

II. CHARTING A COURSE FOR THE NEW ERA OF SURPLUS

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"Remember where we were six years ago. There were some people who were saying America was in decline. Today, we have a new surplus. We have wages rising to the highest levels in over 20 years. We have the confidence in the country soaring. We have an unprecedented opportunity to build for the future."

President Clinton
October 1998

At the close of the 20th Century, our economic success is unparalleled. The Nation is now enjoying the longest peacetime expansion in its history. This sustained economic strength, coupled with the renewed and rising confidence of the American people, has, as the President said recently, given us "an unprecedented opportunity to build for the future."

Reflect, for a moment, on how far we have come. When President Clinton took office seven years ago, the Federal budget deficit had exploded to the point that it dominated the Government's ability to make policy and imposed an insidious burden on our economy. By the close of 1992, the \$290 billion deficit—the largest in American history—was projected to continue spiraling upward without restraint. The economy suffered—interest rates were high and job creation stalled. Capital that should been used for productive investments to create new jobs, instead was used to finance the Government's massive deficit-driven borrowing.

Now, in what seems an entirely new world, we can look back with pride at our progress of the past six years, and ahead with confidence as we consider the path of our success. Today, we have lower interest rates, a higher level of investment, and unprecedented prosperity. Our economy has added more than 17 million new jobs. The unemployment rate is the lowest in 28 years, the percentage of Americans on welfare is the lowest in 29 years, and the inflation rate is the lowest in 33 years. And today, more

Americans own their own homes than at any time in our history.

By almost any economic measure, 1998 was a remarkable year for the United States. But there is nothing more remarkable than the success of the President's deficit reduction policy, which surpassed even the most optimistic of early predictions. The President's policy allowed the U.S. Government to balance its books for the first time in a generation, producing a budget surplus of nearly \$70 billion. Ending an era of red ink, and moving squarely into the black, the Nation can now go forward with confidence, secure in the knowledge that we are well prepared to meet the challenges of the next century. And if we keep our resolve in the 21st Century, we can continue to produce budget surpluses as far as the eye can see.

The President's Agenda: The Path to Surplus

Determined to set America on the right path, the President began his first term spearheading a controversial and courageous program to revive the Nation's economy. His economic strategy was built upon three elements: fiscal discipline; investing in policies that strengthen the American people; and engaging in the international economy.

The President's 1993 economic plan, which he worked with the Congress to enact, was the centerpiece of this strategy. It cut spending, slowed the growth of entitlements, and raised taxes on only the very wealthiest Americans. At the same time, this plan

cut taxes for 15 million working families and made 90 percent of small businesses eligible for tax relief. And it began an ongoing effort to invest in education and training and in research to boost productivity and, thus, promote higher living standards.

His three-pronged plan of deficit reduction, trade expansion, and targeted investments provided resources for people and the economy, ensuring that key investments for the American people strengthened their prospects for the future, while taking broader fiscal measures to put the Nation's economic house on the right track.

Despite critics' predictions that this strategy would fail, causing recession and even larger deficits, the President's plan built the foundation for the great prosperity that is America's today. In the summer of 1997, the President and the Congress joined together in an historic agreement to finish the job of balancing the budget. The results of this bipartisan action, the Balanced Budget Act (BBA), provided the final push, bringing the budget to balance a full four years earlier than projected. Like the President's 1993 plan, the BBA also provided for strategic investments in the American people.

Fiscal Discipline and Investments in a Time of Surplus

Last year's budget maintained fiscal discipline by reserving the surplus until we save Social Security first—and at the same time provided a strategy of targeted investments to help sustain economic growth. For example, last year's budget provided resources for:

- the first year's investment to reduce class size by hiring 100,000 new teachers. Smaller classes ensure that students receive more individual attention, a solid foundation in the basics, and greater discipline in the classroom. In this year's budget, the President proposes investments in this area, ultimately to reduce class size in the early grades to a national average of 18 students.
- investments to protect our economic interests at home by responding to international economies in turmoil. The disruption

in financial markets last year lead to economic dislocation in Asia, Latin America, and the Soviet Union. This, in turn, hurt American exporters, farmers and ranchers, who found that markets overseas were beginning to dry up. With President Clinton's leadership, Congress approved nearly \$18 billion for the International Monetary Fund, a stabilizing force in the world economy.

- a guaranteed, record-level investment for the next five years in the Transportation Equity Act for the 21st Century to continue rebuilding America's highways and transit systems, which are essential to continue the growth of modern commerce. This legislation also funds programs for highway safety, transit and other surface transportation, while safeguarding air quality, and helping former welfare recipients get to their jobs.

Perhaps the most important accomplishment is what last year's budget did not do—it did not spend the surplus. At the start of last year, the President called on the Nation to "reserve every penny of any surplus until we have taken all the necessary measures to strengthen the Social Security system for the 21st Century." As part of this plan, the President also launched a national non-partisan dialogue last year to spark honest debate and build consensus about this vital issue, leading up to the next step: resolving the difficult issues of Social Security in a bipartisan fashion.

The prospects for reform are strengthened by the culmination of last year's efforts to create an environment for constructive discussion, by our economy's new record-setting prosperity and by the fact that the surplus has been reserved for this purpose.

Reaping the Benefits

Throughout his Administration, the President also worked with the Congress to establish and build upon significant investments in education and training, the environment, law enforcement and other priorities to help raise the standard of living and quality of life for average Americans both now and in the future. For example, the President's

commitment to funding key domestic investments has:

- Advanced cutting-edge research with an increase last year for the National Institutes of Health of \$1.9 billion, for research including intensified work on diabetes, cancer, genetic medicine, and the development of an AIDS vaccine.
- Established the children's health care initiative, the largest investment in health care for children since Medicaid was created. Last year, 47 States began programs designed to provide meaningful benefits to as many as 2.5 million uninsured children.
- Increased Head Start's ability to provide greater opportunities for disadvantaged children to participate in a program which prepares them for grade school. Last year, a boost in Head Start funding put 835,000 children into the program, making further progress toward the President's goal of putting a million children in Head Start by 2002.
- Invested in public schools to help States and communities raise academic standards, strengthen accountability, connect classrooms and schools to the information superhighway, and promote public school choice by opening 900 charter schools.
- Protected and restored some of the Nation's most treasured lands, such as Yellowstone National Park, and the Everglades, provided the funds to conserve others, and accelerated toxic waste clean-ups.
- Built the COPS program to support community policing. This year COPS will reach the goal of putting 100,000 more police on the streets of America's communities. COPS has helped reduce violent crime for six straight years. The 21st Century Policing Initiative, proposed in this budget, will expand on the number of police and provide other law enforcement tools to the community.

Streamlining Government

A key element in the Administration's ability to expanding strategic investments, while balancing the budget, is the reinvention of Government—doing more with less. Efforts

led by Vice President Gore's National Partnership for Reinvention have streamlined Government, reduced its work force, and focused on performance to improve operations and delivery of service. And these efforts, by reducing the cost of government operations, have improved the bottom line and contributed to our strong economy.

Since 1993, the Administration, working with Congress, has eliminated and reduced hundreds of unnecessary programs and projects. The size of Government—that is, the actual total of Government spending—has equaled a smaller share of GDP than in any year of the previous two Administrations, and in 2000 will drop to 19.4 percent of GDP, its lowest level since the early 1970s. The Administration has cut the size of the Federal civilian work force by 365,000, creating the smallest work force in 36 years and, as a share of total civilian employment, the smallest since 1933.

The Administration, however, is working to create not just a smaller Government, but a better one, a Government that best provides services and benefits to its ultimate customers—the American people. It has not just cut the Federal work force, it has streamlined layers of bureaucracy. It has not just reorganized headquarters and field offices, it has ensured that those closest to the customers can best serve them.

For 2000, the Administration once again is turning its efforts to the next stage of “reinventing” the Federal Government. It plans to dramatically overhaul 32 Federal agencies to improve performance in key services, such as expediting student loan processing and speeding aid to disaster victims. It also plans to tackle critical challenges, such as ensuring that Government computers can process the year 2000 date change and making more Government services available electronically. (For a full discussion of the Administration's management agenda, see Section IV, “Improving Performance Through Better Management.”)

Under the 1993 Government Performance and Results Act, Cabinet departments and agencies have prepared individual performance plans that they will send to Congress with the performance goals they plan to meet

in 2000. These plans provided the basis for the second Government-wide Performance Plan which is contained in this Budget. In 2000, for the first time, agencies will submit to the President and Congress annual reports for 1999 that compare actual and target performance levels and explain any difference between them.

Investing in the Future to Save Social Security

In his State of the Union address, President Clinton proposed a framework for saving Social Security; it builds upon our successful fiscal discipline and the resources it has provided to the Nation. The President's plan devotes some of the surplus—62 percent of the unified budget surplus for the next 15 years—to the Social Security Trust Fund, making more than \$2.7 trillion available and extending the life of the system through the middle of the next century.

This plan would also tap the power of private financial markets by setting aside roughly one-fifth of the surplus that has been transferred to Social Security for investment in private securities. With these additional contributions, plus the higher returns earned by private investments, this plan will keep Social Security safe and strong until 2055. Then, in a bipartisan effort envisioned by the national dialogue of the last year, the President is urging Congress to join him to make the difficult but achievable choices to save Social Security until 2075. In the context of these tough choices, the President also noted the need to make additional reforms, including reducing the poverty rate for elderly women and other groups on Social Security who are disproportionately vulnerable and removing the barriers to work that are a result of the earnings test.

It is time to fix Social Security now. We are able to do so because the surplus has been saved for Social Security. Last year's commitment still stands—not to drain the surplus until Social Security has been resolved; however, it is also our obligation to look toward the future, and to plan wisely for the time when Social Security reform has been accomplished, and we can

responsibly allocate the surplus for other National needs.

Once Social Security is on sound financial footing, we must fulfill our obligation to save and improve Medicare. The President's framework will reserve 15 percent of the projected surplus for Medicare, ensuring that the Medicare Trust Fund is secure for 20 years.

The President is also committed to helping all Americans save and invest so that they will have additional sources of income in retirement. Dedicating just over 10 percent of the surplus will fund new Universal Savings Accounts to help Americans save, allowing them to invest as they choose and receive matching contributions.

And looking ahead to the Nation's other vital needs that will arise in the future, the President's plan will reserve 11 percent of the projected surplus for military readiness, education, and other critical domestic priorities.

This budget builds on the President's efforts to invest in the skills of the American people. It continues his policy of helping working families with their basic needs—raising their children, sending them to college, and expanding access to health care. It also invests in education and training, the environment, science and technology, law enforcement and other priorities to help raise the standard of living and quality of life of Americans.

The President is proposing major initiatives that will continue his investments in high-priority areas—from helping working families with their child care expenses to allowing Americans from 55 to 65 to buy into Medicare; from helping States and school districts recruit and prepare thousands more teachers and build thousands more classrooms to making every effort to fight tobacco and its use among young people.

Families and Children: For six years, the President has sought to help working families balance the demands of work and family. In this budget he proposes a major effort to make child care more affordable, accessible and safe, by expanding tax credits for middle-income families and for businesses to expand their

child care resources, assisting parents who want to attend college meet their child care needs, and increasing funds with which the Child Care and Development Block Grant can help more poor and near-poor children. The budget proposes an Early Learning Fund, which would provide grants to communities for activities that improve early childhood education and the quality of childcare for those under age five.

Health Care: The President has worked hard to expand health care coverage and improve the Nation's health. The budget gives new insurance options to hundreds of thousands of Americans aged 55 to 65 and it advocates bipartisan national legislation that would reduce tobacco use among the young. The President's budget proposes initiatives to help patients, families and caregivers cope with the burdens of long-term care; and it helps reduce barriers to employment for individuals with disabilities. The budget also enables more Medicare recipients to receive promising cancer treatments by participating more easily in clinical trials. And it improves the fiscal soundness of Medicare and Medicaid through new management proposals, including programs to combat waste, fraud and abuse.

Education: The President has worked to enhance access to, and the quality of, education and training. The budget takes the next steps by continuing to help States and school districts reduce class size by recruiting and preparing thousands more teachers and building thousands more new classrooms. The President proposes improving school accountability by funding monetary awards to the highest performing schools that serve low-income students, providing resources to States to help them identify and change the least successful schools, and ending social promotion by funding additional education hours through programs like the 21st Century Community Learning Centers. The budget also proposes further increases in the maximum Pell Grant to help low-income undergraduates complete their college education and more funding for universal reemployment services to help train or find jobs for all dislocated workers who need help.

Environment: The Administration proposes an historic inter-agency Lands Legacy initiative to both preserve the Nation's Great Places and advance preservation of open spaces in every community. This initiative will give State and local governments the tools for orderly growth while protecting and enhancing green spaces, clean water, wildlife habitat, and outdoor recreation. The Administration also proposes a Livability Initiative with a new financing mechanism, Better America Bonds, to further creation of open spaces in urban and suburban areas, improve water quality, and clean-up abandoned industrial sites. In addition, the budget would restore and rehabilitate national parks, forests, and public lands and facilities; expand efforts to restore and protect the water quality of rivers and lakes; continue efforts to double the pace of Superfund clean-ups; and better protect endangered species.

International Affairs and Defense: The President has worked to bring peace to troubled parts of the world, and has played a leadership role in Northern Ireland, Bosnia, and most recently with the Wye River agreement on the Middle East. The budget reinforces America's commitment to peace in the Middle East by providing for an economic and military assistance package arising from the Wye River Memorandum. The work of diplomacy, advancing peace and United States interests, has inherent dangers, as the death toll from the terrorist attacks on two U.S. Embassies in Africa last year reminds us. The budget proposes increased funding to ensure the continued protection of American embassies, consulates and other facilities, and the valuable employees who work there. It also supports significant increases in funding for State Department programs to address the threats posed by weapons of mass destruction. The budget also increases programs that support US manufacturing exports and continues our long standing policy of opening foreign markets.

The mission of our Armed Forces has changed in this post-Cold War era, and in many ways it is more complex. Today, the U.S. military must guard against major threats to the Nation's security, including regional dangers like cross-border aggression,

the proliferation of the technology of weapons of mass destruction, transnational dangers like the spread of drugs and terrorism, and direct attacks on the U.S. homeland from intercontinental ballistic missiles or other weapons of mass destruction. The U.S. Armed Forces are well prepared to meet this mission. Military readiness—the ability to engage where and when necessary—is razor sharp, and the budget provides resources to make sure that it stays that way for years to come. The budget provides a long-term, sustained increase in defense spending to enhance the military's ability to respond to crises, build for the future through programs for weapons modernization, and take care of military personnel and their families by enhancing the quality of life, thereby increasing retention and recruitment.

Looking Ahead

There is much to be proud of in America today. We have not simply put our fiscal house in order by balancing the budget; we have left behind an era in which the budget deficit, as the President said recently, “came to symbolize what was amiss with the way we were dealing with changes in the world.” Today we have risen to the challenge of change—by preparing our people through education and training to compete in the global economy, by funding the research that will lead to the technological tools of the next generation, by helping working parents balance the twin demands of work and family, and by providing investment to our distressed communities in order to bridge the opportunity gap.

If the deficit once loomed over us as a symbol of what was wrong, our balanced budget is proof that we can set it right. Not only do we have well-deserved confidence, we have hard-earned resources with which to enter the next century.

Today, we have an opportunity to address the needs of the future. We have an obligation

to proceed prudently. The President's plan proposes that most of the surplus be invested in Social Security, thereby saving the system for generations to come. And while the plan honors his pledge of last year not to drain the surplus until Social Security has been saved, it also plans prudently for the future. After Social Security reform is enacted, the President proposes using additional portions of the surplus to strengthen Medicare, to encourage Americans to save, and to provide resources for pressing national needs, including military readiness, education, and other critical domestic priorities.

There is no more pressing issue facing us as a Nation than the need to guarantee that Social Security will be there for generations to come. And there is no better time to act than now while the system is still strong. This is truly an exceptional moment in America—the economy is prosperous, the budget is in balance, and the President's commitment to national dialogue has created conditions for constructive action.

We must seize this moment and work together now, where a solution will be much easier to reach than waiting until the problem is closer at hand. We should take this rare opportunity to enact comprehensive, bipartisan Social Security reform this year—or as the old saying goes, we should fix the roof now while the sun is shining.

It is time, from our position of strength, to meet this challenge. Or as the President recently declared at the White House Conference on Social Security:

“Our economy is indeed a powerful engine of prosperity. In its wide wake it creates something every bit as important as jobs and growth—the opportunity to do something meaningful for America's future and the confidence that we can actually do it—an opportunity to save Social Security for the 21st Century. I hope history will record that we seized this opportunity.”