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WHITE HOUSE STAFFING MEMORANDUM

SENSITIVE

DATE: 12/20/90

ACTION/CONCURRENCE/COMMENT DUE BY: 5:00pm 12/21/90

SUBJECT: DPC DECISION MEMO ON EMPOWERMENT

	ACTION	FYI		ACTION	FYI
VICE PRESIDENT	☐	☒	MCCLURE	☒	☐
SUNUNU	☒	☐	NEWMAN	☐	☐
SCOWCROFT	☐	☐	PORTER	☒	☐
DARMAN	☒	☐	ROGICH	☐	☐
CARD	☒	☐	UNTERMAYER	☐	☐
CICCONI	☐	☒	<u>PINKERTON</u>	☒	☐
DEMAREST	☒	☐	<u>BOSKIN</u>	☒	☐
FITZWATER	☐	☐	<u>ANDERSON</u>	☒	☐
GRAY	☒	☐	_____	☐	☐
HAGIN	☐	☐	_____	☐	☐
HOLIDAY	☐	☒	_____	☐	☐

REMARKS:

Please provide your comments/recommendations directly to Holly Williamson with a copy to my office by 5:00pm Friday December 21. Thank you.

RESPONSE:

CLOSE HOLD

SENSITIVE

James W. Cicconi
Assistant to the President
and Deputy to the Chief of Staff
Ext. 2702

THE WHITE HOUSE

WASHINGTON

December 18, 1990

MEMORANDUM FOR THE PRESIDENT

FROM: THE DOMESTIC POLICY COUNCIL

SUBJECT: An Action Plan for Economic Empowerment of People

BACKGROUND:

The Domestic Policy Council (DPC) met on November 28, 1990 to consider a series of ideas designed to give people access to jobs and the power to make choices that will better their own lives and the lives of their families and better their communities. The DPC directed that the ideas be developed into full options for your consideration. OMB has also incorporated many of the initiatives into the FY92 budget process.

The options presented in this paper outline the beginning of an entrepreneurial, market-oriented war against poverty. We can expand opportunities by changing expectations and attitudes about the future. People with access to property, jobs, and quality education have a stake in their community, more pride, and greater incentive for productive social behavior. More importantly, poor people with new and abundant economic opportunity have hope for the future -- the single greatest weapon against poverty and despair.

The problems in our inner cities and poverty areas require bold solutions. Progress in ending poverty begins by rejecting the view that wealth is static, that fairness means redistributionism, and that poverty is perpetual. As you have said, we know what works to solve poverty -- freedom works. Freedom, free markets, free enterprise, private property, and homeownership are the most powerful tools to expand opportunity. There is nothing new about free enterprise principles. What must be new is a bold determination to offer solutions, to break down barriers to opportunity, and to question status quo thinking.

It has been said that the objective of empowerment is "to make it possible for the poor to act like consumers, controlling their own resources and making their own choices. It means enabling community organizations to play a much larger role in catering to those consumers." Decisions about what people need are best made by the people themselves. In short, the objective of this set of initiatives is to give people the power to make decisions and the incentive to take control of their own lives.

WHAT WE ARE DOING NOW:

1. Evaluations of Existing Demonstration Projects: During the Reagan Administration, the Low Income Opportunity Board (LIOB) received requests from 26 States for waivers from current Federal rules to launch welfare demonstration projects. Of these, 14 State requests were approved and are now under way. Typically, these programs are operating in a few counties in each State.

There is a great deal of diversity in the 14 State demonstrations (see Attachment A for a list of State demonstration projects). Alabama, for example, is testing a major simplification project, in which the AFDC, Food Stamp, and Low Income Home Energy Assistance programs are merged into one cash grant with a unified set of rules. West Virginia is encouraging welfare recipients to start their own small businesses. Wisconsin requires both teenage parents receiving AFDC as well as teenagers in families receiving AFDC benefits to stay in school -- those not meeting minimum school attendance requirements receive a reduced AFDC grant.

All of these demonstration projects were required to have an evaluation component. Generally, evaluations were required after three years, so although no evaluation results have been received thus far, the first evaluations are due in 1991.

2. Recent Administration Accomplishments: The Administration has already accomplished a great deal in its first two years. For instance, the Congress enacted the Administration's child care proposal and HOPE proposal, and expanded Head Start. You have promoted the idea that a successful life must include voluntary service to others. And your advocacy of educational choice has helped to spark a grassroots movement across the country. The recent budget agreement also included several initiatives to empower people, such as the Earned Income Tax Credit expansion (\$12 billion over five years), the Child Health Tax Credit (\$5 billion over five years), and funding for child care vouchers. All of these accomplishments are part of the Administration's effort to protect and enhance individual power.

3. Distributional Analysis and Services Integration: The Economic Empowerment Task Force, chaired by Secretary Kemp, was directed to conduct an analysis of the distributional effects of existing programs in order to better target funds to the poor. CEA has taken the lead on the distributional analysis. The Task Force was also charged with developing and implementing proposals to integrate Federally-funded social services. HHS has taken the lead for the services integration effort and Agriculture has responsibility for the "Welfare Simplification and Coordination Committee" mandated in the 1990 farm bill. Results will be reported to the DPC in mid-1991.

EMPOWERMENT REGULATORY AND ADMINISTRATIVE ACTIVITIES THAT CAN BE IMPLEMENTED UNDER EXISTING AUTHORITY:

The Economic Empowerment Task Force, chaired by Secretary Kemp, learned that all the Departments are actively and creatively looking for ways to empower people and make government work better for people. These activities are primarily administrative or regulatory in nature; some are ongoing, others can be implemented within current law and resources. (Attachment B is a partial listing of regulatory and administrative empowerment ideas.)

For instance, through demonstrations authorized by the 1990 farm bill, the Department of Agriculture will improve coordination between the Food Stamp Employment and Training program, the new Job Opportunities and Basic Skills (JOBS) welfare work program, and possibly Labor's JTPA program. The Department of Education just opened an educational choice clearinghouse. The Department of Justice leads "Operation Cleansweep," an inter-agency effort to rid public housing of gangs and drug trafficking. HUD will promote incentives in housing programs for savings and removal of perverse disincentives that thwart family unification and entry into the workforce.

Other issues are already being addressed in the FY92 budget process. For example, the Department of Agriculture and OMB have proposed that the FY92 Budget significantly increase funding for the WIC program, which provides supplemental food for mothers, infants, and children and educates women so that they are capable of making appropriate nutritional and health decisions for their children. An important component of any empowerment strategy is empowering parents to make responsible decisions for their children and contribute to their children's development.

OPTIONS READY FOR POSSIBLE INCLUSION IN THE FY92 BUDGET AND FOR USE IN THE STATE OF THE UNION ADDRESS:

Policy options are presented here for your consideration. These options are not intended to be an exhaustive list of all empowerment initiatives that the Administration will pursue, or even a list of all options that the Task Force will formulate and propose to the DPC. Budget-related issues affecting these options will be decided in the FY92 Budget review process.

While the options are presented here as individual items for consideration, it should be kept in mind that a "critical mass" of initiatives is necessary to mount a credible war on poverty. No single activity can empower the poor; poverty cannot be eliminated overnight. If people are to leave poverty, they must have various, often interconnected, avenues by which to become

independent. The Administration's initiatives -- from educational choice, to making housing more affordable, to creating additional work incentives -- must comprise an integrated and coherent strategy to provide opportunity and empower low-income Americans.

The options are derived from proposals made by agencies participating in the Task Force. They have been arrayed within five broad categories: Housing; Education and Training; The Economy and Jobs; Family; and Empowerment of Welfare Recipients.

HOUSING:

1. Fund HOPE: You signed HOPE (Homeownership and Opportunity for People Everywhere) legislation in November. HOPE authorized several new and important initiatives advocated by the Administration, such as empowering public housing residents by encouraging them to own or manage public and assisted housing, and making government work for people by improving the link between housing and services for the homeless.

HOPE is the most far-reaching housing legislation since the 1960s. No funds, however, were appropriated for important components of HOPE in FY91. According to HUD, funding HOPE is vital to achieving the Administration's public goal of a million new low-income homeowners by 1992. (HUD has submitted to OMB an FY91 supplemental request with its FY92 budget.)

Pros:

- o The Administration can demonstrate its commitment to housing for poor families and children, the homeless, and first-time home buyers by funding HOPE in 1991.
- o HOPE is a model empowerment initiative. Funding it now will demonstrate the Administration's conviction to empower people and will give impetus to this approach to social problems.
- o The housing market is depressed. HOPE could to some degree help the economy by creating new home sales.
- o HOPE targets Federally-owned properties currently in FHA or RTC inventories. Transferring these units to first-time home buyers will add dollars to the Federal Treasury.

Cons:

- o Funding a new program this year at the same time that the Administration proposes a FY92 budget with cuts in established programs may not be supported by Congress.

- o It is likely that, in return for funding HOPE, Congressional Democrats will want to fund their new housing program, HOME.

EDUCATION AND TRAINING:

2. Promote Educational Choice: During the last two years, educational choice initiatives have been undertaken in more and more jurisdictions across the country. East Harlem, New York; Cambridge, Massachusetts; Milwaukee, Wisconsin; and the State of Minnesota have implemented choice programs that permit parents to determine which schools their children should attend. The Federal government, however, has not reformed its programs to support local choice initiatives.

The Federal government could encourage restructuring through a choice demonstration and voucher program for all fifty States and the District of Columbia. Each State would be awarded a grant for a single demonstration project in return for a mutual agreement with the Federal government to waive certain regulations. Each project would be required to agree to set performance objectives related to the National Education Goals and to report publicly on progress toward them. Projects would provide for, but not be limited to, educational choice among and between public schools and include special awards for excellence to high performing schools. A portion of Chapter 1 funds might also be targeted only to school districts that employed voucher programs, thus encouraging proliferation in low income areas.

Pros:

- o Would provide Federal program resources to facilitate and evaluate urban restructuring and parental empowerment.
- o Emphasis on urban areas targets Federal resources on highest concentration of low income families and at risk children.
- o Reforms of urban school districts provides opportunity to impact on population most at-risk of not attaining National Education Goals.
- o Provides maximum flexibility for community/district selection of options most appropriate to local educational problems.

Cons:

- o Legislation may face opposition from school restructuring and choice opponents on the Hill and in public education.
- o Could face a constitutional challenge if potential choice options include religiously affiliated schools.

- o Might pose administrative difficulties in establishing a mechanism to transfer funds from local school districts to other providers.

3. Reintroduce Education Flexibility Legislation: Schools need to innovate if the nation is to achieve its educational goals. While most of the necessary reform must come from the State and local levels, Federal programs can be modified to complement imaginative and effective change. A proposal supported by the Administration for waivers and flexibility in education-related programs failed to pass Congress this year.

Pros:

- o Flexibility would permit the resources associated with some of the Department of Education's 208 programs to be spent at State and local levels with fewer regulatory constraints.
- o Reintroducing the flexibility legislation would follow through on one of the major commitments coming out of the Education Summit with the Governors.
- o This would enhance services integration efforts by granting to the Department of Education similar waiver authority to that already held by other Departments.

Cons:

- o The Administration's proposal received opposition both from conservative Republicans and from Democrats.

4. Job Training for Public Housing and Other Low-Income Residents: The Administration could actively promote an aggressive services integration initiative that is now being developed by HUD, HHS, and Labor that would bring job training to public housing residents. This project is being shaped by recent research by the Rockefeller Foundation showing that job training programs that integrate an array of basic education and specific skill competencies are most effective in making low-income people self-sufficient. Local initiatives, such as Project Self-Sufficiency (Operation Bootstrap), demonstrate job training for residents can be effective.

Pros:

- o Targeting job training to residents of public housing, and combining training with other empowerment initiatives for public housing residents, should create synergistic results.

- o Targeting job training on public housing residents has the effect of targeting those people who need help most because about one-third of all public housing residents are receiving public assistance.

Cons:

- o Combining services at public housing sites will increase the attractiveness of remaining in public housing, which could have the unintended consequence of discouraging people from moving out of public housing.
- o Neither public housing nor job training are entitlements. Targeting those who are fortunate enough to receive housing aid could create the appearance of inequitably helping one group at the expense of others.

THE ECONOMY AND JOBS:

A vital component of economic empowerment is the vigorous enforcement of civil rights laws. Racial and sexual discrimination are insidious barriers to economic opportunity. The Bush Administration will continue in its commitment to tear down these barriers wherever they exist. There are other barriers to opportunity that, while not explicitly racist or sexist, have a disproportionately adverse impact on minorities and women. These regulations, like Davis-Bacon discussed below, as well as local economic licensing laws, have the effect of removing the lowest rungs from the ladder of hope. The Bush Administration believes economic liberty is the logical next step for true civil rights enfranchisement and will urge the reevaluation of regulations limiting small-scale entrepreneurship. The specifics of this new civil rights agenda are being developed elsewhere.

5. Restore a Lower Tax Rate for Capital Gains: This proposal is not being presented for your decision at this time. It is presented here for discussion purposes only because economic growth is a vital component of any antipoverty program. The following statements express the opinions of the DPC Economic Empowerment Task Force.

Reduction in the capital gains tax rate would free up status quo wealth and to create the seed capital for new small enterprises that generate most of the job gains in America, especially in poverty areas. The first need of minority and small businesses is access to capital. A prerequisite to fighting and winning a war against poverty is restoring a dynamic entrepreneurial process in the inner city through a reduction in the capital gains tax rate for the nation, and eliminating capital gains taxation in the most distressed communities.

The U.S. capital gains tax rate is high by historical standards (see Attachment C) and the highest in the industrial world -- sometimes reaching as high as 75 percent or more for assets held for the long term. This rate stifles entrepreneurship everywhere, but especially in economically marginal areas in the inner city.

Reducing the capital gains tax rate to 15 percent would be scored as generating significant revenue losses by the Treasury. The Joint Committee on Taxation would probably score it as losing over \$20 billion over five years. Indexing the value of assets to avoid taxing inflated "gains" would also be scored as generating significant revenue losses -- between \$5 billion and \$20 billion.

However, a reduction in the tax rate on capital gains could be structured to assure it would be scored as generating more tax revenue. For instance, Treasury projected last year that the Administration's proposal would generate \$12.5 billion over five years. Moreover, the revenue models do not include estimates of the macroeconomic benefits of a lower tax rate on capital gains. As Martin and Kathleen Feldstein said last year: "Even a tiny increase in the rate of economic growth -- for example from 2.5 percent a year to 2.56 percent a year -- would add \$4 billion of extra revenue by 1993 and more than \$12 billion a year in extra revenue before the end of the decade."

A very low-cost way of cutting the capital gains tax would be to exempt taxes on gains from owner-occupied residences. Most gains are already exempted by allowing such gains to be rolled-over and by giving people over 55 a large exclusion. Thus the amount of taxable gains reported each year is quite small. But the actual burden on a family may be much greater. Taxpayers are required to continually buy more expensive homes in order to roll over their gains. This creates a burden for people, such as parents whose children have left home, who would like to trade-down to a smaller house but cannot do so without paying a large capital gains tax. It also forces people into debt as they take out home equity loans because they cannot realize the equity in their home any other way.

6. Create Enterprise Zones: Enterprise zones were removed in the final stages of the budget agreement last year and could be proposed again this year. The enterprise zone proposal would include both employment and investment and could be tied to Federal, State, and local regulatory relief. With a slower economy, enterprise zones are needed more than ever.

States have been experimenting with enterprise zones for several years. For instance, former Governor Kean implemented

enterprise zones with great success in New Jersey. Data from these experiments could be compiled to demonstrate the effectiveness of free market tools to rejuvenate inner cities.

Last year, the Administration proposed: 1) a 5 percent refundable tax credit for the first \$10,500 of wages earned by qualified employees in an enterprise zone; 2) elimination of capital gains taxes for tangible property used in a business located in an enterprise zone for at least two years; and 3) permitting individuals to expense some of the capital invested in enterprise zone businesses.

HUD believes that the enterprise zone proposal should also eliminate capital gains on intangible property -- e.g., goodwill or "sweat equity" -- as well as tangible property. HUD will work with Treasury to determine if the proposal can be modified to include intangible capital while avoiding the abuses about which Treasury is concerned.

Treasury estimated last year that phasing in these initiatives in 50 zones would reduce tax revenues by \$1.9 billion over five years. Following your decision, the specific design of enterprise zones could be developed within the budget process.

Pros:

- o Enterprise zones would concentrate incentives solely in the most distressed communities -- targeting tax expenditures where they are most needed.
- o The enterprise zone concept includes not only tax incentives, but will require a comprehensive local strategy to deal with the most distressed parts of rural and urban areas.

Cons:

- o Some think enterprise zones would primarily stimulate the shifting of assets into the zone from areas surrounding the zone and not generate sufficient new investment to pay for the incentives.
- o Targeting powerful pro-growth incentives into just a few areas might unfairly benefit some people. Across the board incentives might be seen by some as more equitable.
- o Some think that including intangible capital in enterprise zone proposals increases the risk of abuses.

7. Repeal the Social Security Earnings Test: The retirement earnings test is a statutory provision that requires the Social

Security Administration (SSA) to reduce, and in some cases withhold benefits if earnings exceed the annual exempt amount for that year. The provision affects beneficiaries under age 65 and age 65-69 differently. In 1991, the annual exempt amount for persons aged 65-69 will be \$9,720, and benefits are reduced \$1 for every \$3 earned over the exempt amount. For persons under age 65, the annual exempt amount will be \$7,080, and benefits are reduced \$1 for every \$2 over the exempt amount.

Some experts argue that the earnings test amounts to an increased marginal tax rate for the elderly of up to 33 percent for earned income over the exempt amount. With additional Federal, State and local taxes, the total marginal tax rate can be even higher. SSA estimates the cost for administering the earnings test at \$200 million a year. This provision may encourage elderly individuals to under-report income.

In 1989, SSA estimated that phasing out the earnings test for beneficiaries age 65-69 would cost about \$6 billion over the first five years, but could actually generate gains for the trust funds in the long run.

Pros:

- o Eliminating the earnings test would encourage work, increase the economic well-being of older Americans and help the economy by keeping skilled and experienced people in the workforce longer.
- o It would reduce the intrusion of the government into the lives of senior citizens and lower SSA administrative costs.
- o Congressional Republicans have strongly supported the elimination of the test.

Cons:

- o Elimination of the test would primarily benefit high income individuals. Complete elimination of the test for persons age 65-69 would result in 50 percent of the additional benefits going to families with incomes above \$59,000.
- o Some studies suggest the actual impact of the earnings test on the labor supplied by older workers is fairly small. There are many factors that affect the retirement decision, such as health condition and pension benefits, so repealing the test might have only a minor impact on work activity by older Americans.
- o If combined with other reforms of entitlements which would reduce benefits to wealthy seniors, it could become politically unpopular with a powerful group.

8. Improve Access of the Poor to More Jobs by Modifying Davis-Bacon: Davis-Bacon was enacted in the 1930s to require workers on Federally-financed projects to be paid the "prevailing wage." Some who supported the measure also sought to bar blacks from benefiting from the profusion of public works projects created by the New Deal.

The law continues to be a burden on new minority enterprises interested in openly bidding for contracts with the Federal government. It has been reported that it increases costs by as much as 25 percent for small enterprises -- and it prevents the government from helping the least skilled people, many of whom are black, take their first steps onto the ladder of opportunity and independence through open bidding for contracts with the Federal government. At the current threshold, virtually no project is beyond the reach of Davis-Bacon.

(a) Repeal Davis-Bacon.

Pros:

- o The repeal of Davis-Bacon would permit HUD to increase production of low- and moderate-income housing because it would reduce the cost per unit.
- o Davis-Bacon requirements are considered very burdensome by small minority businesses. If the law were repealed, many more of these businesses would be encouraged to participate in Federal economic development programs. A large part of job formation comes from small businesses.
- o Davis-Bacon is obsolete and unneeded because construction contractors supported by Federal assistance must pay fair and competitive wages if they are to obtain workers.

Cons:

- o Seeking outright repeal may backfire, leading to the reversal of significant reforms just implemented, such as the Department of Labor's new "helper" rule, which is expected to save up to \$610 million per year. For this reason, the Department of Labor strongly opposes this option.
- o Repeal would be difficult to get through Congress because of strong labor opposition. Even modest efforts at reform supported by Republicans over the last eight years have been defeated.

(b) Government-wide Reform of Davis-Bacon: Alternatively, a higher minimum threshold for Federal programs could be

established under which prevailing wages would not apply. The threshold could be raised to \$250,000 for every project, or more selectively -- for projects in the Community Development Block Grant program, for example.

Pros:

- o Raising the threshold would still result in significant budgetary savings.
- o Raising the threshold would be easier to pass in Congress, although it would still be difficult.

Cons:

- o Even if the threshold were raised, Davis-Bacon still imposes a regulatory burden.
- o There is still likely to be strong labor opposition.
- o Past efforts to enact such reforms have failed and, if attempted now, might put at risk Labor's new "helper" rule.

9. Target SBA Loans: The Small Business Administration (SBA) operates several loan and technical assistance programs which could be better targeted to promote entrepreneurship among low-income persons. SBA proposes several new initiatives:

- Micro-Loan Pilot Program: SBA will use \$17 million in FY91 funds to launch a Micro-Loan Pilot Program to provide loans of \$15,000 or less to economically or socially disadvantaged people who are starting or expanding a qualified small business. All applicants must undergo approved business training to be eligible for micro-loans.
- Cottage Capitalism Initiative: The SBA proposes extending a joint HUD/SBA experiment in Salt Lake City, Utah, to 10 new sites by reprogramming FY91 funds. In this experiment, SBA is teaching public housing residents about basic business concepts and helping them develop business plans. Local lenders have developed "micro-enterprise loans" to provide the start-up capital needed by graduates of the training program. SBA will attempt to develop similar non-Federal programs with lenders in the new demonstration sites. SBA will also work with the new Rural Development Administration to develop similar programs in low income rural areas.
- Entrepreneur Training for Disadvantaged Youth: The SBA has asked for \$425,000 in its FY92 budget submission to launch a new program to develop and provide entrepreneurial training materials for low-income youth. These materials, including

a model curricula for use by schools and local organizations, would be designed to inform and motivate young people about the opportunity of small business.

- Community Business Center Pilot Program: SBA proposes to establish experimental Community Business Centers in 10 locations at an FY92 cost of \$900,000. The Centers will offer access to SBA training, counseling, and micro-lending in inner-city areas, with hours, locations, and office environments designed to comfortably serve low-income clients. Two will be "Mobile Assistance Centers" which will visit public housing projects and low-income areas in urban and rural settings.

Pros:

- o Coordinating SBA activities with other programs, as is being done in Salt Lake City, creates synergies for both programs and helps leverage private sector involvement.
- o Efforts by several private, nonprofit organizations to lend small amounts of money to low-income entrepreneurs have shown promising success rates.
- o The opening of storefront business centers in inner-city areas, with late hours, multilingual educational materials and informal atmospheres, will make SBA programs more accessible to the poor and working poor.

Cons:

- o Entrepreneurial training for low-income clients is regraded by some experts as the least efficient use of business-development resources. Because low-income clients may lack requisite academic skills, or may not be able to obtain child care and other needed assistance, the business failure rate among these clients may be greater than among other client groups.
- o The micro-loan program may produce significantly higher loss rates than other government loan or loan guarantee programs. Relatively high loss rates must be an accepted risk if this program is undertaken.
- o The increased spending needed to make these programs successful will need to be offset by reductions in other programs. If these funds come from other business-development programs, we may be replacing more-efficient services with less-efficient services.

10. Revamp the Public Employment Service: The Employment Service is a State-run, Federally-funded program intended to help unemployed workers find jobs. It is an important, but not wholly successful, tool in minimizing the financial hardship and length of unemployment for workers. Currently, the Employment Service interprets its mission as being responsible for finding available jobs, then placing unemployed workers in those jobs. The openings identified by the Service tend to be for minimum-wage, day-laborer or clerical jobs. As a practical matter, the Service "skims" by placing only the best workers -- this assures that employers will continue to work with the Service in the future.

This option proposes that the Administration change the focus of the Employment Service. Rather than spending resources on trying to identify job openings (which the private market does very well through "want ads" and other mechanisms), the Service would focus its resources on job counseling, targeting low-income people and steering them to available training opportunities. The Administration could also propose tying continued Federal funding for each office on placement rates for low-income people and on placement rates for the long-term unemployed.

Pros:

- o Changing the focus of the Employment Service and instilling performance standards and incentives would increase the social benefit of a program that is not currently working well.

Cons:

- o If the economy has slipped into a recession, targeting activities of the employment service may not be politically feasible at this time.

FAMILY:

11. Restore the Value of the Personal Exemption: This proposal is not being presented for your decision at this time. It is presented here for discussion purposes only because economic growth is a vital component of any antipoverty program. The following statements express the opinions of the DPC Economic Empowerment Task Force.

In 1948, the personal exemption allowed each individual subject to tax to deduct \$600 from his or her income before computing tax liability. Today that amount is \$2,050, an amount that will increase according to inflation. The amount, however, would be \$3,300 had it been indexed since 1948.

The Administration could endorse the objective of restoring the value of the personal exemption. Restoring the real value of the deduction to its 1948 level would cost at least \$50 billion per year. Alternatively, this can be stated as a goal to be reached eventually, with any number of steps along the way. The Administration could propose to raise the deduction for children under age 4 in families of income under \$24,000. Or increase the exemption by \$1,000 for each additional child in a family. At the very least, Treasury could be directed to prepare a study on the alternatives.

EMPOWERING WELFARE RECIPIENTS:

12. Test Approaches to Make Welfare Transitional: The 11 million American mothers and children -- an all time high -- who receive AFDC divide roughly into two groups: those on welfare for two years or less; and those in the midst of a period of receiving welfare lasting eight years or longer. This latter group make up half of the welfare recipients at any given point in time.

The whole ethos of the welfare system must be transformed from a system that fosters dependency to one that provides transitional help inevitably leading to work. The welfare system must have a mission: to return people to independence. The goal of not allowing able-bodied people to receive assistance indefinitely must be articulated. We want a system that works to make assistance, especially long-term assistance, the exception and work the rule. Welfare should not be forever.

Cash payments could, of course, simply be limited to a set period of time after which a recipient would be dropped from the rolls. Such an approach, however, would generate significant controversy with little chance of legislative victory. Instead, legislation should be sought only when it can be demonstrated that such an approach can be successful. Instead, this option would include:

- Articulating the goal that welfare payments not last forever and asking States to begin planning for a system that works this way;
- Providing States with research awards and technical assistance to understand the dynamics of their welfare recipient population and the characteristics of those individuals who are likely to spend lengthy periods on welfare;
- Initiate a Federal research effort to identify those AFDC recipients who are so disabled that society would not expect them to work and those individuals whose maximum

productivity is below minimum wage levels;

- Invite States to begin demonstrations that will test various models of time limits.

First year (FY92) incremental costs would total \$4 million: \$1.5 million for research on the time dynamics of welfare receipt; \$.5 million for costs of a small project team to work with States to develop demonstrations; and \$2 million for awards to States for program design. Outyear costs will depend on how many States will be interested and the relationship of demonstration design to current programs.

Pros:

- o Although full and effective implementation of the Family Support Act of 1988 has the potential to reduce welfare dependency significantly, few believe that it represents a large enough change to eliminate welfare dependency.
- o Time-limiting welfare benefits has been suggested by a wide spectrum of conservative and liberal thinkers as a necessary element in any solution to the problem of welfare dependency.
- o Testing such an approach will be perceived by some as a responsible, measured, timely step in dealing with a serious social problem.

Cons:

- o If the Administration advocates time-limiting welfare benefits, in whatever form, it will be accused by some as being heartless and uncaring about the well-being of children.
- o Opponents are likely to seek a temporary restraining order to prevent operation of demonstrations that deny entitlement benefits to otherwise eligible recipients.
- o Most proposals to time-limit AFDC include an alternative means of support for families whose benefits expire, for example, a universal child allowance, or more typically, a guaranteed government job. The cost of the alternative may well be significantly higher, especially in the short run, than the savings from time-limiting AFDC.
- o The dismal history of public service employment programs, especially their inability to create serious job requirements, casts doubt on the likely effectiveness of guaranteeing government jobs.

13. Empowerment Opportunity Areas: This option would seek a fresh start in programs for poor people through solutions that come from the bottom up. It would have two forms, the first organized around geographic concentrations of poor people; the other would be defined in terms of a target group such as unmarried first-time mothers. In each area we would encourage use of waivers from regular program rules and flexibility in the administration of Federal, State, and local laws and programs. The plan for each area would come from within. Each plan must identify performance criteria before being approved; any project failing to meet the criteria would be subject to termination.

Areas would be chosen using the following criteria:
 1) concentration of low-income population; 2) willingness of State and local governments to cooperate; 3) involvement of existing community institutions (community groups, voluntary associations); and 4) capacity to evaluate projects in terms of proposed performance standards.

Native American communities would be an initial target for developing these economic and community development partnerships. Each project would have three phases: project identification and design; implementation; and evaluation. Costs of \$5 million in FY92 are expected for technical assistance for communities to develop the information necessary for review of proposals. Outyear costs will depend on the number and scale of demonstrations.

Pros:

- o Shows the Federal government believes in the potential for developing "bottom up" solutions.
- o Allows an opportunity to see if our rhetoric of community control meshes with reality.

Cons:

- o May trade one set of bureaucrats for bureaucrats in the community.
- o May be criticized as change for change's sake.

RECOMMENDATION:

Most of the options included above are supported by a consensus of the Domestic Policy Council. Some agencies expressed opposition to certain options, as noted: [THE AGENCIES ARE BEING POLLED.]

DECISION:

	<u>Approve</u>	<u>Disapprove</u>	<u>Modify</u>
Option 1	_____	_____	_____
Option 2	_____	_____	_____
Option 3	_____	_____	_____
Option 4	_____	_____	_____
Option 5	(No decision required.)		
Option 6	_____	_____	_____
Option 7	_____	_____	_____
Option 8(a)	_____	_____	_____
Option 8(b)	_____	_____	_____
Option 9	_____	_____	_____
Option 10	_____	_____	_____
Option 11	(No decision required.)		
Option 12	_____	_____	_____
Option 13	_____	_____	_____

Dick Thornburgh
Chairman Pro Tempore

STATUS OF DEMONSTRATIONS APPROVED BY THE LOW INCOME OPPORTUNITY BOARD

<u>STATE</u>	<u>DEMONSTRATION</u>	<u>OPERATIONAL</u>	<u>EVALUATION RESULTS</u>
Alabama	Single cash benefit merges assistance from Aid to Families with Dependent Children (AFDC), Food Stamp, and Low Income Home Energy assistance programs	1990-1994	1995
Illinois	Provision of employment and training by community-based organizations; housing supplementation; post-welfare transitional education, training and supportive services	1989-1994	1993-1995
Maryland	Provision of incentive bonuses to long-term and teenage parent AFDC recipients to encourage continuation in training and employment programs	1989-1991	1991-1992
New Jersey	Provision of child care through AFDC mothers	1989-1991	1992
New York	Enhanced disregards used as incentives to obtain child support and increased work efforts; Food Stamp cash-out	1988-1992	1993
North Carolina	AFDC revolving fund used to provide child care benefits	1988-1990	1991

<u>STATE</u>	<u>DEMONSTRATION</u>	<u>OPERATIONAL</u>	<u>EVALUATION RESULTS</u>
Ohio	Mandatory education/training program for mothers with children over 6 years old; provision of incentives for teens who stay in school	1990-1993	1994
Texas	Waivers granted for providing Medicaid and child care transition benefits one year early	1989-1992	1993
Washington	Voluntary work program; provision of earnings incentives; Food Stamp cash-out; Medicaid and child care transition benefits	1988-1993	1992-1994
West Virginia	Provision of training to assist AFDC recipients in becoming self-employed	1988-1990	1991
Wisconsin	Educational requirement for all teens; linked to welfare benefits	1990-1994	1991-1995

REGULATORY AND ADMINISTRATIVE EMPOWERMENT IDEAS

Agriculture:

- Improve coordination between the Food Stamp Employment and Training program, the new Job Opportunities and Basic Skills (JOBS) program, and the Job Training Partnership Act (JTPA) program through demonstrations authorized by the 1990 Farm Bill.
- Expand nutrition and consumer education through the Extension Service (additional resources would be required although existing regulations permit this activity).
- Use the Food Stamp Employment and Training program to create better linkages with child care, improve targeting, and enhance training.
- Improve coordination between AFDC and Food Stamps.
- Expand nutrition education and health referrals in the WIC program (Supplemental Feeding Program for Women, Infants, and Children).
- Explore creation of rural enterprise zones and options regarding rural housing.

Education:

- The Educational Choice clearinghouse is ready to be opened shortly. The Department will also establish a toll-free 800 number on educational choice.
- Promote consumer information about how to make choices in elementary/secondary and postsecondary education.
- Promote services integration among education, employment and training, social and health programs.
- Expand entrepreneurship opportunities at Historically Black Colleges and Universities (HBCUs).

Health and Human Services:

- Promote services integration.
- Find ways to make AFDC more of a temporary cash assistance program.

Housing and Urban Development:

- Review grant selection criteria.
- Aggressively link education choice, resident initiatives for those in public and assisted housing, and job training through joint actions among the agencies.
- Promote systemic incentives for savings and removal of perverse disincentives in the various Federal assistance programs that thwart family unification and entry into the workforce.
- Improve coordinated targeting.

Justice:

- Support educational choice by advocating remedies such as magnet schools, rather than mandatory reassignment, in desegregation litigation.
- Continue efforts to combat drugs and crime so that individuals will be free to pursue economic and educational opportunities. Explore more community-based programs such as National Night Out and the National Congress of Black Churches Anti-Drug Abuse Program, which are currently being funded by the Department of Justice.
- Rid public housing of gangs and drug-trafficking through "Operation Cleansweep," an inter-agency effort to remove unauthorized persons from public housing, make buildings secure, identify needed repairs and establish a permanent security system.
- Enhance victims' rights.
- Expand the Legal Advocates in Education program recently developed by the Department of Justice, to link professionals with high-risk youth.

Labor:

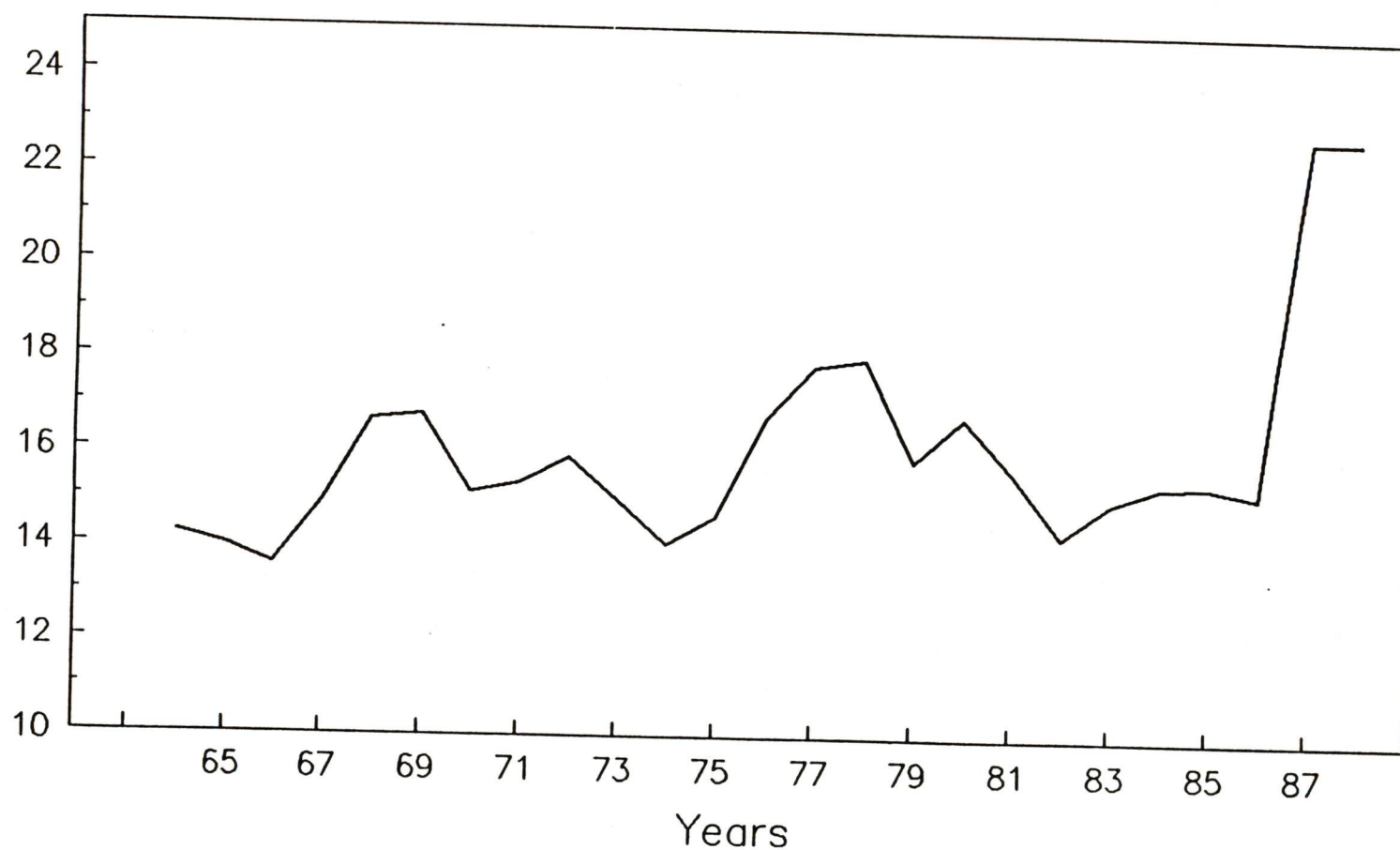
- Implement Memorandum of Understanding with HUD to expand linkages with public housing and assisted housing programs with job training and to enhance the training initiative for the homeless.
- Design and test comprehensive training support and housing programs.
- Expand the Youth Opportunities Unlimited (YOU) initiative with other agencies.
- Reconsider use of the General Aptitude Test Battery as a job referral device.
- Improve services integration and coordination.
- Targeting of JTPA to those most in need of assistance along the lines of the JTPA amendments almost passed by Congress this year.
- Abolish remaining restrictions on working at home.
- Reform overtime and child labor laws to remove barriers for legitimate employment for low-income workers.

Small Business Administration:

- Establish Enterprise Centers in cooperation with local public housing agencies to introduce business planning concepts and opportunities to residents of public housing. Also create Centers at community colleges in low-income areas and storefront Centers in low-income neighborhoods.
- Expand the number of Small Business Mobile Assistance Centers serving rural areas and Indian reservations.

AVERAGE EFFECTIVE TAX RATE ON CAPITAL GAINS 1964-1987

Percent



Department of the Treasury
Office of Tax Analysis

January 1990

Aides at White House Press Self-Help Politics

N.Y. TIMES: 11-24-90

3/p

By MAUREEN DOWD
Special to The New York Times

WASHINGTON, Nov. 23 — In an Administration in which collegiality has gone the way of the "no new taxes" pledge, the latest internecine struggle is between Richard G. Darman, the pragmatic budget director, and a group of young White House conservatives who are trying to revive the late-60's idea of putting power in the hands of the poor.

The end result of this battle will help shape the State of the Union Message, the future of White House domestic policy, and President Bush's relationship with the fractured conservative wing of his party. It will also signal whether Mr. Darman will continue dominating domestic policy.

Proponents of empowering the poor believe that such "positive" conservatism is the key to attracting members of minorities to the Republican Party.

A conservative-pragmatic power struggle will determine Bush's domestic policy.

Their politics of self-help embraces free markets, decentralization and individual choice. They promote programs like inner-city entrepreneurship, government vouchers that allow parents to choose their children's schools, and tenant management or ownership of public housing. They want a substantial overhaul of the welfare system. Their push for individual choice does not include abortion rights, however.

Great Society, With a Twist

The junior White House officials who endorse empowerment are alarmed at both the President's cozy cooperation with Democrats in budget negotiations last summer and fall, and the abdication of his pledge on taxes. Embracing empowerment, they believe, would give muscle to a vaguely defined Bush domestic policy. Some call it a neoconservative, supply-side twist on the Great Society social agenda.

They have had the encouragement and leadership of conservative lights like Jack Kemp, the Secretary of Housing and Urban Development; Representative Newt Gingrich of Georgia; William J. Bennett, the soon-to-be Republican party chief, and Vice President Dan Quayle.

Mr. Kemp heads an empowerment task force within the Administration. The junior officials get together for an informal empowerment breakfast once a week and invite Administration officials and outside experts to speak. Mr. Darman, who has had an open invitation, has never attended.

James Pinkerton, a 32-year-old deputy assistant to the President for policy planning who is the unofficial ringleader of the junior set, coined the term New Paradigm to describe initiatives he said were meant to change the image of poor people from a liability in society to a potential asset.

Mr. Pinkerton's last claim to fame came in the 1988 campaign, when he discovered the value of the Massachusetts prison furlough issue that would turn Willie Horton into a household name.

The New Paradigm approach, read into the Congressional Record by Mr. Gingrich in March and discussed in a speech by President Bush in April, has become a rallying point for conserva-

tives who worry that the Bush White House lacks a purpose, a message, a vision and a set of ideas and ideals that can carry it through the 1992 campaign and the next decade.

When Tom Wolfe wrote about empowerment in the late 60's, a time when advocates for the poor were trying to seize more power from an often-bewildered social welfare bureaucracy, he called the phenomenon "Mau-Mauing the Flak-Catchers." If he were writing about the Republican empowerment movement of the 90's, he might call it "Mau-Mauing the Budget Flak-Catcher for No-no-ing the Neo-neo-ism of the Young Turks."

Mr. Darman believes in an Establishment-oriented approach, emphasizing the art of the deal, and he touched off a conservative storm last week when he poked fun at the empowerment crowd. Conceding that the "no-no-ism" inspired by a deficit-straitened economy had dampened domestic initiatives, Mr. Darman dismissed the "neo-neo-ism" of the New Paradigm as mere "sloganeering."

Noting that Presidents feel obligated to come up with bold programs like the New Deal, the New Frontier, the New Federalism (twice), the New American Revolution, the New Realism, several New Partnerships and two New Beginnings, Mr. Darman said, "It's a bit like soap operas brought to the viewing audience by Tide, New Tide and Insistentlv New New Tide."

History of Empowerment

And empowerment has had a tortured history. In the Great Society era, it was a buzz word among advocates of black power who wanted to increase the power that members of minorities could exercise outside the "system" — although with the help of considerable government money.

But as bureaucrats (flak-catchers) were harassed (mau-maued) by community action agencies financed with government dollars, many experts and many politicians came to distrust efforts to change social behavior with large-scale government intervention.

"The 1960's were a very poignant time for social policy," said Senator Daniel Patrick Moynihan, Democrat of New York. "Just when the Federal Government was in a position to enact just about any social policies it wanted, the social scientists arrived and said, 'Don't waste your time; it won't work.'"

But Mr. Moynihan now praises the Republicans' attempt to revive empowerment because "at least it means they're trying something." And he concedes that the Democrats have "no competing ideas on our side."

On Wednesday morning, Mr. Darman stopped by the meeting of the White House Empowerment Task Force, a group of deputy assistant secretaries and mid-level aides. "It was like a five-star general coming to the noncommissioned officers' club," said one White House official.

Mr. Darman told the group that he believed in empowerment, but that "New Paradigm" was just "phraseology" that would get the Bush Administration nowhere.

Mr. Pinkerton had been told by Andrew Card, an aide to Mr. Sumnu, not to exchange any more barbs with Mr. Darman, and he kept quiet when the budget chief criticized his concept.

But Administration officials are watching the situation closely to see whether it spells the end of the alliance of Mr. Darman and Mr. Sumnu. Some officials believe that Mr. Sumnu will support the empowerment case as a way of wooing back disaffected conservatives, and that would put him at odds with his former partner in the budget negotiations.

Rowland Evans and Robert Novak

Darman's Disdain

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A backstairs revolt by junior presidential aides against Budget director Richard Darman's iron hold on domestic policy has been joined by Secretary of Housing Jack Kemp, elevating the dispute over the course George Bush will take during the rest of his term.

Rancorous contention that had been contained inside the White House was surfaced by Darman himself Nov. 16 with a speech ridiculing the quest by mid-level Bush staffers for a new, reformist program by President Bush for the next two years. "Darman really puts the president's State of the Union [address] in a bind," Kemp told us.

For one Cabinet member to publicly confront another is unusual—and without precedent in this administration. It is hard to see how Bush can ignore it. He faces more than a choice between two strong-minded men, neither of whom he has ever been particularly close to. He must decide between Darman on one side and the reform wing of the party, including longtime Bush loyalists, on the other.

The day Darman tossed his grenade, Kemp had breakfasted with anti-Darman White House aides (self-designated, ironically, "the perestroika group"). They discussed plans for empowerment of the poor through the market system. That agenda has been ridiculed by Darman, privately at senior staff meetings and publicly in his Nov. 16 speech, and unfairly compared to leftist "power to the people" anti-poverty nostrums in the '60s.

Just about everybody at the White House concerned with policy favors empowerment initiatives, with only Darman opposed. There is a similar lineup on whether to try to reverse the political debacle of the budget deal by devising a

new economic growth package built around capital gains tax cuts. It has been assumed that Darman, though badly outnumbered, will win out on all issues.

That Darman is preparing his own initiatives for the State of the Union while the president travels abroad leaves the White House rebels in a state of despair. They believe Darman's budget deal was a mistake for Bush for reasons of both politics and policy, and many of these Bush aides now look to Newt Gingrich and Jack Kemp to show the Republican way.

Darman's self-confidence was reflected in his Nov. 16 performance, when he followed his pattern of using meticulously prepared speeches to signal policy. For those astute enough to understand, his 1989 address decrying "now-nowism" (preoccupation with the present) foretold a surrender on taxes. A savant was not needed to understand his latest jeremiad against "neo-neoism" that belittled policy fads and even put down Ronald Reagan's favorite Tom Paine quote extolling "the power to begin the world again."

Darman targeted White House aide James P. Pinkerton, one of the "perestroika group," whose Los Angeles speech early this year celebrated a "new paradigm" under Bush: market-orientation, decentralization, choice and empowerment. Darman dismissed all this as "little more than slogans."

Pinkerton struck back with exquisite sarcasm: "After the success of the budget agreement, it's good to see Dick rejoining the intellectual dialogue." To the "perestroika group" as well as Kemp and the House Republican leadership, Darman's budget deal was anything but a success. From the presidential party in Paris, a telephone call from Andrew Card (policy aide to Chief of Staff John Sununu) ordered longtime Bush backer Pinkerton to respond no further to Darman. There is no evidence of a similar call to Darman.

While Pinkerton could be stifled, the Republican reaction to Darman's "no-noism" could not. House Republican Whip Gingrich, who long ago came to regard Darman as the enemy, called the speech "silly." William J. Bennett, newly designated to be Republican national chairman, telephoned the budget chief to tell him the same thing.

Five days later, Darman popped into a White House meeting of the enemy: the Empowerment Working Group, about 20 officials including the "perestroika" rebels. Darman announced he was for "empowerment" but against "the new paradigm." He ran on for more than 15 minutes against Pinkerton's thesis. Pinkerton, obeying Sununu's injunction, was silent. With everybody present junior to Darman, there was no rebuttal. "I'm going to come to all your meetings and keep an eye on you," he said, mixing charm and intimidation.

Darman gave what one present called his impersonation of "St. Dick," telling how he had left Harvard Business School to enter public service instead of the private sector in order to crusade for excellence in policy formation. To skeptical colleagues at the White House, he is offering Harvard's policy analysis as a substitute for Republican ideology. The president must decide whether that's what he really wants.

310 20 Mr. Darman Reveals Himself Once and for All

The Bush administration prizes decorum, but suddenly it has a feud worthy of the name. Call it Dick Darman vs. the White House Young Turks.

Fresh from his budget triumph, Budget Director Darman lobbed the first grenade in a remarkable public speech last Friday. He ridiculed the ideas for a domestic agenda that are being explored by others in the administration. He also revealed, incredibly, why the budget deal turned out as it did. (Hint: He wanted it that way!) The speech caused an uproar within the White House, and head-shaking, what-a-character smiles throughout Washington.

"The speech was a declaration of war," says one of the many younger, middle-level White House aides who think Mr. Darman has poorly served Mr. Bush. Jack Kemp, the HUD secretary, is offended enough to speak on the record. "I think it's an attack on the president," he says. "It's a mockery of everything Republicans have believed for a decade. . . . He has called for a debate and I'm going to give him one."

The feud matters because it reveals so much about the mind of Mr. Darman, the single most important domestic appointment of the Bush presidency. Its outcome will also determine what domestic agenda George Bush pursues in the rest of his term. "What it comes down to," says another of the Turks, recalling Michael Dukakis's famous 1988 campaign phrase, "is whether this administration is going to be about competence or ideology." Mr. Darman is a competence man.

In his speech, Mr. Darman asserted

Potomac Watch

By Paul A. Gigot

that the budget accord "raises the possibility of a more rational pursuit of excellence." The main enemy of this emerging golden age is "neo-neo-ism," or a "faddish" pursuit of "new ideas."

He quoted, in ironic disapproval, a columnist's suggestion that Republicans have "run out of ideas." He attacked Democrats who think taxing the rich will yield big money, but he saved his archest slights for House GOP whip Newt Gingrich ("new Newt-ism") and White House colleague James Pinkerton's talk of a "new paradigm" in domestic policy ("pretentious"). The performance left people asking if Mr. Darman wants to be Treasury Secretary—in the Bradley administration.

The speech put Mr. Darman at odds with those officials who want Mr. Bush to accomplish something in his next two years. For weeks they've debated policies that fall under the theme of "empowerment," an attempt to offer alternatives to liberal, bureaucratic paternalism. The concept is rarely new (education "choice" is a prototype) and the policies are often inchoate, but at least someone is thinking. Mr. Darman's speech sounded like a wink to the press and Congress not to take the effort seriously.

Mr. Darman has been called the "domestic Kissinger," no compliment intended. Like the former secretary of state, Mr. Darman uses selective press leaks to dominate his internal rivals. And like Mr. Kissinger, his strategy seems to be the artful negotiation of retreat. Mr. Kissinger negotiated what he thought was a lasting peace in Vietnam, while Mr. Darman negotiated a retreat from Reaganomics with Democrats.

The analogy is shrewd, but unfair to Mr. Kissinger, who at least had a grand vision of the world and well served his president. Mr. Darman seems to have a narrow view of Washington forged at Harvard's Kennedy School of Government (where he once taught). The "New Theses and New Thats," he says, dripping sarcasm, "leave undecided most of the hard choices of detailed program design and resource allocation." At the core of his politics, in other words, is the oldest of liberal, Kennedy-school notions: that a federal "program," designed and "evaluated" by well-meaning experts, can "solve problems." And guess who's the most expert expert?

Since the unhappiness with his speech went public, Mr. Darman has backtracked. He says he wasn't attacking anybody, and that he really supports domestic reform ideas based on "empowerment" and "choice." On Wednesday, he even showed up for the



Richard Darman

first time at a meeting of the White House Empowerment Task Force.

But if George Bush wants clues to his aide's real philosophy, he should read Mr. Darman's speech. It explains why Mr. Bush was routed on the budget: His chief negotiator didn't share his goals.

Mr. Darman didn't care about no-new-taxes or a cut in the capital-gains tax; he wanted "a new balance." He doesn't believe in the policies that elected Mr. Bush; he says instead that "now-now-ism seemed to capture the '80s." Mr. Darman is unconcerned that the budget strategy cost his president 20 points in the polls; instead he appears before "The Council for Excellence in Government" to brag about his triumph!

The speech shows contempt for politics based on principle, and by implication the politics that elected President Bush. In the Darman view, the essence of government is tinkering with mechanisms, not persuading voters; manipulating insiders, not changing the public mind. No wonder he was no match for serious politicians like Democratic Sens. George Mitchell and Robert Byrd.

Marooned at midterm, Mr. Bush has to decide how to refloat his presidency. Much will depend on the lesson he takes from the budget fiasco, and on the fate he reserves for Dick Darman.

DONALD LAMBRO

275/20/3/

The administration's poisonous, internecine battle with congressional conservatives who opposed President Bush on the budget appears to be spreading within the White House as well.

The perpetrator of the latest intrigue is Budget Director Richard Darman. He launched a surprising attack against those on the president's staff who have tried to fashion some sort of governing conservative framework around Mr. Bush's domestic policies.

But Mr. Darman's recent offensive indirectly sent some bullets flying at the president himself, who has championed the very pillars of the philosophical structure that his budget director now openly ridicules.

In a speech here last Friday, Mr. Darman attacked the creative handiwork of James Pinkerton, deputy assistant to Bush for policy planning, and the author of a widely discussed address delivered earlier this year that coined the term "New Paradigm" to describe a framework of ideas that would guide GOP policy-making in the 1990s.

The Pinkerton speech said that all of Mr. Bush's proposals stemmed from five basic principles: decentralization, choice, market-orientation, empowerment and what works. The speech was applauded by conservatives like House Republican Whip Newt Gingrich of Georgia who saw it providing the philosophical compass the administration needed in the post-Reagan era. Mr. Bush not only liked Mr. Pinkerton's ideas, he used the term and enthusiastically championed its components in subsequent speeches.

But Mr. Darman called Mr. Pinkerton's attempt to give some overarching ideological shape and form to Mr. Bush's policies "a bit too pretentious for a would-be populist movement."

"Upon examination, intellectuals might note that four of the New Paradigm's five key principles — market-orientation, decentralization, choice and empowerment — tend often to collapse into one," he said.

Ridiculing Mr. Pinkerton's ap-

Revelations of the Pinkerton paradigm

proach as "perhaps, enigmatically paradigmatic," Mr. Darman said that "in the real world, others might simply dismiss it by picking up the refrain, 'Hey, brother, can you paradigm.'"

In a further attempt to throw cold water on the five Bush-Pinkerton principles, Mr. Darman added, "It is interesting to note that many of the ideas now returning as the New Paradigm . . . were themselves fashionable in the power-to-the-people '60s." Incredibly, he argued that

many of these ideas were advanced under Lyndon Johnson's war-on-poverty programs.

In fact, it is preposterous to compare the idea of giving people choice and empowerment in the public schools and housing, through vouchers and tenant ownership, with the antipoverty programs of the '60s that represented centralized government bureaucracy at its worst. Mr. Darman's attempt to do so shows how little he understands the political power and social effective-

ness of the New Paradigm's Five Principles.

Indeed, at the state level, parental choice in education is one of the fastest-growing domestic initiatives in public policy-making today. And at the federal level, Housing Secretary Jack Kemp's ideas on urban homesteading — giving the poor a stake in their future — are poised to revolutionize the equation in the nation's public housing projects.

Reaction to Mr. Darman's speech has been swift, as the internal war within the White House threatens to further escalate into a bitter conflict over the soul of the Bush administration. One conservative called Mr. Darman's speech a "declaration of war on the only thinking element in the administration."

As the chief architect of the administration's budget fiasco, which gutted the most politically powerful message the administration had in its arsenal, Mr. Darman now seeks to undermine what little remains of Mr. Bush's conservative message — a message that was largely drawn from the Reagan Revolution.

He has revealed himself anew to be without any philosophical framework of his own, save as the White House's ultimate technocrat and deal-maker. Moreover, as one of the president's chief policy-makers, jealously guarding his own turf, Mr. Darman does not look kindly on a young upstart like Mr. Pinkerton crafting some grand design to explain the president's governing agenda.

But there is more to Mr. Darman's attack on Pinkerton's "New Paradigm" than just another turf battle. Mr. Darman has been wounded by this year's budget battle, and things are going to get much worse for him.

Despite the tax increase budget compromise he engineered, this year's deficit will be "higher than any this country has ever experienced," says Congressional Budget Office Chief Robert Reischauer. And next year's deficit is expected to be even higher, more than \$300 billion.

Bleeding and cornered as a result of a budget strategy that has been a fiscal and political disaster, it seems that Mr. Darman has decided that the only way to save himself is to attack. But a growing number of observers here now believe that his departure is only a matter of time.

Donald Lambro, chief political correspondent of The Washington Times, is a nationally syndicated columnist.

EVANS-NOVAK POLITICAL REPORT

WHAT'S HAPPENING . . . WHO'S AHEAD . . . IN POLITICS TODAY

1750 Pennsylvania Ave., N.W. • Room 1312 • Washington, D.C. 20006 • 202-393-4340

To: Our Subscribers
From: Evans-Novak

RESEARCH CENTER

November 20, 1990 - No. 712

The White House is badly divided following the mid-term elections, with the test focusing on key elements of the State of the Union Address. Policies set for the next two years will be determined in the next two months.

With the economy falling and the Gulf situation creating uncertainty, the White House is not even close to evolving an economic program for recovery. The President and his men have only recently agreed that there is a money crunch.

President George Bush's move toward war in the Gulf runs into heavy fire. Sen. Sam Nunn (D-Ga.) schedules a full review of Administration policy starting November 27 before his Senate Armed Services Committee, with possible 1992 Presidential overtones.

The President's worst mistake - announcing the demise of just-announced rotation policy - has probably put him under too much pressure to hold course. Rotation will be back before long as the Administration continues up-and-down, in-and-out policy-making. Soviet foot-dragging, along with Egyptian appeals for more time, may doom Mr. Bush's United Nations consensus strategy.

The selection of ex-Drug Czar William J. Bennett as Republican National Committee Chairman reflects the dominance of White House Chief-of-Staff John Sununu, but also uncovers deep-seated differences within the GOP.

Democratic insiders see Senate Majority Leader George Mitchell (D-Maine) as a serious Presidential darkhorse for 1992.

THE BUSH ADMINISTRATION

The mood of the White House following the election is uncertain and divided. The question is whether GB will continue along the same lines or stake out new ground.

The battle being waged inside the White House surfaced Friday when OMB Director Richard Darman delivered an address in which he attacked a paper by a young middle-level staffer (and longtime Bush aide) Jim Pinkerton issued last April in which he proposed that Republicans take the initiative on policy by embracing the principles of market-orientation, decentralization, choice and empowerment. Those four principles, Darman sniped, conflict with a fifth Pinkerton principle: an emphasis on what works.

Pinkerton's response to a much senior colleague's attack was a masterpiece of sarcasm and ambivalence: "After the success of the Budget agreement, it's good to see Dick rejoining the intellectual dialogue."

This constitutes a deep division in the Administration that goes beyond two staffers. One aide (not Pinkerton) told us: "There are two groups in the White House. Darman, and all the rest of us who are for empowerment. Right now, it looks like Darman is ahead."

HUD Sec. Jack Kemp has decided to join publicly the controversy against Darman. Kemp criticized Darman's stand against Pinkerton by contending that it undercuts any new proposals for the second half of the President's term. "It really puts the President's State of the Union in a bind," Kemp told us.

That challenge by one Cabinet member against another creates deep problems for GB. It also raises the question of whether Sununu will maintain his partnership with Darman and continue to support him. Colleagues at the White House think Darman needs Sununu for survival, while Sununu does not need Darman at all.

Darman's position in Congress is exceptionally weak after the Budget agreement. He may need all-out support from Sununu in the face of the assault from Kemp.

The Economy: Sec. of State James Baker stunned Washington when in Bermuda last week he cited "jobs" as the reason for U.S. policy against Iraq. That this was not a rare slip of

the tongue by Baker was confirmed in GB's interview with CNN before leaving for Europe. The President conceded for the first time that the U.S. is in - or about to be in - a recession, but then added that the reason for it is Saddam Hussein's invasion of Kuwait. That has since been repeated by Administration spokesmen.

To link Saddam with a bum domestic economy may be poor economics but is certainly creative domestic politics. It excuses the Administration for not forecasting a recession and gives reason for not offering substantial remedies. Saddamizing apart, here is what is really going on regarding the economic scene behind closed doors at the Administration.

1) GB himself at long last has been brought face to face with the credit squeeze in America. He and his aides may be the last to know, but at least it has now been brought home to the Oval Office.

2) There is even public confirmation that government regulators are running amuck. On our CNN program, Darman asserted that Securities & Exchange Commission Chairman Richard Breeden is going too far under present conditions requiring financial institutions to "mark-to-market" (using current market value in accounting for assets, thought not liabilities).

3) However, Administration officials confide to us that they have not the slightest idea of how to curb independent and even semi-independent regulators. There is, for example, no idea of how even to curb Breeden, a Bush appointee and former White House aide. "Breeden is really a very tough guy," one Bush aide told us.

4) One point of virtual unanimity in the White House - with Darman and his opponents all on the same side - is that they think the Fed should be forcing down interest rates (and pumping up the money supply) at a considerably faster rate. Here, too, frustration.

5) There is strong support inside the White House to renew the fight for lower capital gains tax rates. But Darman is opposed, and here again there is a test of where Sununu - and GB - really stand.

6) Everybody on the Bush team is on record against new taxes, and Darman says they really mean it this time.

U.S. Troops Rotation: GB's unexpected announcement of the major reinforcement of his Gulf force with heavy-duty offensive tank and other armored divisions killed the troop-rotation policy the Pentagon was even at that moment perfecting.

We think rotation must come back into play, given the lack of support for a war policy at this time. GB may have already decided to move that way, but will, of course, cloak the reversal to look like something else.

Pentagon brass have said very little publicly, but privately they were seething that Defense Sec. Dick Cheney had agreed to pull the rug out from the rotation after weeks of setting up far-reaching plans. Just another example that the White House is simply not thinking clearly about how best to handle the Gulf.

U.S.-U.S.S.R.-U.N.: As reports from the all-European summit in Paris confirm, GB has not cornered Soviet President Mikhail Gorbachev on that all-important U.N. Security Council vote authorizing force against Iraq. These thoughts:

1) Gorbachev appears to be holding out for a very high price and GB really wants to pay it. But the price may be going up daily.

2) The Soviet military is not at all pleased by the prospect of U.S. power from Iran to the Mediterranean that conceivably might follow the overthrow of Saddam. That may be having an impact on Gorbachev, who knows he needs the military more than ever as other pieces of the Soviet puzzle fall away.

3) Coupled with Egyptian President Hosni Mubarak's public warning that more time is needed before serious thought of war, GB is in an unenviable spot. This does not mean that he won't go ahead on his brink-of-war policy anyway. But given the strong pronouncements from the White House and State Department that the U.S. will only move to force with full backing, it could set the stage for another Bush boo-boo.

Our own feeling: GB has dangerously overestimated his allies' acceptance of the war option. No Arab state wants it, with the possible exception of Syria, and no European country really wants it with the exception of British Prime Minister Margaret Thatcher, who has plenty of domestic problems of her own.

CONGRESS

The Gulf: Sen. Nunn intends to establish the form and substance of moderate Democratic opposition to GB's war policy, which we think not a few Republicans of all shades will be all-too-willing to join. His tool will be hearings starting November 27th. Nunn has broad support

and wide respect as the Democratic Party's military/strategic leader. He will try to cash in those assets in what may become a classic legislative-executive struggle over Iraq. There are clear overtones leading to a 1992 election, which Nunn will not acknowledge or discuss.

Nunn had Cheney's and Joint Chiefs Chairman Gen. Colin Powell's approval to launch Armed Services Committee hearings November 26th with them as lead-off witnesses. The White House quietly intervened, vetoing the date. GB insists that Baker be the first to put forth the Administration position, testifying before Sen. Claiborne Pell's (D-R.I.) Foreign Relations Committee. Baker says he cannot testify that soon. That put Cheney on hold.

Nunn agreed to a one day delay. He now plans to start his hearings - certain to be more important than Pell's - on November 27.

Nunn's thinking on the Gulf is hardening. Here are his major, unannounced positions - and they could well comprise the essence of his Party's strategy in attempting to block war, without exposure to a charge of undermining their country.

1) Liberating Kuwait is not vital to America's interests. It is "important," but to start war requires a "vital" national interest. Gen. Norman Schwartzkopf personally told Nunn that he had never been ordered to prepare for offensive action.

2) Use of force implies that the embargo and sanctions have failed. Where is the evidence that they cannot work over the months ahead? Nunn believes that a full showing of alleged failure is essential before U.S. voters will support war.

3) The new U.S. military buildup is a dangerous incitement to conflict because it makes rotation impossible, thereby raising demands for ending the confrontation by action. "The more forces we have there, the less patience at home," Nunn is saying.

4) Ground war would end Arab participation in the coalition. Nunn has been informed that Egypt never sent its promised second division to Saudi Arabia.

5) Even if the U.S. won a relatively quick victory, the result would not be a solution but a compounding of long-range problems. With all Iraqi-Kuwaiti oil losses now compensated for, oil and jobs cannot be a sound reason for war. Nunn tells intimates: "War may indeed be justified, but that's not the right question. Is it wise?"

6) The U.S. should not expect complete capitulation from Saddam.

If Nunn builds strong Democratic support against war, he may also be building himself a 1992 Presidential platform. As of today, popular support for GB's military threat is weak.

Energy: Sen. Bennett Johnston (D-La.), Chairman of the Energy Committee, will push a major energy plan in January:

1) Not one nuclear plant has been built in ten years. Rejuvenate the nuclear power option by easier licensing, quicker processing and political support at the top.

2) Double the U.S. oil-storage reserve, persuading the Saudis to store some of their crude here instead of in Saudi wells.

3) Open the National Arctic Animal Refuge in Alaska for exploration and production.

4) Other main points: Quicker licensing for new gas pipelines; Utility Holding Act reforms to ease gas pipeline extensions; stricter miles-per-gallon standards; incentives for enhanced recovery of abandoned oil fields.

GOP

RNC: Nearly everybody in the political community was amazed that Bennett, apparently headed for the private sector to make some money, would be given the Party post. These notes:

1) RNC members, alarmed by reports that the physically disabled Lee Atwater would seek another two-year term, protested they wanted a full-time Chairman. The leading candidates were Commerce Sec. Robert Mosbacher and Transportation Sec. Sam Skinner, two Bush loyalists.

2) Sununu stepped in and recommended Bennett: no Bush insider, no experienced politician, not even a Republican until 1986. But GB bought it--a sign of Sununu's strength and influence.

3) Bennett consulted many friends, many advised against. Bennett said No at one point, but Sununu would not take No for an answer.

These conclusions from the extraordinary selection:

1) White House aides were surprised that reaction from RNC members, who wanted someone they knew and someone experienced, tended to be negative. Bennett will be elected, of course.

2) Conservatives were not mollified. They viewed the Bennett choice as a means of muzzling a probable voice of dissent and a potential Presidential challenger in the GOP primaries. The selection runs counter to Sununu's right-bashing since the election.

3) Actually, this is an opportunity for Bennett. It will depend on whether he can get experienced pros to run the Party H.Q. - perhaps getting Mary Matalin to stay as Chief-of-

Staff - while he preaches the Party gospel.

4) What remains to be seen: whether Bennett will have input to forestall disastrous events such as GB breaking the tax pledge, and what he will do if he is not consulted.

Senate: Conservatives swept moderates in GOP party leadership contests:

1) By far the most important was the Policy Committee Chairmanship replacing the retiring Sen. Bill Armstrong (Colo.). The contest between conservative Don Nickles (Okla.) and moderate Pete Domenici (N.M.) was a tie on the first ballot, with Nickles winning the runoff. Domenici, a much more formidable figure in the Senate than Nickles, was shaken by the defeat. His deep involvement in the budget agreement as Budget Committee Vice Chairman sunk him.

2) Sen. John Chafee (R.I.), the only bonafide liberal in the leadership, Chairman of the conference, lost his job to moderate conservative Thad Cochran (Miss.).

3) Conservative Sen. Phil Gramm (Tex.), a potential presidential prospect for '96 but never before elected to a leadership role, was named the '92 campaign chairman over moderate conservative Mitch McConnell (Ky.).

4) Minority Leader Robert J. Dole (Kan.), seeing which way the wind is blowing, surprised colleagues by appointing conservative Sen. Trent Lott (Miss.)--not one of his favorites--as chairman of the Committee on Committees.

DEMOCRATS

Presidential: In our post-election rundown, we omitted three names:

Rev. Jesse Jackson: How could we possibly forget the Shadow Senator from the District of Columbia? Because there's a real possibility that he might not run this time, giving it a rest until '96. The collapse of the early primary movement for California makes '92 considerably less alluring to him.

Gov. Douglas Wilder (Va.): He is deadly serious, and why not? He has nothing to lose as a moderate, fiscally conservative black. If he gets on the ticket, it will probably be in the second place.

Sen. George Mitchell (Maine): The Majority Leader has long been viewed inside the Beltway as a serious candidate for President. When he pressed Sen. Wendell Ford (D-Ky.) to let loose an airport tax bill desired by Chicago Mayor Richie Daley, it was viewed by insiders as Mitchell's "announcement" for President. Mitchell is probably a better known face and personality than New York Gov. Mario Cuomo or Sen. Bill Bradley (D-N.J.). He is smart, tough, controlled and able to conceal just how liberal he is. He is not a bundle of laughs, to be sure, but neither is George Bush.

MONEY & POLITICS

In the Senate cloakrooms, the unprecedented, protracted "pre-trial" Ethics Committee hearing on the Keating Five S&L scandal follies is viewed largely as a promotional effort to boost campaign "reform" - that is, public financing of Congressional campaigns - by showing how horrible the present system is. Reform may, in fact, be on the verge of passage.

CALIFORNIA SPECIAL REPORT

Based on post-election reporting in California:

1) Gov.-elect Pete Wilson (R) suddenly becomes one of America's most important politicians, viewed by friends and supporters as a putative '96 Presidential prospect. But conservatives are not pleased with him, preferring Atty. Gen.-elect Don Lungren (R).

2) Wilson won't move on his Senate successor until January, but the early favorite is U.S. Trade Rep. Carla Hills. A more creative choice would be Orange County Supervisor Gaddi Vasquez, a 35-year-old Hispanic. The many Congressmen eyeing a Senate seat - two will be up in '92 (Wilson's and retiring Sen. Alan Cranston's (D)) - won't get appointed but will have to run on their own. They are Reps. David Dreier, Jerry Lewis and Bob Dornan. Also businessman Ed Zschau and TV commentator Bruce Herschensohn, who opposed each other in '86.

3) The Democratic Senatorial prospect is Ex-San Francisco Mayor Dianne Feinstein, trailed by Reps. Robert Matsui and Barbara Boxer, State Controller Grey Davis, Lt. Gov. Leo McCarthy, San Francisco Mayor Art Agnos and State Chairman Jerry Brown.

4) Brown is under fire for definitely losing the A.G. race and perhaps the Governorship for inadequate voter registration and absentee voter programs, but he will not resign.

Roland E...

Robert D. N...

EVANS AND NOVAK
Airs: Nov. 17, 1990
Guest: Budget Director Richard Darman
EMBARGOED UNTIL AIR TIME

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MR. NOVAK: I'm Robert Novak. Rowland Evans is traveling. In his absence, Fred Barnes of The New Republic and I will look at the deepening economic crisis by questioning one of President Bush's chief economist strategist. He is Richard Darman, Director of the Office of Management and Budget.

MR. NOVAK (Voiceover): This was the week that President Bush and his top aides turned their attention to the economy. After meetings stretching from Camp David to Washington, the president made an important admission and then tried to soften it.

PRESIDENT GEORGE BUSH (On tape): "I am concerned about the slowdown. I worry about anybody that wants a job and doesn't have one, but I am not a gloom and doom person on where the American economy will be before long. And yet I don't want to mislead you because I am concerned that we -- that we're in a downturn here."

MR. NOVAK (V/O): After all these meetings, what will the government do about that downturn? The answer came from Darman a day later.

OMB Director RICHARD DARMAN (On tape): "So, I wouldn't look for something in the next few months -- other than leaks."

MR. NOVAK: Mr. Darman, kidding aside, are you saying that the American people can expect no new policies as the economy slowly declines?

MR. DARMAN: I think the basic policy is sound, but I do think that there's a need to resolve the Mideast crisis satisfactorily as soon as possible, which would help an awful lot with confidence and uncertainty, help get interest rates down and help get the economy moving. There are other things that have to be done, as well.

MR. NOVAK: We'll be back to find out more of those things with Mr. Darman after these messages.
(Commercial announcements.)

MR. BARNES: Mr. Darman, that was a very pregnant phrase, "other things." Might one of those other things be a proposal to cut the in the capital gains tax and have it be effective immediately so it would have some effect and -- in driving away the recession?

MR. DARMAN: Well, of course the Congress isn't back until late January and it's unlikely that anything in the way of a tax bill of any kind would be enacted until well into next year. So, in terms of the current problem, it isn't going to have that much effect.

-more-

MR. BARNES: Well, you could call a session now, you could ask them to act immediately when they come back in January. Are either of those things contemplated?

MR. DARMAN: No, not -- Acting immediately in January; yes, of course, we'd always like them to act quickly when we make our proposals. It's not what the Congress tends to do.

MR. BARNES: But what about that proposal, in particular? Is there a chance you would ask them to enact a capital gains cut immediately?

MR. DARMAN: There's a certainly a chance. I just can't tell you whether we're going to do it not. Obviously, it's something that is -- I would say is somewhat likely, since we proposed it before, but the president's going to have to decide that along with all the other issues.

MR. BARNES: Well, there were some leaks last week and they weren't attributed to you, but they said -- and this was in the Wall Street Journal -- said that you were considering removing some benefits from the wealthy and providing some I think tax cuts for the middle class as a proposal of the administration. Is that true?

MR. DARMAN: It's true only in the sense that there's a very broad range of options that are under analysis within the administration at this stage. And that story was written too hard, much too hard. There are hundreds of options being analyzed at this stage. The president's going to get a very full array and he'll make the decisions.

MR. BARNES: What about --

MR. DARMAN: It would be irresponsible not to give him a wide range of choice.

MR. BARNES: Now I understand that. Let me ask one other thing and maybe you can be a little more specific about this one. And that is, is there any consideration in the administration to a tax proposed by President Bush on the wealthy, a new surtax on the wealthy, which we know the Democrats are going to propose anyway come January?

MR. DARMAN: No, I'm not aware of any such proposal at the moment being considered within the administration.

MR. NOVAK: Do you think he should veto that when it is going to be passed by Congress next year, the so-called 'millionaire's tax?'

MR. DARMAN: I really don't believe that that will be passed next year. Perhaps it would be, but I think it unlikely. It isn't a serious policy proposal, it's just symbolic. You can't do any public policy problem-solving with that proposal. It's strictly symbolism.

MR. NOVAK: But it does put you behind the eight ball as favoring the rich, does it not?

MR. DARMAN: Oh, sure. It is a valuable symbol for Democrats to use, but I really wonder how long they'll be able to get away with it. I think the public understands what's going on. And furthermore, it really isn't just intended as a tax on millionaires, it's the start of an effort to raise taxes across the board and I suspect the public understands that, as well, and they're not naturally disposed toward that at all.

MR. NOVAK: Mr. Darman, can you tell us any of these other things? I mean, a lot of people are hurting out there. As the president said, some people are going to be looking for jobs and they'd like to know what these other things the administration has in mind to help them.

MR. DARMAN: Well, first of all, I don't think any of us knows reliably how deep the recession might be, if there -- if indeed we're in a recession, although obviously -- eight out of ten of the blue chip economists believe that we are or nearly are. But I wouldn't use such terms as you've used, if you'll pardon me, as crisis and so on. We don't know yet. And a lot depends, as I said at the outset, on the Mideast uncertainties. That is a problem hanging over financial markets, consumers, investors. I think if that uncertainty could reduce -- be reduced favorably and satisfactorily, you'd see that alone would have a very favorable effect.

MR. BARNES: But you do believe that something is needed, some proposal is needed to spur the economy, not -- and that you can't just rely on monetary policy at the Federal Reserve.

MR. DARMAN: Well, I think that if -- This is a somewhat unusual situation. Inventories are, in fact, quite low, which is a good thing, which means if we could get the confidence turned around, you'd see a very -- a quick snap back. And if you look at the problem of confidence, it's partly related I suppose to the financial system and partly to the Mideast and those are the two principal headings that I think one has to look at.

MR. BARNES: Alright. Was that a yes or a no to the question of whether you all will propose something to spur the economy?

MR. DARMAN: I can't give you an answer at this point. I can say that we're -- we've got it under examination. Obviously, we're going to have a whole new budget, we'll have an economic program to introduce when the Congress gets back. The regulators themselves, with respect to the financial sector, have to do and they are doing some very careful balancing, take a very hard look at what to do not only to get interest rates down, but to get lending to increase.

MR. NOVAK: Mr. Darman, there were reports in Saturday morning's papers that the Federal Reserve Board had lowered interest rates another notch. Do you believe that there has been a sufficient easing in lowering of interest rates by the Federal Reserve Board in response to your budget agreement?

MR. DARMAN: I don't want to get into specifically a commentary on the Federal Reserve. I think it ends up being counterproductive. It tends to reduce the chances of getting something that you might want if someone in my position tries to tell the Fed what to do. But let me just say this. Obviously, everybody would like to see -- I think almost everybody would like to see lower interest rates, but I alluded to something else.

In the current circumstance, it's not sufficient to simply talk about how to lower interest rates. One has to also talk about how responsibly to increase lending. And the so-called credit crunch, part of which is rooted in anecdotal evidence, but part of which is probably real, that has to be addressed and can't be addressed -- though it would be helped, but can't be addressed by lowering interest rates alone.

MR. NOVAK: Well, isn't that also a question of overly zealous regulation by the government, which you have control over?

MR. DARMAN: Well, obviously, the regulators are independent and there's some virtue in their being independent.

MR. NOVAK: Not all of them are independent. Some of them are under your control.

MR. DARMAN: But there are limitations on how much one can direct them, and that's a good thing. You don't want to move in the direction of laxity that caused the S&L crisis, but on the other hand, you don't want to overcorrect, you don't want the pendulum to swing back too far the other way. That's what I was referring to by saying you've got to find the right balance.

MR. NOVAK: But do you think --

MR. DARMAN: And you've got to do so in a way that preserves confidence. You don't want to undermine confidence in the financial system as you attempt to correct it.

MR. NOVAK: Are you happy with the policies of Richard Breeden, the chairman of the Securities and Exchange Commission, which a lot of people believe lead toward a tightness and a contraction of lending and of investment in the economy?

MR. DARMAN: I don't agree if you're referring to his market proposal. I do not agree with that proposal in the --

MR. NOVAK: Explain what that is.

MR. DARMAN: Well, he's attempting to have more immediate reflection of changes in asset values on -- in banks.

MR. NOVAK: And the financial community is very worried about it.

MR. DARMAN: Yes, and understandably, 'cause it could lead to a very substantial additional contraction.

MR. NOVAK: Are you opposed to that?

MR. DARMAN: I personally feel that this is not the time for that. It has to be approached on a more gradual, more orderly, more carefully thought through, more -- better coordinated basis than is reflected in the proposal to simply do it, boom.

MR. BARNES: Do you believe that Fed Chairman Alan Greenspan has -- and I'd like your personal opinion -- has done a sufficiently good job at the Fed to warrant reappointment next year as chairman?

MR. DARMAN: That's not my decision. I'm -- I don't want to even make --

MR. NOVAK: You'll make a recommendation though, to the president, won't you?

MR. DARMAN: The president knows Chairman Greenspan extremely well and, to the best of my knowledge, has confidence in him and I'm sure he'll make the judgment based on his personal views.

MR. BARNES: To what extent do you think the slowdown now is -- was created by the Federal Reserve unnecessarily?

MR. DARMAN: Having been too tight some -- quite -- quite a time ago?

MR. BARNES: Yes. I mean, how much blame to they deserve?

MR. DARMAN: I don't think we should be in the position of trying to throw blame around. I did say publicly the last time I spoke on the subject of the Federal Reserve, a long time ago, that I thought they were too tight and nothing that's happened since has made me think my original statement at that time was wrong. But I'm not making any new statements on the subject.

MR. NOVAK: You said, Mr. Darman, a few minutes ago that the millionaire's tax was the prelude to a general tax increase. Does that mean that you're opposed to a tax increase?

MR. DARMAN: Yes, definitely.

MR. NOVAK: You know, last time you were on this program, about a year ago, you said that you thought that if we could get through this year on the budget program without any tax increase. Let's take a look at what you said.

OMB Director DARMAN (On tape): ''We're going through the the final stages of the preparation of the budget for next year. We are not looking at tax increases. The tax increases is not on the table. We intend to solve this problem without a tax increase.''

MR. NOVAK: Isn't your credibility at kind of a low level on this question of saying you're not going to go for a tax increase when you -- on Friday you said there's going to be a \$300 billion budget? Isn't that -- aren't we -- A budget deficit, I'm sorry. Aren't we opening up the way for another tax increase?

MR. DARMAN: Well, I can tell you I think absolutely not. What I said last time was correct. At the time, tax -- any possible tax increase was not on the table. We were not discussing one within the administration. We didn't think one was necessary. Our forecast of the deficit outlook was wrong, as subsequent events showed, partly because monetary policy may have been too tight back then. For other reasons perhaps, the economy slowed. We've since had an explosion in S&L expenditures. Sixty billion dollars more in that account in one year alone than had originally been forecast at the time of that statement of mine before. And we've had the problem of the Mideast slowing the economy further, which happened starting in August, and justified to some extent the five-year deficit reduction program that we got. And which, by the way, I'm very proud of and I think merits an awful lot of favorable reaction it has not had.

MR. NOVAK: Do you think that it was worth it, the payoff from this five-year plan, for all the rupture of unity in the Republican Party? The tax? The markets surely didn't react very well to it, did that?

MR. DARMAN: Well, if you're asking me would it have been better to have had the original program that the bipartisan leadership came up with and to have had the Republicans unanimously support it on the House side, so that it would have gone through and we would not have had that ugly conflict for the period approaching the election, of course it would have been better to get it through right away.

MR. NOVAK: So, you blame the Republicans.

MR. DARMAN: Oh, no. It -- There's enough to go around on that and we came up 39 votes short and the process of getting the agreement was unfortunately very unattractive and I think the view of government, in general, by the general public was hurt by that process.

MR. NOVAK: But you're saying it was worth it. It was worth it.

MR. DARMAN: Even the product we got was worth it, in my opinion. Seventy-two percent of the roughly 500 billion is outlay reduction, spending reduction. Only 28 percent is on the tax side. And what we got in the way of process reform, fundamental entitlement reform, in student, in housing, in Medicare, in agriculture programs, on down a list that no one has ever talked about, that -- that is a remarkable achievement on the spending side for which there's been too little credit and attention.

MR. BARNES: Well, we'll talk about that in a second, but let me ask you about something that's been reported. And that is that you wanted to have stricken from the president's acceptance speech at the Republican National Convention in 1980 the phrase "read my lips, no new taxes," and you wanted it dismissed because you thought it was "phony, macho." Is that true?

MR. DARMAN: I say that attributed to Peggy Noonan, a speechwriter, in a Wall Street Journal article. I do remember objecting, I don't remember to using that phrase. But the concept is -- it's the concept that was on my mind, that I thought it was not at that time consistent with President Bush's style and character.

MR. BARNES: So, you thought the whole thing was phony after he did it and for the whole time that it lasted.

MR. DARMAN: No, no. No, no. Not that the substance of it was phony, that the macho quality, imitating, as she was suggesting, Clint Eastwood. I thought that that wouldn't resonate. I was wrong. I was absolutely wrong. I was 100 percent wrong. It resonated enormously.

MR. BARNES: Well, it certainly did. But you had no objective to his pledge of no new taxes in itself.

MR. DARMAN: No. The comment that I made had only to do with the stylistic imitation of Clint Eastwood, which, as I say, I was completely wrong about. It turned out that it worked.

MR. BARNES: Let me ask you one thing about the budget process reforms by which you think this new budget agreement is going to be enforced. I've talked to a lot of people at the White House, I've talked to former budget directors and I haven't talked to a single person who doesn't think that there are so many loopholes in it and so many ways that Congress can get around it that it will never hold. Why are you so sure that it will hold?

MR. DARMAN: I really have not heard that suggested by people who I believe have read the process reforms and understand them. It's a somewhat arcane subject. Could you give me one example of a loophole?

MR. BARNES: Well, I'll give you one on the agriculture, which you mentioned, these great cuts in farm programs. Aren't they dependent on an agreement at the GATT trade negotiations?

MR. DARMAN: Oh, but that's not anything that has anything to do with the budget process reform. That's a substantive proposal in its own right so that we're not unilateral disarming in agriculture.

MR. BARNES: Well, we don't get those agriculture cuts unless there's this GATT agreement, which seems unlikely at the moment.

MR. DARMAN: At the moment, of course, and it would be even less likely if we were telling our trading partners that we guarantee you the United States is going to cut its own agriculture programs, so -- so you don't have to do anything. As a negotiating strategy, it would be foolish unilaterally to say we'll do our side and you counterparts at the table don't have to do anything.

MR. BARNES: Wouldn't the farm subsidies go down automatically once the GATT agreement is reached anyway?

MR. DARMAN: It depends on the terms of the -- It depends on the terms of the agreement. By the way, there are limitations on how much that -- This is a technical point we don't really want to get into. That is not a -- any significant respect a -- a problem. I'd be interested to know if there is one with respect to process reform. I've not heard of any by someone who knows something about it. The only real risk to the process reform is if that the Congress would itself change the law and the -- a president would agree to sign it or he would refuse to and his veto would be overridden. I think with President Bush both of those are unlikely.

MR. NOVAK: Mr. Darman, just in the interests of public understanding, the five-year agreement does increase spending over present levels by \$180 billion; is that not correct?

MR. DARMAN: And it could, in fact, be different, depending upon the performance of the economy. But it's also the case that no matter what the state of the economy, it will reduce -- it will reduce the deficit by roughly 500 billion relative to what it would otherwise have been. Whatever the baseline, it -- because of the economy, it will reduce borrowing over the five-year period by almost half a trillion dollars.

MR. NOVAK: But not if you'd a much higher growth rate. It would have been much -- It would have been much --

MR. DARMAN: No, no, regardless of the growth rate. It's totally independent.

MR. NOVAK: Alright. You made quite a storm in -- in Washington on Friday afternoon, by attacking a proposal by a fellow White House aide, Jim Pinkerton, much lower level than you, which he calls --

MR. DARMAN: But he's taller.

NOVAK

MR. ~~DARMAN~~ NOVAK: -- which he calls the new -- the new paradigm. I'm not going to get into an explanation. But what you said was, if I -- as I read it, that empowerment, choice, all the ideas -- the only new ideas coming out of the Bush administration probably won't work. Isn't --

MR. DARMAN: No, no, no, no. No.

NOVAK

MR. ~~DARMAN~~ NOVAK: -- this an attack on any new conservative thinking?

MR. DARMAN: Oh, no, of course not. If you'll pardon me, empowerment, choice, market orientation, decentralization, those four ideas reflected in the new paradigm, those are ideas that are out of the 60s. And I happen myself to have endorsed them in the 60s, I endorsed them in the 70s, the 80s and now the 90s. The only thing they're not is new. It would be very valuable to get them advanced. I'm all for it. I hope we'll see that in our budget presentation in -- I'm fairly confident we'll -- certainly we'll see some of it. I'm -- I favor it. I'm only saying let's not fool ourselves by sloganeering. You've got to get beyond sloganeering to specific programmatic proposals that have a reasonable chance of working. Indeed, some of these do.

MR. BARNES: Well, your speech was all about neo-neoism and there were many slogans in it. But how can it advance those ideas by criticizing this -- the guy who -- who brought them forward and it pushing --

MR. DARMAN: I didn't criticize.

MR. BARNES: Well, that's certainly the way I read the speech.

MR. DARMAN: The speech was probably way too long and it had one paragraph on that subject, ~~too~~.

MR. BARNES: Two.

MR. NOVAK: Mr. Pinkerton said that since -- that he welcomed your entrance into ~~international~~ ^{intellectual} waters after the success of your budget agreement. Wasn't that deep sarcasm?

MR. DARMAN: Oh, no. I think he thinks the budget agreement was extraordinarily successful. I know he's an enthusiastic supporter of the bill the president signed.

MR. NOVAK: Just as much as you're an enthusiastic supporter of him, yes. (Laughter.)

We'll back with the big question for Richard Darman after these messages.

(Commercial announcements.)

MR. NOVAK: Richard Darman, the big question. You are described in the papers as restless with your job. To disprove that, can you pledge on this program that you will serve out your remaining two years of this term as OMB director if the president wants you, which I'm sure he does?

MR. DARMAN: I will serve as OMB director for as long as the president would like me to, however long that would be.

MR. NOVAK: And this -- And you're not restless?

MR. DARMAN: I'm always by temperament restless, but that's a good thing. That helps move things forward.

MR. NOVAK: Would you rather be secretary of the treasury?

MR. DARMAN: No, I'm very happy where I am right at the moment. There's a lot of interesting things to be done through OMB. We've got to make some programs work, including some of the ones in the new paradigm.

MR. BARNES: Well, the talk around the White House is that you might leave next spring after the budget's done, the State of the Union. Is there no chance of that -- that you would leave voluntarily? Now I'm not talking about the president asking you to leave, that's not going to happen.

MR. DARMAN: It's inconceivable to me that I would wish to leave unless there were some family circumstance totally unforeseen or the president wanted me to leave. I think it's a great job. I think there's a lot of interesting things to be done. It's a good place from which to try to do them. I'm happy to be there and I hope the president will wish to have me there for some time.

MR. NOVAK: Mr. Darman, I talked to a number of Republican congressmen who would like to lynch you. Are you going to try to do anything about your relationship with them in the next year?

MR. DARMAN: Yes. I hope that they could be persuaded not to use very effective rope. (Laughter.) No, I have great respect for some of the people who are disturbed with me. I understand why they're disturbed with me over the tax thing. Some of the same people were disturbed with me in 1982. We managed to survive the 80s. We had many years of growth. I think we're going to come out of this with growth and I hope that we'll all be happy again.

MR. NOVAK: Thank you very much, Richard Darman. Fred Barnes and I will be back with some comments after these messages.

(Commercial announcements.)

MR. BARNES: You know, Bob, I was struck by the fact that Richard Darman was lowering expectations about any big anti-recession package that the administration might propose next January when Congress comes back. We are in a recession, whether he admits it or not, and I thought for sure they would want to tell the country that we're going to do something about it. But maybe they just want to surprise us later.

MR. NOVAK: That's possible. Mr. Darman talked about a credit crunch, which I think he wants the Fed to solve. He's out of the mode of Fed-bashing now. But I was a little surprised that he was critical of the policy of Mr. Breedon, the chairman of the Securities and Exchange Commission, and that I think was welcome news for Wall Street, which is also unhappy with it.

MR. BARNES: Well, he was unequivocal on that and he was also pretty strong on staying in the Bush administration. There've been a lot of stories and rumors that he would leave next spring. I thought he was pretty firm that he has no intentions of doing that and will really stay on the full Bush term. I think one of the reasons is he wants to defend the budget package and make sure the enforcement procedures work.

MR. NOVAK: You know, he -- he was -- he plugged the budget package entirely. People really hate that on Capitol Hill, particularly the Republicans. He says that he would like to improve his relations with those Republicans. That may be a difficult task even for so formidable figure as Richard Darman. I'm Robert Novak.

MR. BARNES: And I'm Fred Barnes.

MR. NOVAK: Join Rowland Evans and me next week when we talk to New York Governor Mario Cuomo.

(End of broadcast.)

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WHITE HOUSE NOTEBOOK

'EMPOWERMENT' BECOMES PART OF . . .

Two years before a presumed bid for reelection that suddenly no longer seems a sure thing, President Bush faces some pressing political needs. He could use a memorable, even visionary, domestic policy that can fit within brutal budgetary constraints. He needs to loosen his association with the wealthy that the recent budget mess evoked. He also would welcome a way to restore Democrats to the defensive, where they'd been from 1980 until recent weeks.

Enter "empowerment."

As a Bush buzzword, strictly speaking, it isn't new. He mentioned it in a policy paper as a presidential candidate in 1988, then while swearing in Housing and Urban Development Secretary Jack F. Kemp after entering the White House.

But only in recent weeks has empowerment and its linguistic derivatives become mainstays of Bushspeak. Sketching alternatives to a civil rights bill he rejected, Bush wrote in his Oct. 22 veto message, "We need initiatives that will empower individual Americans and enable them to reclaim control of their lives." On the campaign trail in recent weeks for Republican candidates, Bush has mentioned empowerment in speech after speech. "Jon Gruneth . . . is determined to empower the people," Bush told supporters of the Minnesota gubernatorial candidate who later withdrew for having allegedly skinny-dipped with teenage girls. At a Sept. 27 fund-raiser for Illinois Senate candidate Lynn Martin, Bush went so far as to describe empowerment as "the cornerstone of our Administration's domestic policy."

That was a case of Bush's speechwriters getting carried away, a senior White House adviser said. But the citizenry is soon to hear more—maybe much more—about the concept of empowerment. Fifteen or so White House aides have gathered at weekly "empowerment breakfasts" since about mid-September, listening to outside speakers and knocking around ideas. The White House plans to announce after the Nov. 6 elections that Bush has created an "empowerment task force" in the Cabinet's Domestic Policy Council that will ponder how to bring empowerment concepts to bear on federal programs. (The group, which hasn't met yet, is headed by Kemp and includes assistant-secretary-level officials from at least eight agencies and five White House offices.) Empowerment is expected to be a

theme, if not the centerpiece, in next year's State of the Union message. Rep. Steve Bartlett, R-Texas, chairman of the 37-member congressional Task Force on Empowerment, foresees it as the Administration's "domestic policy agenda [for] the 1990s."

But it's a term that means different things to different people, causing Urban Institute senior fellow Isabel V. Sawhill "some difficulties figuring out what it means." Heritage Foundation domestic policy director Stuart Butler, one of the concept's intellectual authors, describes it as "trusting ordinary people" rather than a paternalistic welfare state to make economic decisions. (He acknowledges "a 1960s' ring to it" but doesn't mind, having admired "the intent though not the outcome" of President Johnson's Great Society.) Inside the White House, a senior aide portrayed it as a concern with "end results rather than programmatic operations"; another cited Bush's televised exhortations to Americans to rid their neighborhoods of drugs and to read to their children.

To White House long-term policy planner James P. Pinkerton, empowerment's in-house theoretician, it is a "post-conservative idea" that means returning economic and social decisions to the "lowest competent unit"—those who are affected. Pinkerton considers it part of a "new par-

adigm"—a notion he's been peddling for more than a year—that would supplant the decaying "old paradigm" of using centralized bureaucracies to administer government policy with reliance on market forces and decentralization and letting individuals (and companies) decide things for themselves.

The profusion of definitions shouldn't be surprising, for empowerment has emerged as "a unifying theme" from a multiplicity of Administration domestic policy proposals, Bartlett noted, rather than the other way around. The President's pragmatic style, he said, "doesn't lend itself to a unifying theme," but if there's been one, that's been it. Administration officials use the word to describe their policies in education (merit schools, unconventionally certified teachers and manifestations of educational "choice"); housing (rent-subsidy vouchers and tenant ownership of public housing, both in the housing bill recently passed); child care (tax credits rather than grants to states); clean air (marketable permits to pollute); and the disabled (civil rights). That hardly exhausts foreseen applications. Pinkerton expects to take "a long look" at creating "health care IRAs" to funnel federal assistance to patients rather than to hospitals and doctors and at reviving the Reagan White House's Low-Income Opportunity Board that gave fed-



... BUSHSPEAK AS '92 ELECTION NEARS

eral waivers to state governments to experiment with antipoverty programs.

Champions of empowerment make big claims for it. Granting parents some choices over where their children attend school counts as "the most radical change in public education since Horace Mann," Pinkerton said, adding that it wouldn't solve all the problems in education but "could solve a lot of them." (*See this issue, p. 2671.*) Empowerment isn't a substitute for federal spending but would require less of it, advocates say. Using housing vouchers and tenant management in place of paying developers to build and fix public housing, Butler figures, could have "a dramatic impact" on inner cities at half or less of what Washington spends now.

But this talk of savings raises suspicions of a yearning for social policy on the cheap. Jack Meyer, president of New Directions for Policy, a centrist think tank in Washington, likes the notion of letting "consumers vote with their feet" but worries that empowerment may give a financially strapped Administration "a thinly disguised cover" for making needy people fend for themselves. Even conservative enthusiasts acknowledge that it would cost more at the front end to change how government policies work and that only then might savings flow.

Empowerment draws plenty of self-interested opposition as well. Educators, de-

velopers and other social-service suppliers don't much like it, inspiring opposition in Washington from traditional Democrats who rely on them for political support. Traditional Republicans aren't drawn toward empowerment either. Indeed, all politicians are apt to resist it, Bartlett said, because it would cut the number of ribbon-cutting speeches.

Many social policy experts like the concept but deem it a necessary though insufficient response to domestic problems that will also entail further infusions of money. Rockefeller College provost Richard P. Nathan, once a domestic policy adviser to President Nixon, finds "something to" empowerment but doubts that housing vouchers "can save the cities" and says that educational choice has been oversold. (He recently moved from a neutral stance on choice to opposition.) Sawhill finds empowerment "useful" but no panacea for social problems—she calls it largely but not entirely "a rhetorical exercise." To consider it a solution, she said, "is to misdiagnose the nature and seriousness of the problem." Washington University social work professor Michael W. Sherraden judges empowerment "terrific" if it means giving poor people the sort of subsidies to buy homes and accumulate assets that better-off Americans have long received. If it doesn't, empowerment may not mean much, he said; its impact will depend on

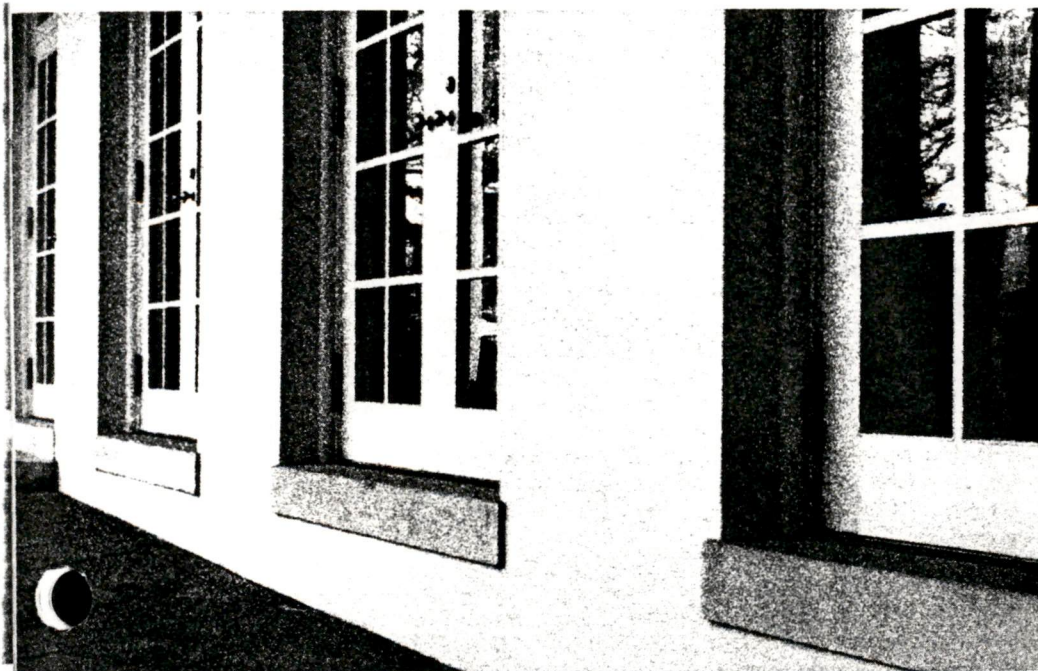
"what [its framers] mean and how it is implemented."

These ambiguities may prove useful to advocates of empowerment in the forthcoming debates. Most of its adherents are conservatives. But people of varying political hues see in empowerment—as they see in Bush—whatever they want. Conservative activist Jeffrey A. Eisenach, who employed a similar theme as issues director for 1988 Republican presidential candidate Pierre S. (Pete) du Pont IV, considers empowerment a means toward "equal opportunity, not equal income." Meyer of New Directions sees it as a way to ensure that teenagers get jobs so they can be self-sufficient. To Democrats, empowerment offers "market means to progressive ends," according to Will Marshall, president of the Progressive Policy Institute, associated with moderate-to-conservative Democrats.

As evidence of the odd nature of the concept's political allure, a Pinkerton speech on empowerment was read on the House floor by Minority Whip Newt Gingrich, R-Ga., an ardent conservative, then reprinted by the Ripon Society in its magazine catering to liberal and moderate Republicans. White House empowerment breakfasts have attracted aides of varying ideology, including traditional conservatives, neoconservatives, moderates and libertarians. Among Republicans and Democrats alike, views on empowerment vary more by generation than by ideology, Bartlett said—appealing more to neoconservatives and neoliberals than to traditionalists of either stripe.

That may prove decisive as the White House decides how hard to pursue this guise of a long-sought policy vision. In Administration councils, the heartiest advocates of empowerment are unconventionally conservative or relatively young, including Kemp, Pinkerton, economic and domestic policy adviser Roger B. Porter and members of Vice President Dan Quayle's staff.

There's said to be no overt opposition. But the extent of enthusiasm in certain quarters remains to be seen. Office of Management and Budget chief Richard G. Darman is considered a possible naysayer. But of more concern to advocates is a man who evidently passed through the 1960s unmarked and seems only fitfully interested in domestic policy—the White House's oldest official, who sits behind the Oval Office desk. ■



Ed: These are my notes
from my Heritage Fdn.
talk

November 8, 1990

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EMPOWERMENT

When the President talked about kinder and gentler three summers ago, I think many Americans felt it was time to emphasize these areas, but people didn't appreciate just how much had changed. Not just to be nice, but to make America competitive, and to make the cities habitable.

We've all learned from what's happened in Eastern Europe ... and in the 3rd World ... there's a New Paradigm...seeking to achieve social goals through non-bureaucratic market-oriented means...as Brandeis said, liberal ends through conservative means.

At the same time, growing appreciation of the limitations of government here at home...obvious failure of the Pentagon, HUD, the Congress, etc. Accountability -- where the money actually gets spent -- there's more and more scrutiny. People are frustrated by the inability of the failed bureaucratic Old Paradigm to use their compassion and their tax dollars to help people, educate them, etc. Impossible to underestimate the power of the metaphor of perestroika! In a world of change, the government ought to change, too.

A vital part of this New Paradigm is EMPOWERMENT...as Stuart Butler says, the Left had the right word, but the wrong idea. They were into politicization, not individual empowerment. Empowerment is a tough-minded approach to solving social problems...new perspective replacing dependency with independence, viewing poor people as potential assets. The movie "Glory" exemplifies this new thinking.

This is the point of the great Peruvian economist Hernando de Soto, who figured out that the government system was stacked against poor people making it. We have many of the same problems here...Ego Brown, the black shoeshine man who was prevented from earning a living by Jim Crow era laws, until conservative legal activists sued the DC government and won. Nobody wants to end their career shining shoes, but it never hurt anyone to start at the bottom!

Jack Kemp and Newt Gingrich have been preaching this...changing the way Republicans and conservatives talk

Educational choice -- Polly Williams

Voucherization in general -- Pell Grants are really Pell Vouchers Compare the effectiveness of the GI Bill -- which empowered vets to choose their school -- to Veterans Hospitals, which are run with all the efficiency and compassion of a Soviet collective farm. Again, the fundamental determinant is choice.

THE WHITE HOUSE
WASHINGTON



Date: 11/9 11am

TO:

Ed Rogers

FROM:

JAMES P. PINKERTON
Deputy Assistant to the President
for Policy Planning

Re: Empowerment

Four "greatest hits"

Decisions about education or health care are too important to be left to bureaucrats -- for the system to work, people must have a say in the process.

Occupational licensing/credentialism -- Clint Bolick

Micro-entrepreneurialism -- learning from the 3W -- Grameen Bank

Integration of services, getting away from nitpicky categorization

Health Care -- Stuart Butler

Child Care -- Robert Rector

Huge increase in the EITC -- one of the good things about the budget deal: if work full time at the minimum wage, you won't be poor. A good example of bipartisan accommodation, Heritage key role.

Almost anything the government does could benefit from the application of incentives and market forces. As Larry Lindsey put it, empowerment is simply applying the same supply-side appreciation of the importance of individual incentive to the poor. If it works the rich, and those who want to be rich, then it will work for the poor, who of course want to get rich, too!

Need a good response to quota bill? Empowerment enables us to go on the offensive. Dems/liberals want to talk about fairness, let's throw it right back in their face. Our vision of fairness is universal -- it applies to everyone!

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October 15, 1990

A NEW PARADIGM OF OPPORTUNITY

We propose a dramatic shift in approach toward poverty that moves away from the idea that the poor are liabilities and toward the notion that they can be assets. This new paradigm or model of increased opportunity is based on the idea of empowerment, that the best way to create upward mobility is to broaden the range of choices available to people in arranging their lives.

One way to broaden choice is to remove the barriers that inhibit alternatives, for example, the centralized, inflexible methods of centralized bureaucracy that stifle opportunity and create dependency. Thus, a central principle of empowerment is perestroika, restructuring existing bureaucratic structures of the welfare system, the education system, the health system, the housing system, and the like, through the use of decentralized means: vouchers, tax credits, enterprize zones, urban homesteading, etc.

Apart from avoiding bureaucratic methods, the new approach reflects several new strands of current thought on poverty:

- Hernando de Soto's idea that the poor represent a dynamic, entrepreneurial segment, the "informal sector," that creates wealth outside the officially-sanctioned economy and that needs the stability brought about by guarantees of property rights under the formal legal structure denied to them.
- Clint Bolick's idea for encouraging economic liberty among the poor, low income, and minority groups by doing away with laws, licenses, and regulations put entry-level occupations out of reach.
- The ideas of Mickey Kaus, David Ellwood, Lawrence Mead and the like on work requirements in return for welfare benefits, as well as ideas such as time limits on benefits, guaranteed jobs, provisions for child care, and the like.
- Reviving old ideas that worked, such as the CCC (Earth Conservation Corps).

Among our guiding principles will be:

- that the family must be encouraged.
- policies should be guided first by whether they

produce results, not by what the "inputs" are (e.g., money, personnel, etc.).

- that competition among service-providers to the poor should always be encouraged.
- that organizations and decision-making should be community-based
- that the mediating structures of society will be encouraged.
- that the first step is to agree that the present system doesn't work.

September 13, 1990

EMPOWERMENT

DEFINING THE EMPOWERMENT MESSAGE

When applied to the issue of poverty, the word empowerment means that poor people are seen in new, positive perspective: as people who are fundamentally not any different from the non-poor in their basic desires for themselves and their children; and as people who represent enormous human potential lying dormant. A good example is the de Soto-esque empowerment message: the poor are entrepreneurs-in-waiting.

There are hopeful signs in popular culture. Remember the message of the movie "Glory" ? Or all the sentimental literacy ads of mothers who can now read to their children, and workmen who are now being extra productive? Make empowerment a cultural movement as well as a political policy.

Underscore that this is the substance of the Bush vision of a Kinder, Gentler America. It has already been proven practically and politically: where Republicans like Secretary Kemp have already taken up empowerment of the poor, the public response has inevitably been positive, and more importantly, the effects by and large have been salutary. The public understands that we are neither berating welfare queens nor creating them, i.e., that empowerment is an approach that is compassionate while being tough-minded.

WHERE TO FOCUS EFFORTS

- o Aim at maximum public profile? (Kemp as, in effect, Anti-poverty Czar a la Bennett?)
- o Focus on:
 - children?
 - rural poverty?
 - female-headed households?
 - the working poor?

ISSUES

- o Infant mortality: the most important barrier to prenatal care "has to do with the behavior and motivation of mothers themselves." -- Harmeet Singh, "Stork Reality: Why America's Infants Are Dying," Policy Review, Spring '90
- o Micro-entrepreneurialism
 - Hernando de Soto
 - Susan Engeleiter & SBA
- o Choice In Education
- o Voucherization in general
- o Anti-credentialism
 - Jim Fallows, More Like Us
 - Licensing laws
 - Evaluating people by skills rather than background
- o Measuring results rather than inputs and process:
 - Kolb idea: Report to the American people where exactly their money went on anti-poverty programs.
- o Volunteerism
- o Restructuring
 - Integrate services
 - One-stop shopping (Low-income Opportunity Board)

- o Encouraging Work

- Kaus Plan

- EITC

- o Tenant management/ownership

- o Applying computers/technology

- Michigan "Opportunity Card" for job-training

- o Decentralization

- Make organizations community-based

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August 10, 1990

MEMORANDUM RE: A New Paradigm For Black Support

Our current method of courting support among black Americans relies heavily on outreach, "sensitivity", and glad-handing of the traditional civil rights organizations. This strategy is really less a strategy than a collection of tactics. It is really a method of avoiding giving offense rather than of building real alliances with black voters.

By seeking the lowest common denominator position with black Americans, we have missed the fact that there is segmentation among black Americans as there is among all ethnic groups. Indeed, this recognition of diversity of opinion among black Americans was the heart of the recent cause celebre involving Rep. Pete Stark and Sec. Sullivan.

For over twenty years now, since the Nixon Administration, the Republican Party has maintained this old paradigm: a "Nixon Strategy" of cufflinks, grants, set-asides, and racial preferences -- that is, buying good will with tokens of support. And twenty years later, it is clear that the "Nixon Strategy" has not increased the GOP vote among blacks. Most Republicans recognize this, but the response has been to increase effort expended on the old strategy -- thus, more outreach, more "sensitivity."

But we cannot expect those civil rights leaders who have long looked upon the GOP as the enemy to praise us. Indeed, throughout the past twenty years we have never won their support -- we have been satisfied to avoid their criticism.

Now that the GOP has a President who, unlike Ronald Reagan, is not considered a racist, we have a small presumption in our favor -- or at least, the absence of the old presumption against us. A new strategy would take into account the fact that there is a large body of black Americans who would be sympathetic to a message of economic uplift: owners and managers of small businesses, entrepreneurs. Up to now, the cufflinks and grants approach of the "Nixon Strategy" has not offered any encouragement to the black bourgeoisie. But by developing our own strategy of economic empowerment rather than aping the Democrats' strategy we have some hope of capturing new ground.

OLD PARADIGM

sensitivity
grants & set-asides
preferential policies
patronization

NEW PARADIGM

self-help
entrepreneurship
market forces
economic independency

Such a strategy, focussed on upwardly mobile self-reliant and economic uplift, would not be a campaign against welfare queens as in 1980. But it would recognize that those blacks who are most likely to support us -- the self-reliant owners of dry cleaning shops, liquor stores, and the like, are among the most virulently anti-welfare status quo constituencies.

These black Americans are the ones most familiar with the ravages that current Old Paradigm welfare policy has made among the black community. Note that they are not against helping people help people themselves, just against the present status quo of bureaucratic institutionalized false "compassion." They know that economic policies such as cutting the capital gains tax, enterprize zones, and the like are in fact important because they know how businesses are run.

These black Americans, like the Peruvian economist Hernando de Soto, see the poor not as a permanent burden on the economy but as potential wealth producers. In addition to those Bush policies which emphasize the creation of wealth, those that encourage protection of property and personal safety will be readily received as well: anti-crime law and order policies; anti-drug policies.

Such policies aim at reforming the status quo. Not many blacks except for those with large stakes in the "poverty industry" are really happy with the status quo. This new tack is certainly more sincere than the Nixon strategy. It avoids the continuing suspicion that constituencies are being bribed -- a suspicion felt both by briber and bribee, as well as other constituencies. Moreover, the new strategy of promoting our policies of economic opportunity will be popular with white voters who will recognize that GOP good will is based on a desire to help as well as a desire to garner votes.

A New Paradigm strategy toward black Americans will, however, require an enormous amount of energy and persistence. The continuing temptation of the cufflinks and grants approach is that it is mindless and reflexive -- it takes no intellectual effort other than that

associated with public liaison. The new strategy based on policies of economic opportunity and aimed at segments of the black community will demand more but serve the President and the GOP better at the ballot box in the end.

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