

II. BUILDING A BRIDGE TO THE 21ST CENTURY

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I would like to be remembered as the President who prepared America for ... the 21st Century where we had opportunity available to all Americans who were responsible enough to exercise it; where we lived with the diversity of this country and the diversity of the world on terms of respect and honor, giving everyone a chance to live up to the fullest of his or her own ability in building a stronger sense of community, instead of becoming more divided, as so many countries are; and where we continue to be the indispensable Nation in the world for peace and freedom and prosperity.

President Clinton
December 13, 1996

Nearly a century ago, America struggled through what was, up to then, its most profound change—from an economy rooted in the farm to one powered by the machine. As our economy changed, so did the lives and habits of our people. Once mostly isolated in small areas or small communities, Americans moved to towns and cities, transforming how they lived, how they worked, and how they related to one another.

With such change came new challenges. Theodore Roosevelt and then Woodrow Wilson—two former governors, the first a Republican and the second a Democrat—provided the responses for what eventually became known as the Progressive Era. What this burst of Federal activity represented was a new way of thinking—of using Government to address the wrongs, and shape the future, of a growing Nation.

Today, the Nation faces an upheaval that is just as great, as its economy moves from one rooted in machines to one in which information spreads from person to person, city to city, nation to nation, at lightning speed. Like the upheaval of 100 years earlier, this one, too, is transforming the lives of our people, changing the way we live, the way we work, and the way we relate to one another.

But what worked in the Progressive Era was inadequate for the demands prompted by the Great Depression. What worked in

the 1930s gave way to a new approach prompted by the Cold War. So, what worked then must, in turn, give way to a new approach for the times that we now face.

The Nation stands at one of those truly unique moments in its history—a moment that demands new thinking. The traditional debates between liberals and conservatives seem not to hold the answers for the challenges before us. We should not move left or right; rather, we must move forward.

As the President has said, “the era of big Government is over.” And we are, in fact, cutting the size and scope of Government as we move toward a balanced budget. But, as the President also has said, the issue is not solely bigger versus smaller. It is also how to make Government *better*. For if Americans do not want a Government that tries to solve every problem, they just as surely do not want one that retreats from its proper role.

Generally speaking, governments do certain things well. They “promote the general welfare” by safeguarding the public, financing education, building roads and bridges, distributing benefit checks, and so on. The Federal Government, in particular, defends the Nation against attack, engages in international diplomacy, ensures retirement income, provides health coverage for the elderly, the poor, and people with disabilities, expands access to education and housing, protects the environ-

ment, encourages business investment, and more.

But the Federal Government does not—indeed, *cannot*—do it all. Today, Federal spending totals less than 25 percent of the Nation's income, as measured by the Gross Domestic Product (GDP). To promote the goals that Americans share, the Federal Government must work with State and local governments, business and labor, non-profits, communities, schools, and families.

I believe that the Federal Government should give people the tools and try to establish the conditions in which they can make the most of their own lives. That, to me, is the key.

President Clinton
October 6, 1996

Nor, in this budget, should we think about Government solely in terms of what it spends. The Government provides services and benefits in all sorts of ways. Not only does it distribute cash and provide services, but it also allocates tax incentives to achieve certain goals, such as expanded home ownership and more research and development. At the same time, it pursues social goals through responsible regulation, such as protecting children by reducing their access to cigarettes. (For a discussion of the full range of Federal activities, see Section VI, "Investing in the Common Good: The Major Functions of the Federal Government.")

For four years, this Administration has been creating a Government for the 21st Century. It is leaner, but not meaner. It spends money more wisely. It is no longer wrapped in the red tape and bureaucracy of yesterday. And it provides better service to its "customers," be they Social Security recipients or victims of natural disasters.

Shrinking the Size of Government

Nowhere is our success more dramatic than on the fiscal front. The budget deficit—for too long a kind of public metaphor for waste and mismanagement—had hit a record \$290 billion in 1992, the year before President Clinton took office. The national

debt, meanwhile, had quadrupled, to \$4 trillion, in the 12 years before the President took office. By all accounts, the deficit was on a path ever higher, about to heap more debt on our children and grandchildren and to force the Government to use more of its taxpayer dollars not for anything useful but, rather, to pay interest on the debt.

Then in 1993, the President worked with Congress to enact his economic program of lower deficits and, at the same time, more public investment. Largely due to the plan, and to the strong economic performance that it has helped to spur, the deficit fell by a whopping 63 percent, to just \$107 billion in 1996—its lowest level since 1981 and, as a share of GDP, its lowest since 1974.

The plan slowed the growth of entitlements, raised taxes almost entirely on the wealthiest 1.2 percent of Americans, and extended the annual limits, or "caps," on discretionary spending for five years. While helping to dramatically reduce the deficit, the plan also cut taxes for 15 million working families, made 90 percent of small businesses eligible for tax relief, and invested in the future. (For a full discussion of the Administration's fiscal policy, see Section III, "Putting the Building Blocks in Place.")

By limiting total discretionary spending, the caps put a premium on spending wisely—on eliminating wasteful and lower-priority programs while emphasizing investments in the Nation's future. Thus, the Administration has worked with Congress to invest in education and training, and in research, in order to enhance productivity and, in turn, promote higher living standards; to protect the environment and fight crime in order to improve the quality of life for all Americans; and to secure the resources for a global policy that has brought peace to certain troublespots and has expanded markets for U.S. goods.

Facing the challenge of global competition, American businesses are forcing themselves to do more with less. The Federal Government is doing the same. Led by Vice President Gore's National Performance Review, the Administration has worked hard to "create a Government that works better and costs less."

As business downsizes, so does the Federal Government. Four years after the President and Vice President assumed office, and largely due to their efforts, the Federal work force stands at 1.9 million civilian employees¹—its smallest size in 30 years and, as a share of civilian employment, its smallest since 1931. The Administration has cut the work force by over 250,000 full-time equivalents (FTE),² and it will continue shrinking as the President and Congress finish the job of balancing the budget.

The shrinking work force focuses the spotlight on those Federal workers who remain on the job. It is they who must work more effectively if the Federal Government is to work better. From our efforts to reinvent Government, which these workers have led, the Administration knows that the vast majority of them want to do a good job. The President and Vice President will continue to view them as partners in a great quest to give the American people the best Government that they can create.

To the average American, however, the size of Government involves more than the size of its budget or of its work force. It involves the regulations (or rules) with which millions of businesses and individuals must comply. It also involves the responses they receive when they call the Government for help.

Regulations are not *inherently* good or bad; potentially, they can be either. Good rules bring us safer cars and workplaces, cleaner air and water, and fairer business practices. But bad rules—those that are too costly, too intrusive, and too inflexible—can impede businesses and other institutions from doing their jobs.

The President has sought to develop a more sensible regulatory program, one that reduces the burden of existing and new rules while improving their effectiveness. Specifically, the Administration has nearly reached its goal of eliminating 16,000 pages of regulations and dramatically simplifying 31,000 others. In addition, agencies are effectively implementing the President's Executive

Order 12866 of 1993—using better data and analysis to make their decisions, considering the costs and benefits of alternative ways to reach their goals, and opening the decision-making process to those affected by the rules.

What do Americans find when they call their Government? Compared to four years ago, they are likely to find a friendlier, more responsive voice on the other end. Agencies are making real progress in improving service to their customers, the American people. They are finding new, innovative ways to deliver service, and they are reaching out to learn more about what their customers want.

If anything, the challenges will only grow for departments and agencies. They face a future of severely constrained resources. As a result, the Administration has developed a set of strategies (or tools) by which agencies will try to make even more progress in this environment. (For a full discussion of these seven tools, see Section IV, "Improving Performance in a Balanced Budget World.")

Achieving Our Goals

But can *smaller* really be *better*? Can we really do more with less? As the Administration has proved across a broad spectrum of areas, the answer is a resounding "Yes!" The right kind of Government, making the right kind of decisions, can have a demonstrably better effect on the lives of millions of Americans.

Opportunity for all, *responsibility* from all, and a stronger American *community*—those have been the underpinnings for what the Administration has sought to achieve. In pursuing these goals, Administration policies have helped to produce a strong economy with better jobs, higher incomes, more pension and health security, greater educational opportunity, safer streets, and a cleaner environment.

By cutting the deficit, for instance, the President's 1993 economic plan helped cut interest rates, spurring strong growth with steady prices. The result: over 11 million new jobs (most of them high-wage); the lowest inflation of any Administration in

¹Not included in this figure are 1.5 million uniformed men and women and 0.9 million employees of the Postal Service

²As of September 1996.

over 30 years; the highest rate of homeownership in 15 years; rising incomes; falling inequality; and record numbers of exports and new small businesses.

With the 1993 plan limiting spending, the President has worked with Congress to spend the available resources most wisely, helping to produce real results in education, the environment, research, and law enforcement.

- His direct lending program has helped make college more affordable for 10 million students.
- His national service program has enabled 70,000 Americans to earn money for college while building houses, helping children to read, patrolling the streets, and performing other vital community work.
- His investments in research are helping to build new, high-powered supercomputers, and to develop drugs that could extend the life expectancy of those with HIV and AIDS.
- His community policing program has already put 64,000 more police (out of 100,000 under the program) on the streets of America's communities, helping to reduce serious and violent crime for five straight years.

The President worked with Congress to:

- Raise the minimum wage, giving 10 million Americans a pay raise;
- Enact the Family and Medical Leave Act, enabling 67 million workers to take up to 12 weeks of unpaid leave from work to care for a newborn or a sick family member;
- Adopt the Kassebaum-Kennedy bill, ensuring that as many as 25 million American workers would not lose their health insurance when they change jobs;
- Reform the Federal pension insurance system, protecting the pensions of over 40 million Americans;
- Take a vital first step "to end welfare as we know it" by requiring able-bodied recipients to work;
- Adopt the Brady bill, imposing a five-day waiting period on gun purchases that has

already prevented over 100,000 felons, fugitives, and stalkers from buying handguns;

- Ban the import and manufacture of 19 deadly assault weapons, keeping them from would-be killers; and
- Overhaul the immigration system, cracking down on illegal immigration without punishing legal immigrants.

The Administration also has acted on its own to improve the lives of average Americans. It has:

- Approved waivers (before last year's welfare reform law) to let 43 States find innovative ways to move recipients off welfare and into the economic mainstream. (Due to those efforts and a strong economy, 2.1 million fewer Americans are on welfare than when President Clinton took office.);
- Approved waivers to let 15 States pursue major State-wide health reform initiatives under Medicaid;
- Protected the border by deporting a record 206,000 illegal and criminal aliens from 1993 to 1996; and
- Completed the General Agreement on Tariffs and Trade and the North American Free Trade Agreement, as well as over 200 other trade agreements, helping to spur exports to record levels and, in turn, create high-wage jobs at home.

Our trade agreements, and the benefits they produce, point to a growing reality—we live in an increasingly inter-connected world, one in which our prosperity at home depends on our leadership abroad. Over the last four years, the Administration has reduced tensions in the world's troublespots through the deft use of diplomacy and, when necessary, the deployment of troops. Democracy in Haiti, peace in Bosnia, more dialogue in the Middle East—they are all due to American leadership.

Yet, despite his impressive four-year record of accomplishment both at home and abroad, the President understands that his work is not done. Most importantly, we must finish the job of balancing the budget. For only when we balance the budget can we

hope to assure a healthy economic future for all Americans. And only then can we hope to restore the public's confidence in Government.

The Task Ahead: Balancing the Budget

This budget fulfills the President's commitment to reach balance in 2002. In fact, under the Administration's economic and technical assumptions, it would generate a \$17 billion surplus that year.

The budget builds on the balanced budget proposals that the President outlined in his negotiations with the bipartisan congressional leadership over the last two years. The negotiations brought the two sides close to an agreement, and the President is determined to finish the job this year. He views this budget proposal as the next step in the march to reach balance.

Specifically, the President continues to seek cuts in unnecessary and lower-priority spending in both discretionary and mandatory programs, and to eliminate unwarranted tax loopholes and preferences. His \$388 billion in total savings would do more than bring the budget into balance by 2002. They also would provide enough savings to finance a modest tax cut to help middle-income Americans raise their children, send them to college, and save for the future; and to correct the harsh provisions that Congress attached to last year's welfare reform legislation.

Among its major elements, the budget:

- saves \$137 billion in discretionary spending, cutting unnecessary and lower-priority programs while investing in education and training, the environment, science and technology, law enforcement, and other priorities that would raise living standards and the quality of life for average Americans (see Chapters 2–6);
- saves \$100 billion in Medicare (\$138 billion over six years), ensuring the solvency of the Part A trust fund until 2007 while maintaining the essential quality of Medicare services for the elderly and people with disabilities (see Chapter 1);

- saves \$22 billion in Medicaid, building upon the substantial savings that Federal and State experimentation in this jointly-run program is already generating, and continuing the guarantee of essential health and long-term care coverage for the most vulnerable Americans (see Chapter 1);
- saves \$76 billion by ending corporate subsidies and other tax loopholes, extending expired tax provisions, and improving tax compliance (see Chapter 8);
- saves \$36 billion by continuing the Administration's successful policy of auctioning segments of the broadcast spectrum (for other proposals on mandatory programs, see below);
- provides \$18 billion to correct the harsh provisions that Congress attached to last year's welfare reform law, protecting those in need and helping recipients to find self-supporting work (see Chapter 7); and
- cuts taxes by \$98 billion, providing tax relief to tens of millions of middle-income Americans and small businesses (see Chapter 8).

With regard to other mandatory programs, the budget proposes to more fully fund the costs of Federal civilian employee retirement; extend previously-enacted savings in veterans' benefits; cut subsidies to financial institutions that make and hold student loans while reducing the costs to borrowers; impose fees to recover the costs of services that the Federal Government provides to private businesses; and privatize or sell, rather than give away, valuable public resources.

All budget plans—the President's, Congress', and others—rest on a set of assumptions about how the economy will perform over the next five years, and about technical matters such as how fast Medicare spending will grow. Those assumptions, in turn, help shape projections about the future direction of the deficit and, thus, the size of the challenge ahead in balancing the budget.

Since the President took office, the Administration has worked hard to develop a set of conservative assumptions each year and, in fact, our economic assumptions generally

have proved too conservative. The economy has performed better than most analysts expected in the past four years, providing strong growth, low interest rates, and stable prices. The Government has received more tax revenues, and spent less on certain social programs—and, as a result, the deficit has fallen far more than projected.

The Administration's assumptions also proved more accurate than the even-more conservative assumptions of the Congressional Budget Office (CBO)—although both sets of assumptions were quite reasonable. The Administration is confident that its own assumptions will continue to prove the more accurate.

Nevertheless, the budget includes a mechanism to ensure that the President's plan reaches balance in 2002 under OMB or CBO assumptions. If OMB's assumptions prove correct, as we expect, then the mechanism would not take effect. If, however, CBO proves correct—and the President and Congress cannot agree on how to close the gap through expedited procedures—then most of the President's tax cuts would sunset, and discretionary budget authority and identified entitlement programs would face an across-the-board limit.

With this mechanism in place, the American people can rest assured that we will reach balance in 2002—no matter which set of assumptions are used in the budget process.

The Task Ahead: Investing in the Future

Balancing the budget is not an end in itself. Rather, it helps fulfill the President's central economic goal—to raise the standard

of living for average Americans, both now and in the future.

So, too, do the spending priorities of this budget. Details matter. *How* the Government spends money—for whom, for what purpose—is just as important as *whether* it does.

Within tight constraints, the budget continues the President's policy of the last four years in shifting Federal resources to education and training, science and technology, and other investments to enable Americans to get the skills to acquire good jobs, and to give businesses the tools to become more competitive, in the new economy. The budget also continues to shift resources to the environment and law enforcement, raising the quality of life for average Americans.

For education and training, the budget proposes to fulfill the President's commitment to put one million disadvantaged children in the Head Start program by 2002; to create safe learning environments for more children; to help more school systems extend high academic standards, better teaching, and better learning to all students; to enable more Americans to serve their communities and earn money for college; to bring technology into more classrooms; to expand college work-study to one million students by the year 2000; to create a \$1,000 merit scholarship for the top five percent of graduates in every high school; to let more parents, teachers, and communities create public schools to meet their own children's needs; to make it easier for parents and students to borrow and repay college loans; to create the largest increase in Pell Grant scholarships in 20

Comparisons between this budget and the President's earlier balanced budget plans can be misleading.

Over the last two years, the President's goal has not changed. He has consistently sought to reach balance by 2002. But with each passing year, the time frame has, by definition, shrunk. Thus, the seven-year plan that he first proposed was followed by a six-year plan, followed by a five-year plan in this budget.

Is the task of reaching balance easier now? Yes and no. On one hand, the continued strength of the economy, slower spending in key programs (such as Medicare and Medicaid), and savings enacted last year have lowered the projected deficits through 2002, reducing the amount of savings needed to reach balance. On the other hand, the shorter time frame makes it harder to phase in savings in entitlement programs, thus making the entitlement cuts deeper than they otherwise would have to be.

years; and, finally, to provide Skill Grants to adults for job training.

On other priorities, the budget proposes to maintain environmental enforcement; protect national parks and other sensitive resources; and provide tax incentives to encourage companies to clean up “brownfields”—abandoned, contaminated industrial properties in distressed areas. The budget would put 17,000 more police on the street, bringing the total to 81,000 and moving closer to the President’s goal of 100,000 by the year 2000; and it would provide more funds to combat juvenile crime and step up the fight against drugs, largely by focusing on treatment and prevention aimed at youth. It would increase the number of Border Patrol agents and workplace investigations to prevent illegal immigration and deter the hiring of illegal immigrants.

The budget invests in research, including biomedical research at the National Institutes of Health, in programs to combat infectious diseases at the Centers for Disease Control, in the Ryan White AIDS program that provides potentially life-extending drug therapies to many people with AIDS, and in community health centers and Indian Health Service facilities. The budget funds full participation in the Special Supplemental Nutrition Program for Women, Infants, and Children (WIC), which would be 7.5 million people by the end of 1998.

Finally, the budget proposes to add \$1 billion to the Community Development Financial Institutions Fund over five years to create jobs and foster development in low-income urban and rural communities. For the same purpose, the budget proposes to expand the number of Empowerment Zones and Enterprise Communities, providing tax relief and other assistance for distressed urban and rural areas.

Over the last year, the President also has proposed a series of initiatives to more quickly, and more effectively, meet his goal of higher living standards and a better quality of life for all Americans.

- Along with his earlier tax deduction proposal of up to \$10,000 for college tuition and job training, the President proposes

a new \$1,500-a-year HOPE scholarship tax credit to make two years of college universal. The budget also proposes to increase Pell Grants for lower-income families who lack the tax liability to benefit from the tax cuts.

- The President proposes the America Reads Challenge to help ensure that all children can read by the third grade, and a five-year, \$5 billion school construction fund to help States and communities address the serious problem of dilapidated school buildings.
- Building on his earlier proposal to help the unemployed keep their health care coverage for six months, the President now proposes to help expand health care coverage to uninsured children.
- Having taken the first step to reform welfare, the President now proposes to enhance the Work Opportunity Tax Credit to encourage employers to hire long-term welfare recipients.
- The President proposes to reshape the Federal Government’s relationship with the District of Columbia by assuming responsibility for certain pension, justice, and other functions. In exchange, the Government no longer would make an annual discretionary payment to the city, and it also would expect the city to be more accountable for how it uses its resources.

A Look Ahead

A balanced budget; a leaner, more effective Government; investments to help secure a brighter future—these are the priorities that pervade this budget, and that are outlined in the pages that follow. They are the priorities that will, in the President’s words that began this section, “prepare America for ... the 21st Century.”

But to fully appreciate the President’s agenda for the future, it helps to know what the Administration has already accomplished. The President’s economic policies, including a dramatic cut in the deficit, have helped to revive an economy that was suffering from over a decade of debt and other burdens. It is to that record—four years of significant accomplishment—that we now turn.