal policies that were adopted.

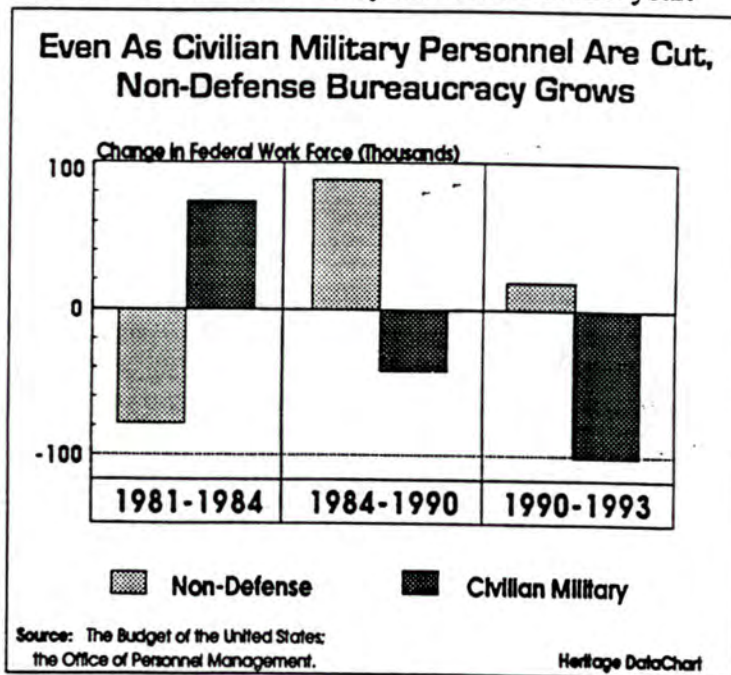
LESSONS OF THE REAGAN ADMINISTRATION

The bad news is that cutting 100,000 federal jobs will be difficult. The unions and managerial associations will protest vigorously, the career managers will resist having fewer subordinates to spread the work and build their empires, and the political appointees will try to avoid the hard decisions that will attract unwarranted press attention. The good news is that it can be done—Ronald Reagan showed how.

Then-Governor Reagan promised in the 1980 election to reduce the size of the bureaucracy. Once in office he classified his goal as a decrease in non-defense full-time equivalent (FTE) personnel of 75,000. The accompanying table shows that between 1981 and the end of the first Reagan term in 1984, non-defense federal employment went down by 78,650, thereby exceeding his goal. The decrease in number of employees, the “head count,” actually was 105,484. Significantly, about 90 percent of the decrease had been achieved by the end of the first year.

Early, bold, and inflexible action in the form of a total freeze on employment, followed later by a more flexible, managed freeze, allowed the target to be achieved.

It is also important to learn from the shortcomings of Reagan's second term. By the end of the second term, non-defense employment totals had edged back up nearly to the levels under Jimmy Carter, although defense civilian and military totals had begun a downward trend. The problem was that the energy of the first term had largely dissipated and clear plans and goals were not set, so the natural forces of bureaucratic growth re-asserted themselves. The reductions achieved in the core Great Society agencies generally held firm, but personnel grew in those agencies that received less personal presidential attention.



The Federal Bureacracy: Many Early Non-Defense Personnel Cuts Gave Way to Increases

Agency	1981	1984	1990	1993	81-84	81-93
Agriculture	121,000	108,986	110,755	111,021	-12,014	-9,979
AID	5,616	5,115	4,526	4,454	-501	-1,162
Commerce	36,347	32,305	34,858	36,682	-4,402	+335
Corps of Engineers	32,330	28,681	28,259	27,444	-3,649	-4,886
Education	6,634	5,025	4,596	5,032	-1,609	-1,602
Energy	18,675	16,708	16,815	19,960	-1,967	+1,285
EPA	12,861	11,412	15,155	17,917	-1,149	+5,056
Gen. Services Admin.	32,758	25,572	19,447	19,858	-7,186	-12,900
Health and Human Ser.	154,000	136,969	117,817	125,704	-17,031	-28,296
Labor	21,647	18,577	18,050	18,265	-3,070	-3,383
NASA	22,727	22,080	23,829	24,947	-647	+2,220
Nuclear Reg. Comm.	3,448	3,441	3,188	3,377	-7	-71
HUD	15,703	12,437	13,264	13,837	-3,266	-1,866
Interior	81,747	73,245	71,233	74,000	-8,229	-7,747
Justice	54,422	58,244	79,082	97,968	+3,822	+43,546
Office of Pers. Man.	7,133	5,710	5,702	6,158	-1,423	-975
Panama Canal	9,138	8,137	8,293	8,603	-1,001	-535
Small Business Admin.	4,704	4,238	5,316	4,637	-466	-67
State	22,887	24,139	25,633	26,012	+1,252	+2,925
Transportation	68,055	61,130	64,863	70,212	-6,925	+2,157
Treasury	124,264	123,155	155,931	161,964	-1,109	+36,700
Tenn. Valley Authority	44,752	31,952	23,716	23,000	-12,800	-21,752
USIA	7,636	8,167	8,598	8,679	+531	+1,043
Veterans	209,575	218,545	214,040	221,518	+8,970	+11,943
Other	45,587	41,414	43,506	57,382	-4,173	+11,795
Non-defense	1,163,646	1,084,996	1,169,370	1,187,929	-78,650	+24,283
Civilian Military	937,700	1,011,532	969,059	867,772	+73,832	-69,928
Uniformed Military	2,122,002	2,177,717	2,163,364	1,846,923	+55,715	-275,079

Source: The Budget of the United States; the U. S. Office of Personnel Management.

Setting Priorities: What Reagan Did, What Bush Did Not

While the two Reagan terms are instructive in their different ways, so is the Presidency of your immediate predecessor in the White House. George Bush said he, too, would cut the bureaucracy, but he never made clear beforehand what programs were to be targeted, even in the general terms of the second Reagan Administration. Nor did he detail plans specifying how or to what degree this should be accomplished after he entered office. Consequently the domestic bureaucracy under Bush increased 24,283 (actually more if budget sleights of hand are corrected) during his term. Conversely, through congressional pressure and to a great degree against Bush's desires, uniformed military personnel actually went down 275,079 and civilian military employment decreased 69,928.

The important point about the data in the table is the different patterns during the conservative Reagan and more moderate Bush Administrations. There are actually four patterns:

Pattern 1: Reagan and Bush both were tough on foreign aid (AID), government engineering projects (the Corps of Engineers and the Tennessee Valley Authority), Education, the General Services Administration, Health and Human Services, and the Small Business Administration.

Pattern 2: While Reagan was significantly tougher in a second set of agencies — Agriculture, Housing and Urban Development, Interior, Labor, Office of Personnel Management, and the Panama Canal Commission — the Bush Administration held up reasonably well, too.

Pattern 3: Both Administrations went weak in the knees in the face of Justice, Veterans, the State Department, and the United States Information Agency, presumably because of joint Republican support of law and order, veterans, and upholding the flag abroad.

Pattern 4: Where Reagan and Bush differed the most was over regulatory agencies. Bush seemingly could not say no — whether at the Environmental Protection Agency, in major cabinet departments (treasury tax agents — perversely added to the budget as "savings" to increase revenues; and commerce and energy overseers), or in independent ("other") regulatory bodies.²

Thus President Reagan, at least in the first term, cut positions across the non-defense spectrum, faltering only on positions related to crime and America's presence abroad, while Bush let much of domestic government grow without any real overall plan. It is Reagan, then—setting and sticking to his agenda and achieving it the first term before the interests affected coalesced—who provides the best model for a Clinton Administration success in cutting personnel.

² William G. Laffer III and Nancy Bord, "George Bush's Hidden Tax: The Explosion in Regulation," Heritage Foundation Backgrounder No. 905, July 10, 1992.

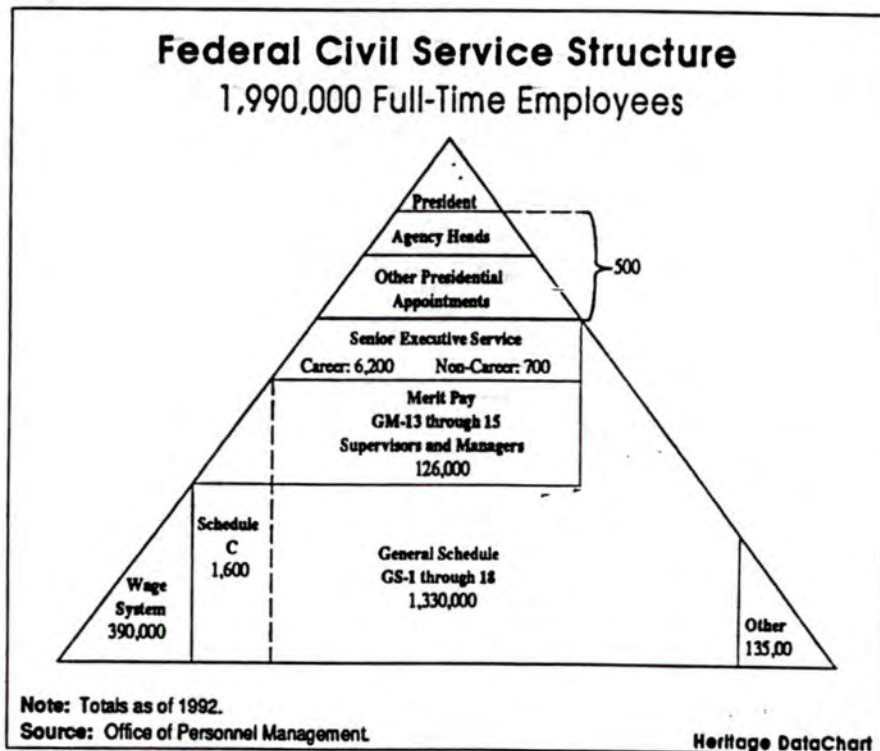
The Politics: Also Follow Reagan, Not Jimmy Carter

Although it was Ronald Reagan who actually cut the bureaucracy, Jimmy Carter prepared the way for his successor's achievement. President Carter was elected on a platform to reform the bureaucracy, and in 1978 he pushed through to enactment the historic Civil Service Reform Act (CSRA). Without that reform, the Reagan Administration would not have been able, as Paul Taylor of the *Washington Post* put it, "to assert its policy control over the top levels of its bureaucracy" and thereby to carry out its goals.³ The CSRA was crucial because it provided a more flexible personnel management system, which allowed federal executives actually to manage.

The problem was that Jimmy Carter did not tell anyone that he had fulfilled his promise to reform the bureaucracy, and what it meant. He did not highlight his accomplishments, even to his own managers, and thus received only the negative news generated in the media from the unions and others who opposed him. So the CSRA yielded few tangible results under Carter, to a great degree time simply ran out on his term. By contrast, from day one, Reagan and his team used the tools of the CSRA and kept the issue of reducing the size of the government and increasing its efficiency firmly in the news so that they could generate some countervailing support from a public that praised the news that bureaucracy was being mastered.

WHAT YOU CAN CUT

What is the federal bureaucracy? When reporting federal employment figures, the press routinely includes the independent Postal Service—which cannot be managed directly by the President—in government employment totals. Journalists also do not tend to distinguish between defense civilian employment (which President Reagan wanted to expand to win the Cold War) and domestic civilian personnel (which Reagan planned to cut). Sometimes the uniformed military are included, and often they are not. A confusion as you prepare to assume office, President-elect Clinton, is that as candidate you did not make clear where you want to make reductions.



Clarity is essential because the civilian personnel system is immensely complex. As pictured roughly in the accompanying chart, it has many discreet elements:

³ Paul Taylor, "Frictions Crest in Civil Service in Reagan Era," *The Washington Post*, January 19, 1983, p. A1.

- 1) **Presidential appointees, about 500 in number, who serve at the pleasure of the chief executive;**
- 2) **Non-career Senior Executives, totaling approximately 700, serving at the pleasure of the agency head;**
- 3) **Career Senior Executives, consisting of 6,000 or so individuals, who are protected by Senior Executive Service (SES) rules;**
- 4) **Schedule C non-career managers and policy makers, about 1,700 in number, serving at the pleasure of the agency head;**
- 5) **Career managers, numbering 120,000, who are protected by Civil Service rules;**
- 6) **General Schedule professional, administrative, and clerical white collar workers, totalling 1.3 million, who are protected by the Civil Service rules;**
- 7) **Wage Grade blue collar employees, numbering 300,000, who also are protected;**
- 8) **Specialized personnel schedules, who are 120,000 or so workers organized into a dozen professional schedules, such as Foreign Service, lawyers, administrative judges, public health and medical personnel; and**
- 9) **The uniformed military, comprising 1.8 million employees, grouped in their own systems.**

It is important for technical and other reasons that you understand and decide which of these categories is to be included in your target and which is not. The alternative is for reductions to take place in haphazard ways—or not at all—in areas not in accord with your wishes.

Can Defense Cuts Achieve the Goal?

Given the structure of the federal work force, you can hardly achieve part of your goal by taking credit for Postal Service personnel reductions. For one thing, the Postal Service already is taking steps to reduce its personnel. Some 30,000 management and staff positions are being eliminated by Postmaster General Marvin Runyon, and so far an additional 17,000 postal employees have accepted an offer of early retirement. For another, the Service is now a semi-private organization in which you do not have the power to cut positions directly. The real question for you is whether your personnel reduction goal can be met through reducing defense alone, as many liberals clearly want.

Focusing on defense raises the question: How much is enough? Uniformed military employment already has declined by over a quarter-million and civilian defense personnel have been cut by almost 70,000 from the Carter levels. However, as a candidate you also pledged to cut uniformed personnel 200,000, so your promise of a 100,00 reduction in the bureaucracy presumably must be restricted to civilian workers. You could confine the 100,000 reduction to just civilian defense employees, a significant portion of whom are now planned for downsizing over the long run. But your pledge is not very meaningful in policy or management terms if it does not cover anything other than what is already planned, and nothing new for Democrats if it covers only defense. The interesting question is whether your pledge implies more.

HOW TO CARRY OUT YOUR PLEDGE

Bearing in mind the experience of previous Administrations, and the pitfalls and complexities involved in reducing the federal bureaucracy, the following ten-point action plan would be a sound strategy for achieving your goal.

Action 1: Institute an immediate total freeze on federal hiring (except political appointees), accompanied by a 3 percent administrative cut.

In government management, experience shows that most real progress is made by using blunt instruments. A majority of the early success of the Reagan employee reduction policy was the result of the total freeze he placed on hiring before he even left the Capitol on Inauguration Day. As President, you must likewise act decisively and immediately if you are to be judged as acting seriously. Placing a total freeze on federal employment thus should be among your first acts. As a candidate you also promised a 3 percent across-the-board administrative overhead reduction, which should be made part of the same package of measures during the first few days of your Presidency.

A total freeze will allow you to build a "bank" of cut work years that will permit you to achieve your full target of reductions over a longer period through more rational management planning.

The freeze should be "permanent," and it should exempt only the political employees you need to organize your new Administration. Permanent means in this sense indefinite, so that government officials cannot plan simply to delay hiring while proceeding to plan future hires. The freeze cannot in practice remain total for too long without causing severe problems, but that should not dissuade you from instituting the policy. The freeze will need to be modified after six months or so, but the White House should not indicate in advance how it might be modified or there will be bureaucratic gaming.

Action 2: Demand the elimination of minimum staffing levels in all departments and agencies.

During the Reagan and Bush years, for instance, Congress placed minimum personnel levels in several departments and agencies to protect certain programs. This is micro-managing at its worst and an intrusion into presidential prerogative. You do have the advantage, however, that Congress might be more willing to end these limitations for an President of the same party.

Action 3: In the second phase of the freeze, institute a modified freeze, administered by the Office of Personnel Management.

A second phase of the freeze should be introduced after about six months. This should allow exceptions for critical skills and to fill positions for essential functions. To keep agencies from subverting the employment reduction function, the process must be managed centrally by an agency with the expertise and clear focus upon personnel to make the policy a high priority, and managed by an official strongly committed to your personnel reduction goals.

The temptation, of course, is to turn to the Office of Management and Budget (OMB)—close by within the Executive Office of the President—to handle the exceptions process in a modified freeze. OMB has neither the needed skills nor will it have the necessary clear focus upon the mission. The reason is that the budget, not management, necessarily dominates OMB's perspective. OMB only seriously analyzes the cost effects of personnel to specific programs and agencies, never to true staffing needs, much less to the overall objective of reducing the size of the bureaucracy.

The Office of Personnel Management, by contrast, need not suffer from these deficiencies. OPM has the knowledge—or can regain it—of agency operations needed to assess true requirements. And through its special pay rates program, OPM can determine the need for specialized

skills and provide the means to solve them. Thus, under a modified freeze, all agency requests for exceptions should be made to OPM and that agency should be limited only by overall budget levels already allocated to the agencies by OMB.

Action 4: During the modified freeze, reform Reduction-in-Force (RIF) regulations to give more weight to performance.

Consideration should be given to whether phase two should include Reductions-in-Force (RIFs) and furloughs to keep costs within budget. Although as a candidate you did say that the 100,000 reduction would be accomplished solely through attrition, in practice it is not possible to achieve efficient overall work force management without some RIFs and furloughs.

If RIFs are used at all—and they must be for certain operations if they are restructured—your OPM should review the Reagan Administration proposals to base employee retention during downsizing more upon performance than on the current seniority-dominated weighting process, and to limit so-called bump-and-retreat rights, under which lower-level employees are routinely “bumped” out of the service by higher-level individuals with greater seniority who are over-qualified (and overpaid) for the positions. Modifying this practice not only would lead to the better workers being rewarded and the work-product upgraded, but it would mean also that women and minorities would not be disproportionately affected by RIFs simply because they tend to have the least seniority.

By following the Reagan Administration work force reduction guidance emphasizing attrition, but allowing some RIFs and furloughs, it should be possible to minimize the negative effects. Over 90 percent of the Reagan reductions were achieved by attrition—and many of these were moved to other positions through a newly instituted placement program. By contrast, during the only other recent Administration to reduce the bureaucracy by any comparable size, under President Dwight Eisenhower, almost 90 percent of the cuts were achieved by firings. A Democratic Administration could hardly follow the latter course—and it would be too expensive, anyway—but it might well be able to follow the Reagan policy without severe employee reaction if it worked closely with the unions and employee associations.

Action 5: Reestablish Office of Personnel Management monthly accounting of full-time equivalent (FTE) employment.

Not only is the government personnel system naturally complex, the government tries further to confuse the situation by the way it counts employees. At the beginning of Ronald Reagan's first term, there was no accurate count of total standardized work years in the federal government—a necessary basic measure to ensure that bureaucrats do not merely eliminate part-timers in response to higher-level orders while at the same time hiring back full-timers, effectively increasing personnel when appearing to cut them. Even the data collected at that time were not in a useable form and were available only once a year.

Believe it or not, it took several months of enormous pressure to put the employment figures in a form useful for work force management. The resultant data were extremely useful for measuring agency performance and pressuring agencies to conform to presidential directives to reduce employment. Too useful. Regular employment reports are no longer produced. Admittedly, they are produced once a year in the Budget (although somewhat inaccurately), but they are well hidden—this year on page 138 of the appendix. Fortunately, some of the earlier reports still exist and allowed us to construct the earlier table. Your Administration will have to re-create the Office of Personnel Management monthly report if you wish to monitor progress, and your Office of Management and Budget no doubt will resist doing this because OMB does not like anyone peering over its shoulder.

A running measure of full-time equivalent (FTE) work years is indispensable to monitor progress. But that measure does have two political drawbacks. First, you will need to translate your goal to cut 100,000 into FTE terms to be meaningful, or only part-time positions are likely to be cut and the actual number of positions eliminated may be less than you desire. Politically, translating 100,000 positions into FTE will make the total cut look smaller than you promised. Alternatively, of course, you could hold firm to a target of 100,000 FTE positions and cut more slots. Second, because standardized work years accumulate over time, it is necessary to make the reductions early in the year so that they are counted as a full-year persons, if you are to receive full credit for the reductions that in fact are made.

Action 6: Demand elimination of congressional limits on the number and functions of political appointees, and fulfill your promise to reduce the Executive Office of the President (rather than the much smaller and more difficult to cut White House Office) staff by 25 percent.

Political employees will make or break the Clinton Administration, as has been the case with every other. Government management does not have the private sector luxury of bottom-line profit-and-loss financial statements to measure its success. Government budget figures tell only what was spent last year, not whether the program or its staff were successful. In government, the only real replacement for private sector financial statements is personnel management.

Managing and leading people is what efficient government is about, and even more so in the sprawling national bureaucracy. President and former Governor Jimmy Carter showed that it cannot all be done from the Executive Office of the President, like running a small state from the Governor's mansion in Atlanta—or Little Rock. While the White House Office must play a central role in planning, it would be more effective if that role were undertaken with a leaner Executive Office of the President staff (which you wisely promised to reduce by one-quarter) and if the line-function Cabinet and top agency heads were brought more into the top management team. Placing throughout the agencies political appointees who are dedicated to the President rather than their own personal or narrow agency agendas is the secret to control of both the management and policy process.

This in turn means that the Office of Presidential Personnel must make appointment decisions upon loyalty first and expertise second, and that the whole governmental apparatus must be managed from this perspective. Picking appointees who are "best for the job" merely in terms of expert qualifications can be disastrous for a government genuinely committed to change.

The Office of Personnel Management must also play a critical part developing a team, managing the Senior Executive Service (SES) system, and overseeing Schedule C positioning. Because they are so critical, political appointees need some special attention: they need presidential access—limited depending upon rank and importance—and they must be excused from actions otherwise affecting the personnel process, such as freezes. In return, they can better manage the morass that lies below them.

Action 7: Reaffirm your commitment to the career Civil Service, such as by urging repeal of the Ramspeck Act.

If political executives are appointed and well supported as they carry out the President's mission, it is not necessary to subvert the career system. A new Administration understandably is worried that the opposing party will attempt to place many of its political appointees into the career Civil Service. For this reason, Senator David Pryor, the Arkansas Democrat who is chair-

man of the Senate Government Affairs subcommittee on the Civil Service, immediately after the election warned Bush Administration political officials not to "burrow in" to the career bureaucracy.

But this view of the Civil Service should apply to the new Administration as well. The policy of the first-term Reagan Administration was to discourage burrowing in by its own officials as well as those of the previous administration. While the 1940 Ramspeck Act guarantees this to congressional and White House staff for the early days of this transition, the new Administration should end this practice for the future and tighten provisions for other appointees.

The corresponding responsibility on the part of the new Administration is to reject professional career pressure to reduce the number of political appointees. For example, the National Commission on the Public Service, which consists of former career officials, has called for appointing political officials on "merit" only and to reduce the number from 3,000 to 2,000. Congress, too, has begun to limit flexibility for political appointees, a situation a Democratic President should be better able to rectify.

Recognizing both the protected status of the career service and the legitimate role for political appointees strikes the right balance. It also should increase the likelihood that your broader proposals for governmental reform will be achieved.

Action 8: Announce a major privatization and contracting-out initiative, with the responsibility for the initiative transferred from OMB to OPM.

Recent Presidents, as well as governors and mayors across the United States, have recognized the benefits in reduced costs, efficiency, and improved management in the policy of contracting work out to the private sector and other forms of privatization. The California-based Reason Foundation has identified \$300 billion of federal assets that could be put to more efficient use in the private sector, while increasing federal revenues. Moreover, one of your top campaign advisors, David Osborne, has argued persuasively for the strategy.⁴

Still, no recent U.S. President, unlike the chief executive in lower levels of the government or national leaders in other countries, has given contracting-out and privatization the top-level attention necessary to implement it widely, or provided sufficient incentives to prevail against the predictable resistance of career interests. The current U.S. program exists as a neglected backwater within OMB and receives almost no support.

Reducing even 100,000 federal employees does not deal with the problem that the work force is overpaid for most positions, has the most generous pension in the world, and operates under a system that destroys incentives to work efficiently. While effort should be expended to reform these remaining functions, the experience of the Reagan Administration is that reforms will be limited and costs only marginally reduced without privatization.

The wise course would be a serious contracting-out and privatization program backed with your strong personal support and assigned to a new agency to assure priority attention, optimally to OPM. Years of experience at lower levels of government prove that strong leadership can be combined with sensible incentives to turn around or at least neutralize employee resistance. If part of the savings are given to the managers who recommend privatized services and the employees who agree to shift with the function to the private sector, for instance, as well as to those who remain to oversee the operation, it is possible to achieve employee support. As

⁴ David Osborne and Ted Gaebler, *Reinventing Government: How the Entrepreneurial Spirit is Transforming the Public Sector* (Reading, Mass.: Addison-Wesley Publishing Company, 1992).

President, you could implement the more or less moribund so-called FED CO-OP program—designed to give shares in the private firms to those federal workers who assist in making the transfer. At the state and local level, Democratic mayors and governors have been in the forefront of such privatization initiatives.

Action 9: Modify existing contracting-out rules to provide full-cost accounting of federal operations when these are compared with private competitors.

Current federal law requires a competition between governmental and private bidders for functions that are considered for transfer to the private sector. Even if the governmental operation wins the competition, the result should be improved services as it restructures to be competitive. To be a serious competition, however, it will be necessary to include the total governmental cost—especially pension, foregone taxes, and other overhead costs. This is not the case at present. The private contractor must include all indirect costs while the government does not, handicapping the outside bidder by as much as 30 percent, and denying the taxpayer the chance for more efficient services. As President, you should modify the rules on contracting out to require the proper, full-cost comparisons to be made.

Action 10: Upgrade the performance management system and extend performance pay to the general work force.

Even with a major privatization effort, many functions necessarily will remain within the government, including overseeing contracted-out operations. But in contrast with the private sector work force, federal employees operate within a system that destroys innovation and efficiency. The 1978 Civil Service Reform Act did create a more flexible management and performance-oriented system, but such a rule-driven system needs constant upgrading.

An efficient system depends on a fair and meaningful performance appraisal process, with pay-for-performance consequences resulting from the appraisals. The Reagan Administration understood this and implemented the Carter-planned appraisal system for all employees, and performance pay for managers and executives, giving it high priority at least through the first term. The basic tools still exist, but the system will require constant prodding to force executives to exercise their responsibilities. The temptation is to grade everyone equally and to flatten out bonuses so that managers do not have to make the difficult decisions of telling some people they did poorly and to pay them less. Bureaucracies may run more comfortably when they do not make such tough decisions, but they also run without energy or efficiency.

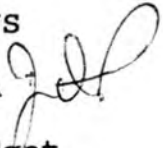
The Reagan Administration tried early to extend pay-for-performance from just managers to the rest of the federal bureaucracy. Union and employee association pressure on friendly congressmen stymied that reform. But the system cannot work optimally with the great majority of the work force denied the chance to earn higher pay for good performance. If there are not monetary consequences resulting from performance appraisals (or separations for very poor performance, for that matter) they lose their credibility and utility. Again, a Democratic Administration might have better success from a more friendly Congress.

Prepared for The Heritage Foundation by
Donald Devine

Donald Devine, former director of the U.S. Office of Personnel Management, 1981-1985, is author of *Reagan's Terrible Swift Sword: Reforming and Controlling the Federal Bureaucracy* from Jameson Books. He also is a columnist, an adjunct scholar at The Heritage Foundation, and a Washington political and management consultant.

THE WHITE HOUSE
WASHINGTON

February 23, 1993

MEMORANDUM FOR: DAVID WATKINS
FROM: JOHN PODESTA 
SUBJECT: Printing Budget

In connection with all of the President's recent plans and initiatives, we have been aggressively printing and distributing various handouts, in varying amounts. What are the budgetary restraints on this kind of activity? I happened to catch a young aide trying to order \$100,000 worth of materials. I'd like to know if anyone monitors these costs, or if there is any other kind of check on the process.

Please look into this and let me know. Thank you.

THE WHITE HOUSE
WASHINGTON

DATE: 2/24/93

NOTE FOR: ELI SEGAL

The President has reviewed the attached, and it is forwarded to you
for your:

Information ☐

Action ☒

Thank you.

JOHN D. PODESTA
Assistant to the President
and Staff Secretary
(x2702)

cc: George Stephanopoulos -- fyi
Maggie Williams -- fyi

THE PRESIDENT HAS SEEN

2/24/93

THE WHITE HOUSE
WASHINGTON

February 23, 1993

Mr. President,

Enclosed is a draft op-ed on national service, scheduled to appear under your by-line in the New York Times this coming Sunday.

The draft was prepared by Eli Segal's shop and Bob Boorstin and reflects comments from the First Lady's Office, Domestic Policy and the NEC.

You can discuss this with Eli at your meeting with him tomorrow at 2 pm. Our final copy needs to go to the Times tomorrow.

TDS
Todd Stern

Handwritten note:
Took online
out - review
1/24/93

**DRAFT OP-ED, SCHEDULED TO APPEAR IN THE NEW YORK TIMES ON
SUNDAY FEBRUARY 28, 1993**

Title: "Why National Service Can't Wait"

Apathy is dead.

Of all the things I've learned in my first few weeks in the White House, that's the one that's made me the happiest. And whether or not the people I've met support the changes I have proposed, they are all saying the same thing: It's time to take our country back.

I have argued that the best way for the American people to regain control is to take up our new direction by supporting our economic plan. Our plan will create jobs, invest in people and bring down the deficit; it will do much good. But there is so much more that needs to be done.

Our plan will make vaccines available to children, but alone it will not administer the shots to all of them. It will put security guards in our schools, but alone it will not take gangs off our streets. And it will make more aid available for college, but alone it will not make the costs of college less daunting for the middle class.

That's why I believe we need national service -- now.

If Congress acts quickly enough, just months from now more than 1,000 young people will start serving our country as part of a broad new effort. Four years from now, the number of people serving for each of this summer's pioneers will be multiplied a hundred-fold. Imagine: an army of young people tackling our problems, rebuilding our communities, and giving their labor in return for an education.

National service is an idea as old as America. Time and again, our people have found new ways to honor citizenship and match the needs of the changing times.

Lincoln's Homestead Act rewarded those who had the courage to settle America with the land to raise a family. Franklin Roosevelt's Social Security Act ensured that Americans who work a lifetime can grow old with dignity. Truman's GI Bill rewarded the service of my father's generation, transforming youthful veterans into an educated army that led our nation into a new era.

For my generation, the reality of national service was born thirty-two years ago tomorrow, when President Kennedy created the Peace Corps. At its height, the Corps enrolled only 16,000

people, yet it changed the way a generation of Americans look at themselves and the world.

Today, the spirit of our people can once again meet the troubles of our times.

The task is as complex as our challenge is great. We must combine the intensity of the post-World War II years with the idealism of the early 1960s -- and figure out a way to help young people afford a college education.

That's why our plan will encourage people to serve here at home, tackling the domestic enemies that threaten our future.

Our new initiative will embody the same principles as the old GI Bill. It will challenge our people to serve our country and do the work that should -- and must -- be done. It will give those who serve the honor and rewards they deserve. It will invest in the future of the quiet heroes who invest in the future of others.

The national service legislation that I will shortly send to Congress will give our people the chance to serve in two basic ways.

First, it will make it easier for young people to hold low-paying public service jobs and still pay off their student loans.

Under our program, every American will be able to borrow the money they need for college and pay it back as a small percentage of his or her income over time. By giving graduates the chance to pay back on an affordable, rational schedule, this "income-contingent" loan program will allow our people to do the work that our communities really need.

Second, our legislation will create new opportunities for Americans to serve our country for a year or two -- and receive financial support for education or training in return.

We'll offer Americans of different ages and educational levels ways to serve.

~~The work will not be glamorous. But it will be work that has to be done.~~

- We'll ask thousands of people to serve in our schools -- some as teachers, but others working as youth mentors, reading specialists and math tutors. They'll help keep our kids off drugs and out of gangs, and ensure that our schools offer the best education in the world.

- We'll send participants into medical clinics to help immunize our nation's two-year olds. Some will be qualified enough to give the shots, but thousands of others can provide support, contacting parents and following up to make sure children get the shots they need.

- We'll help our police forces across the nation, training members for a new Police Corps that will walk beats and adding desk aides to free up officers who want to be on the streets.

- We'll put still others to work controlling pollution and recycling waste, to help ensure that we pass on to our children a nation that is clean and safe for years to come.

Our national service program will offer more than benefits to individuals. We'll help pay operating costs for groups with proven track records, giving them the support they need to grow. And we'll let entrepreneurs compete for the venture capital they need to design and run new service programs.

While government will provide the seed money for national service, we are determined that the participants -- the individuals who serve and the groups that sponsor their service -- guide the process. Spending tens of millions of tax dollars to build a massive bureaucracy would be self-defeating; it would squash the spirit of innovation that national service demands.

By design, then, our national service program will not happen overnight. Instead, it will grow year by year, hitting a high of \$3.4 billion in 1997. And as I've said many times, I believe it will be the best money we ever spend.

If Congress gives us the chance, this summer we'll create an intensive leadership training program. We'll recruit more than 1,000 young people to serve for eight weeks -- and to train the first class of full-time participants.

In the first full year of our initiative, we will launch our flexible loan program and aim to put tens of thousands of people to work. By 1997, more than 100,000 Americans could be serving our country, getting education and training benefits in return. And hundreds of thousands more will have the opportunity to serve because college loans no longer block the way.

But the best planning and the most ambitious design won't make this vision of national service into reality. That responsibility ultimately rests with the American people.

After twelve years of drifting apart instead of working together, I am convinced that we are ready to meet the challenge. From a 14-year-old in North Dakota who sent us \$1,000 to help pay

off the deficit to a 92-year-old in Kansas who followed his example, people are demonstrating that they are ready to give something back to their nation.

Americans recognize that we have a duty to fight our country's problems. The new commitment to contribute that is sweeping our country gives us the chance we need to make progress.

National service will exercise the talents of our citizens and help rebuild our communities. It will harness the energy of our youth and attack the problems of our time. It will bring together men and women of every age and race and lift up our nation's spirit. And for all us, it will spark the change that will rekindle the excitement of being an American.

LRubin / Altman
has copy — ~~Robert~~ ^{Roger}
Altman/
Treasury

The Honorable Roger Altman
Deputy Secretary of the Treasury
Department of the Treasury
1500 Pennsylvania Ave., N.W.
Washington, D.C. 20220

COVER STORY

A1

Interest rate drop pumps up economy

Refinancing leaves some 'walking on Cloud Nine'
► Bonds slip lower **1B**

And the yield on 10-year Treasury notes, the rate home mortgages are pegged to, broke the 6% barrier for the first time since 1972, falling to 5.90% from 6.08% Monday.

The interest-rate free fall will put tens of billions of dollars in homeowners' pockets this year, let corporations lighten the debt load they took on in the 1980s and, most likely, trigger a spring home buying boom.

By Paul Wiseman
USA TODAY

The Interest Rate Express roared down the tracks again Tuesday, pulling the economy behind it.

A benchmark interest rate — 30-year U.S. Treasury bonds — fell from 6.93% to 6.82%, just one day after dropping below 7% for the first time since 1973.



By Bill Baptist

HOMEOWNER: Robert Imber checks out mortgage rates.

How much could you save

Monthly principal and interest payment for a 30-year, fixed-rate mortgage at 7 1/2%, and how much you would save from these higher rates:

Principal	Payment at 7 1/2%	Monthly savings from rate of:			
		11%	10%	9%	
\$50,000	\$350	\$127	\$90	\$53	
\$100,000	\$700	\$253	\$178	\$105	
\$150,000	\$1,050	\$380	\$268	\$158	
\$200,000	\$1,400	\$508	\$357	\$211	
\$300,000	\$2,100	\$759	\$535	\$316	

Source: USA TODAY research

By Nick Galilanas, USA TODAY

Please see COVER STORY next page ►

THE PRESIDENT HAS SEEN
2/24/93

Need to get
w/Pres - calculate
the amount of savings
avg savings at given
w/comm levels of
tax increases

Chron

THE WHITE HOUSE
WASHINGTON

DATE: 2/24/93

TO: David Dreyer

FROM: **JOHN D. PODESTA**
Assistant to the President and
Staff Secretary

THE WHITE HOUSE
WASHINGTON

DATE: 2/24/93

TO: Bruce Reed

FROM: **JOHN D. PODESTA**
Assistant to the President and
Staff Secretary

THE PRESIDENT HAS SEEN 2/24/93

—We need more info
on cancellation
of bonuses; citation The Washington Post
Article of Browder Cummings 2/24/93
B.

THE WASHINGTON POST

... WEDNESDAY, FEBRUARY 24, 1993 A9

RTC Paid 136 Top Officials More Than \$1 Million in Bonuses in '92

By Susan Schmidt
Washington Post Staff Writer

The Resolution Trust Corp., whose management of the thrift cleanup has come under increasing fire from Congress and the Clinton administration, paid its top 136 officials more than \$1 million in bonuses last year, the agency disclosed yesterday.

The bonuses, approved by outgoing RTC Chief Executive Albert V. Casey, ranged from \$1,500 to \$25,000, and included 32 of \$10,000 or more. The total bonus amount was more than double the previous year's bonuses.

The bonus list, requested by members of Congress, drew instant criticism from leaders of the House and Senate Banking committees.

"This kind of extravagance is unacceptable

in a government agency, especially the RTC, which is supposed to resolve the S&L problem at the lowest possible cost to the taxpayers," said Rep. Stephen L. Neal (D-N.C.), chairman of the House Banking subcommittee on financial institutions.

Neal, noting that the RTC is not subject to government pay ceilings, said that "many RTC executives are earning generous salaries at levels unheard of in government," including some who make more than Cabinet members.

Senate Banking Committee Chairman Donald W. Riegle Jr. (D-Mich.) sent a letter to Treasury Secretary Lloyd Bentsen asking that he review the RTC's bonus policy as he prepares a funding request for the agency.

Casey defended the bonuses at a House Banking subcommittee hearing yesterday, calling the efforts of RTC executives "hero-

ic." Their ingenuity in selling huge pools of loans, real estate and other assets the agency inherited from failed S&Ls is saving taxpayers "hundreds of millions of dollars a week," he said.

"I knew I was passing out" of the agency, said Casey. "Once they lose their benevolent dictator Al Casey, what's going to happen to them?"

Casey noted that both his aides, RTC vice presidents William Roelle and Lamar Kelly, had left top jobs at the Federal Deposit Insurance Corp. to take posts at the RTC, a temporary agency created to clean up the S&L mess.

They and other former FDIC employees now at the RTC are entitled to return to their old agency when their RTC work is completed.

Roelle and Kelly each received a \$25,000

bonus for 1992, making each man's total RTC income for the year about \$170,000.

A provision allowing Roelle, 50, and Kelly, 49, to retire from government service with lifetime pensions valued at about \$1 million each was endorsed by Casey and put into the 1991 RTC funding bill. The pension measure was quietly repealed by Congress last fall.

Other top bonuses went to asset sales executives working under Kelly and some of the agency's lawyers.

Former general counsel Gerald Jacobs received a bonus of \$10,000 in October, three months after he quit the RTC. Jacobs left the agency in July after lawmakers criticized the way his department pursued S&L wrongdoers. In addition, the RTC cited a Phoenix developer he previously represented in a civil fraud and racketeering lawsuit.

Casey announced last week that he is resigning as president and chief executive of

the RTC, a post he was named to in the fall of 1991 by President Bush. He had often cited his personal friendships with key Democrats, including Bentsen, and said he hoped to serve in the Clinton administration.

Yesterday, he said Treasury officials "want to replace me" for partisan reasons. He also said they did not appear to be interested in his program, which would put the RTC out of business this fall—three years early—and transfer to the FDIC whatever assets remain to be sold.

Casey's efforts to wind down the RTC have been criticized by some as a premature declaration of victory over the politically unpopular S&L cleanup. The General Accounting Office and some lawmakers have complained that assets are being dumped too cheaply and the agency is doing a sloppy job keeping track of its nearly 100,000 contracts with private firms.

THE WHITE HOUSE
WASHINGTON

DATE: 2/24/93

TO: Trey Schroeder

FROM: **JOHN D. PODESTA**
Assistant to the President and
Staff Secretary

For appropriate response.

VINCENT FOSTER JR.

2/22

To Podesta

He has no
specific information
knows Sessions' father
Appreciates the
call

Trey for
response
John

THE WHITE HOUSE
WASHINGTON

DATE: 2/21/93

NOTE FOR:

Vince Foster

The President has reviewed the attached, and it is forwarded to you
for your:

Information

☐

Action

☒

Thank you.

JOHN D. PODESTA
Assistant to the President
and Staff Secretary
(x2702)

cc:

1-25-93

Franklin Wilder - Attorney in Fort Smith

During World War II - while looking for a deferment, he joined the FBI. Wants you to hear all the facts before you act on Wm. Sessions. Session's father a retired minister in First Methodist Church in Ft. Smith.

Wm. Sessions born in Van Buren, AR.

2-5-93

David Satter - Moscow

Thanks for contacting WChristopher re. job. Nothing offered, but touched by thought.

Process of completing book and write for editorial page of Wall Street Journal.

Would love to see you when you come to Moscow.

1-8-93

Zsa Zsa Gabor Von Anholt & Prince Frederick Von Anholt

Holiday card from lifelong Republican stating she thinks "Hillary and you" will do a wonderful job.

He understands

1. Barr mad because WS exposed activity in Atlanta

2. fence - got interested in bldg fence
get price of \$10,000; WS got
price down to \$10,000

3. people mad cause WS nice to blacks

4. wrote editor of FBI Gazette + former president
of FBI agents assn

FRANKLIN WILDER

ATTORNEY AT LAW
FORT SMITH, ARKANSAS 72901

PHONE 783-2041

January 25, 1993

PERSONAL AND CONFIDENTIAL

XXXXXXXXXXXXX
5 COURT STREET
P. O. BOX 1143

#3 Riverlyn Terrace
Ft. Smith, Ark. 72903

President Bill Clinton
White House
Washington, D.C.

Dear Mr. President:

I used to know you as "Brother Bill" when I was trying to help you in Fort Smith, when you were campaigning for Congress against our common enemy, J.B. H! The way it turned out, you are better off by us not winning! Right?

Congratulations and Best Wishes to you and Hillary. Before you all left Arkansas I sent her a copy of my book on the Life of John Wesley, but I guess she was getting about 5000 letters a day, and one of her workers probably threw the book away. Anyhow it is out of print now..sold thru 33 Cokesbury stores ..so it doesn't matter..

During World War II, I was looking for a deferment as millions of others were. That is when I joined the FBI as a Special Agent, where I served during all that war. The one thing I learned was the FBI was "untouchable." It was independent. You couldn't pressure Hoover or the FBI. All other Federal agencies.. such as the ones who gave out gas stamps, etc. were. All were... except the FBI.

Now, I understand the followers of Bush are trying to ruin the FBI director, Sessions, because he would not bow to pressure. From what I hear, they wanted the FBI to "sweep under the rug" information about Bush..that is now coming out in Congress and in the Grand Jury at Atlanta..about Bush and his connection with the Iran contra affair, etc. Sessions would not surrender his integrity. Barr has tried to ruin him, for revenge, Now I hear others are trying to undermine Sessions, to force him to resign or on you to request it. I hope you will not surrender either!

Will S. Sessions's father, is Dr. Will Sessions, a retired minister in the Christian Church. He teaches Sunday School in our Church (First Meth. in Ft. Smith) at least once a week, and other Churches as well. His son, Will S., is his idol. Judge Will S. Sessions was a Federal Judge in Texas for many years. A gangster of the MFIA was to be tried in Texas. The Federal Judge who was to try him, was shot and killed. Judge Sessions volunteered to take his place. He did, tried the gangster, sent him to prison as he deserved. He is a man of great character, as hundreds of Former Agents of the FBI will tell you. They publish a monthly magazine, "Grapevine." I am sure you will be hearing from them. Sessions was born in Van Buren, Ark., just across the river from Fort Smith. He has many friends from here. Please let all the facts come out BEFORE you act. Thank you.

Sincerely your friend,
Franklin Wilder
Franklin Wilder

DETERMINED TO BE AN ADMINISTRATIVE

MARKING INITIALS: M' DATE: 7/1/16

2018-0617-5

To AGJ

2/24/93

THE PRESIDENT HAS SEEN

2/24/93

cc: Gibbons
UP

Clinton's Technology Plan Would Redirect

By EDMUND L. ANDREWS

Special to The New York Times

WASHINGTON, Feb. 23 — President Clinton's newly introduced plan to bolster industrial technology involves almost no increase in total government spending on research, but it would redirect billions of dollars from military programs to projects involving private industry.

The plan gives a prominent new role to the Department of Commerce, and it could lead to big changes in the way the Defense and Energy Departments carry out their weapons-related research programs. Yet, as the Government takes a fresh look at its sprawling \$73 billion research establishment, it remains unclear how the White House hopes to coordinate the activities of dozens of agencies, how it plans to select which projects to finance and how it intends to evaluate the progress of the overall effort.

Synthetic Fuels Specter

All told, the plan opens up a potentially enormous pot of money for industrial research, but it could also turn into a political pork barrel of unprecedented size. Backers say the effort must strengthen the technological base of American companies battling foreign competitors but also avoid wasting money on projects that individual companies would have paid for anyway or on projects with no enduring public value.

Administration officials say everyone involved in the effort is mindful of the billion-dollar disasters of earlier technology extravaganzas like the failed synthetic fuels program under President Jimmy Carter. The Synthetic Fuels Corporation, the name of the Federal research effort to develop alternatives to petroleum, ultimately cost taxpayers billions of dollars but produced virtually no commercially useful technologies.

"The synfuels program haunts almost every discussion we have," remarked Henry Kelly, acting assistant director at the White House Office of Science and Technology Policy. "The good news is that a lot of the players were around then and know what went wrong."

An Emphasis on Risk-Sharing

The new plan would expand the civilian share of the pie from about 41 percent today to more than 50 percent by 1998. Meanwhile, it would require the Federal laboratories, much of whose work involves nuclear weapons research, to devote as much as one-fifth of the \$25 billion they spend each year to jointly funded projects with private industry. Today, that total is less than 5 percent.

The plan places renewed emphasis on an effort to develop a nationwide "information superhighway" to link computers and on work to produce a "clean automobile" that would be

powered by batteries or by fuels like hydrogen and methane.

Briefing reporters today, John Gibbons, director of the White House Office of Science and Technology policy, said the Administration had no intention of exercising the same kinds of power over business that Japan's Ministry of Trade and Industry wields over Japanese companies.

"The point is not to get on the back of business," Mr. Gibbons said. "The

The U.S. sets out to redesign its \$73 billion R. & D. apparatus.

point is to help some of them get off their backs."

To avoid creating a huge political pork barrel, White House officials said today that the new policy places heavy emphasis on sharing risks with industry and working with consortiums rather than individual companies.

The planners' vision is Sematech, the Texas-based consortium on computer chip-manufacturing technology that is financed half by industry and half by the Department of Defense. Organized

irect Billions From Military Research

to preserve a vital technology in the United States, Sematech is widely regarded as helping American chip makers increase their share of the global market.

Roles Remain Unclear

But in the new effort, it remains entirely unclear who is going to do what. The Federal Government operates more than 700 laboratories, controlled by dozens of agencies in the Pentagon, Department of Energy, Commerce Department and National Aeronautics and Space Administration. All of these agencies would play a role. The Government also spends billions of dollars on research at universities and at private corporations.

Among the principal players will be Vice President Al Gore, who has long championed the development of a nationwide information network, and Mr. Gibbons, the White House science adviser.

But the most important decision makers are likely to be those at individual departments. One central figure will be John A. Rollwagen, who is quitting as president of Cray Research Inc. to become Deputy Secretary of Commerce in charge of technology policy.

Until now, the Commerce Department has played an almost negligible role in technology development. President Clinton, however, has proposed dramatic increases in financing for the department's research arm, the Na-

The trick: making policy without opening a pork barrel.

tional Institute for Standards and Technology, from \$117 million a year today to a combined \$1.3 billion over the next four years.

Redefining Darpa

Another key player will be William Perry, who is to become Deputy Secretary of Defense. Mr. Perry, who served as a top Pentagon official in charge of research and engineering under President Carter, has long been a champion of directing more military research to areas of commercial significance.

Under the Clinton plan, the Defense Advanced Research Projects agency will be kept at roughly its current budget of \$1.4 billion. But the agency will be given much greater freedom to support commercial research — a big change from the Bush Administration, which blocked efforts by Darpa to play a significant role in technologies like high definition television.

Finally, the Department of Energy's vast complex of laboratories, which have a combined budget of \$4.1 billion, will be given much greater freedom to

shift work from weapons research to commercial projects. But the White House has yet to name any of the key Energy Department officials who will oversee those activities.

First, a Committee

White House officials who briefed reporters today were unable to spell out how much money many of the agencies would receive or precisely what each one would be expected to do. Indeed, the "clean car" program would initially consist of setting up a task force that would explore ways to link Federal and private research efforts.

Over all, the Government would play a supporting role rather than taking center stage in technology development. The biggest single effort outlined thus far is the \$2 billion plan to build a nationwide communications "superhighway," a program that was championed by Vice President Gore while he was in the Senate and which Congress has already funded in large measure.

As the project is outlined, however, the Administration would spend money primarily on developing advanced supercomputers and software that would link them over a high-speed fiber optic network, and on demonstration projects at hospitals, schools and libraries. For the most part, the actual construction of a network that is widely available to the public would be left to private companies.

T6 V8

2/24/93

SWEEPING REVERSAL OF U.S. LAND POLICY SOUGHT BY CLINTON

CC
Rubin
McLarty
Dearom

BIG CHANGE FOR THE WEST

Administration Wants to Charge
Market Rates for the Rights
to Use Federal Holdings

AI

By TIMOTHY EGAN

Special to The New York Times

SEATTLE, Feb. 23 — Acting on orders from President Clinton to cut grazing, timber, mining and water subsidies, Interior Secretary Bruce Babbitt is trying to roll back more than a century of practices that have promoted the development of the West at Government expense.

While the plan to charge market rates for commercial use of public resources is being billed as an effort to reduce the deficit, its real importance would be to reverse the way nearly 500 million acres of Western land, equal to about one-fifth of the United States, are managed.

By encouraging ranchers to run cattle on land once thought to be essentially useless and trying to lure miners and loggers to remote high country, the Government has long treated the public lands of the West as a resource to be exploited. Under the Reagan and Bush Administrations, development was further encouraged by land managers who fought environmental restrictions.

Who Would Pay

With the Clinton plan, the Government would no longer allow timber companies to log national forest trees at below-market rates. It would begin charging royalties on gold, silver and other metals now mined at no charge from Federal land, and would raise the fee that ranchers pay to graze livestock on 280 million acres of public range. In addition, farmers would pay surcharges to irrigate more than nine million acres. Fees for recreation, like hiking, hunting and camping, are also under consideration.

Much of the revenue, estimated at \$1 billion over five years, would then be used to repair rivers, forests, range lands and wildlife habitats that have come under strain.

"It's a brand new era in land management," said Mr. Babbitt, who promoted the new thinking in a tour of the West last week. He said the Government would no longer build dams "for dumb, stupid political reasons," and that fees for natural resources uses that now encourage poor stewardship would be raised to "give incentives for good management of the land."

Conservationist View

Conservationists have long called for many of the changes, saying that the Government was selling off Western resources at 19th century prices and allowing the land to be degraded.

But some Western political leaders, as well as those directly affected by an end to the subsidies, say the changes may drive smaller ranchers off the land, threaten isolated rural communities and put a damper on a recent boom

Continued on Page A15, Column 1

THE PRESIDENT HAS SEEN
2/24/93

This is basically
good plan about
Gov Policy - they only
frustrate 4 / thought we
need tried to protect small
ranchers / miners / loggers from
this underestimation on their
part accurate
BC

Clinton Seeks Reversal Of Land-Use Practices

Continued From Page A1

in mining claims.

Still, critics concede that the proposed changes, some of which have been sought before by Republican Administrations but never as a single, sweeping package, stand a good chance of passing this time around under the banner of deficit reduction.

The Administration says the proposals can bring in \$1 billion over five years. While the figure is minuscule compared with the overall Federal deficit of nearly \$300 billion, the mere act of trying to charge fair-market prices for cutting trees, grazing or mining in marginal areas is likely to have a lasting effect on how the land is used. The Government manages more than half the land in many big states in the West.

"I see us as the department of the environment," Mr. Babbitt said in a speech in Phoenix that earned him a standing ovation before a room of Federal employees. "We are about the perpetual American love affair with the land and the parks."

Reflecting the new approach, President Clinton nominated two environmentalists today for top Administration posts: George Frampton, president of the Wilderness Society, as Assistant Secretary in charge of national parks and fish and wildlife; Jim Baca, New Mexico's land commissioner and a former board member of the Wilderness Society, as head of the Bureau of Land Management, the nation's largest land manager. Both appointments are

subject to Senate confirmation.

In talking up the new approach, Mr. Babbitt was well received by park rangers, biologists and other land managers who say they have suffered through years of political pressure to favor industrial uses of the land.

"Most of us are ecstatic," said Jim Walters, a veteran National Park Service employee based in New Mexico. "We all look forward to a new day. It's like a dark period is over."

But the intended changes are generating a strong reaction from groups that have banded together calling themselves the "Wise Use" movement, many of whom view their grazing, mining and timber-cutting permits as property rights protected by the Constitution.

"If Babbitt tries to go through with this, what you'll see happen is some resource-dependent communities turn into ghost towns," said Chuck Cushman of Battleground, Wash., who is a leader of the groups that have been fighting environmental restrictions on public land.

Representative George Miller, Democrat of California who is chairman of the House committee that has jurisdiction over most Western land issues, predicts approval for the changes. Congress may even raise the fees more than the Administration's proposal, he said.

Most Westerners, he said, support the changes. Western states that have traditionally voted Republican, Colorado, Nevada, Montana and New Mexico among them, voted for Mr. Clinton last year.

"Reagan and Bush were just holding back the future," Mr. Miller said. "They were the last gasp of an outdated philosophy."

Senator Conrad Burns, Republican of Montana, said Mr. Clinton's plan, along with the proposal to tax energy, "is going to put Montana in a depression."

"The West is under siege right now,"

he said. "We've got no other way to make a living than the areas Clinton wants to tax and raise fees on. We'll be left selling 20-acre ranchettes to fancy-pants Easterners."

Most of the changes proposed by the Clinton Administration will need legislative approval, but Mr. Babbitt said he could take some action, like raising grazing fees, without Congressional

consent.

"The question is not whether there should be an increase," he said of grazing, an issue that Congress has fought over but never resolved. "The question is how much."

About 28,000 ranchers graze livestock on 280 million acres of public land, run by the Forest Service and the Bureau of Land Management. They are charged \$1.92 to graze one cow and her calf for a month, a rate that the Government has said is one-fifth of the market rate for Western states.

Some ranchers who hold permits are actually corporations like the Metropolitan Life Company that run cattle over millions of acres of public land. But most are small operations of less than 500 cattle. The Government lost about \$50 million in administering the grazing program in 1990, according to the most recent report.

"I wouldn't complain if they raise it 50 cents or a dollar more, but if it goes much higher than that, a lot of people will be run off the land," said Arthur Lyman, a fifth-generation rancher who runs cattle on about 200,000 acres in Utah. "This is rough country. It's not easy to graze on. Not like private land. As far as I'm concerned, we already pay dearly for it."

Fees for Mineral Rights

In mining, President Clinton wants to begin charging royalties for hard-rock minerals removed from Federal land. More than a million people hold mining claims on public land, most of them bought for prices set by the Ulysses S. Grant Administration in 1872. Critics have long considered mining one of the big areas of abuse of Western

lands. But supporters say it one of the last opportunities left in the country for a "little guy" to make it big with a mining strike.

On numerous attempts, Congress has failed to change the law under which any person can establish a mining claim to Federal land for \$250 an acre. The practice has been abused by people who have no interest in mining, but instead wanted to obtain a right to Federal property at a rock bottom price for other commercial uses, critics have said.

Charging a royalty will ultimately hurt the small mining industry, Mr. Cushman said. "You'll kill the goose that lays the golden egg because most prospecting is done by the little guy," he said. "Now he won't have any incentive."

Mr. Miller said some of the biggest users of public land were wealthy individuals who used the "cover of the little guy" to keep the Government from raising fees to a market level. "They trot out the argument of hurting the small rancher or small miner to scare politicians," he said. The Government can exempt the small users from the fee increase, he added.

Timber sales in which the Government spends more money building roads and surveying land before any logging is done than it takes in from the sales have been a continual source of criticism. In 1991, timber programs in 69 of the 120 national forests were losing money. The Forest Service, which is run by the Agriculture Department, has announced a plan to end these so-called below-cost sales as part of the President's package.

A Clinton Administration proposal would raise the fee that ranchers pay to graze livestock on 280 million acres of public range. Cattle grazed yesterday on a section of Bureau of Land Management land near Albuquerque, N.M., under the current fee: \$1.92 a month for a cow and her calf.

To VP

chem

THE WHITE HOUSE

WASHINGTON

93 FEB 22 P3:56

FEBRUARY 22, 1993

MEMORANDUM FOR WHITE HOUSE SENIOR STAFF

FROM: Howard Paster *HP*

I thought that you might be interested in the attached document.

Howard:
Do you think we
can subcontract
Om B's talking point
tasks to
DPC
Rodester

talking points

Publication: TP-4-Economy

February 17, 1993

Clinton Economic Plan: Democratic Response to Republicans

Criticism: *It's the same old Democratic "tax and spend."*

Rebuttal: The Clinton plan is not "taxing and spending" — it's cleaning up the mess created by twelve years of Reaganomics.

- When Reagan cut taxes and doubled military spending in the early 1980s, the deficit jumped from \$79 billion in 1981 to \$208 billion in 1983.
- The 1981 Reagan tax cut cost the Federal Treasury \$2 trillion to date.
- The U.S. debt is now four times as large as it was in 1980. In 12 years under Reagan-Bush, the country piled up four times as much debt as it had in the previous 200 years.
- The U.S. went from being the world's biggest creditor nation at the beginning of the 1980s to the world's biggest debtor nation by the end.
- The growth of the economy during the four years under George Bush was the lowest of any four-year presidential term in the post-war period.
- Until now, American living standards doubled every 25 years. At current rates, the living standard won't double for another 100 years, until our grandchildren's grandchildren are born.

Democratic Policy Committee
United States Senate
Washington, D.C. 20510-7050

George J. Mitchell, Chairman
Thomas A. Daschle, Co-Chairman
Monica Healy, Staff Director



democratic policy committee

Criticism: *If Democrats want to reduce the deficit, they should start with spending cuts, not tax increases.*

Rebuttal: The Clinton plan balances tax increases with spending cuts: there are over 150 specific spending cuts in the proposal.

Criticism: *The Clinton plan's spending cuts come mainly from defense.*

Rebuttal: The plan will cut \$126 billion in non-defense spending over four years.

- President Clinton's plan will ensure that defense workers affected by cuts get the skills they need to remain productive contributors to the nation's changing economy.

Criticism: *Candidate Clinton promised a middle-class tax cut, and now President Clinton is hiking middle-class taxes.*

Rebuttal: The deficit picture has worsened since the campaign.

- The deficit has increased significantly — beyond even the worst official Government estimates from last year.

Rebuttal: Most of the Clinton plan's tax increases fall on upper-income earners.

- Seventy percent of the new taxes in the Clinton plan will be paid by those who make more than \$100,000 a year — about 4.4% of taxpayers.
- Clinton has called for a surtax of 10% on millionaires.
- The increase in the highest income tax rate — from 31% to 36% — will affect families earning more than \$100,000/year.

- Taxpayers will no longer subsidize the excessive pay of chief executive officers and other high executives. Companies had been able to write off the entire cost of salaries as a business expense, but now, the portion of salaries in excess of \$1 million will not be tax deductible. This change will affect the majority of CEOs at Fortune 500 companies, whose average pay last year was more than \$1 million.

Rebuttal: The plan is the most progressive tax package ever proposed.

- Families whose combined income is under \$30,000 a year will be shielded from the effects of the energy and other tax increases.

Criticism: *It's the same old "tax the rich" — why do Democrats want to penalize those who have succeeded?*

Rebuttal: The Clinton plan does not penalize the prosperous, it asks those who got a windfall in 1980s to pay their fair share.

- For example, President Clinton proposes increasing the corporate tax rate, revenues from which (as a percentage of GDP) have plunged 40 percent from the 1970s.

Criticism: *Government should get its own house in order before it asks for one single penny from the taxpayers.*

Rebuttal: President Clinton is not asking for anything from the American people that he is not asking from himself. He is committed to paring down the government and getting rid of inefficient, wasteful programs.

- He has cut White House staff by 25%.
- He has ordered Federal personnel cuts of 100,000 and a reduction of government administrative costs \$9 billion over the next four years.

Criticism: *Why do Democrats insist on a stimulus package — why not just focus on deficit reduction?*

Rebuttal: The stimulus package will jump-start the economy by creating new jobs.

- The plan will create nearly a half million jobs in 1993 and 1994.
- Over four years, 8 million new, good-paying jobs will be created.
- The plan puts people back to work building roads and bridges and creating information highways.
- It spurs job-creating private investment by, for example, providing a tax credit for small businesses that invest in growth.
- It expands the summer jobs program to finance 638,000 new summer jobs.

Rebuttal: Job-creation is sorely needed because America is in a jobs recession.

- There has been a spate of major layoffs at flagship corporations: IBM, General Motors, United Technologies, Sears and others.
- Today, nine million Americans remain out of work.
- The unemployment rate is higher today than it was at the bottom of the recession, 22 months ago.
- Much of the current unemployment comes from permanent job losses — that is, from people who are not going to get their jobs back, rather than from people who have been temporarily laid off.
- Job growth has been about one-tenth of the typical post-war recovery: If this were a normal recession, more than 3 million unemployed people would be back at work.
- Job growth under President Bush was the lowest of any post-war President.

Rebuttal: Americans favor job creation.

- According to a New York Times/CBS News poll, 67 percent of Americans said job creation should be a more immediate priority than deficit reduction for the new administration.

Rebuttal: The stimulus package is a down payment on investments that America needs to make.

- It invests in the nation's traditional and future infrastructure — on roads and bridges, and on information highways.
- It spurs private investment with a series of incentives including tax credits for small businesses that invest in growth, and tax credits for firms that invest in research that results in technological innovations.

Rebuttal: The stimulus plan begins the process of closing America's investment gap:

- Federal investment in physical and human capital dropped from 16% of total outlays in the early 1980s to 9% by the end — a decline of 40%.
- In human terms that means that less was invested in education, job growth, health care, transportation, law enforcement — in short, in our children's future
- By the end of the 1980s, Japan and Germany were investing more than 12 times what the U.S. did as a percentage of their output on infrastructure: roads, bridges, and the information networks and technologies of the future.

Criticism: *The energy tax (or Social Security tax, or any other specific tax) is insidious because it.....*

Rebuttal: You cannot look at this package piece by piece. You must look at the whole package and ask: are all Americans being asked to contribute their fair share? If they are, then it's your patriotic duty to join in.

THE WHITE HOUSE
WASHINGTON



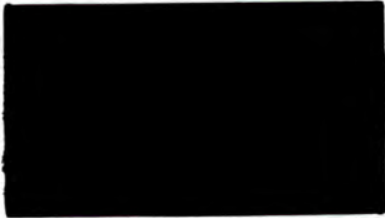
DATE: 2/24

TO: Tony Lake; George Tenet

FROM: JOHN D. PODESTA
Assistant to the President and
Staff Secretary

This is the matter
I raised with you.

Cc. Leon Fuerth



Washington Telecom Week

the Inside Washington look at federal telecommunications policymaking

Vol. 2 No. 6 - February 12, 1993

STATE DEPT. MOVING TO STRIP AMBASSADOR RANK FROM TELECOMMUNICATIONS BUREAU

The State Department is quietly moving to strip its international telecommunications bureau of the rank of ambassador as part of a massive reorganization being spearheaded by the Clinton Administration, and sources say the move may be strongly resisted by Congress and the telecommunications industry. The department's Bureau of International Communications and Information Policy (CIP) would be folded into the Bureau of Economic and Business Affairs (EBA), and the rank of ambassador for the head of the CIP would be seriously downgraded. But State cannot make these changes without the approval of Congress, and the reorganization effort may fly in the face of earlier legislation to create the CIP.

continued on page 17

In an apparent reversal...

CLINTON REPORTEDLY READY TO PUSH CONGRESS FOR NEW WIRETAP LEGISLATION

In what would be a turnabout from a position taken several weeks ago, the Clinton White House is considering asking the 103rd Congress for passage of new federal wiretap legislation that could cost telecommunications and computer equipment manufacturers billions of dollars to implement, key congressional sources said this week. This development comes in contrast to President Clinton's decision last month to distance the Administration from the controversial wiretap issue, a position the President's advisers urged him to take shortly before Clinton assumed office.

continued on page 19

Responding to local exchange competition

USTA PROPOSES SWEEPING CHANGE IN ACCESS CHARGE POLICY, RECASTED PRICE CAPS

The U.S. Telephone Association (USTA) has proposed a sweeping change in federal policy governing access charges and price caps in response to the advent of local exchange competition, according to a copy of the proposal obtained by *Washington Telecom Week*. The USTA effort is the second iteration of an access policy restructure plan that was proposed last year and launched a broad effort at the state level to review access policy. The newest version is geared to influencing an internal staff project at the Federal Communications Commission on access restructure that is expected to be one of the first issues to

continued on page 20

ITC SAYS NAFTA WILL LEAD TO MAJOR NEW MARKET IN MEXICO FOR ENHANCED SERVICES

A new analysis by the International Trade Commission (ITC) concludes that the North American Free Trade Agreement (NAFTA) will create a significant new market opportunity in Mexico for U.S. firms in the area of enhanced telecommunications services. The Mexican enhanced telecommunications services industry is currently less than 1% the size of the U.S. industry. Although the Mexican market for enhanced telecom services is relatively undeveloped, it displays substantial growth potential, the report says.

The development of this market is important not only to telecommunications service providers who believe that these sectors will account for an increasing share of total revenues, but also for most

INSIDE THIS ISSUE

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Senior positions may be eliminated under the reorganization of the CIP. For example, the CIP used to be headed by Bradley Holmes, who was assisted by two deputies. "It may be that not all of those positions will remain," one source said. "There may be fewer high-level people and not with the same titles."

The source said there is no intention to reduce the ability of the CIP Bureau to carry out its international functions but to more closely integrate the bureau with other functions of State. The EBA contains divisions of international finance that track developments at the International Monetary Fund and other agencies. It also has an office of trade policy and focuses on issues such as transportation, aviation, energy issues and other areas that require international agreements.

The CIP Bureau handles a whole host of telecommunications issues, including the oversight of possible telecommunications joint ventures with many of the former Soviet republics and the provision of liaison functions for the ITU and the World Administrative Radio Conference. — Joe Burey

CLINTON EYES POSSIBLE SUPPORT OF FBI WIRETAP BILL . . . begins page one

Clinton's reported willingness to reverse himself and now embrace the thorny issue of new wiretap legislation — an idea first proffered by Justice Department and Federal Bureau of Investigation officials under the former Bush Administration — comes as a shock to many industry observers. Others say it may be that Clinton is searching for "some middle ground" on which he can stand in an effort to placate certain conservative elements within the Congress.

One source suggested the President may be willing to agree to "most if not all" of the plan favored by Justice and the FBI in exchange for support from key conservatives in Congress for Clinton's proposal to lift the ban on homosexuals serving in the military.

"I don't think the President will go along with everything the Bureau is asking for," the source said. "But chances are [the President] will be willing to give them much of what they want — that is, assurances backed up by federal law that industry will provide law enforcement with the ability [it needs] to access these new technologies."

Prior to Inauguration Day, William Sessions, the currently embattled director of the FBI, met with top-level members of the Clinton transition team in what was subsequently described as an unsuccessful effort to sell the new Administration on the merits of the Bureau's proposed digital telephony legislative package.

Sessions had asked the new President to include the Bureau's wiretap proposal in a comprehensive crime bill package Clinton wants to present to Congress during the first 100 days of his Administration. The proposal was virtually the same plan the House telecommunications & finance subcommittee rejected late last year.

The President's advisers, consequently, told Clinton to avoid endorsing the FBI's plan for fear that the controversy surrounding it would stall congressional action on a Clinton-backed crime bill.

Now, Clinton reportedly is having second thoughts, sources say, and a new, slightly different FBI wiretap proposal could garner the President's endorsement during this first session of the 103rd Congress.

Such a possibility is so real that key congressional staffers on Tuesday (Feb. 9) warned telecommunications and computer industry representatives gathered in Washington, D.C., for a meeting of the Electronic Frontier Foundation's so-called Digital Privacy Coalition to be on the lookout for renewed wiretap legislative efforts during this session of Congress, sources close to the group said.

The Administration apparently now seems markedly less inhibited about accepting the Justice Department's position, one source said. The President reportedly is concerned that failure to address the wiretap issue will result in "the loss or impairment of the [FBI's] ability to conduct court-ordered electronic surveillance" and could "catastrophically inhibit the investigation of organized criminal groups."

The FBI is concerned about law enforcement's ability to tap into newly developed digital telecommunication technologies as well as a host of new telephone services, such as call forwarding and last number re-dial. Also, the Bureau is concerned that emerging computer technology could hamper court-authorized wiretap operations.

EFF and the coalition, on the other hand, contend the Bureau's concerns are without much basis. They maintain that the telecommunications industry has always had a good working relationship with law enforcement and that no changes in current federal wiretap and privacy laws are needed to ensure the continuation of that relationship.

Last year, the coalition "reacted to events rather than trying to affect events before they happened," one source close to the group said. But, in light of these recent concerns about which way Clinton will move on the wiretap issue, a decision was made at Tuesday's coalition meeting to "change the strategy, to become proactive rather reactive," the source said. — Jim Rogers

2/24/93



CENTER ON BUDGET AND POLICY PRIORITIES

To: Melanne
From: Bob *Bob*
Date: February 23, 1993

Bob

This looks right - This guy is really good - He offered what seems to be a good solution at the end (two's short according to him) and I suppose then missed the

Attached is the paper. There is a three-page overview (or summary) at the front. The fact that the Administration's budget leaves families of four well below the poverty line is beyond dispute. David Ellwood, probably the nation's leading expert on this issue and soon to be the new Assistant Secretary for Planning and Evaluation at HHS, agrees with this point. Any analyst would.

This paper is written for use within high levels of the Administration. My preference is never to issue a Center paper on this. But if the Administration doesn't make a change in this area, I'll be forced to.

I don't think we have much time on this. The House Budget Committee plans to "mark up" the budget resolution the week of March 8. It will need to work out agreements with Budget Committee Democrats before then. This means that if the Administration doesn't make a change here, I'll need to start working on this issue next week. It also means that if the Administration is going to make a modification here, it should be done within the next week — and preferably by the end of this week.

That may sound like a short timeframe, but after all, the whole budget was done in just a few weeks. And Treasury could do the necessary work to address this matter in a day or two.

I appreciate your interest and help on this. I think that making a modification here is both good policy and good politics.

I would note that in the box on page 17, we lay out several possible ways of remedying the problem. Treasury would have to work out the details. I imagine Treasury will put up some resistance, arguing that it doesn't want to change what has already been issued and that the income distribution tables may not look quite as pretty. I think the argument for making the change we recommend far outweighs any such arguments against it. If a decision is reached to make a change, it would be great if we could be consulted on the details. (That would fit with the President's request to me.) I think that could contribute to a better outcome all the way around.

THE ADMINISTRATION'S EARNED INCOME CREDIT PROPOSALS

"...The new direction I propose will make this solemn, simple commitment: by expanding the refundable earned income tax credit, we will make history; we will reward the work of millions of working poor Americans by realizing the principle that if you work 40 hours a week and you've got a child in the house, you will no longer be in poverty."

President Clinton, State of the Union Address

I. OVERVIEW

President Clinton has stated that his budget would lift full-time working parents and their children out of poverty. The Administration's principal budget document, *A Vision of Change for America*, proclaims that all four-person families with a full-time worker would be lifted from poverty.

Unfortunately, these statements are not correct. The plan does not accomplish this objective.

- Families of four with a full-time minimum wage worker would get just a \$400 increase in the earned income credit, some of which would go to offset the new energy taxes. Even after increased food stamps are taken into account, these families would still fall \$1,000 below the poverty line. (Without counting food stamps, the shortfall is \$4,700; most working poor families do not receive food stamps.)
- The Clinton plan spends over \$6 billion a year on the EIC; this is more than necessary to get most full-time working families out of poverty. But most of the new EIC money goes to families above the poverty line, especially in the \$20,000 to \$30,000 range (or to workers without children). For example, families with children that have incomes of \$24,000 get more than twice as large an EIC increase as full-time minimum wage families with incomes of \$8,840. Despite spending a lot on the EIC, the plan fails to get most full-time minimum wage families to the poverty line.

The President thought the plan did get these families to the poverty line because some hurried Treasury calculations indicated that was the case. The Treasury calculations, however, contain two serious errors that cause them to substantially overstate the income of these families: the calculations neglect to subtract payroll taxes withheld from workers' paychecks and they miscalculate and overstate food stamp benefits.

As a result, the EIC proposal leaves the Administration politically exposed, given the emphasis the President personally has placed on lifting full-time working families with children to the poverty line. The proposal also could compromise the Administration's forthcoming welfare reform plan, since many full-time working families would be left in poverty.

The President and top Administration officials have also said that the plan would ensure that low-income working families do not have their incomes reduced by the energy tax increase. For many working families, they succeeded. But there is a significant glitch here, too. Because of the peculiar EIC expansion in the budget package, working families with one child and income between \$8,000 and \$12,500 receive *no EIC increase at all*. In fact, many of these families would have their EIC benefits cut, because the plan would terminate two supplemental EIC benefits that some of these families now receive. Unless these families receive food stamps (less than one-third of low-income working families do) or energy assistance (which a similarly small proportion of the working poor get), they would be made worse off. They would pay energy taxes and receive no compensating EIC increase. (Meanwhile, families with two or more children and incomes in the \$20,000 to \$25,000 range would get EIC increases of \$700 to \$860, about four to seven times the energy tax increase they would pay.)

These problems stem from the highly unusual EIC expansion in the budget. The expansion would increase EIC benefits most for those with incomes between \$3,000 and \$7,000 and those with incomes between \$17,000 and \$27,000, while increasing benefits the least — or not at all — for families in the \$8,000 to \$12,500 range, precisely the range where families with a full-time minimum wage worker are found. (See figures on pages 6 and 7.)

Treasury designed the EIC changes in this manner for one overriding reason — to get its "distribution tables" to show no aggregate increase in taxes in the 0 to \$10,000, \$10,000 to \$20,000, and \$20,000 to \$30,000 income brackets. The Treasury distribution tables, however, have a weakness — they do not adjust for family size. They equate an individual living alone with an income of \$9,500, about \$2,000 above the poverty line, with a family of four that has \$9,500 in income and is more than \$5,000 below the poverty line. When the overriding goal is to produce particular results in distribution tables that fail to take family size (and especially the presence of children) into account, strange results emerge. That is what has happened here.

A Remedy is Available

Many of these problems can be addressed for no additional cost. The budget now includes \$3 billion a year (by 1996) in added food stamp benefits and \$1 billion in added low-income energy assistance benefits. These new benefits are included in the budget as supplementary offsets to the energy tax. Yet these amounts — and particularly the large food stamp amount — are larger than is needed or than can pass on Capitol Hill. Targeted changes can be made in the Administration's EIC proposal to raise the EIC expansion primarily for families with children in the \$8,000 to \$12,500 range. These changes can be paid for by reducing the overly large food stamp increase (and if necessary, modestly reducing the energy assistance increase).

There is no support on Capitol Hill for a food stamp increase as large as the Administration has proposed. This increase is more than 50 percent bigger than the largest food stamp expansion bill proposed in recent years, the highly regarded Mickey Leland Childhood Hunger Prevention Act introduced by then-Rep. Leon Panetta and other members. If the Administration leaves its food stamp proposal as is, either of two events will almost certainly befall the \$3-billion-a-year proposed food stamp increase — either a sizable part of the increase will be removed in the budget resolution or the Agriculture Committees will scale it back and use the "savings" to avoid some of the cuts in agriculture programs the Administration has proposed. Key Agriculture Committee Democrats are already saying there is no way they will accompany billions in cuts in farm programs with \$3 billion a year in food stamp increases. That would be difficult for many of them to explain in their rural districts.

There is also little chance the full energy assistance increase in the budget will be provided. The energy assistance program enjoys only weak support in the Appropriations Committees. Past history strongly suggests that the Appropriations Committee will reduce the large energy assistance add-on in the budget to avoid some of the discretionary cuts the Administration has proposed.

By contrast, any EIC increases the Administration proposes are likely to pass. The EIC has strong support across the political spectrum. Scaling back the food stamp increase by a third or a half and using the funds to raise the EIC would be wise politically and substantively. Indeed, the budget is likely to begin being criticized for having such large food stamp increases alongside its program cuts and tax hikes. Moving some funds from food stamps to the EIC would strengthen the attractiveness of the overall budget package, while avoiding embarrassment to the President for failing to achieve his proclaimed goal of lifting full-time working families from poverty.

Such a modification needs to be made quickly — and by the Administration. It will be difficult for Congress to make this change on its own, since that would entail shifting money that the President's budget proposes for one Committee to a different Committee. These issues are discussed in more detail below.

II. THE ADMINISTRATION'S EIC PROPOSAL AND ITS EFFECTS ON WORKING POOR FAMILIES

The Administration's proposal would alter the EIC in several ways. Under current law, families with one child would receive a credit in 1994 that equals 23 percent of their first \$7,990 in earnings, for a maximum credit of \$1,836. This \$1,836 EIC benefit level is the amount that a family with one child and a full-time minimum wage worker would receive.

Under the Clinton budget, the EIC would change so that a family with one child received 30.6 percent of its first \$6,000 in earnings. This, too, produces a maximum credit of \$1,836, the same amount as under current law. Thus, the credit for a family with one child and a full-time minimum wage worker would not change. The credit for families with one child and incomes below \$7,990 would increase.

For minimum-wage families with two or more children, the maximum EIC benefit would rise about \$400. Under current law, these families would receive a credit equaling 25 percent of their first \$7,990 in earnings, for a maximum credit of about \$2,000. Under the Administration's proposal, the credit these families receive would equal 40 percent of their first \$6,000 in earnings, for a maximum of \$2,400. For a two-child family with a full-time minimum wage worker, the credit thus would increase by \$400.

The proposal also makes a major change in the income level up to which families qualify for the EIC. Under current law, families would be eligible in 1994 until income reaches \$23,760. The Administration plan would raise the income limits to \$28,500 for families with one child and \$30,000 for families with two or more children. (Table I shows both how the EIC now works and how it would work under the Administration's proposal.)

Finally, the proposal would abolish the two supplemental credits that are part of the current EIC while establishing one new credit. Under current law, EIC families receive a supplemental credit of up to \$400 if they have a child under age one as well as a supplemental credit of up to \$480 if they pay part or all of the premium costs for a health insurance policy that includes coverage for a child. The Administration plan would abolish these two complicated and much-criticized supplemental credits. It would establish a new credit for childless workers with incomes of less than \$9,000; that credit would be worth up to \$306.

The proposed EIC expansion has many desirable features. Nevertheless, its benefits are oddly distributed. Most striking is how limited the benefit increases are for families with full-time workers paid at or near the minimum wage. This is the

Table I
EIC Parameters, Current Law vs. Clinton Proposal.
All figures are for calendar year 1994.

	Credit rate (%)	Income level up to which the credit rate applies	Maximum credit	Phase-out rate (%)	<u>Phase-out range</u> Income at which credit starts to phase down Income at which credit reaches zero	
One child						
Current law	23%	\$7,990	\$1,836	16.43%	\$12,570	\$23,760
Proposal	30.6%	6,000	1,836	11.54%	12,570	28,500
Two or more children						
Current law	25%	7,990	1,998	17.86%	12,570	23,760
Proposal	40%	6,000	2,400	13.76%	12,570	30,000
Childless workers						
Current law	-NO CREDIT-					
Proposal	7.65%	4,000	306	7.65%	5,000	9,000

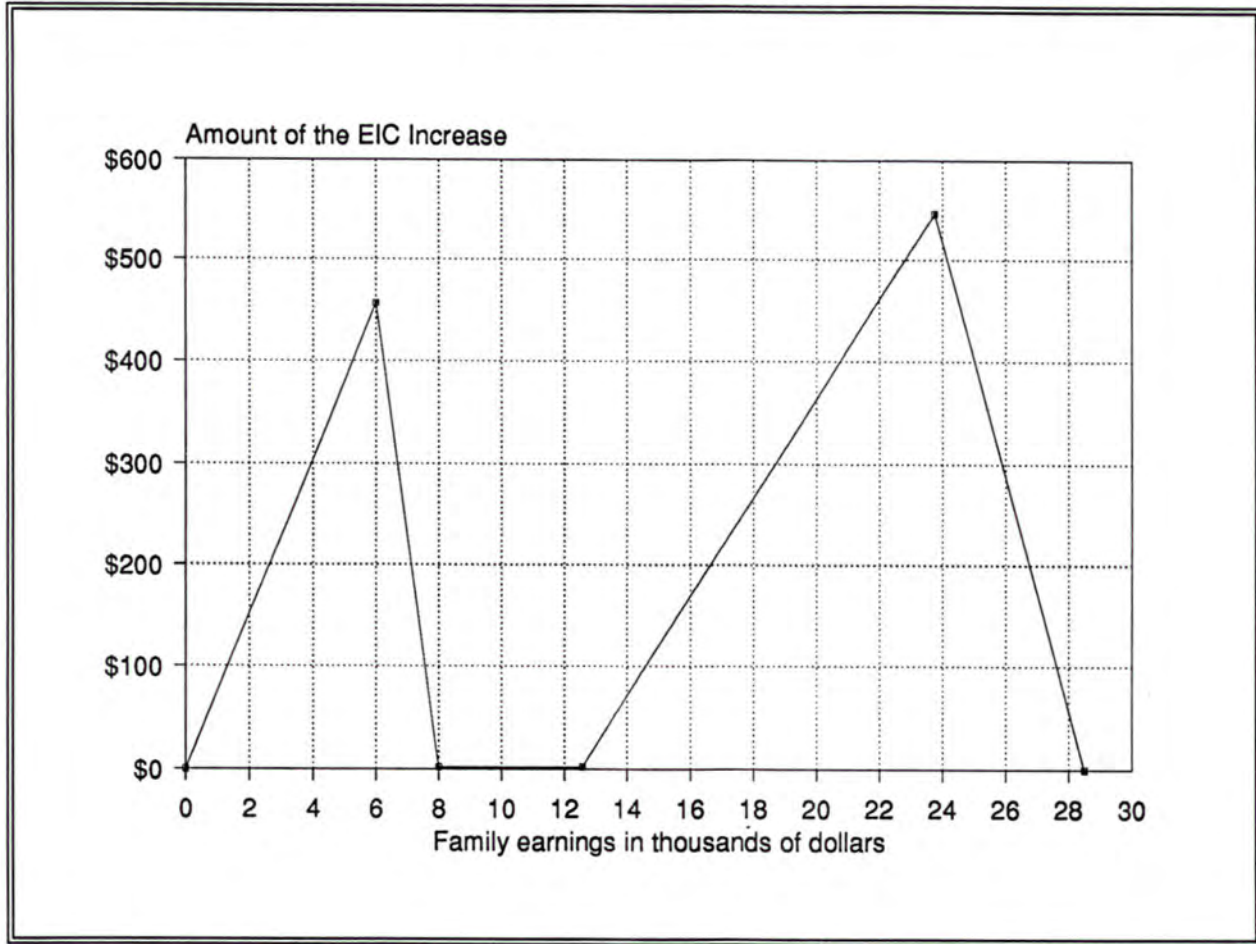
Example: Under current law, a family with one child will receive an EIC equal to 23 percent of earnings until family earnings equal \$7,990. At this level, the value of the credit is \$1,836. Once a family's income hits \$12,570, the credit is reduced at a 16.43 percent rate; that is, each dollar of income reduces the value of the credit by 16.43 cents. When a family's income hits \$23,760, the value of its EIC falls to zero. (The numbers used here are not official; they may vary slightly from the official numbers.)

primary target group of President Clinton's goal of lifting families with full-time workers out of poverty.

Figures 1 and 2, which appear on the next two pages, show the size of the EIC increase that families at different earnings levels would receive. The figures show that families with full-time workers earning at or near the minimum wage (ranging from about \$8,000 to \$12,500 of annual income) fare relatively poorly under the Administration proposal.

For families with one child, workers in the \$8,000 to \$12,500 range gain less from the proposal than all other families with incomes up to \$28,500. At best, the

Figure 1
 Increase in Basic EIC Benefits for Families with One Child
 Under Administration Proposal Compared to Current Law (data are for 1994)



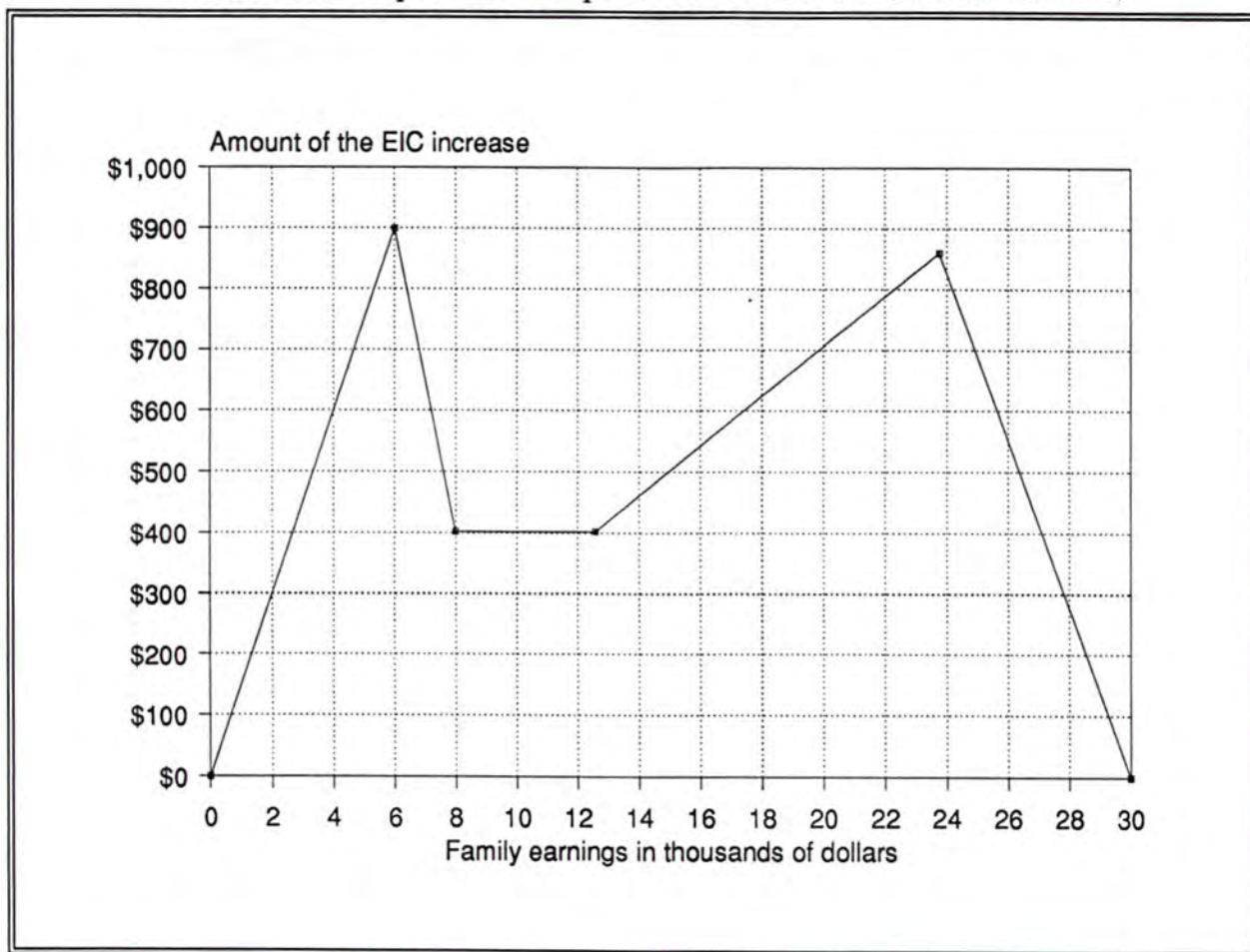
families in the \$8,000 to \$12,500 range would receive the same EIC benefit as they would get under current law; some of them would in fact be worse off than under current law. (See Figure 1.)

- In 1994, a family with one child and earnings between \$7,990 and \$12,570 would receive an EIC of \$1,836 under the proposal, the same as the family would receive under current law. But under current law, some of these families also receive supplemental EIC benefits from the EIC young child supplement and the EIC health credit. As noted, these supplemental credits are eliminated by the proposal. Thus, minimum wage families that have one child and receive either of these supplemental credits would receive *smaller* EIC benefits under the Administration's proposal than under current law. (Eliminating the two supplemental credits is, however, sensible policy.)

- By contrast, a family with one child and earnings of \$24,000 gets an EIC benefit increase of more than \$500 under the proposal. Also benefiting would be very poor families. A family with one child and earnings of \$6,000 would receive a basic EIC increase of \$460 under the proposal.

The story is similar for families with two or more children. Such families with incomes between \$8,000 and \$12,500 would get some increase in their EIC, but the increase would be smaller than that provided to most other families with two or more children, especially those in the \$20,000 to \$25,000 income range. (See Figure 2.)

Figure 2
Increase in Basic EIC Benefits for Families with Two or More Children under Administration Proposal As Compared to Current Law (data are for 1994)



- Families with two or more children and earnings between \$7,990 and \$12,570 would receive a basic EIC increase of \$400 under the proposal.
- Most other EIC families with two or more children would receive a larger EIC increase. A family with two children and income of \$24,000 would receive an increase of \$830, more than twice as much. A family with two children and earnings of \$6,000 would receive a \$900 EIC increase.

In short, families with incomes between \$8,000 and \$12,500 receive a smaller EIC increase under the proposal than the vast majority of other families with incomes of less than \$30,000. Families with a full-time minimum wage worker, the families the President wants to raise out of poverty, are the group helped least.

III. WOULD FAMILIES BE LIFTED OUT OF POVERTY?

The relatively limited assistance the Administration's EIC proposal extends to families with full-time minimum wage workers helps explain why many of these families would still fall below the poverty line. This section of the paper shows the extent to which many of these families would continue to be poor.

In examining this issue, one must first decide how to measure family income, since income must be compared to the poverty line. This matter has been studied extensively. Analysts examining whether full-time work will assure that a family is not poor generally agree that full-time minimum wage earnings, EIC benefits, and payroll taxes must all be considered. Analysts typically add full-time minimum wage earnings and EIC benefits, subtract the employee's portion of payroll taxes, and compare the total to the poverty line.

One additional step is sometimes used and is more controversial — the addition of food stamp benefits for which a minimum wage family might qualify. The question here is whether food stamp benefits should be assumed to be part of a working family's income when the income is compared to the poverty line. On the one hand, food stamps are nearly equivalent to cash. This argues for counting them. On the other hand, U.S. Department of Agriculture studies show that only 32 percent of the low-income working households eligible for food stamps — just one in three — actually receive them. Furthermore, some other working poor families are ineligible for food stamps because they do not meet the program's stringent and outdated asset limits.

The basic calculations here assume that food stamps are received. The calculations include both the value of the food stamp benefits for which a minimum

wage family now qualifies if it meets the program's asset limits¹ and the maximum additional amount of food stamps the family might receive under the food stamp expansion in the Administration's budget.² An additional set of calculations is done for families that do not receive food stamps.

Finally, the calculations subtract the estimated cost of the increased energy taxes these households would bear, since the EIC and food stamp expansions were designed in part to offset these taxes. (Moreover, the Administration's budget documents indicate that the energy tax would modestly increase inflation, which in turn would raise the level of the poverty line. This is another reason the increased energy taxes these households bear should be taken into account in determining whether the families are raised to the poverty line.)

How does the Administration's proposal stack up against the President's goal of ensuring that full-time working families escape poverty? The combined impact of the EIC and food stamp expansions gets families closer to the poverty line, but the shortfall is still considerable.

¹ The actual amount of a family's food stamp benefits depends on the level of the food stamp shelter deduction the family receives. The food stamp calculations used here assume that the food stamp shelter deduction these families receive equals half of the maximum deduction amount allowable. (The specific amount of a family's deduction depends on the ratio of its housing costs to its income.) This assumption leads, if anything, to a slight overstatement of the food stamp benefits these families receive. USDA survey data show that the average shelter deduction for households with earnings as well as the average deduction for households with children are slightly below half the maximum deduction amount that is permitted.

The calculations used here do not assume that families receive a food stamp dependent care deduction. Fewer than one in six food stamp working households with children receive this deduction. And, for those who do receive the deduction, the resulting increase in food stamp benefits only partially offsets the child care costs the families must incur in order to work. The approach used here in calculating food stamp benefits is the standard approach used in such sources as the *Green Book*.

² The additional amount of food stamps assumed to result from the Administration's budget proposals is likely to be overstated. We assumed that all of the proposed food stamp increase goes to raising basic food stamp benefit levels. Various other reforms that do not affect the basic benefit amount are, however, widely considered to be of higher priority.

These other reforms are included in widely supported food stamp legislation that has been before Congress since 1990, the Mickey Leland Childhood Hunger Prevention Act. For example, one such reform would raise the limit on the value of a car that a food stamp household may own. This limit has not been adjusted in 16 years and has eroded badly due to inflation during this period. It was criticized by a task force established by President Reagan and Edwin Meese in 1983 for being out-of-date and unnecessarily barring entry to the program by working poor households that need cars to get to work. Funds used to address problems such as this in the food stamp program would not be available to raise basic benefit levels.

Consider a family of four (a two-parent family with two children) that has full-time minimum wage earnings. Between the EIC and food stamp increases, the family would gain a maximum of about \$770 from the Administration's proposal. (The family's EIC would rise \$400, while its food stamps would increase a maximum of \$470 if it got food stamps; meanwhile, its energy taxes would cost approximately \$100.) The family would, however, remain well below the poverty line.

- As Table II indicates, the income of a two-parent family of four with a full-time minimum wage worker would still fall nearly \$1,000 below the poverty line even if the family received food stamps.
- If anything, this calculation overstates how close such a family is to the poverty line. The calculation counts food stamps and also assumes the maximum increase in food stamp benefits that the Administration's budget could produce. In addition, the calculation assumes that full-time work means 40 hours a week for 52 weeks a year. Analysts often use 40 hours of work for 50 weeks a year. Even with these assumptions, the family misses the poverty line by close to \$1,000.

Table II

How the Income of Two-parent Families with Full-time Minimum Wage Earnings Compares to the Poverty Line (in 1994 dollars)

(Amount by which minimum wage earnings exceed or fall below the poverty line. Minimum wage earnings equal full-time year-round work at the minimum wage. EIC benefits are added in; payroll taxes are subtracted. Energy taxes are also subtracted.)

Family Size	Three	Four	Five
Current Law			
With food stamps	\$453	\$-1,752	— \$-3,670
Without food stamps	-1,832	-5,009	-7,767
Administration Proposal			
With food stamps	723	-980	-2,838
Without food stamps	-1,932	-4,707	-7,465

Example: Under current law, the income of a family of three (a married-couple family with one child) that has full-time minimum wage earnings and receives food stamps would exceed the poverty line by \$453. If the family does not receive food stamps, its income would fall \$1,832 below the poverty line.

- If the family did *not* receive food stamps, it would fall \$4,700 below the poverty line.

Families of three with full-time minimum wage workers would be lifted out of poverty so long as the families received food stamps. But these families are already lifted out of poverty under current law if they receive food stamps.³

Families of five or more with a full-time minimum wage worker would fall quite far below the poverty line, even if they received food stamps. A family of five with three children that has full-time minimum wage earnings — and that receives food stamps — would fall \$2,800 below the poverty line under the Administration's proposal. This large shortfall reflects, in part, the absence of a "third tier" of EIC benefits for families with three or more children. The establishment of a third EIC tier was recommended unanimously by the bipartisan National Commission on Children, on which President Clinton served. It has been endorsed by a number of analysts designing strategies to bring full-time working families to the poverty line.

The Treasury Department's Calculations

The Treasury Department made some calculations which appear to indicate that under the Administration's proposal, families of four with a full-time minimum wage worker would be lifted from poverty. Unfortunately, the Treasury calculations are flawed. They neglect to subtract payroll taxes. They also overstate the food stamp benefits the average minimum wage family receives. Both errors serve to inflate the income of families working full-time at the minimum wage.

Ignoring the payroll tax

Contrary to conventional practice, Treasury did *not* subtract payroll taxes in determining family income. Yet working poor families automatically have payroll taxes deducted from income.

The failure to subtract payroll taxes is inconsistent with the rest of the Treasury calculations. Treasury did not use a before-tax income measure; it added in the earned income tax credit, thus making its measure an after-tax income measure. Moreover, one of the basic purposes of the EIC since its inception has been to *offset payroll taxes*. One cannot add in EIC benefits and fail to subtract the payroll taxes the EIC offsets. To include these tax benefits but not subtract the tax costs is not valid

³ If a family of three with a full-time minimum wage worker does not receive food stamps, the family would fall \$1,900 below the poverty line under the Administration's proposal. (This assumes the family has two parents and one child.)

and is unprecedented in work in this field. (Indeed, the Administration's proposal itself recognizes the longstanding link between the EIC and the payroll tax. It establishes the new EIC credit rate for childless workers at 7.65 percent, exactly the rate these workers contribute in payroll taxes.)

Furthermore, Treasury counted food stamp benefits when calculating family income, making clear it was measuring *disposable* income. One cannot count EIC benefits and food stamps as part of disposable income and then fail to subtract payroll taxes, which are withheld from paychecks and are always subtracted in determining disposable income.

Treasury's calculations departed from all of the methods the Census Bureau employs in measuring poverty. In its official measure, the Census Bureau does not subtract payroll taxes, but neither does it count EIC or food stamp benefits. In some alternative measures of poverty, the Census Bureau counts EIC benefits, but only after subtracting payroll taxes.

Of all the analyses done in recent years on "making work pay" and raising working families to the poverty line, none counts EIC and food stamps benefits while failing to subtract payroll taxes. The failure to subtract payroll taxes led Treasury to overstate the disposable income of full-time minimum wage workers by \$650.

Overstating food stamp benefits

The Treasury calculations also significantly overstate food stamp benefits. In the food stamp program, one factor that helps determine the level of benefits a household receives is the ratio of its housing costs to its income. Households receive a deduction from income for the amount by which their housing costs exceed half their income. The greater the deduction, the larger the household's food stamp benefit.

The standard method for determining the food stamp benefits of working poor families is to assume that these families receive a shelter deduction equal to the average deduction received by food stamp families that work. This is the practice followed in calculating the figures we have prepared, which are cited on pages 6 and 7. It is not, however, the practice Treasury used. Instead, Treasury constructed "hypothetical" food stamp families that had much larger-than-average food stamp shelter deductions. This improperly inflated, perhaps by several hundred dollars, the food stamp benefits that Treasury assigned to full-time minimum wage families.

Also, Treasury assumed its hypothetical families received a food stamp child care deduction, which apparently boosted by several hundred dollars more the food stamp benefits that Treasury estimated these households would receive. This is not

valid for two reasons. First, U.S. Department of Agriculture data show that five of every six food stamp working families with children *get no child care deduction*. As a result, most analyses of the food stamp benefits these families receive do not assume use of a child care deduction. Second, for families that do receive this deduction, the deduction simply equals the out-of-pocket child care costs the families incur. As noted, Treasury used a disposable income measure by counting food stamp and EIC benefits. If Treasury wished to count as disposable income the additional food stamp benefits these families would receive from a child care deduction, it should have netted out the child care costs these families incurred. Treasury did not do so.⁴

Treasury's method of computing the child care deduction also was flawed. USDA data show that the average amount of the child care deduction received by food stamp working families with children is quite low. It is low because, as noted, most such working families do not receive this deduction. Had Treasury used the average deduction amount for working families with children, it would have found that counting the deduction raised the food stamp benefits of these families just \$79 a year (and this is without netting out the child care costs these families incur; were that done, there would be no net increase in income at all). Unfortunately, Treasury constructed hypothetical food stamp working families with relatively high child care costs and food stamp child care deductions, while failing to subtract out the child care costs such families would pay. The result was an artificial increase of several hundred dollars more in food stamp benefits.

In short, Treasury's food stamp calculations need revision. As noted, only one-third of eligible low-income working households get food stamps in the first place, a factor that should lead to caution in such calculations. But Treasury inflated food stamp benefits by giving its hypothetical families a child care deduction that only one-sixth of food stamp working families with children get and an above-average shelter deduction. The food stamp benefit levels that Treasury produced probably apply to fewer than five percent of minimum wage families with children. (In preparing these calculations, Treasury thought that food stamp participation rates among working families with children were much higher than they actually are because Treasury focused on the participation rate for *all* families with children, which is high. But the overall rate for families with children is high because the food

⁴ Moreover, since each additional dollar of deductions increases food stamp benefits by only 30 cents, a proper accounting of the effect of child care expenses and the food stamp child care deduction would result in a *drop* in disposable income, not an increase in income as shown by Treasury.

stamp participation rate among AFDC families is close to 100 percent. Most AFDC families do not work.)⁵

It should be noted that in preparing our estimate of the effects of the Administration's proposals on full-time working families, we revised Treasury's income calculations upward where justifiable as well as downward where necessary. Treasury assumed that full-time year-round work consists of 2,000 hours of employment — 40 hours a week for 50 weeks a year. We assumed it consists of 2,080 hours of work — 40 hours a week for 52 weeks a year. By counting 80 hours more of work, we assumed \$232 more in income than Treasury did.⁶

IV. WHY TREASURY DESIGNED THE EIC EXPANSION IN THIS FASHION

Treasury did not set out to design the EIC expansion in an unusual fashion. Treasury's paramount goal was to ensure that the distribution tables on the Administration's tax proposals showed no aggregate increase in tax liabilities in the \$0 to \$10,000, \$10,000 to \$20,000, and \$20,000 to \$30,000 income categories. Other considerations were subordinated to this goal.

To achieve the goal, Treasury needed to pour a lot of money into the \$20,000 to \$30,000 bracket. Hence, the EIC income limits were raised to \$28,500 for families with one child and \$30,000 for families with two or more children. Treasury apparently also needed to pour a lot of money into the \$0 to \$10,000 bracket, which evidently led it to pump up the food stamp and energy assistance increases (and to extend the EIC to childless workers with incomes under \$9,000).

Part of the problem stems from the distribution tables themselves. The tables that Treasury used place all households into an income category regardless of the number of people in the household. An elderly individual at \$9,500 and a family of four at \$9,500 are placed in the same category. Meanwhile, a family of four with income of \$11,000 is placed in a higher income category than the elderly individual

⁵ We do not know if Treasury factored in the effects of the energy tax. If it did not, it should do so. The energy tax reduces disposable income. (The energy tax also raises the poverty line since, as the Administration's budget book shows, the tax leads to modestly higher inflation. The poverty line is raised in accordance with inflation each year.) If Treasury did not make an adjustment to reflect the energy tax, its calculations would overstate the incomes of working poor families by another \$100 or so.

⁶ An additional 80 hours of work at \$4.25 an hour, the value of the minimum wage, yields earnings of \$340. After payroll taxes on these additional earnings are subtracted and the decline in the value of food stamps is considered (for each additional dollar of earnings, food stamp benefits fall by 24 cents), the net effect on income is \$232.

with the \$9,500 income. Yet the family of four with an \$11,000 income would be well below the poverty line, while the elderly individual at \$9,500 would be well above it. Treasury used distribution tables that lack any family size adjustment primarily because such tables are the simplest to present and explain.

Had distribution tables been used that took family size into account, the results would likely have been different.⁷ Such tables probably would not have led to the peculiar policy design that marks the offsets in the Administration's package. Distribution tables on the Administration's plan that do take family size into account are likely to be prepared soon on Capitol Hill.

V. HOW TO ADDRESS THIS PROBLEM

The plan's failure to get families to the poverty line should be fixed now; if not resolved at this time, the problem will be very difficult to resolve in the future. Because the Clinton proposal raises the EIC income limits to \$30,000 and makes millions of middle-class families eligible for the credit, it makes the EIC much more costly than it has ever been before. Any further EIC expansions in future years could prove prohibitively expensive because so many families would be affected.

Accordingly, for the foreseeable future, *we are likely to be locked into whatever new EIC structure passes this year*. This means that if the problems described here are not remedied, many families with full-time workers are likely to be kept below the poverty line indefinitely, unless the Administration is willing to raise the minimum wage significantly more than it has indicated. A golden opportunity to "make work pay" will have been lost despite an EIC expansion of over \$6 billion a year. And ironically, the very President who strongly desires to bring full-time working families to the poverty line will have made it harder to achieve this goal in the future.

Fortunately, these problems can be addressed now. Treasury's EIC expansion can be modified — and enlarged — for families whose incomes are close to what full-time work at the minimum wage pays. (As noted earlier, these are the families that get only modest EIC increases — or no increase at all — under the Treasury design.) Such a modification in the EIC proposal would be highly targeted, affecting only working families with children that have incomes between \$6,000 and \$12,500. The added EIC costs could be covered by scaling back the very generous food stamp expansions in the budget (and, if necessary, modestly reducing the energy assistance increase).

⁷ This can be done, for example, either by dividing households into income fifths, using income adjusted for family size, or by dividing households into those with incomes below the poverty line, those with incomes between one and two times the poverty line, and so forth.

Under current law, families with one child will receive an EIC benefit in 1994 that equals 23 percent of their first \$8,000 in earnings. Families with two or more children will receive a benefit equal to 25 percent of their first \$8,000 in earnings. The Clinton budget raises the 23 percent and 25 percent "credit rates" to 30.6 percent and 40 percent, respectively, but it applies these EIC credit rates only to the first \$6,000 in earnings rather than the first \$8,000. This drop from \$8,000 to \$6,000 is the reason the plan provides no increase in EIC benefits for minimum wage families with one child and leaves minimum wage families of four people well below the poverty line.

The main goal, therefore, is to apply the 40 percent credit rate for families with two or more children to the first \$8,000 in earnings, or at least to get as close to \$8,000 as possible. (By beginning to phase out EIC benefits for families with two or more children at an income level equal to or slightly above \$8,000, it could be assured that families with incomes above \$12,500 receive no greater EIC increase — or only a slightly greater increase — than the Clinton budget now envisions; see the box on next page for more details.)

Raising EIC benefits for families with two or more children in the \$6,000 to \$12,500 income range should be the highest priority. If funds permit, a modest EIC increase for families with one child — so they can be assured of getting an energy tax offset — would also be desirable. If families with one child received an EIC equal to 30.6 percent of the first \$7,000 instead of the first \$6,000 — and the EIC for these families began to phase down once income passed about \$9,900, full-time minimum wage families with one child would get an EIC increase about equal to that provided to childless workers. Alternatively, if the EIC for such families is phased in at a 30.6 percent rate for the first \$6,350, that should be sufficient to offset the energy taxes of most such families. But if no such action is taken, no energy tax offset would be provided to many working poor families with one child that do not get welfare-type benefits like food stamps and energy assistance.

An EIC improvement for families with one child is, however, far less crucial than an EIC modification for families with two or more children. Families of four or more people (which would have two or more children) are the families left well below the poverty line under the Clinton budget.

Even the changes proposed here will not get families of four with a full-time minimum wage worker all the way to the poverty line. To close the remaining gap, some improvement in the minimum wage will be necessary. But the changes proposed here would make it possible, with modest minimum wage improvements, to get families to the poverty line if they also receive food stamps.

DESIGNING THE REMEDY

There is no one single EIC design to remedy the problem outlined here. The exact changes in the EIC would depend upon several considerations.

For example, under the EIC plan reflected in the budget, EIC benefits for families with two or more children begin to phase down at a 13.8 percent rate once income passes \$12,570. If it is deemed necessary to have a 13.8 percent phase-out rate apply throughout the income range over which EIC benefits are being reduced as income rises, then families with two or more children could receive a benefit equal to 40 percent of the first \$7,700 in earnings, with the benefit beginning to be phased out once income passed the \$7,700 level. The result would be an additional EIC increase of more than \$500 for full-time minimum wage families with two or more children.

An alternative would be for the EIC to equal 40 percent of the first \$8,000 in earnings and for the credit to begin to phase down once earnings surpass the full-time minimum wage earnings level of \$8,840. This would increase EIC benefits an additional \$800 for full-time minimum wage families with two or more children. To avoid further increases in EIC benefits for those with incomes above \$12,570, EIC benefits would need to phase down at about a 21 percent rate in the income range from \$8,840 to \$12,570.

Another possibility would be to make the EIC benefit for families with two or more children equal 40 percent of the first \$8,000 in earnings, begin to phase it down at about a 16.3 percent once earnings pass the minimum wage point, and phase it out at \$28,500 rather than \$30,000. (This would provide slightly higher EIC benefits than the Administration's plan for families with two or more children and incomes between about \$12,500 and \$22,000, and slightly lower benefits than the Administration's plan for those in the \$22,000 to \$30,000 range.) A variant of this approach would have the benefit equal 40 percent of the first \$7,500 in earnings and begin to phase it down at a 15.3 percent rate once earnings passed the minimum wage point. Here, too, benefits would phase out at \$28,500.

Still another alternative would be to have the EIC for families with two or more children equal 40 percent of the first \$8,000 in earnings, phase down at about a 20 percent rate between \$10,000 and \$20,000, and phase out at a 12 percent rate between \$20,000 and \$30,000. (One reason not to begin phasing down benefits below \$10,000 is to reduce the number of families for which the EIC and other means-tested benefits phase down at the same time.)

For families with one child, the EIC could — but only if resources permitted — equal 30.6 percent of the first \$7,000 in earnings and begin to phase down when income passed \$9,900. If a smaller add-on is desired here, the EIC for families with one child could equal 30.6 percent of about the first \$6,350 in earnings and begin to phase down when income passed about \$11,650. This would appear to be the minimum needed to offset the energy tax increase. Under both of these alternatives, the EIC for families with one child would phase out smoothly at the rate reflected in the Treasury plan until the Treasury's proposed \$28,500 income limit is reached.

VI. POLITICAL CONSIDERATIONS

Political considerations, as well as policy concerns, support addressing this matter now within the Administration. As noted, food stamp increases of the magnitude reflected in the Administration's budget almost surely cannot pass. This is a point already being made by key Congressional staff both on and off the Agriculture Committee. They make a point most observers of the Agriculture Committee would agree with — the Committee is extremely unlikely to vote several billion dollars a year in politically painful farm program cuts and then add a \$3 billion a year increase in food stamp benefits.

In short, part of the food stamp increase will prove illusory, especially the part that goes *beyond* the Leland bill, itself the largest food stamp benefit increase that food stamp supporters have sought in 15 years.⁸ Some of the funds the Administration has included for a food stamp increase are likely to be used instead by Congress to avoid making certain cuts the Administration has proposed.

This outcome can be avoided by shifting a portion of the food stamp funds to the EIC (and, if necessary, a small portion of the energy assistance funds, some of which are otherwise likely to disappear in the Appropriations Committees). Such a shift should be proposed now by the Administration. It will be difficult for Congress to make this change on its own, since that would require the Budget Committees to take money the Administration's budget envisioned providing to one Congressional Committee and to shift it to another Committee.

A budget modification of this nature by the Administration would not be that unusual. In the weeks after Ronald Reagan submitted his budget highlights in February 1981, he, too, made modifications in some of the details of his budget.

Such a move by the Clinton Administration should play well politically on Capitol Hill. It would enable the Administration to make substantial progress towards meeting the President's goal of moving full-time working families out of poverty while mitigating a criticism that the Administration had loaded in lots of welfare benefit increases alongside its tax hikes and program cuts. To be sure, sizable food stamp increases would remain (as they should), but these could be said to represent the Leland Act, for which a solid base of bipartisan support has developed in recent years.

February 23, 1993

⁸ Various versions of the Leland Act have been introduced. According to CBO, the more expansive versions would ultimately add \$1.5 billion to \$2 billion a year in cost. In the past, the more expansive versions have been said to cost \$5 billion to \$6 billion over five years.

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Clinton Seeks Reversal Of Land-Use Practices

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in mining claims.

Still, critics concede that the proposed changes, some of which have been sought before by Republican Administrations but never as a single, sweeping package, stand a good chance of passing this time around under the banner of deficit reduction.

The Administration says the proposals can bring in \$1 billion over five years. While the figure is minuscule compared with the overall Federal deficit of nearly \$300 billion, the mere act of trying to charge fair-market prices for cutting trees, grazing or mining in marginal areas is likely to have a lasting effect on how the land is used. The Government manages more than half the land in many big states in the West.

"I see us as the department of the environment," Mr. Babbitt said in a speech in Phoenix that earned him a standing ovation before a room of Federal employees. "We are about the perpetual American love affair with the land and the parks."

Reflecting the new approach, President Clinton nominated two environmentalists today for top Administration posts: George Frampton, president of the Wilderness Society, as Assistant Secretary in charge of national parks and fish and wildlife; Jim Baca, New Mexico's land commissioner and a former board member of the Wilderness Society, as head of the Bureau of Land Management, the nation's largest land manager. Both appointments are

subject to Senate confirmation.

In talking up the new approach, Mr. Babbitt was well received by park rangers, biologists and other land managers who say they have suffered through years of political pressure to favor industrial uses of the land.

"Most of us are ecstatic," said Jim Walters, a veteran National Park Service employee based in New Mexico. "We all look forward to a new day. It's like a dark period is over."

But the intended changes are generating a strong reaction from groups that have banded together calling themselves the "Wise Use" movement, many of whom view their grazing, mining and timber-cutting permits as property rights protected by the Constitution.

"If Babbitt tries to go through with this, what you'll see happen is some resource-dependent communities turn into ghost towns," said Chuck Cushman of Battleground, Wash., who is a leader of the groups that have been fighting environmental restrictions on public land.

Representative George Miller, Democrat of California who is chairman of the House committee that has jurisdiction over most Western land issues, predicts approval for the changes. Congress may even raise the fees more than the Administration's proposal, he said.

Most Westerners, he said, support the changes. Western states that have traditionally voted Republican, Colorado, Nevada, Montana and New Mexico among them, voted for Mr. Clinton last year.

"Reagan and Bush were just holding back the future," Mr. Miller said. "They were the last gasp of an outdated philosophy."

Senator Conrad Burns, Republican of Montana, said Mr. Clinton's plan, along with the proposal to tax energy, "is going to put Montana in a depression."

"The West is under siege right now,"

he said. "We've got no other way to make a living than the areas Clinton wants to tax and raise fees on. We'll be left selling 20-acre ranchettes to fancy-pants Easterners."

Most of the changes proposed by the Clinton Administration will need legislative approval, but Mr. Babbitt said he could take some action, like raising grazing fees, without Congressional

consent.

"The question is not whether there should be an increase," he said of grazing, an issue that Congress has fought over but never resolved. "The question is how much."

About 28,000 ranchers graze livestock on 280 million acres of public land, run by the Forest Service and the Bureau of Land Management. They are charged \$1.92 to graze one cow and her calf for a month, a rate that the Government has said is one-fifth of the market rate for Western states.

Some ranchers who hold permits are actually corporations like the Metropolitan Life Company that run cattle over millions of acres of public land. But most are small operations of less than 500 cattle. The Government lost about \$50 million in administering the grazing program in 1990, according to the most recent report.

"I wouldn't complain if they raise it 50 cents or a dollar more, but if it goes much higher than that, a lot of people will be run off the land," said Arthur Lyman, a fifth-generation rancher who runs cattle on about 200,000 acres in Utah. "This is rough country. It's not easy to graze on. Not like private land. As far as I'm concerned, we already pay dearly for it."

Fees for Mineral Rights

In mining, President Clinton wants to begin charging royalties for hard-rock minerals removed from Federal land. More than a million people hold mining claims on public land, most of them bought for prices set by the Ulysses S. Grant Administration in 1872. Critics have long considered mining one of the big areas of abuse of Western

lands. But supporters say it one of the last opportunities left in the country for a "little guy" to make it big with a mining strike.

On numerous attempts, Congress has failed to change the law under which any person can establish a mining claim to Federal land for \$250 an acre. The practice has been abused by people who have no interest in mining, but instead wanted to obtain a right to Federal property at a rock bottom price for other commercial uses, critics have said.

Charging a royalty will ultimately hurt the small mining industry, Mr. Cushman said. "You'll kill the goose that lays the golden egg because most prospecting is done by the little guy," he said. "Now he won't have any incentive."

Mr. Miller said some of the biggest users of public land were wealthy individuals who used the "cover of the little guy" to keep the Government from raising fees to a market level. "They trot out the argument of hurting the small rancher or small miner to scare politicians," he said. The Government can exempt the small users from the fee increase, he added.

Timber sales in which the Government spends more money building roads and surveying land before any logging is done than it takes in from the sales have been a continual source of criticism. In 1991, timber programs in 69 of the 120 national forests were losing money. The Forest Service, which is run by the Agriculture Department, has announced a plan to end these so-called below-cost sales as part of the President's package.

A Clinton Administration proposal would raise the fee that ranchers pay to graze livestock on 280 million acres of public range. Cattle grazed yesterday on a section of Bureau of Land Management land near Albuquerque, N.M., under the current fee: \$1.92 a month for a cow and her calf.

To VP

Clinton's Gambit: Trash Incentives To Boost Economy

By ROBERT L. BARTLEY

In merely a month in office, the Clinton administration has run the dollar to a record low against the yen, punctured consumer confidence and taken the bloom off the stock market, especially trashing entrepreneurial, high-tech, cutting-edge issues. The bond market has rallied, of course, since the optimum prescription for falling interest rates is precisely the Greenspan-Clinton policy mix of tight money constraining inflation and high taxes aborting recovery.

The financial markets, that is, are homing in on the real issue raised by Mr. Clinton's economic proposals. To those of us who acutely remember the malaise of the 1970s and the cure of the 1980s, the question is not closing the deficit with the right mix of taxing and spending. The question is whether the Clinton plan will, as advertised, "grow the economy." Two decades of experience and initial market reaction both suggest that the Clinton proposals will not boost the economy but cripple it.

The Clinton brain trust offers essentially two arguments about why the economy will benefit from its mishmash of higher taxes and "redirected" spending programs. The first is straight industrial planning: The masterminds in this government can outguess the economy about how money can most usefully be spent. So more money for highways, Head Start programs and tree planting will translate into faster growth in gross domestic product. Industrial planning is usually offered *sotto voce*, since around the world governments that have tried it are abandoning it.

The second argument is that closing the deficit will lower interest rates, thus boosting private investment. If, say, you raise the corporate tax rate by 10%, the government will collect more in taxes. So it will borrow less in the credit markets, making it easier for corporations to borrow back the money you just took away from them in taxes. Naturally they will invest more; get it? Potential homeowners will also borrow at lower interest rates because they pay a higher energy tax, and so on. And this will grow the economy.

In the early reaction to the Clinton speeches, these assertions have been pretty much accepted at face value. Explicitly or implicitly, pollsters have asked, "Would you pay higher taxes to make the economy grow faster?" Of course, respondents have answered. They're not offered a check box saying, "The premise of this question is bonkers."

* * *

Early criticism has focused on a different issue: The lack of any serious spending restraint to accompany the big tax increases. This is certainly a valid point and a useful exercise, if only to display the disingenuousness with which the Clinton proposals are slathered. No blue smoke and mirrors, Budget Director Leon Panetta brags. Except that tax increases are counted as spending reductions, press briefing numbers don't add up, and savings are counted under unexplained headings such as "streamlining government" and "administrative efficiencies."

Federal spending has spun further and further out of control ever since 1974, when the current congressionally dominated budget act was passed. But after his election Mr. Clinton abandoned institutional reform such as the item veto. Instead, he proposes a batch of new spending to be legislated before supposed cuts are even considered. When he asks critics to be specific about cuts, they can start by specifying no new money for highways, Head Start and tree planting.

As valid as this riposte is, though, by itself it is a losing game, likely to lead to some "compromise" with even more fatal parts of the Clinton plan. It's certainly true that federal spending has to be paid for either in taxes or deficits, and that if it continues to grow faster than GDP it will eventually consume us all. But you'll never cut spending fast enough to make up for a shrinking GDP. The larger issue is, how do we speed economic growth?

* * *

We faced this issue at the end of the 1970s, a period of execrable economic performance called "stagflation." While Paul Volcker's tight money curbed inflation, Ronald Reagan's tax cuts pulled the hat trick of rekindling real growth. The tax program concentrated on incentives, on reducing the *marginal* rate of taxation, the amount the government takes out of the *next* dollar you earn. Over the Reagan years (and with help from Democrats including Lloyd Bentsen), the top marginal income tax rate was pared from 70% on income from investments and 50% on wages and salaries to as low as 28%.

True to his (postelection) rhetoric about repealing the last decade, Mr. Clinton would rip these incentives out of the economy. Given the complexities introduced first by the 1990 tax boosts and now the Clinton plan, the new top marginal rate is difficult to calculate. But reigning expert Steve Entin pegs it at more than 40%, plus an additional boost of 2.3% in Medicare taxes if your income is in salary. With the marginal rate up a third since the end of the Reagan years, disincentives are mounting and the economy is nervous.

For savings and investment, the incentives are even worse. If you save and build a retirement income, Mr. Clinton proposes to tax 85% of your Social Security benefits. Economically, this is not a tax on Social Security at all, but a surtax on the returns from your savings. And if you sell stock bought before inflation, you owe a capital gains tax on fictitious gains.

As for the dread deficit, with moderate spending restraint and good incentives, we can grow out of it. Between 1945 and 1973, we grew out of debt twice as large as today's in relation to the economy. But if we pretend to tax our way out of debt, the projected revenues will not materialize, spending will continue to grow and the economy will falter. On present course, Mr. Clinton may pull his own hat trick, crashing on both Scylla and Charybdis.

Mr. Bartley is editor of the Journal.

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Things are really hopping'

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The cumulative effect of lower rates could easily provide an economic stimulus that would give the economy a bigger push than the \$30 billion stimulus proposed by President Clinton.

Low mortgage rates already have bestowed windfalls on homeowners like Robert Imber, 40-year-old president of a Houston insurance company.

Last year, he traded in a 20-year fixed-rate mortgage at 12% interest for a 15-year, 7.5% fixed loan. His payments fell from \$1,100 to \$700 a month. The extra cash helped send his three children to private school. If rates fall to 6%, he says, he'll refinance again and save enough to add a room to his house.

When rates plunged again Tuesday, Clinton joined the applause. "As interest rates fall, more people will be able to save money on business loans, home loans, car loans, credit card transactions," he said. "All these things will free up cash to get the economy moving again."

Rates are falling because bond traders, a conservative group who normally would oppose a Democratic president, are giddy over Clinton's bold plan to shrink the federal deficit. And they figure the plan's tax increases and spending cuts will crimp economic growth and keep inflation under control.

But lower interest rates are unleashing powerful forces that should propel the economy through spring. Refinancings and downward adjustments on adjustable-rate mortgages saved homeowners \$13 billion to \$16 billion last year, the Mortgage Bankers Association estimates. And falling rates could put another \$13 billion to \$16 billion in homeowner pockets this year.

Refinancing might not appear to have much effect on the economy. After all, every \$1 in interest a homeowner doesn't pay is \$1 someone else doesn't get. So it might look like a wash. Not so, says David Wyss, economist at DRI/McGraw Hill.

Refinancing basically takes money out of the hands of wealthy investors who buy mortgages in the secondary market and puts it into the hands of middle-class homeowners. And that's good for growth, Wyss argues, because middle-class consumers are more likely than the rich to spend the money.

Not all homeowners rush out to spend the money they save. Alex Artigas, a 35-year-old aerospace engineer in Clear Lake, Texas, traded in his 30-year, fixed-rate mortgage at 10% for a 15-year, fixed-rate mortgage at 8%. His payments rose \$52 a month to \$860, but he's not complaining. "We wanted to build up more equity in the house and pay the loan off sooner."

In many places, low mortgage rates have combined with home prices that have fallen the past few years to make houses more affordable than they've been since mid-1974, according to the National Association of Realtors.

Combine that with signs the economy is improving, and the result is a recipe for a home-buying burst this spring.

The Realtors group expects sales of previously owned homes to hit 3.7 million this year, highest in 14 years.

"Things are really hopping and there's a real sense of urgency because (buyers) think rates will go up by summer," says Susan Sanford, a real estate agent in Bethesda, Md. "Who would have thought we'd be looking at 7% interest on 30-year mortgages and not enough houses to sell?"

"Clearly, consumer confidence is up, and that's what everybody's been looking for," says Allen Sabbag, president of Better Homes and Gardens Real Estate Service in Des Moines. "It's a great combination for the housing market."

As existing homes are snapped up, builders will put up new homes. Economists expect housing starts to pass 1.3 million this year, up 8% over last year's 1.2 million.

A stronger housing market translates into huge gains for the economy because of the many ripple effects.

Every home sale translates into \$5,000 in consumer spending, say economists at DRI/McGraw-Hill. Homeowners also spent \$47 billion last year on improvements and additions.

And sellers spend an average \$365 on minor repairs to ready a home for sale, according to the Realtors.

The benefits of refinancing aren't limited to homeowners. After borrowing heavily in the 1980s, many companies are taking advantage of low rates to refinance their debt.

Monday, Philadelphia Electric sold \$350 million in long-term debt at less than 8%, saving \$11 million a year in interest.

"I was damn pleased; in fact I'm walking on Cloud Nine," says Morton Rimmerman, PECO's treasurer. As part of the refinancing, "I opened bids for \$250 million in 10-year bonds at 6.53% — and I haven't seen that rate since the late '60s."

Investors were pleased, too. The stock jumped 1 1/4 to \$30 1/4, a 20-year high. What do PECO's customers get? "The savings will help us not raise rates," Rimmerman says.

Weyerhaeuser is saving millions each year by trading 8.9% debt for 7.5% debt. It will refinance more if rates keep falling.

What does Weyerhaeuser plan to spend its savings on? Refurbishing pulp and bleaching plants to meet new environmental standards. "What we're doing is pumping \$400 million into plants and the community by putting folks to work, and hopefully, in the future, keeping close to 1,000 jobs in those plants," says Lowell Moholt, Weyerhaeuser chief of investor relations.

How long will the low rates last? Many economists say it depends on the fate of Clinton's plan. If the plan gets through Congress largely unscathed, rates could fall further.

"If, on the other hand, Congress starts balking — and I suspect they may — yields could bounce up," says DRI/McGraw-Hill's Wyss. "It all depends on the politics."

Contributing: Desiree French, Janet Fix and Linda Busche



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Bob Rubin

USA TODAY
2/24/93

COVER STORY

A1

Interest rate drop pumps up economy

Refinancing leaves some 'walking on Cloud Nine'
► Bonds slip lower **1B**

By Paul Wiseman
USA TODAY

The Interest Rate Express roared down the tracks again Tuesday, pulling the economy behind it.

A benchmark interest rate — 30-year U.S. Treasury bonds — fell from 6.93% to 6.82%, just one day after dropping below 7% for the first time since 1973.

And the yield on 10-year Treasury notes, the rate home mortgages are pegged to, broke the 6% barrier for the first time since 1972, falling to 5.90% from 6.08% Monday.

The interest-rate free fall will put tens of billions of dollars in homeowners' pockets this year, let corporations lighten the debt load they took on in the 1980s and, most likely, trigger a spring home buying boom.

Please see COVER STORY next page ►



By Bill Baptist

HOMEOWNER: Robert Imber checks out mortgage rates.

How much could you save

Monthly principal and interest payment for a 30-year, fixed-rate mortgage at 7 1/2%, and how much you would save from these higher rates:

Principal	Payment at 7 1/2%	Monthly savings from rate of:		
		11%	10%	9%
\$50,000	\$350	\$127	\$90	\$53
\$100,000	\$700	\$253	\$178	\$105
\$150,000	\$1,050	\$380	\$268	\$158
\$200,000	\$1,400	\$506	\$357	\$211
\$300,000	\$2,100	\$759	\$535	\$316

Source: USA TODAY research

By Nick Galilanas, USA TODAY

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Need to go
with press - calculate
the amount of savings
avg savings at given
interest rates
tax increases

Proposed Legislation Would Give EPA Broad New Powers

* * *

Administration Hasn't Given
Endorsement of the Veto
Over Other Agencies' Rules

By TIMOTHY NOAH

Staff Reporter of THE WALL STREET JOURNAL

WASHINGTON — The White House is circulating proposed legislation that would vastly expand the powers of the Environmental Protection Agency, including a provision to effectively give the EPA administrator veto power over laws and regulations by other cabinet agencies.

The proposal, which originated in talks between the newly created White House Office on Environmental Policy and members of Congress, was yesterday circulated by the White House budget office for comment as a "discussion draft" among cabinet agencies. The bill hasn't been endorsed by the Clinton administration.

If enacted, the proposed legislation could conceivably make the EPA as powerful as the recently deceased White House Council on Competitiveness, which during the Bush administration frequently blocked cabinet actions deemed too unfavorable to business. In this case, however, it would be not businesses but environmentalists who would acquire the means to appeal administration actions.

The draft bill may be yet another indication that Vice President Albert Gore will have a strong hand in setting environmental policy. Although Mr. Gore wasn't directly involved in discussions to draft the proposed language, he is following the matter with interest, according to an administration source. Kathleen McGinty, who heads the White House environment office and has participated in the talks, is a former Senate staff aide to Mr. Gore.

Under the bill, the EPA administrator would be given power to review legislation, regulations, and newly authorized federal construction projects proposed by any federal department or agency. If any were found by the administrator to be "unsatisfactory from the standpoint of public health or welfare or environmental quality," the EPA could immediately and unilaterally block the action.

According to the proposed legislation, the EPA administrator's veto could be overridden only by the president, who would have up to 45 days to do so by written order. The law would further require that the president's order to override be submitted to the Senate committee on Environment and Public Works and the House Committee on Merchant Marine and Fisheries.

The strong wording of the draft legislation took even some EPA officials aback. "I'm surprised that I haven't been able to hear the screams coming from other agencies," said one EPA employee.

Marla Romash, a spokeswoman for Mr. Gore and the new White House environmental office, said "it's too early" to say whether the administration would favor or oppose the language in the bill. "We are seeking input from the agencies," she said. "We want their views on it."

The principal purpose of the bill would

be to transfer to the EPA statutory powers that previously resided with the Council on Environmental Quality, which President Clinton has said he intends to eliminate. Among the council's current functions is to require other cabinet agencies to perform environmental-impact studies before they undertake actions potentially damaging to the environment.

But the council doesn't have the power to block actions by other agencies, as the EPA would have under the draft legislation. Under current law, the EPA may review environmental-impact statements issued by other agencies and refer any it deems unacceptable to the Council on Environmental Quality. The council may then issue a request that the president intervene in the matter. But the president is free to ignore the request. Says the EPA employee: "We've never had the ability to hold up other agency action, pending an appeal."

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THE WASHINGTON POST

Bush

Is this the
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David S. Broder

Beware the 'Trust' Deficit

President Clinton's economic plan is addressed, he says, not to one deficit but to three: the budget deficit, the investment deficit and the social deficit.

Americans, he says, must shut down the drain of red-ink budgets that have virtually quadrupled the national debt in the past dozen years. At the same time, we must increase the investments that promise productivity growth and future prosperity. And there are, he says, unmet needs for AIDS research, public housing rehabilitation, preschool education and a score of other things that cannot wait.

Clinton is right to say all three deficits must be faced. But he is wrong—dangerously wrong—to do so in a way that worsens a fourth deficit: people's trust in their leaders.

The new president is being rightly praised for putting all these issues on the table in a comprehensive and coherent fashion. But if his diagnosis of the nation's needs is accurate, his prescription falls far short of a remedy. His plan just doesn't achieve its advertised goals. And it will avail Clinton little to push his economic program to passage if voters decide afterward that they have been misled about what it will do.

Doubts about his reliability plagued Clinton all through the campaign year and caused him to wind up with the lowest share of the popular vote of any winner since Richard Nixon, in a similar three-way race, 24 years earlier.

Now people are discovering that Clinton really played fast and loose with the facts in last

"As administration officials have conceded, the higher tax bites actually begin at a figure closer to \$20,000 than to \$30,000."

year's campaign. When reporters challenged the assumptions and the internal mathematics of Clinton's campaign-season economic plan, "Putting People First," the Democratic nominee brushed off the questions. When Republicans said he was being deceptive, he issued indignant denials that ring hollow today.

Last Oct. 1, for example, when the Bush campaign ran ads based on the calculation that Clinton could finance his campaign promises only by raising taxes on every family earning more than \$36,600 a year, this is what the Democratic nominee said:

"It is blatantly false. . . . It is a disgrace to the American people that the president of the United States would make a claim that is so baseless, that is so without foundation, so shameless in its attempt to get votes under false pretenses."

Last week Clinton, unembarrassed, put forward a revised program requiring tax increases the administration says will affect most families making over \$30,000, one-sixth below the threshold George Bush had forecast. Clinton claims he has been forced to these steps by the unexpected \$346 billion size of the deficit he

inherited. But last July, he told Business Week the deficits would approach \$400 billion.

The more serious problem is that the new economic plan, "A Vision of Change for America," looks almost as jerry-built as the campaign document it replaced. The administration's \$30,000 threshold, for example, is not what most people understand as income, or even the Form 1040's familiar adjusted gross income line. It is a figure concocted to include all kinds of "non-cash income," including fringe benefits and even the imputed rental value of the family home. As administration officials have conceded, the higher tax bites actually begin at a figure closer to \$20,000 than to \$30,000.

These artifices were carefully concealed in Clinton's State of the Union address, helping him to gain a favorable first public reaction. Assiduous salesmanship on his part has so far sustained that image of evenhandedness.

But the more that is learned about the plan, the less solid it looks. As much as \$54 billion of claimed spending reductions are actually increases in taxes or fees. More important, major cost-cutting moves are of dubious value.

The plan calls for more than \$38 billion in

Medicare savings over the next four years, not through any reforms but simply by cutting government payments to hospitals and doctors. In the past, when Republican administrations have proposed such "savings," Democrats have objected, properly, that hospitals and doctors will be forced to shift those costs to private patients and to raise their rates to make up for the loss. The argument is still valid. In effect, Clinton is proposing an additional "tax" on anyone unlucky enough to enter a hospital as a non-Medicare patient in the next four years.

Leon Panetta, the conscientious former House Budget Committee chairman recruited by Clinton as director of the Office of Management and Budget, knows these games for what they are. That may explain why he looks so uncomfortable defending such artifices, as he was forced to do repeatedly after Clinton's speech. But the accounts of the plan's formulation suggest that Panetta lost some crucial inside battles when Clinton sided with political aides who wanted to sugarcoat the message, as Clinton did during the campaign.

That is bad politics as well as bad economics. Clinton is likely to get a budget-economic package passed this year. Passing one that just pretends to fix the deficit is no fix at all. It simply moves the day of reckoning closer to the next presidential election. George Bush is the living evidence of the danger of following that course.

The Washington Post

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The Washington Post

AN INDEPENDENT NEWSPAPER

Mr. Clinton's Spending Proposals

PRESIDENT CLINTON is criticized for having relied too heavily on tax increases and for not having come down hard enough on spending in the economic stimulus-deficit reduction plan that he outlined last week. It's true that the plan could stand some additional starch in this regard, but its weaknesses are not as great as the critics suggest. This is still a strong and in most respects courageous proposal that would move the country in most of the right directions; it offers the best chance of genuine economic recovery that the country has had in years. The program can be strengthened, but repair should not become the excuse for trashing it.

The problems are that:

(1) Some of the spending cuts the president has proposed are wispy at best. For the five years 1994-98, for example, he would save about \$8 billion by "streamlining government," while reducing spending a like amount through "other administrative savings" that are nowhere spelled out. All presidents propose to create a leaner government in undefined ways like these, but it never happens, or if it does, you can't tell.

(2) Mr. Clinton has taken on some formidable interest groups from which his predecessors fled; his proposal to subject a larger share of Social Security benefits to the income tax is the best example. You could wish that he had taken on a few more while he was at it. He proposed only minor savings in the veterans' affairs budget of \$35 billion a year; an eager budget-cutter could have found some more. Likewise, he could have killed the space station as unaffordable in present circumstances, though perhaps his proposal to restructure it will turn out to be much the same thing.

(3) Having done, even so, a decent enough job of coming up with a list of spending cuts, he then gave up too much gained ground by proposing to add back billions of the dollars in the names of

stimulus (a minor amount) and investment. Some of this is good spending, but the president did too much, and in the process he threatened his own initial accomplishment. It isn't clear to us that the economy needs a temporary \$9 billion investment tax credit to hasten its recovery, or that the additional \$10 billion the president has proposed over four years for job training can be well spent. The administration might also have found something better to do in a year of cuts than to propose expansion of the government's tree-planting programs.

The spending increases and tax cuts mainly under the rubric of investment come to \$170 billion over four years. The arguments in favor are that the causes are good, that the president is paying for the new programs he has proposed, that he is proposing in addition all the fiscal restraint that the economy can likely withstand in the next several years and that the "investment" side of the plan is necessary for political reasons—the price of the votes he will need to pass the rest.

But the early balking in Congress has been for the opposite reason. The objection, even among some Democrats, has been not that the president's program retrenches too much but that it does not retrench enough. The claim is that in the present climate, the increases he has proposed will be harder to vote for than the cuts. We'll see, of course.

Our own sense is that there's little danger that Congress will reduce the deficit more than the president has proposed; the likelihood is that it will do or try to do less. If it "saves" any money by reducing the extra spending that he has proposed, its tendency will be to plow that money right back into spending increases or into tax reductions of its own. That will be the great fight. But it does seem to us that total spending could be cut somewhat more than Mr. Clinton has proposed.

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The Washington Post

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Student Loan Proposal May Increase U.S. Debt, Report Warns Congress

By Mary Jordan
Washington Post Staff Writer

President Clinton's proposal to change the student loan program that is wasting billions of taxpayer dollars a year may end up sinking the nation further into debt, a study released to Congress yesterday warned.

The report turns up the flame under the debate in Congress over how to fix the current loan system, which is riddled with fraud and abuse and has been called the most mismanaged program in the federal government. It also comes amid a major lobbying campaign by powerful private lenders to keep their role in the profitable loan program.

The Clinton administration said last week that a new system could soon save the federal government more than \$1 billion a year. The president has said all college students should be able to borrow directly from the government, saving the costs charged by private banks and other middlemen involved in the current complex system.

But the Congressional Research Service (CRS) report, which contradicts previous federal studies, said the government may not be able to administer the program as efficiently as the private sector and it could be better to improve the existing system. Currently, students take out government-guaranteed loans from private banks. Clinton's proposal would set up the Education Department as the banker.

Virtually every inspector general report in recent memory has pointed to the current system's poor management, inefficiency and dereliction in loan collection. Taxpayers are paying \$3 billion a year for students who skip out on their student loans.

Sen. Paul Simon (D-Ill.), a key supporter of direct loans, emphasized that the CRS report "confirms that the student loan industry is taking excess profits."

The report suggests that instead of direct lending, the government could slash the "high profits" of the private lenders.

There has been rising outrage on Capitol Hill over the profit margins of lenders such as the Student Loan

*The Clinton
administration has
proposed making
the government a
direct lender of
school funds.*

Marketing Association, known as Sallie Mae. This private corporation chartered by Congress last year earned nearly \$400 million and a recent General Accounting Office (GAO) study disclosed that its president's annual compensation package was \$2.1 million.

Simon acknowledged that "special interests" may try to use part of the new report to argue for the status quo.

On Tuesday, the Consumer Bank Association plans a "Lobby Day" on Capitol Hill to fight against direct lending. Clinton's plan is seen as threatening the financial stability of some of the current system's players. Soon after the Clinton proposal was made, the highly successful Sallie Mae's stock prices plunged as some panicked investors dumped it.

Thomas A. Scully, an associate director of the Office of Management and Budget in the Bush administration, agreed that the current loan system is a mess. But attempting to straighten it out by making the government a banker, he said, "is a dumb idea."

"It flat out won't work," said

Scully, now working as an attorney for the Washington law and lobbying firm of Patton, Boggs & Blow. In the long run, direct lending may make money for the government, but for the next "18 to 20 years" they will be adding to between "\$10 and \$15 billion a year" to the federal deficit by issuing new loans.

He also said while "ratcheting down the margin of profit" makes sense, setting up a federal banking system when there is already a private one is "like building two sets of railroad tracks next to each other."

The CRS report, which was circulating among congressional offices yesterday, makes it clear that the program could be improved by shifting some financial risk to the private lenders.

Clinton estimated in his economic package released last week that as early as 1997 the phasing-in of direct lending would save the government \$1.3 billion a year. The president also is proposing to allow students to repay loans at a rate linked to their wages. This also is seen by some as saving money on defaults because more graduates and other former students could meet their payments.

Two recent GAO studies have agreed with Clinton's contention. One in 1991 estimated the savings from direct lending at over \$1 billion a year; last year, another predicted \$4.5 billion could be saved over five years.

But as the prospect nears that the Education Department, with a long history of poor management, will soon be squarely in charge of this financially risky program, concern is rising over whether government can do better than the private sector.

After much debate about the efficiency of government management, Congress last year approved a pilot direct-lending plan that would involve between 250 and 400 college campuses.

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The Washington Post

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To AGJ

These Qs are with some serious work - Has Gibbons a serious thought for them

Clinton's Technology Plan Would Redirect

By EDMUND L. ANDREWS

Special to The New York Times

WASHINGTON, Feb. 23 — President Clinton's newly introduced plan to bolster industrial technology involves almost no increase in total government spending on research, but it would redirect billions of dollars from military programs to projects involving private industry.

The plan gives a prominent new role to the Department of Commerce, and it could lead to big changes in the way the Defense and Energy Departments carry out their weapons-related research programs. Yet, as the Government takes a fresh look at its sprawling \$73 billion research establishment, it remains unclear how the White House hopes to coordinate the activities of dozens of agencies, how it plans to select which projects to finance and how it intends to evaluate the progress of the overall effort.

Synthetic Fuels Specter

All told, the plan opens up a potentially enormous pot of money for industrial research, but it could also turn into a political pork barrel of unprecedented size. Backers say the effort must strengthen the technological base of American companies battling foreign competitors but also avoid wasting money on projects that individual companies would have paid for anyway or on projects with no enduring public value.

Administration officials say everyone involved in the effort is mindful of the billion-dollar disasters of earlier technology extravaganzas like the failed synthetic fuels program under President Jimmy Carter. The Synthetic Fuels Corporation, the name of the Federal research effort to develop alternatives to petroleum, ultimately cost taxpayers billions of dollars but produced virtually no commercially useful technologies.

"The synfuels program haunts almost every discussion we have," remarked Henry Kelly, acting assistant director at the White House Office of Science and Technology Policy. "The good news is that a lot of the players were around then and know what went wrong."

An Emphasis on Risk-Sharing

The new plan would expand the civilian share of the pie from about 41 percent today to more than 50 percent by 1998. Meanwhile, it would require the Federal laboratories, much of whose work involves nuclear weapons research, to devote as much as one-fifth of the \$25 billion they spend each year to jointly funded projects with private industry. Today, that total is less than 5 percent.

The plan places renewed emphasis on an effort to develop a nationwide "information superhighway" to link computers and on work to produce a "clean automobile" that would be

powered by batteries or by fuels like hydrogen and methane.

Briefing reporters today, John Gibbons, director of the White House Office of Science and Technology policy, said the Administration had no intention of exercising the same kinds of power over business that Japan's Ministry of Trade and Industry wields over Japanese companies.

"The point is not to get on the back of business," Mr. Gibbons said. "The

The U.S. sets out to redesign its \$73 billion R. & D. apparatus.

point is to help some of them get off their backs."

To avoid creating a huge political pork barrel, White House officials said today that the new policy places heavy emphasis on sharing risks with industry and working with consortiums rather than individual companies.

The planners' vision is Sematech, the Texas-based consortium on computer chip-manufacturing technology that is financed half by industry and half by the Department of Defense. Organized

Redirect Billions From Military Research

to preserve a vital technology in the United States, Sematech is widely regarded as helping American chip makers increase their share of the global market.

Roles Remain Unclear

But in the new effort, it remains entirely unclear who is going to do what. The Federal Government operates more than 700 laboratories, controlled by dozens of agencies in the Pentagon, Department of Energy, Commerce Department and National Aeronautics and Space Administration. All of these agencies would play a role. The Government also spends billions of dollars on research at universities and at private corporations.

Among the principal players will be Vice President Al Gore, who has long championed the development of a nationwide information network, and Mr. Gibbons, the White House science adviser.

But the most important decision makers are likely to be those at individual departments. One central figure will be John A. Rollwagen, who is quitting as president of Cray Research Inc. to become Deputy Secretary of Commerce in charge of technology policy.

Until now, the Commerce Department has played an almost negligible role in technology development. President Clinton, however, has proposed dramatic increases in financing for the department's research arm, the Na-

The trick: making policy without opening a pork barrel.

tional Institute for Standards and Technology, from \$117 million a year today to a combined \$1.3 billion over the next four years.

Redefining Darpa

Another key player will be William Perry, who is to become Deputy Secretary of Defense. Mr. Perry, who served as a top Pentagon official in charge of research and engineering under President Carter, has long been a champion of directing more military research to areas of commercial significance.

Under the Clinton plan, the Defense Advanced Research Projects Agency will be kept at roughly its current budget of \$1.4 billion. But the agency will be given much greater freedom to support commercial research — a big change from the Bush Administration, which blocked efforts by Darpa to play a significant role in technologies like high definition television.

Finally, the Department of Energy's vast complex of laboratories, which have a combined budget of \$4.1 billion, will be given much greater freedom to

shift work from weapons research to commercial projects. But the White House has yet to name any of the key Energy Department officials who will oversee those activities.

First, a Committee

White House officials who briefed reporters today were unable to spell out how much money many of the agencies would receive or precisely what each one would be expected to do. Indeed, the "clean car" program would initially consist of setting up a task force that would explore ways to link Federal and private research efforts.

Over all, the Government would play a supporting role rather than taking center stage in technology development. The biggest single effort outlined thus far is the \$2 billion plan to build a nationwide communications "superhighway," a program that was championed by Vice President Gore while he was in the Senate and which Congress has already funded in large measure.

As the project is outlined, however, the Administration would spend money primarily on developing advanced supercomputers and software that would link them over a high-speed fiber optic network, and on demonstration projects at hospitals, schools and libraries. For the most part, the actual construction of a network that is widely available to the public would be left to private companies.

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Let's Work With Clinton's Plan

By Herbert Stein

WASHINGTON

Bill Clinton's economic program is probably the most far-reaching effort ever made by a President to control the Federal budget deficit. In light of the challenge and opportunity facing him and the country, it is disappointing.

Still, the plan is the only place we have to start, and it needs support. For those seriously concerned about the deficit, the responsibility now is not to defeat the plan but to try to strengthen and improve it. Here are some suggestions and observations.

- The deficit reduction proposed is much too small. Even by the Administration's own estimate the plan would leave a large deficit in 1997 and, more important, it would rise thereafter. The budget target for 1997 is arbitrary. It provides no basis on which to resist the inevitable temptations to try to scale back the deficit reductions.

The President's program would have been more defensible if its goal had been to reduce the deficit to zero, even if this had to be accomplished over a period of six or eight years.

- The program does not take advantage of reasonable options for substantially reducing the deficit. These include cutting the Federal subsidy for Medicare, limiting or eliminating the exclusion of fringe benefits from taxable income and cutting spending more sharply for the space station, supercollider and farm price supports.

The energy tax, chosen as the broad-based levy that most people would pay, could have been imposed at a higher rate without a severe burden on anyone.

- The proposed rate increase in the corporate profits tax, from 34 to 36 percent, only worsens the current "double taxation" inequity and would be an obstacle to the growth of investment that is one of the program's main goals. Profits are already taxed at the corporate level and at the individual level, in the form of dividends or capital gains.

- Applying a proposed tax to the use of energy by businesses would deter investment, because production that uses much capital also tends to use much energy. In addition, taxing energy used by business would drive energy-intensive production, like aluminum smelting, out of the country.

- The proposed investment credit for businesses would be highly dis-

Most of them could properly be described as investments — which is how the President describes them. But many are unlikely to be as productive as the private investment that would result if the same amount of money were devoted to deficit reduction, which helps the overall economy. In general, the Administration's strategy shows an unjustified preference for government, or government-directed, investment over market-determined private investment.

- The selling of the program to the public relies heavily on the argument that the more progressive the tax system is, the fairer it is. That is not only a simple-minded view of fairness. It is also a dead end for budget policy. It means that when the economic limits of taxing the rich are reached there is no possibility of getting more revenue from the middle class, because that would reduce progressivity.

Despite these criticisms, the Clinton plan is the only deficit-reduction plan with a chance of being adopted. Some people, including leading Republicans, will say that they have an alternative plan to cut spending much more sharply than Mr. Clinton proposes to do.

But their plan is always described in general terms — "across-the-board cuts," "a freeze on total spending" or some such formula — never specifying what exactly is to be cut.

Herbert Stein, senior fellow at the American Enterprise Institute, was chairman of the President's Council of Economic Advisers under Richard Nixon and Gerald R. Ford. This is excerpted from an article to appear in the March-April 1993 issue of *The American Enterprise*.

The proponents of such "plans" have no more stomach than Mr. Clinton does for attacking the large middle-class benefits that are the essence of the budget problem.

This judgment may be too pessimistic. Some Republican leadership in Congress may arise to push strongly for significant specific cuts. If that happens, the President, given political cover by Republican support, may accept and possibly even welcome the reductions. In that case we could get a better program than the one the President has proposed.

But there is no sign of such a development and therefore little chance of getting a better deficit reduction package than Mr. Clinton's. Moreover, the President's package has every chance of being defeated. Elements of the program that save the

most money will be vulnerable to opposition, because they are the most painful to the most people.

Advocates for the elderly will resist higher taxation of Social Security benefits. All kinds of users and suppliers will resist the energy tax. Unless some forces in the country and Congress are sufficiently concerned about the deficit to support the President's proposals — however much they dislike other parts of the package — the whole deficit-reducing effort could collapse.

If this effort fails we will probably not see another one for some time. The lesson will be that the system rejects even a cautious attempt by the President to exercise fiscal responsibility and to make a few tough decisions. And the public will once again see that no one really cares and

that all the talk about the national interest in reducing the deficit is only a cover for the struggle of everyone to get his.

If the present effort succeeds, however, there will have been a demonstration of the willingness of Congress and the public to accept some sacrifice. Some budget untouchables will be seen to have been not so untouchable.

Discussion of the steps needed to reduce the deficit further can resume, one may hope, in a less demagogic and emotionally charged atmosphere than today. In that case we may yet say that 1993 was a turning point away from the disintegration of budget policy that has been going on for the past 25 years.

GS

This is good

It has flaws. But rejecting it will dash efforts to cut the deficit.

criminary. It would reward businesses that invested little last year; that invest in physical capital rather than in research and training; that invest in short-lived assets, and that invest in equipment rather than structures. This is as likely to result in a loss of efficiency as it is in a gain.

- The Administration program is dotted with little give-aways, like tax breaks and soft loans for small business and supports for particular ventures such as high-speed trains. These give-aways, which would add up to tens of billions of dollars a year, would undermine a comprehensive effort to deal with the deficit.

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THE WASHINGTON POST

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RTC Paid 136 Top Officials More Than \$1 Million in Bonuses in '92

By Susan Schmidt
Washington Post Staff Writer

The Resolution Trust Corp., whose management of the thrift cleanup has come under increasing fire from Congress and the Clinton administration, paid its top 136 officials more than \$1 million in bonuses last year, the agency disclosed yesterday.

The bonuses, approved by outgoing RTC Chief Executive Albert V. Casey, ranged from \$1,500 to \$25,000, and included 32 of \$10,000 or more. The total bonus amount was more than double the previous year's bonuses.

The bonus list, requested by members of Congress, drew instant criticism from leaders of the House and Senate Banking committees.

This kind of extravagance is unacceptable

in a government agency, especially the RTC, which is supposed to resolve the S&L problem at the lowest possible cost to the taxpayers," said Rep. Stephen L. Neal (D-N.C.), chairman of the House Banking subcommittee on financial institutions.

Neal, noting that the RTC is not subject to government pay ceilings, said that "many RTC executives are earning generous salaries at levels unheard of in government," including some who make more than Cabinet members.

Senate Banking Committee Chairman Donald W. Riegle Jr. (D-Mich.) sent a letter to Treasury Secretary Lloyd Bentsen asking that he review the RTC's bonus policy as he prepares a funding request for the agency.

Casey defended the bonuses at a House Banking subcommittee hearing yesterday, calling the efforts of RTC executives "hero-

ic." Their ingenuity in selling huge pools of loans, real estate and other assets the agency inherited from failed S&Ls is saving taxpayers "hundreds of millions of dollars a week," he said.

"I knew I was passing out" of the agency, said Casey. "Once they lose their benevolent dictator Al Casey, what's going to happen to them?"

Casey noted that both his aides, RTC vice presidents William Roelle and Lamar Kelly, had left top jobs at the Federal Deposit Insurance Corp. to take posts at the RTC, a temporary agency created to clean up the S&L mess.

They and other former FDIC employees now at the RTC are entitled to return to their old agency when their RTC work is completed.

Roelle and Kelly each received a \$25,000

bonus for 1992, making each man's total RTC income for the year about \$170,000.

A provision allowing Roelle, 50, and Kelly, 49, to retire from government service with lifetime pensions valued at about \$1 million each was endorsed by Casey and put into the 1991 RTC funding bill. The pension measure was quietly repealed by Congress last fall.

Other top bonuses went to asset sales executives working under Kelly and some of the agency's lawyers.

Former general counsel Gerald Jacobs received a bonus of \$10,000 in October, three months after he quit the RTC. Jacobs left the agency in July after lawmakers criticized the way his department pursued S&L wrongdoers. In addition, the RTC cited a Phoenix developer he previously represented in a civil fraud and racketeering lawsuit.

Casey announced last week that he is resigning as president and chief executive of

the RTC, a post he was named to in the fall of 1991 by President Bush. He had often cited his personal friendships with key Democrats, including Bentsen, and said he hoped to serve in the Clinton administration.

Yesterday, he said Treasury officials "want to replace me" for partisan reasons. He also said they did not appear to be interested in his program, which would put the RTC out of business this fall—three years early—and transfer to the FDIC whatever assets remain to be sold.

Casey's efforts to wind down the RTC have been criticized by some as a premature declaration of victory over the politically unpopular S&L cleanup. The General Accounting Office and some lawmakers have complained that assets are being dumped too cheaply and the agency is doing a sloppy job keeping track of its nearly 100,000 contracts with private firms.

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Clinton Aid for D.C. Assailed

Republicans Say \$28 Million Is Pork, Not Economic Stimulus

By Kent Jenkins Jr.
Washington Post Staff Writer

House Republicans yesterday sharply attacked President Clinton's plan to give the District \$28 million in additional federal aid, charging that the money would neither create jobs nor boost the city's economy, as Clinton has promised.

Republicans on the House D.C. Appropriations subcommittee said they will vote to eliminate the District funds from Clinton's proposed \$30 billion economic-stimulus package because they believe it is not really intended to pump up the economy.

They called the \$28 million a thinly disguised handout to the D.C. government.

Under pointed questioning from GOP lawmakers, D.C. Mayor Sharon Pratt Kelly said the city hopes to use the money to pay for public

safety and other programs already in place, such as her crime and youth initiative not to start anything new.

Although the mayor contended the \$28 million would help the D.C. economy, she could not cite any specific benefits it would produce and said it would be used to pay for "municipal services generally."

"This is not economic stimulus, this is very much business as usual," said Rep. James T. Walsh (R-N.Y.), the committee's ranking Republican. "I see it as a back-door approach to filling a budget gap [in the District] . . . I have a problem with that."

Rep. Ernest Istook (R-Okla.) said that "every time we asked [city officials] how the money would be used we got a different answer . . . That meets some parts of the definition of pork."

Kelly and Council Chairman John A. Wilson said the District's finan-

cially ailing government deserves additional federal aid because it is continually asked to provide services for the federal government at no cost.

"When we had half of our government [workers] on furlough, a lot of our public works people were working overtime getting ready for the inauguration," Wilson said. "I had a hard time explaining that."

But even Wilson acknowledged that the justification for including the \$28 million in an economic recovery package was at best tenuous.

"This is not the proper way of doing it," Wilson said in response to questions from Walsh. "But I play the game with the cards I'm dealt."

Kelly and Wilson said they are seeking the additional \$28 million in federal aid largely because they feel the city was shortchanged during budget deliberations last fall. The District was awarded an annual pay-

ment of \$625 million in federal aid at that time, but city officials argued that under a formula approved by Congress they deserved \$30 million more.

The subcommittee is scheduled to vote on the proposal today, and all three Republicans on the panel said they likely will oppose it. The subcommittee's Democratic majority is expected to support it unanimously, meaning that the money would remain in the package for the time being.

But the Republicans said yesterday they expect the \$28 million to attract more criticism as Clinton's economic stimulus package makes its way through Congress. Many Republicans and some conservative Democrats have complained that the president's proposal includes too much additional spending and not enough budget cuts.

House Minority Whip Newt Gingrich of Georgia has already singled out the District appropriation for criticism, taking to the House floor last week to call it "pork barrel for politicians." GOP lawmakers said yesterday they will continue to target the District appropriation as a potential reduction.

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No Rebill/ce 6/5

Consumer makes a
great case on it.
g not sure if it
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Farmers worry energy tax would hit hard



HIT: Craig Hill, with son, Adam, says tax will be passed on — and ultimately it ends up with me.

Proposed changes in farm programs

In an effort to cut costs and raise revenue, the Clinton administration has proposed changes in farm programs. Some of the changes over five years:

► Eliminate subsidies to farmers — or farm corporations — who earn more than \$100,000 annually in off-farm income. Savings: \$610 million.

► Eliminate subsidies to honey producers. Savings: \$35 million.

► Reduce the number of direct loans to farmers by 25%. Savings: \$42 million.

► Streamline functions of various departments and agencies. Savings: \$466 million.

► Boost fees charged to slaughterhouses and meat-processing plants to cover inspectors' overtime. Revenue: \$520 million.

► Increase annual fees charged for permits to graze livestock on federal lands. Revenue: \$47 million.

— James Harney

Energy tax will raise farm costs

The Illinois Department of Agriculture has estimated federal energy tax increases will add \$287.50 to the cost of an average farmer raising 500 bushels of corn a year.

Added tax on 4,500 gallons of diesel fuel \$282.50



Added tax on 40 tons of ammonia fertilizer \$342.00

Added tax on 12,500 gallons of propane (drying) \$287.50

By Marty Baumann, USA TODAY

John Hawkins.

"They've got to cut before they can tax," argues Bill Bruere, 38, who grows corn, beans and hay on 900 acres near Prole, Iowa. "Most of these government officials have never been in business on their own."

For Hill, increased productivity means raising more hogs and growing more corn more efficiently, which takes more land, which means more families moving off the land.

Despite the prospect of higher taxes, Hill says he plans to continue farming.

"It's just one more thing — it's not in the right direction of preserving the rural way of life. It's not in the direction of increasing my income."

Iowa farmer Craig Fleishman says the new taxes may force growers into higher levels of efficiency.

"There's a lot less inefficient farmers than there were 10 years ago," he says. "It might

force everybody to become more efficient."

But Iowa corn growers aren't the only worried farmers. In Loudoun County, Va., John Rocca, 51, raises cattle, hogs and grain to feed them. He also owns Brothers Signal Co., an engineering firm.

The impact of Clinton's proposals will go far beyond the energy tax, he says. Because he earns more than \$100,000 per year, he says he'll pay more income tax. He also faces higher corporate tax and loss of some business entertainment deductions as well.

The U.S. Department of Agriculture says less than 2% of farmers like Rocca have more than \$100,000 off-farm income.

"I'm sure Americans want to know wealthy farmers will pay their share," says Espy.

Rocca disagrees: "They come in and they take the people that have survived the recession, the people that have worked two jobs, 17-hour days, six or seven days a week to get in a position where they could have an income. ... There's no incentive left. It's discouraging as hell."

Contributing: Lori Sharn

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2/24/93

Mr. President:

I thought you would be
interested in the attached

John B. Bly

The New High-Tech House

Coming Soon: E-Mail Between Hill Offices, Links With District, Easier On-Line Searches

By Mary Jacoby

The House is shedding its technological skin this year as computer experts phase out old networks and replace them with new links expected to change dramatically the way information is gathered and exchanged on the Hill. One possible casualty: the "Dear Colleague" letter.

"We've come a long way in terms of our ability to communicate" with other offices, agencies, and databases, said Gerald Murphy, information resource management officer with House Information Systems.

This year will mark a transition between old and new technologies, Murphy said. Several pilot programs initiated by House Administration Chairman Charlie Rose (D-NC) will be expanded to include all House Member offices and committees.

One of the most important innovations is a new Wide Area Network (WAN) that will give Members' Hill offices high-speed communications links with their districts.

"This means the district will have instant access to case work files" and other databases in DC, Murphy said. "It will allow Members to move some of the workload back to the district, where it's often more cost-effective."

This technology will be used in conjunction with Members' personal computer Local Area Networks (LANs), which allow intra-office electronic communication. HIS is calling the new district-to-DC link LAN/WAN.

The LAN/WAN option became available Jan. 1. So far, eight Members have requested the \$750-a-month option, which is paid for out of official expense accounts.

A House-wide electronic messaging system, or E-Mail, will soon be available as



Photo by Laura Patterson

The mastermind behind the influx of new technology is Rep. Charlie Rose, chairman of the House Administration Committee and himself a high-tech junkie. Several pilot programs are already in place, with other changes expected over the next year.

Mail links could be used to distribute Dear Colleagues, Harris said, "but it depends on the individual, and most [Senators] seem to prefer the old way."

Dear Colleagues with multiple signa-

E-Mail program between the House and Senate Veterans Affairs Committees has been in place about a year, Harris said.

In the area of district-to-DC communications however the Senate is slightly ahead

sional information, many Members have expressed interest in hooking up to a nationwide communications network called INTERNET.

Through INTERNET. Hill offices will