

THE WHITE HOUSE

WASHINGTON

October 7, 1996

MEMORANDUM FOR TOM O'DONNELL

FROM: Ellen Seidman

SUBJECT: The NEC

The NEC's Successes

General

1. Getting the economic team recognized as a team and as a real player in domestic policy discussions

There are two major elements of NEC success here: (i) making certain that discussions of domestic issues included consideration of economic elements, both economic issues intrinsic to the particular policy issues under discussion and broader macroeconomic impacts of potential policies; and (ii) bringing team members together so that they could develop a coherent and consistent message. Both the 1993 budget and the 1996 initiatives were key examples of success of this nature. It is also possible that initiatives such as school-to-work and skill grants were able to overcome -- at least at the top political levels -- the bureaucratic imperatives of the Education and Labor Departments in part because the discussion was in the language of economic growth. A structural part of this success was bringing the CEA, with its professional economics expertise, back to the table, where it hadn't been since about 1976. This was particularly apparent in the regulatory reform discussions and in some environmental issues, such as superfund.

2. Adding a coordinating device for non-budget issues to the OMB-based system

OMB runs a very useful set of coordinating mechanisms in the budget, regulatory and legislative arenas. However, these tend to be one-issue-or-regulation-or-bill-at-a-time discussions, and sometimes get held at too low a level to be really creative and constructive. Moreover, at least on budget matters and perhaps regulatory ones, OMB is perceived as a player with a clear agenda, not an "honest broker." The NEC has provided a useful forum for development of policy on a broader basis, at a higher level.

3. Creating a forum for dealing with inherently inter-agency issues, such as pensions, insurance and trade

A number of issues are inherently inter-agency either because more than one agency has clear jurisdiction over it or because no agency is really in charge. For example, pension policy is firmly in the hands of both the Treasury and the Labor Department. And no executive branch agency is responsible for securities law regulation, which is largely the province of the SEC. In these situations, as well as with trade, the NEC was able to establish on-going interagency forums that allowed for coherent policy development and a more unified Administration front than has usually been the case. However, this system has worked less well when one agency has had the lead in an area in which other agencies are interested. Then, a combination of turf consciousness, lack of serious high-level interest on the part of the secondary agencies, and log-rolling made the process less successful. For example, the Treasury was very conscious of wanting to do banking modernization policy by itself and once the NEC working group figured out that earthquake insurance was an issue that needed to be part of a broader natural disaster policy, FEMA decided to pick up the ball and go home.

Substantive successes

1. Pension policy

The NEC has helped take pension policy off the back burner and make it a real success for the Administration. The pension working group -- NEC, CEA, OMB, Treasury, DOL, PBGC -- started in March 1993 and has been working together ever since. It has developed two successfully-enacted pieces of legislation: the Retirement Protection Act to strengthen the traditional pension system and the PBGC, and the pension portions of the minimum wage bill which expand pension coverage by simplifying the system. In addition, the working group served as a forum for discussion and development of administrative actions and for broader policy development and, on occasion, event planning.

2. Urban economic development issues

The NEC helped create a presidential, White-House-based urban economic development policy that simply would not have come out of the agencies left to their own devices. The focus on encouraging private businesses and development rather than government programs, on protecting CRA, using the GSEs and establishing the CDFI fund would not have happened had HUD or Treasury been left to develop the initiatives. Later additions such as brownfields expensing and the more economic-development-oriented second round of EC/EZs also showed the NEC stamp. The NEC was also important in making certain that the first round of EC/EZs relied heavily on private participation and leverage.

3. Maritime subsidies and state infrastructure banks

These two issues came early in the term and could easily have been disasters, because the Administration could simply have pandered to the spending advocates or could have listened to those who wanted to do away with all federal support for either the maritime industry and infrastructure other than highways -- politically thoroughly untenable positions. The NEC helped negotiate intelligent compromise solutions in both cases, and the issues have never seriously resurfaced as problems.

4. Base closure, technology

[I hope you get some good stuff from Dorothy, because these were real NEC successes.]

5. Homeownership, banking regulatory reform (including interstate), BIF/SAIF fix

These are issues where single departments (HUD and Treasury) had the lead and did the vast bulk of the work. However, the NEC, by bringing a White House presence to the issues, was able to (i) in the case of homeownership, take a program that could easily have either languished or become another government spending program, and help HUD keep it focused on partnerships and give the President, not just HUD, credit for it; and (ii) make certain that the banking issues became Administration, not just Treasury, priorities and that Administration priorities within the broader topics were developed and respected.

The NEC's failures

General

1. Letting health care, welfare reform and many of the initial environmental policies develop without sufficient economic policy input

These were largely tactical decisions by Bob Rubin, and may well have been important in enabling the NEC to be successful in many other areas, but all these policies could have benefitted from greater NEC involvement. This is also a set of special cases of a broader problem: the extent to which the NEC can force policy development in areas where politically the best choice appears to be not to have a policy at all. See Car Talk, Retirement income security and civil legal issues, below.

2. Losing much of its policy development focus after November 1994

After about November 1994, the NEC switched largely from assisting in the development of major Administration policies to holding on to what had been developed, working on the budget (done almost exclusively at the most senior levels), and providing a forum for discussion of relatively minor, if annoying issues (e.g., Mexican tomatoes). Much of this was due to (i) the long interregnum; (ii) the Republican sweep in Congress, which left the agencies (and the economic agencies in particular) prone to make their own deals on the hill and the President relatively weak through 1995; (iii) the continuous front-and-center nature of the budget through all of 1995 and 1996; and (iv) the fact that the third and fourth years of a term are largely ones of consolidation rather than new initiatives. Nevertheless, a more focused NEC that had not undergone a 6-month leadership vacuum at just the wrong time might well have been able to be more productive in the second half of the term, in areas other than the budget and individual initiatives.

Specific

1. Financial services modernization

This is one of the major issues for the next decade, and one in which the government has an inherently important role, as regulator, as the center of the payments system and monetary policy, and as participant. At the beginning of the term, OMB, CEA, Treasury and NEC were ready to take on the issue, which would have required a significant amount of both internal resources and outside assistance. For a number of reasons, including Treasury's desire to handle the issue alone, enactment of a law mandating a Treasury study and commission to consider the issue, and thin NEC resources, we never pursued the issue. The result is that, while a fair amount of work has been done on the technology issues, the larger regulatory issues are simply going along with somewhat better coordination, but little serious policy development. Whether the Administration would have been better prepared to work with Congress on banking reform in the 104th had we gotten farther on the issue, or whether the Hill landscape was going to make this a disaster anyway and we're just lucky nothing happened, is unclear.

2. Disaster assistance reform

The NEC working group that was established after the Northridge earthquake was very effective in (i) stopping really bad insurance bailout legislation that was gaining serious momentum; and (ii) getting the Administration a seat at the table in the insurance debates. However, when FEMA decided that the working group was infringing on its turf and had become a opportunity for

the economic agencies to "gang up" (yes, they really used that term) on FEMA, the exercise lost its focus and led to an unpleasant finale on the Hill.

3. Car Talk

It's unclear whether this was a success or a failure. By bringing all the parties together for a year in an unsuccessful attempt to reach some sort of consensus on how best to reduce greenhouse gas emissions from cars and light trucks, the Administration (i) demonstrated exactly how hard this was and (ii) dodged calls for increasing CAFE at a time when politically the Administration did not want to do it, delaying the entire action until after it became clear even to the environmentalists that a press to increase CAFE was likely to be counterproductive. And, moreover, the group that worked together developed a fair amount of understanding of the complexity of the issue from a variety of perspectives and some level of trust for each other. However, as an attempt to come to a positive resolution of a difficult policy issue, this was a failure.

4. Retirement income security

This is clearly a major issue for the second term, and one we all knew would be easier to solve the earlier we tackled it. Yet, neither the NEC nor any of the other policy agencies was able to move on any part of this issue -- except the private pension system -- through the first term. This is not only an NEC failure -- DPC and OMB are other candidates for the title -- but it's an area where one might wish the NEC had figured out some way to move the policy ball without hitting the political third rail.

5. Civil legal issues with economic impacts

Certainly after Peter Yu left, we did not cover this area very well, and neither did anyone else in either Justice or the White House. All parties were dealing with these issues solely as a crisis-oriented sideline, not with the sustained care they deserved. Whether this led to the embarrassing results on securities litigation reform is hard to know; it clearly hurt the White House's ability to be a constructive part of the debate on both securities litigation reform and broader tort reform -- although maybe politically that's where we wanted to be.