

THE WHITE HOUSE
WASHINGTON

November 30, 1994

MEMORANDUM FOR BOB RUBIN & BO CUTTER

FROM: Peter Yu

SUBJECT: Attached Memorandum

A number of NEC staff have been discussing the future of the NEC. As part of those discussions, I prepared the attached memorandum. I thought you might find it of interest.

Thanks.

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. 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.

I. LOOKING BACK: SEVEN ROLES OF THE NEC

One can distinguish among seven functions the NEC staff¹ 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, facilitates, and referees the decisional process. There are dozens of examples of this function: such as Japan negotiations, 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, infrastructure investment, and urban policy.
- (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.

Over the first two years of the Administration, the NEC has evolved very quickly and has functioned remarkably well. The dramatic mid-year changes, however, require a critical

¹ This discussion does not include Bob’s, Bo’s, or Gene’s roles as individual advisers to the President.

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 reconsider 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 be more reactive than they were during the first two years.

In addition, with one exception, the current Administration agenda does not suggest a central role for the NEC. The current agenda includes: health care reform, welfare reform, the budget process, and political and governmental reform. While DPC and NEC are collaborating on health care reform, welfare reform is DPC-centric; the budget is OMB-centric, and governmental reform is OVP-centric.

There is, of course, no reason why the NEC *must* play a central role: agency aggrandizement has never served Presidents well. Rather the point is that the coincidence of these changes requires a reexamination of the NEC's roles. Of the seven roles outlined above, several will likely be less relevant in the coming years; for example:

- The "interagency manager" and "policy development" functions will be less significant because of the emphasis on implementation and the Republican agenda.
- The "strategic planning" function will likely be overshadowed by a shorter-term focus on reelection.
- The "economic perspective" function will be less prominent but more refined. The NEC will need to distinguish rational regulation from reactionary deregulation, clarifying how the Administration and the Republican Congress differ on *some* of these issues.
- The "liaison" function will be transformed. 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 reconsidering 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. Expanding the NEC's role will require significant effort, however, and may require some reform of internal NEC operations.
- 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 addressed in the existing processes 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. Currently, however, the NEC lacks the capacity (i.e., strong contacts with Members, a war-room like capacity to combine policy and communications, and management-and-control mechanisms) to do this effectively.

- *Stand ready to facilitate negotiations.* There is some possibility that the new Congress will itself encounter gridlock as some interests push too hard and others refuse to compromise. If the NEC stands ready to facilitate negotiations in these circumstances, it could play a critical role in breaking that gridlock. To do this, the NEC would need to develop relationships with key Republicans.

III. 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 reconsider 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 approval and assistance of Legislative Affairs, NEC staff should develop direct contact with key congressional staff to minimize 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 trust between these offices and the NEC. This needs to be corrected.

CLOSING REMARKS

This paper does not offer conclusions. It is designed primarily to provoke thoughtful reconsideration of the NEC's roles and functions as the Administration enters its third year.