

THE WHITE HOUSE  
WASHINGTON

January 12, 1995

MEMORANDUM FOR NEC POLICY STAFF

FROM: Peter Yu

SUBJECT: Attached

Attached please find a revised draft of the “transition materials.” Thank you very much for your thoughtful contributions.

Please provide to me, by e-mail and by **6:00 pm, Monday, January 16**, any additional comments you might have, as well as a **one-paragraph bio** for Section VI. (For those who have led particularly interesting lives, run-on paragraphs will be tolerated. However, home movies of childhood accomplishments will not.)

Thanks.

Background Materials  
on the  
National Economic Council

Outline

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- III. Lessons Learned from the First Two Years
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## I. THE NATIONAL ECONOMIC COUNCIL: A MID-TERM ASSESSMENT

Like any “agile” organization, the National Economic Council needs to respond to the changing environment in which it operates, while adhering to its basic principles and functions, as discussed in Section I below. This paper offers thoughts on the function and future of the NEC, and proceeds in three parts. The first section reviews the functioning of the NEC over the Administration’s first two years; the second discusses major changes in the political, institutional, and policy environment and how the NEC’s role might change in response. The third section identifies several actions the NEC might consider.

### LOOKING BACK: NINE ROLES OF THE NEC

One can distinguish among at least nine functions the NEC staff have played during the Administration’s first two years. These roles are obviously not mutually exclusive; indeed, every NEC activity involves more than one of these functions.

- (1) Interagency Manager--This is the NEC’s “honest broker” role, by which it convenes, organizes, facilitates, and referees the decisional process. There are dozens of examples of this function, with member agencies playing the lead role in some, such as budget and tax matters, and NEC staff playing the lead role in others, such as certain trade issues, disaster insurance, and intellectual property issues.
- (2) Policy Development (including relevant legislative liaison activity)--The NEC has assumed the lead on certain Presidential initiatives, such as CDFIs, urban policy, the APEC meeting, and the Detroit jobs conference.
- (3) Policy Implementation--On certain Presidential priorities, the NEC has played a critical role in implementation, including influencing authorizations and appropriations. Defense reinvestment and EZ/ECs are examples of this function.
- (4) The “Economic Perspective”--In many areas, the NEC has emphasized the “economic perspective” on issues. Here, China’s MFN status, regulatory issues (such as risk and cost-benefit), and agricultural policy are examples.
- (5) Outreach and Liaison to the Business Community & Others--On many issues, the NEC serves as a contact point for the business community, environmental interests, and others. NAFTA, GATT, NII, and the electronics/telecommunications industries illustrate this well.
- (6) Facilitation of Private-Party Negotiations--Building on its “honest broker” capacity and its White House reputation, the NEC has facilitated negotiations among private parties. The Superfund-insurance negotiations and Car Talk are good examples of this dynamic.
- (7) Strategic Planning--At times, the NEC has applied its resources to broader projects concerning the future of the economy. The workforce and structural transformation groups are examples of this activity, as are the CIA’s long-term forecasting activities.
- (8) Message--The NEC has also played an important role in coordinating the development and implementation of the Administration’s economic message.

- (9) Integration--Throughout all of its activities, the NEC has integrated politics, congressional concerns, and message with policy, and maintained a sense of teamwork and collegiality among the NEC members.

Over the first two years of the Administration, the NEC has evolved very quickly and has functioned remarkably well. The dramatic mid-term changes, however, require a critical reexamination of the NEC's role and functioning.

#### LOOKING AROUND: HOW THINGS ARE CHANGING

Changes in the political environment, the policy agenda, and the institutional environment challenge the NEC to focus its roles and functions for the next two years.

In general, the third and fourth years of most Presidential first terms have been dedicated to policy implementation and reelection--not to policy development, the activity to which a majority of NEC staff time has been dedicated. Moreover, the Republican's control of Congress and their "Contract" provide them with extra influence over the policy agenda. Accordingly, the Administration's efforts will likely have a larger reactive aspect as well as an ongoing proactive dimension.

Of the nine roles outlined above, several may be different in the coming years; for example:

- The "interagency manager" and "policy development" functions could be less significant because of the emphasis on implementation and the Republican agenda.
- The "strategic planning" function could be overshadowed by a shorter-term focus on reelection.
- The "economic perspective" function will, at least, be as prominent. For example, the NEC will need to distinguish rational reform of regulation from reactionary deregulation, clarifying how the Administration and the Congress differ on *some* of these issues.
- The "liaison" function will be of heightened importance. For the first few months, business and other groups will court the new Congress; the NEC will need to be more proactive in its outreach.

In considering the NEC's role, one might ask: *what are the NEC's strengths? where are opportunities for the NEC best to serve the President?* Four possibilities include:

- Maximize the NEC's role in the budget and government-reform activity. This is where much of the NEC's substantive expertise lies: in creative policymaking in a constrained environment. This will require effective integration with OVP, OMB, and others.
- Develop "niches"-- policy initiatives in which the NEC can play a central role. Fast track and product liability reform may be examples of such niches. The NEC should identify other priorities not currently addressed and establish policy processes for these.
- Provide policy support for congressional Democrats. Both because of reduced congressional staffs and because the Administration may wish congressional Democrats to carry some of the more negative messages, this may emerge as a critical NEC role.

That will require determining how best to work with Legislative Affairs and may require more effort at integrating with Communications.

- Coordinate interagency focus on regulatory reform. There will be efforts led by other agencies but that would benefit from the NEC staff's contribution or from White House involvement. Examples of this include financial regulatory reform, policy toward derivatives, and issues concerning Washington, D.C.

#### LOOKING AHEAD: WHAT THE NEC MUST DO TO ADAPT

Obviously, the foregoing list is merely suggestive. But the point should be clear: the NEC should take a hard look at itself and its environment and consider its roles for the next two years. Several next steps are possible; these include:

- Develop an NEC policy agenda that fits within the Administration's overall agenda. As suggested above, the NEC should identify 5-10 issues on which it will take the lead. This will minimize duplication and maximize the clarity of the NEC's objectives.
- Improve internal NEC communications. Staff are, at times, disconnected from the principals/deputies process. Better communications is essential in the new environment.
- Improve ties with Legislative Affairs. Nothing less than a full-scale overhaul is needed here. NEC and Legislative Affairs staff must be provided with *common* goals and a common agenda; and they must collaborate to achieve those goals.
- Build ties with key congressional staff. With the assistance of Legislative Affairs, NEC staff should develop direct contact with key congressional staff to reduce response time.
- Improve ties with Communications. If war-room type responses are needed, NEC staff will need to work far more closely with Communications staff. As with Legislative Affairs, common goals and a common agenda are necessary to achieve this.
- Improve ties with OVP, NSC, OMB. There remain gaps in communication and apparent lapses of comform between these offices and the NEC. This needs to be corrected.

## II. THE NEC AGENDA FOR 1995-96

### A. INTERNATIONAL ECONOMIC ISSUES

*Overview.* During the past two years, the Administration has begun to lay the foundation for a more free and open international economic system through, for example, passage of NAFTA and the Uruguay Round. During the next two years, we will work to (1) secure fast track authority to pursue further trade liberalizing initiatives, (2) build economic institutions for the future, and (3) cultivate a constituency in favor of free trade.

- Secure Fast Track Authority: To pursue a number of likely trade initiatives, including those arising out of the APEC and Summit of Americas process, the Administration will require fast-track authority. This will require the Administration to lay out its future trade agenda, as well as address the link between trade and labor and environmental issues. The fast track bill will probably become a larger trade bill to include provisions on a range of trade issues (e.g., dumping by economics-in-transition). We must reach an internal agreement on the coalition necessary to secure fast track and, consequently, our position on these issues.
- U.S.-Japan Relations: The Administration has built a reputation for being tough with Japan, and getting results, without resorting to Japan bashing. In the next two years, we will focus on additional Framework issues and other, good individual cases (e.g., cellular telephones) through which we can make tangible progress in opening markets.
- Halifax/International Financial Institutions: In preparation for the G-7 meeting in Halifax in June, we will complete a review of major international economic institutions and make recommendations for their reform. With regard to international financial institutions, we hope to address the need for further debt relief, a special allocation of Special Drawing Rights (SDR) in the IMF, and the replenishment of the International Development Association -- the World Bank's soft loan windows.
- Jakarta/Miami Follow-Up: By the 1995 APEC Leaders' meeting in Osaka, we hope to complete work on the blueprint for achieving free and open trade in the Asia Pacific. We will work with the Japanese, who will chair this process, to produce a specific timetable and work plan. To follow up on the Summit of Americas, we hope to lay the groundwork for free trade with Latin American countries. In the short-run, this could involve preliminary consultations with the Chileans regarding a free trade agreement.
- WTO: As the WTO comes into being, we will work to develop its agenda, including unresolved Uruguay Round issues, new issues (e.g., labor, environment, competition), and the accession of new members (e.g., China, Taiwan, Russia).
- Cultivating a Free Trade Constituency: It will be important to demonstrate trade's significant economic role, in order to strengthen public support for further trade liberalizing initiatives. In part, this is an issue of domestic education, training, and

reemployment policy. However, we also must (1) make a stronger effort to promote publicly the benefits of trade for U.S. workers and firms, (2) develop strong export promotion strategies, particularly towards the Big Emerging Markets (BEMS), and (3) eliminate remaining domestic barriers to exports, such as unnecessary export controls.

## B. DOMESTIC ECONOMIC ISSUES

*Overview.* The NEC's domestic agenda covers a broad range of issue areas and includes both issues placed on the agenda by the Administration, and those placed on the agenda by the new Republican majority.

- Health Care Reform: [to be completed]
- Welfare Reform: An NEC/DPC Working Group developed the asset development components of the Administration's Welfare Reform Bill (Microenterprise and Individual Development Account demonstrations). As Welfare Reform strategies and policies are developed in 1995, the NEC should work hard to ensure that Welfare Reform legislation supports and encourages appropriate entrepreneurial and asset-building activities by individuals receiving public assistance.
- Education, Training, and Reemployment: An NEC-led group will complete development, communication, and, to the extent enacted, the implementation of Middle Class Bill of Rights (including adult workforce empowerment and reemployment initiatives). In addition, the NEC will assist DoEd in defending and implementing the interagency Technology Learning Challenge, assist in developing options for a 1996 campaign for the Lifelong Learning Agenda (particularly Goals 2000, School-to-Work, and Skills Standards), and assist in the further development of the Middle Class Bill of Rights (including Individual Education Accounts, Skills Scholarships, education tax incentives, private sector initiatives).
- Financial services legislation: During the next several months, the House will begin to consider legislation on several issues: bank regulatory consolidation; Glass-Steagall reform/repeal; derivatives; and disclosures involving municipal securities. The Senate is likely to wait for the House to move and then--except with respect to Glass-Steagall--cut back on or moderate any House bill before passage. Traditionally, banking legislation has passed in even-numbered years, so this is likely to be a two-year process.

In addition, the Administration has promised to deliver legislation to reform the Federal Home Loan Bank System early this year. We have almost completed work on the proposal, which should garner significant support. The major question with this legislation is whether we can or should attach to it provisions that would solve the longer-term weakness of the Savings Association Insurance Fund. While SAIF's flaws are structural, no one on the Hill wants to fix it unless some sort of compromise can be brokered between the banking and savings industries, and the bankers (at least the ABA) are too short-sighted to understand how badly they'll get hurt if SAIF fails.

- Disaster insurance: For the last year, an NEC-led interagency working group has been considering development of a program that could allow the insurance industry to pick up a larger share of natural disaster expenses. We have developed a proposal that, because it gives the insurance industry less than it would like to have, is not meeting with universal adulation. However, submitting a legislative proposal (even if in the form of a detailed policy statement rather than legislation) early in the next session may be desirable, largely because, if there is another major earthquake in the next two years, some legislation of this sort is likely to move and the extant alternatives are potentially far more costly to the federal government.
- HUD homeownership partnership: HUD will soon launch an exciting initiative to dramatically increase the homeownership rate by the year 2000, primarily by increasing minority homeownership rates. This is not just another government program, but rather a major effort involving most of the major players in the sector. It consists of serious pledges by those outside government who can make it happen to take specific action steps and to accomplish specific results. This high-quality program can both benefit from White House attention and can benefit the White House. The NEC should put some resources behind continuing to help it along, and in particular, to making certain it stays on the right track and gets and continues to get Presidential attention.
- 1995 Farm Bill: The Farm Bill encompasses a very wide range of issues including: commodity programs, food and nutrition issues, export promotion, conservation, and rural development. The legislation is revisited every five years and usually consumes 4-6 months. NEC, DPC, OMB, and USDA are co-chairing the Administration's effort in this area. Current plans call for a more deductive approach, with a decision memorandum seeking presidential guidance on the general direction in agricultural policy.
- Legal Reforms: The "legal reforms" currently being discussed include (i) civil justice reforms (such as changes in attorneys' fees and rules of evidence); (ii) product liability reforms (such as changes in the law of damages); and (iii) securities litigation reforms (such as limits on stockholder class-action suits). NEC and the Counsel's office are co-chairing an effort to develop an Administration position and legislative strategy in this area. The Chief of Staff has offered initial guidance; a decision memorandum is expected in late January.
- Regulatory Reforms: The NEC is participating in the Vice President's regulatory reform task force, with a primary role in the following working groups: cross-cutting issues; financial services; information technology; and energy, the environment, and natural resources. These groups will make presentations to the Regulatory Working Group and develop administrative and legislative proposals as directed by the Vice President.
- Regulatory issues: The NEC is involved in developing the Administration's position on the major regulatory issues raised in the Republican Contract including: takings, risk/cost-benefit analysis, unfunded mandates, and Reg Flex.

- Superfund Reauthorization: The NEC played a central role in this area last session and is expected to play a similar role this session. The Superfund taxes expire this year, but most indications are that the issue will not arise until after the first 100 days.
- Car Talk: This is a stakeholder-inclusive, professionally facilitated advisory committee that is designed to replace the traditional “CAFE wars” with more constructive ways of dealing with the greenhouse gas emissions from cars and light trucks. The committee is addressing vehicle fuel efficiency, vehicle miles travelled (including related land use issues), alternative fuels, and alternative-fuel vehicles. The committee is scheduled to make an interim report in March and a final report in September. The Administration will have to respond to the recommendations, some of which may be politically problematic.
- R&D Programs: In its first two years, the Administration created or expanded a number of technology initiatives that are characterized by cost-shared partnerships with industry. Those programs, located in agencies such as the Department of Commerce, the Department of Defense, and the Department of Energy, are now under attack by Republicans. The “Contract with America” targets the Advanced Technology Program in the Department of Commerce for elimination, and a proposal by Senators McCain and Warner would rescind funding for most of DoD’s dual-use technology programs. Also vulnerable are the “clear car” initiative, environmental technology programs, and cooperative agreements between industry and the Department of Energy labs. The NEC will be centrally involved in Administration efforts to block rescission of FY95 funds and to secure FY96 appropriations for these programs, and it will take the lead (within the White House) when it comes to the dual-use programs.
- R&D tax credit: The R&D tax credit will expire in June 1995. High technology industries will argue for permanence, which would cost roughly \$10 billion over the next five years. The President’s 1993 budget called for a permanent extension of the R&D credit. The current Administration position is to support temporary extension, with a commitment to work for a permanent extension if appropriate offsets can be found. Republicans will probably offer other business tax incentives as well.
- Telecommunications: The House and Senate are both expected to introduce legislation that would reform the Communications Act of 1934. The right legislation will increase competition, stimulate private sector investment in the “information highway,” lower prices, give consumers more choice, and create jobs. The Administration would like legislation that promotes competition for local telephone service, gradually phases out the line-of-business restrictions that prevent the Regional Bell Operating Companies from entering long-distance and manufacturing, eliminates the cable-telco crossownership restriction, and reaffirms our historic commitment to universal service. Although there is broad agreement on the principles of the legislation, there are differences of opinion as to how to manage the transition from the status quo (government regulation and incumbent monopolists) to a competitive marketplace with little or no government regulation. There is also a possibility that Republicans may attempt to gut the 1992 Cable Act, which would allow cable companies to raise rates again.

- National Information Infrastructure: Telecommunications reform is only one element of the Administration's NII agenda. Other components include: achieving the President's goal of connecting all classrooms, libraries, hospitals and clinics to the NTI by the year 2000; promoting use of the NII in health care, electronic commerce, life-long learning, and the delivery of government services; increasing the dissemination of government information; and expanding overseas markets for U.S. information and communications goods and services.
- Base Realignment and Closure: The upcoming round of closures should be fairly large, around the same size as the Spring 1993 round. In February, Secretary Perry will announce DoD's recommendations to the Base Closure Commission, which will deliberate and make recommendations for the President's action at the beginning of July. The Administration must communicate the success of its 1993-94 policy changes, which promote economic development and ease worker transition. Several of the policy changes in addition to effective communication and continued implementation, ongoing policy adjustments may be required.
- Defense Economic Adjustment: Some of the Administration's investments to ease defense economic adjustment are targets for FY95 rescission or FY96 reduction/elimination by Republicans. The NEC will be closely involved in efforts to protect these programs, which are located in the Department of Labor, EDA, and the Department of Defense.
- Procurement Reform: There will be several opportunities to expand on what the Administration accomplished in last year's procurement reform bill. Republicans will introduce legislation early in the session to repeal or significantly reform Davis-Bacon; although the Administration will not get out in front on reform of Davis-Bacon, we should be in a position to shape a compromise short of repeal. There may be a similar opportunity to reform the Cargo Preference Act. The defense authorization bill will provide another vehicle for enacting incremental improvements to the procurement system.
- Restructuring federal transportation programs: The President's Budget will propose a complete overhaul of federal transportation grant programs. Congress is likely to take up the core elements of the President's proposals, including: spinning-off the Federal Aviation Administration's air traffic control services into a government-owned corporation; establishing a network of State Infrastructure Banks that will allow states new flexibility in the use of federal transportation funds; and replacing dozens of separate grants for aviation, highways, transit and rail with a single "infrastructure investment" block grant to states and localities. Congress must pass legislation designating a "National Highway System" by the end of the fiscal year in order to avoid disrupting the flow of federal highway grants to states.
- Community Economic Development: Our three signature community development initiatives are: the Community Development Banking and Financial Institutions Fund (CDBFI), the Empowerment Zones and Enterprise Communities Initiative (EZ/EC) and

Community Reinvestment Act Reform. All three are relevant to spurring the availability of capital, investment, and local strategic action to revitalized distressed urban and rural communities. The NEC must continue to play a strong role in ensuring that these initiatives are well-implemented, protected from rescission, and fully-funded.

- Urban Policy: The National Urban Policy Report, a legislatively mandated report due in Spring 1995, offers an opportunity for the Administration to articulate a coherent urban vision that is consistent with the Middle Class Bill of Rights. The NEC must continue to play an active role in shaping these activities, as well as agency reforms, particularly at HUD and DOL/DoED, arising from the FY96 Budget.
- Community Enterprise Board: The head of the NEC serves as a Vice Chair of the Community Enterprise Board (“CEB”), a group comprised of 15 agency heads that was created to help implement the EZ/EC initiative and respond to comprehensive state and local strategies to revitalize distressed communities. (The VP is Chair and DPC is another Vice Chair.) The CEB and its subcommittees (Indian Economic Development: Local Consolidation plans) will be a focal point for reinventing government -- changing the federal government’s relationship with state and local government by providing a one-stop response for multi-agency waiver and program consolidation strategies. Because the NEC is vested with the Vice Chair role and because of the importance of the CEB to ensuring the success of Empowerment Zones, the NEC must continue to be actively involved in the CEB working group.
- Minority Business: The NEC played a lead role in working with OMB, SBA, and WH Public Liaison to develop Executive Order 12928, promoting procurement with small, disadvantaged businesses. To expand economic/middle class opportunities for minorities, the NEC should continue to participate in an informal working group led by White House Public Liaison, SBA and OMB (Office of Federal Procurement Policy) that focuses on expanding procurement opportunities for minority business.
- Civil Rights: The NEC reviews all civil rights issues/initiatives for economic implications. More importantly, an NEC/DPC working group (sub-group of ETR) has identified discrimination in hiring as a critical barrier to workforce participation by minorities, particularly minority males. As a result, DOJ, EEOC and DOL are quietly developing antidiscrimination models (demonstrations using testers) and the NEC should continue to support this work over the next two years. A Civil Rights Working Group lead by DOJ, OMB, and DPC, is beginning a review of civil rights policies. Because lax antidiscrimination enforcement has been shown to have a direct impact on employment trends for minorities, the NEC should be active in this working group.
- Other Activities: Other activities in which the NEC is involved:  
Habitat II (a 1996 international conference on global urbanization)  
G-7 Summit  
G-7 Summit on the Global Information Society  
White House Conference on Small Business

### III. LESSONS LEARNED FROM THE FIRST TWO YEARS

This section summarizes the staff's thoughts on lessons learned from the NEC's first two years of operation. As the comments are drawn from different staff members, they may be inconsistent.

- There is no obvious roadmap to working with other WH offices, and no project managers in the Chief of Staff's office who can bring together a group to undertake a special project. NEC staff should think hard and early about other offices that can be of assistance (or must be included), and sometimes must actively recruit participants, remembering that many offices focus narrowly on the President's concerns and tend to have very short planning horizons. In other words, sometimes new organizations have to be created around special projects.
- There are channels of action and communication in which the NEC is not naturally involved, particularly at the staff level. These include the budget, strategy and communications, legislative relations, and political affairs. Unless the NEC staff actively reaches out to address these issues, we will find that (i) on issues where we have the lead, we will get to the end of the process and discover further support lacking, and (ii) on issues where we're interested but don't have the lead, we will be left out and our (perhaps valuable) insights lost.
- "No sharp elbows" really is a good rule. In general, we have done much better when we have offered our services, than when we have demanded leadership. However, persistence is also essential; if you're not visible around here, you're forgotten.
- There's too much to do and not enough people to do it. Some of us have reacted by relatively narrow specialization -- with good results in the chosen field. Others have spread far more broadly, with generally acceptable results on the coordination front and less impact on individual programs. A new head of the NEC either needs to live with this dichotomy or needs to make major management changes.
- We must be particularly vigilant in articulating the Clinton vision/message to the agencies so that the agencies programs and initiatives reflect this vision. Too often signature Clinton initiatives compete with agency priorities for limited resources. We need better systems for preventing this "competition," and for integrating the vision of the White House into agency missions.
- Average Americans do not seem familiar with the President's legislative and policy achievements, e.g., the Lifelong Learning Agenda, Community Development/Capital Access initiatives, the EITC, etc. With less than two years to go before November 1996,

the NEC should focus more energy on working with WH Communications to get the message out about these initiatives.

#### IV. STAFF SUGGESTIONS REGARDING THE DAILY OPERATION OF THE NEC

This section summarizes staff suggestions regarding the internal operation of the NEC--primarily the dynamic between the Assistant and Deputy Assistants and the staff. Again, as these comments reflect a number of persons' views, they may be mutually inconsistent.

##### A. COMMENTS ON THE INTERNAL STRUCTURE OF THE NEC

- As I see it, the NEC staff was set up on a model that was appropriate for Clinton's ambitious agenda and strict WH staffing constraints. Where the NSC's structure reflects organizational rigidities (command and control) of the time of its creation (a big 1950s car company comes to mind) and the military (sensible, since the NSC deals with security issues and draws staff from the Pentagon), the NEC was modeled on more modern organizations: flat, agile, blurred boundaries, ad hoc teaming. In fact, Bo said at the time that he saw the NEC staff structure as being like a consulting firm, combining to work on various projects as they arose.
- After two years, however, things are different. I doubt we'll be sending a huge number of policy initiatives up to the hill, and suspect our new leader will want to focus on implementing and defending what we care about and communicating more effectively. Management may actually begin to matter.
- At the very least, I would think the new leader deserves a special assistant (to handle press, politics, and general support), while the staff deserves a staff director, who should live with the staff in OEOB and meet daily with the three at the top in order to keep the issues staff well-informed. The focus of this person would be communication between the staff and the West Wing, paper flows, links to the rest of the White House (we're not always well plugged-in), links to the agencies, oversight of special projects, etc. Nancy Soderberg/Will Itoh may be a model.
- An alternative to this approach would be to bolster the Bo Deputy position -- no one in Bo's peer group operates without a special assistant, and Liz does the work of several (scheduler, executive assistant, receptionist). With some support, this position might provide the management drive, but this may be unrealistic, since that position is also the driver of both international and domestic economic policy.
- If I were head of the NEC, I would
  - appoint 3 deputies--one to manage international issues, one to manage domestic issues, and Gene to manage communications issues;
  - appoint a chief of staff focused on administration and paper flow;
  - hire an overqualified young person to draft letters;

- formally team each NEC staffer with the legislative affairs staffer and the political affairs staffer who covers similar issues.

## B. COMMENTS ON THE INTERNAL OPERATIONS OF THE NEC

- The most significant change I would make centers on the internal communications flow of the NEC. Papers go up, record keeping is virtually non-existent, answers sometimes come back, decisions are made and we sometimes here sooner rather than later, information and reactions rarely flow downhill, most of us are in the dark about each other's work and ideas, and POTUS feedback is next to nil.
- If I were head of the NEC, I would
  - formalize paper flow, emphasize records management. Yes, sometimes there would be forms to fill out, but a paper trail is important.
  - establish procedures for document cc-ing and internal distribution as well as standard forms for various types of memos going upwards -- informal, small note, decision, correspondence covers, etc.
  - establish mandatory record-keeping, including returned originals with decisions checked, marked, noted or whatever.
  - require guaranteed return of notes, memos with notations -- read, ignored, used, thanks, no good, etc.
  - standardize the procedures for preparing for interagency meetings, e.g., agenda, documents, attendance, distribution of background papers.
  - distribute internal analysis to all staff. This includes CEA announcements of data release and interpretations, papers other agencies provide to Cutter/Rubin, etc."

## V. A SECOND OPINION

Some NEC staff--or more likely all NEC staff at one time or another--believe that the role of the NEC should be fundamentally reexamined. This section offers one member's observations in this regard.

"Policy, rather than process, should guide the NEC. The President's much-storied campaign mantra, "It's the economy, stupid," provides the rationale for the creation--and the mission-- of the NEC. Put simply, the NEC should focus its energies and limited resources on helping the President define, articulate, and provide leadership in formulating and communicating a national economic policy that can dominate American political life for a generation (and, hence, guide the agencies and the Congress, lead the public and the parties, now and in the future). Without such a clear focus, the NEC--apart from any personal style, relationship, and authority of the new NEC head with the President--runs a real risk of merely turning into a "third wheel," to the NSC on foreign policy, the DPC on domestic policy, OMG on the budget and with the Agencies, the CEA and the Treasury on economic issues, and the OVP on governmental reform. The analogy for the NEC's mission should be achieving for national economic policy in this time of transition following the end of the Cold War what the NSC

achieved for American foreign policy during the years of transition following the end of World War II.

The challenge for national economic policy is straightforward: how to make a successful transition from the stagnating wages and living standards, and small productivity increases, of the old American economy during the second generation of the Cold War to a vibrant new American economy with smartly rising productivity, wages and living standards in a post-Cold War era of global competition, whole new means of production through information and communication, and world-wide economic growth. Stated another way, the issue is whether we can articulate a national economic policy that empowers the American people with the opportunity to earn a rising income and, thereby, to build as burgeoning a middle class over the next generation as America achieved during the first generation following World War II.

Given the increasing limits on any national government's authority in such a global economy and the other marked difference in circumstances today and fifty years ago, this may seem a tall, if not daunting order. But the NEC--and this President--will ultimately not survive the 1996 presidential election unless we establish such a national economic policy as the majority, position in the country.

I believe that the NEC has articulated six components to such a national economic policy, the first four of which have already been embraced by the President and are well on the way to becoming the mainstream position of both major national parties; the last two components, for different reasons, may be of less certain position and standing.

- Put our Federal Fiscal House in Order: Reorder the federal budget to reduce the annual federal deficit and to shift from financing consumption to encouraging investment.
- Tear down barriers to global free trade: The elimination of trade barriers will open burgeoning foreign markets in the increasingly global economy to American-made goods and services (as well as American-style democracy and free enterprise), assure the best quality products at the most competitive prices for American consumers, and stimulate economic growth at home and abroad.
- Increase the opportunity for all Americans to learn and to apply new skills: This holds the key to unlocking the productive capacity of every family and individual to earn higher wages and living standards by learning and applying new skills to more productive and rewarding work. In the new global economy America's choice is: high wages (from continuously learning and applying new skills to add more value to goods, services and products) or low skills (which will earn relatively lower wages in the face of technological advance and, literally, billions of workers around the world striving to build a better future for themselves and their families). Investing in skills and lifelong learning is a paramount national economic priority for the United States.
- Transform the federal government: Move toward a government that is smaller, focuses on fewer priorities in which it can play a constructive role, and fully recognizes the costs and benefits of any regulation or mandate it imposes. This is more than just a reinvention

of how the federal government does business; it is a total transformation what the federal government does as well.

- Increase the investment in technological innovation and encourage its application in the workplace: Increasing the rate of productivity increase depends on applying higher skills to new technology so that greater value is added to the goods and services produced and distributed per hour of work. The difficult issue here is what role government can constructively play in developing and exploiting new technology.
- Evaluate the extent to which the evolution from a national to a global economy has a counterpart in the evolution of the national economy into the sum of a shifting set of local regional economies. This will involve determining the extent to which such evolutions in the basic economic building blocks may alter national economic analysis and policy. Although this is the most tentative and exploratory of the components of national economic policy, it may have far-reaching implications in the future--for defining appropriate federal priorities, roles, regulations-mandates, and relationships with states, localities, communities, regions, firms and families.

In sum, there are three reasons for such an approach to the role, function, and structure of the NEC:

- Over the next two years when we do not control congressional calendars, issues, and legislation, it is critical that we have a clear national economic policy to guide both our direct communications with the people and constituents and our cooperation, counterpunches, compromises, and vetoes with the Hill.
- We cannot beat any economic policy posed by the Republicans unless we go directly to the people with a clear national economic policy of our own. The President deserves the opportunity to articulate a clear national economic policy to capture a new majority of American voters.
- An NEC honest broker operating without an established, presidentially approved NEC policy direction may help to reach consensus among competing agencies and constituencies or to present competing options to the President, but such an honest broker without a clear direction does not necessarily help to articulate, let alone implement a compelling national economic policy for the President.