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THE WASHINGTON POST
THURSDAY, NOVEMBER 2, 1995

Robb's Role in Regulatory Bill Pleases Business, Irks Old Allies

By Michael Abramowitz
Washington Post Staff Writer

Since his reelection battle against Oliver L. North thrust him into the national spotlight last year, Sen. Charles S. Robb (D-Va.) has resumed the sometimes invisible approach to the job that characterized his first term in the Senate. With one big exception.

For the last three months, Robb has been winning new friends in business and exasperating old allies in the consumer movement by trying to resuscitate a bill to rein in federal regulatory agencies. The bill would require agencies to subject many proposed rules to a rigorous cost-benefit analysis, in theory providing a measure of relief to corporations that believe they are burdened by excessive regulation.

The measure is a key tenet of the GOP agenda on Capitol Hill this year and a priority for corporate lobbyists, but efforts by the Senate leadership to collect enough votes have so far come to nothing.

Staff members and lobbyists said Robb has emerged as the broker in discussions aimed at breaking the deadlock, in large measure by trying to bring along other moderate Democratic senators in support of the Republican measure.

Robb's maneuvering has angered and puzzled consumer advocates and labor groups, who were among his strongest supporters in last year's campaign but have now taken to staging protests against Robb across the state. Apropos of Halloween, one group accused Robb of playing a "trick" on his old supporters in the environmental movement. The regulatory overhaul, they say, could imperil the environment and jeopardize worker safety.

"Senator Robb, when he was governor, did some really courageous things on the environment," said Marie Ridder, a longtime Robb supporter who held a key environmental post in his gubernatorial administration in the early 1980s. "To see him become a partner in a [regulatory] bill that would really harm the environment distresses us who respect him deeply."

Robb said he's been interested in regulatory issues since revising the Virginia rule-making process as governor.

He said he stepped into the Senate debate this year out of concern, in part, that the

See ROBB, B7, Col. 3

ROBB, From B1

Democratic Party not be regarded as reflexively anti-business.

Some critics have drawn the erroneous conclusion that he is trying to "roll back" health and environmental regulations, Robb said. In fact, he said, he is trying to find common ground between competing interests, keeping in place important regulatory safeguards while culling rules that impede economic growth and productivity.

"It's clear to many of the people who've looked at this question that we are wasting resources and creating a tremendous amount of frustration in terms of the way we're doing business," Robb said. "If we do [regulatory changes] right, the people who are very much concerned about any movement will ultimately accept this as the right thing to do."

The issue with which Robb has been engaged is one of the most complex and politically acrimonious of the new Congress. With the change in control of their chamber, House Republicans were able to pass a bill quickly that would require extensive cost-benefit and risk analysis before major new regulations could be put in place. But a similar measure, sponsored by Senate Majority Leader Robert J. Dole (R-Kan.), has been stalemated on the other side of Capitol Hill; Dole temporarily shelved the measure after losing three narrow votes last summer to end debate on the bill, the last time coming up only two votes short of the 60 needed.

On each of the cloture votes, Robb sided with other Democrats to continue debating the bill. But after the last vote, he began working with a group of Democrats to draw up compromise language. Their initial efforts were rejected by Dole. But Robb and his aides have continued to circulate proposals with other senators, and the Virginia legislator said he's still hoping for a consensus.

The focus of Robb's efforts, staff members said, is to take the cost of new regulations into consideration in a way that does not lower environmental and health standards.

Finding the precise language is a tricky task, though not as tricky perhaps as finding political support for a compromise. Although Dole has encouraged Robb in his search for additional votes, members of the Democratic caucus are leery about an initiative that could deliver a political victory to the Republican presidential candidate.

Environmentalists and labor groups, meanwhile, say they are frustrated by Robb's continued williness to engage with Republicans on the issue. "His efforts are keeping a terribly destructive bill alive," said David G. Hawkins, senior attorney at the Natural Resources Defense Council.

Some advocates also have drawn attention to Robb's connections with Hunton & Williams, the Richmond law firm where he worked between the time he was governor and his election to the Senate. Lawyers with the firm helped Senate Republicans draft their regulatory bill, and another Hunton & Williams alumnus, Kyle McSlarrow, is Dole's top aide on the issue.

The firm's lawyers, clients and other businesses with an interest in the regulatory debate also contributed more than $120,000 to Robb's reelection campaign last year. Although only a small fraction of his overall $6 million campaign, the contributions reflect the intense interest in the issue in the corporate community, advocates said.

Robb described his friendship and the contributions from lawyers with Hunton & Williams as "absolutely irrelevant" to his considerations. He said he was not even aware that the law firm was involved in the issue until he read newspaper accounts of its lobbying efforts.

Business advocates said they are encouraged by Robb's efforts to reach a compromise but worried that he may go too far in watering down the Dole bill.

"He's clearly in the middle, and he's taking hits from all sides," said Jerry Jasinowski, president of the National Association of Manufacturers, which has put together a business coalition in support of regulatory changes. "He's played a central role in keeping alive the debate and keeping alive the effort to bring meaningful regulatory reform."

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Reynolds Marketing Strategy Sought To Get Young Adults to Smoke Camels

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CCUP
GS - we need another hit on this sometime before long - where is FDA?

By ALIX M. FREEDMAN
And SUEIN L. HWANG
Staff Reporters of THE WALL STREET JOURNAL

An R.J. Reynolds Tobacco Co. internal marketing plan called for a "single-minded focus" on getting young adults, especially 18-year-olds to 20-year-olds, to smoke Camels.

The confidential Camel business plan for 1990, obtained by The Wall Street Journal, offers an unusual inside look at the cigarette industry's aggressive push to win young smokers. It also runs counter to Reynolds's insistence that very year, in an interview with the Journal, that Camel is targeted mainly at consumers who are 21 to 30.

The plan details the brand's focus on smokers aged 18 to 24, which the document referred to as YAS (young adult smokers). The document further cited an "emphasis" on "males, 18 to 20."

Reynolds, which is a unit of **RJR Nabisco Holdings** Corp., didn't dispute the document's authenticity, but stressed that the smokers in question were of legal smoking age and that the YAS campaign was aimed at switching existing smokers to the Camel brand, not recruiting new users. Reynolds also said that certain pages of the document were missing, but declined to elaborate.

While company officials didn't explain the differences between the internal marketing plan and public statements about the target age of Camel smokers, they emphasized that the company raised the target age of the brand's consumers to 21 to 30 in 1992.

The plan dated Oct. 9, 1989, explains that the YAS initiative was central to Reynolds's strategy to reverse Camel's decline. The study described "growth among YAS" as "crucial," citing a "declining trend prior to YAS focus."

Until the early 80s, Camel cigarettes were smoked primarily by men over 50. But the plan said the "YAS contribution to Camel is significant." Specifically, 28% of Camel buyers are 18 to 24 and represented 13% of cigarette buyers overall, the document said.

Even so, the marketing document stated that gains in young adult smoking would be offset by older smokers quitting. According to the study, smokers over the age of 50 smoked an average of 878 cigarettes a month; smokers who were 18 to 24 smoked an average of 623, or 29% less.

The disclosures come at a time when former Reynolds executives and industry consultants say that Reynolds is again using Joe Camel as the centerpiece of its Camel advertising. They explained that Reynolds scaled back the use of the controversial character in 1994 after drawing intense criticism from industry foes. But the brand lost momentum, prompting Reynolds to reverse course. "They laid off for a while when they were getting all that negative publicity," says Donald Bloom, a tobacco consultant in Phoenix, Ariz. "Now, they're back to using something that works."

As evidence, they point to Camel's renewed vibrancy. In the third quarter, when Joe Camel began to appear more frequently, the company's sales rose a hefty 12%, according to industry analyst John Maxwell.

Reynolds officials yesterday disputed the notion that Joe Camel had ever been retired. Lynn Beasley, senior vice president in charge of Reynolds' Camel, Winston and Salem brands acknowledged that the company cut back on its marketing expenditures after Philip Morris cut the price of Marlboro in late 1993. But she said: "Not in any way have we scaled back the use of Joe and nor do we have plans to."

Arizona Supreme Court Approves Major Changes in Jury Practices

By MARGARET A. JACOBS
Staff Reporter of THE WALL STREET JOURNAL

The Arizona Supreme Court adopted a sweeping package of proposals intended to help jurors do a better job sifting through evidence, making the state the first to fundamentally change its jury practices.

The state's highest court voted unanimously last week to allow jurors to pose written questions to witnesses through the judge, as well as to take notes throughout civil trials. It also agreed to furnish jurors with special notebooks to be filled during a trial with preliminary jury instructions, key documents, photographs of witnesses who testify and final jury instructions. And the court voted to give judges in civil cases the discretion to allow jurors to talk in the jury room about evidence during a trial.

In addition, the high court agreed to give trial judges the option to limit the length of a trial and to avoid a hung jury by polling deadlocked jurors to see if questions remain. Judges can then allow jurors to hear additional evidence for the limited purpose of answering their questions or have additional closing arguments from the lawyers.

Chief Justice Stanley G. Feldman of the Arizona Supreme Court says the reforms—which become part of the state court system's rules Dec. 1 — aren't intended to favor any side in a legal dispute. They are to "help jurors better understand, handle and assimilate the evidence — to be more efficient," he says. "We are applying methods of social science and communication skills [to the jury process], instead of keeping jurors handcuffed and in a straightjacket," he adds.

The recommendations were among 55 presented to the court a year ago by a panel of former jurors, academics, judges and lawyers convened by Justice Feldman, and headed by Maricopa County trial court Judge J. Michael Dann. Public interest in the recommendations' adoption has increased in the aftermath of the O.J. Simpson trial, say court observers.

Justice Feldman says the reforms were adopted with "little disagreement" as to detail by the five members of the court, three of whom were previously trial-court judges. "We all had a common-sense approach," adds Justice Feldman, who served as a trial lawyer before ascending to the bench.

Judges have tried various reforms in individual cases and some states have adopted certain changes, such as Arizona's move two decades ago to allow jurors to take notes in criminal trials. But no other state has adopted such a comprehensive package of changes, says jury expert G. Thomas Munsterman of the National Center for State Courts in Arlington, Va. "It will be wonderful to watch and see how they do statewide," Mr. Munsterman observes.

Several other state courts, including those in Delaware and California, are in the early stages of considering similar reforms. "I am presenting the Arizona experiment to our court for consideration," says Chief Justice E. Norman Veasey of the Delaware Supreme Court. In California, Chief Justice Malcolm M. Lucas is expected to name a committee this month to draft recommendations on a broad range of jury questions, including sequestration and juror care. The final report should be completed by next spring.

The Arizona court, however, deferred until next year a decision on one of the most debatable panel recommendations: to allow jurors to discuss evidence during the course of criminal trials. The court said that it would await the outcome of a constitutional challenge to the practice by Dale Bertsch, a Phoenix anesthesiologist convicted in 1994 of murdering his ex-wife.

The judge presiding over the Bertsch case, a member of the jury reform committee, had allowed jurors to discuss the evidence throughout the trial. The challenge is currently pending before a lower appellate court but has yet to be argued. "Judges shouldn't experiment in a first-degree murder case; the court rules expressly prohibit" juror discussion in criminal trials, says Larry Hammond, Dr. Bertsch's lawyer.

The court also rejected several of the committee's proposals, including requiring judges to give final jury instructions before each side summarizes its case instead of after, and allowing alternate jurors to vote at the conclusion of the trial. The court did, however, recommend that no juror be designated an alternate until he or she is chosen by lot just before the case is given to the jury.

Other proposals, including recommendations that jury panels be more economically and ethnically diverse and that juror pay be increased to $40 from $12 a day, must be taken up in the Arizona Legislature.

In Arizona, virtually all occupational exemptions from jury service had already been eliminated. Even Supreme Court justices aren't exempt, says Justice Feldman, who has never served but recalls that a former member of the court once did. In that criminal case, the jury voted to acquit in half an hour because the prosecution "didn't come close to proving their case," Justice Feldman recalls his former colleague saying.

THE WALL STREET JOURNAL THURSDAY, NOVEMBER 2, 1995

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The Des Moines Register

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THE REGISTER'S EDITORIALS

Police-community alliances

Sioux City may lead Iowa in the new strategy.

Police work got mauled by the Mark Fuhrman tapes. They implied that ruthless officers sometimes violate the law in the name of keeping the peace.

So it's a relief to hear that the federal government has been financing a strategy that puts the law and the public unequivocally on the same side: community policing.

What is community policing?

"Well, we've never actually defined policing," explained Joe Brann, former chief of police in Hayward, Calif., pin-pointing the muddled expectations that create some of the disappointment and anger that get lobbed at police departments.

Community policing is distinguished by its goals of forming alliances with local residents and organizations, having the community help identify crime problems, and changing from a force that mostly reacts to calls to a force that also acts on its own initiative.

A prime target: domestic abuse. Usually officers separate the victim and the abuser, but this can end up being a Band-Aid on a bullet wound. The abuse continues, and officers are called back a month, a week or even hours later. But in Heyward, community policing put cops on patrol with domestic-abuse specialists who designed procedures that worked better for both victims and officers.

As director of the Office of Community Oriented Policing Services (COPS) — part of the U.S. Department of Justice — Brann invests federal dollars in community policing efforts all over the country. The money helps put more officers on the street, but gets them out of their cars, or, as Brann calls them, their steel cocoons.

The grants also help buy new equipment and computer systems. Many police forces are antiquated and have reams of data they can't analyze. Brann cites Chicago's police force as one worth imitating. Its computer lets an officer analyze criminal activity — break-ins, for example — by cross referencing the time and locations with a factor such as the number of pawn shops in the area.

But more than programs, community policing requires departments to make internal philosophical and cultural shifts that encourage new ideas from beat cops on up. From what Brann has seen, Sioux City does the best job of this in Iowa. Clearly, though, this is a bandwagon that every Iowa city ought to jump on.

Typically, Brann explained, police departments had a one-tool approach to their work: Make an arrest. Community policing seeks to expand officers' options and make arrests the tool of last resort.

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THE WASHINGTON POST
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→ Jack Quinn should Justice look into this? BC

AROUND THE NATION

Cabbies in Lincoln's City Told to Rebuff Black Men

SPRINGFIELD, Ill.—A few blocks from the tomb of the Great Emancipator, a notice posted at Lincoln Yellow Cab Co.'s headquarters made it clear that getting a taxi can be a question of race.

"Effective immediately Do not pick up any black males unless you feel it is safe," the note read. "If you do not feel safe with the way they look Do not pick them up! There has been too many robberies lately, and they have all been by BLACK MALES."

The sign, posted on a bulletin board visible to customers, came down yesterday shortly after a reporter asked about it. Company manager Earl Reno said his lawyer advised him to take the sign down and "put up a sign that says do not pick up any suspicious-looking persons."

The issue of cab drivers being unwilling to pick up minorities has arisen before, most often in big cities. Last fall, former New York mayor David N. Dinkins (D) said a cabbie snubbed him by driving no more than 20 yards farther to pick up a white fare.

The issue of discrimination has special resonance in Springfield, in part because Abraham Lincoln spent most of his adult life here, but also because of the city's history since his death.

In 1987, a federal court ruling brought an end to a system of commission government that opponents claimed was designed to dilute black voting power. The system itself was instituted after a 1908 race riot that prompted the founding of the NAACP.

Black leaders sharply criticized the latest episode.

"That's like saying all black people are robbers," said David Livingston, state president of the NAACP. "You can't judge a person by just looking at them. That's discriminatory and stereotyping."

"You always have hopes that attitudes are changing," said Frank McNeil, a black city alderman who was a leader in overturning the commission government. He said he will ask city officials to seek evidence for potential punitive action against the taxi company.

Legal experts said a policy against picking up blacks also probably violates state and federal civil rights laws.

Reno denied that the note reflected an effort to discriminate, saying the company does a large business with blacks and that he was trying to alert his drivers "for their safety."

Students Throw Rocks at Hawaii Governor

■ HONOLULU—Protesters threw rocks at Gov. Benjamin J. Cayetano (D) after he told University of Hawaii students and faculty members that the state had no choice but to cut the school's budget.

About 5,000 demonstrators, some in Halloween Grim Reaper costumes, staged a "Death of Education March" on Tuesday to protest cuts totaling $50 million over two years, or 8.9 percent of funding.

Cayetano said the state had to deal with what he called the worst fiscal crisis in Hawaii state history: a budget deficit of $800 million.

The governor was shouted down by protesters and angrily asked them to keep quiet. When he left the demonstration, a few protesters threw rocks. He was not injured.

Wreck Tosses 20 Tons of Lettuce

■ FICKLE, Ind.—Roughage road ahead: A stretch of Interstate 65 was closed for nearly 10 hours after a tractor-trailer spilled 20 tons of lettuce, which had to be picked up head by head.

"You can't really use a shovel or bucket," state police dispatcher Tammy Manicke said. "It's all over the roadway. It's a big mess."

The truck overturned about 40 miles northwest of Indianapolis. The driver, Eric Campbell, told police he had been cut off by another rig and swerved.

From news services

U.S. Reports a Healthier Mammogram Picture

Associated Press

Women now have access to safer and more accurate mammograms everywhere from hospitals to shopping malls, says a government audit of the first mammography standards.

The Food and Drug Administration's requirements have significantly improved mammogram quality at more than 10,000 facilities nationwide, particularly in nine states that never before mandated mammography standards, said a General Accounting Office report released yesterday.

And contrary to congressional fears that facilities might shut down rather than spend the money to improve mammography, the FDA has helped upgrade substandard labs, the GAO concluded.

"We have delivered to American women better quality mammograms and we have ensured that no matter whether a woman lives in a big city or a small town, she has access to this lifesaving service," Health and Human Services Secretary Donna E. Shalala said yesterday.

Rep. John D. Dingell (D-Mich.) seized the report as evidence that Congress should be cautious in heeding calls by FDA critics to revamp—or even privatize—the agency. Mammography "is a clear example that FDA can and does regulate in a way that is thoughtful and serves the public health," he wrote in a letter to House Republican leaders.

Mammograms offer women the best chance of finding breast cancer early enough to cure it. Breast cancer strikes 182,000 women a year and kills 46,000.

But in past studies, mammograms have missed up to 10 percent of breast cancers. Critics said that was because no law required mammography centers to use up-to-date equipment, to employ doctors trained to interpret mammograms accurately or technicians who properly positioned the breast for X-rays.

In October 1994, mammography facilities were required to meet such standards and get FDA accreditation to operate. Before then, only Michigan and Texas had such regulations. Nine states—Alabama, Connecticut, Kansas, Louisiana, Montana, Nebraska, North Dakota, West Virginia and Wyoming—didn't require any of the FDA's benchmark standards for quality, the GAO said.

"Early indications point to a general improvement in the quality of mammography services," the GAO said.

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11-2-95

Leanne
what do you make of this.
BC

THE WASHINGTON POST
THURSDAY, NOVEMBER 2, 1995

Racial Disparities in Pay Sharpen to a Surprising Degree

By Jonathan D. Glater
Special to The Washington Post

Education may be the key to opportunity, but not necessarily equality.

Despite the increased academic achievement of African Americans over the past 20 years, those with college and graduate degrees have not matched the earnings of their white counterparts.

In fact, throughout the 1980s, the gap between hourly wages paid to blacks and whites with college educations or graduate degrees has widened, according to a recent study by the Economic Policy Institute.

The chart at the right shows that hourly wages of black men and women who have completed college or gone to graduate school have steadily decreased relative to the wages of their white counterparts.

Changes in the economy, the dwindling power of unions and a decline in enforcement of discrimination laws are behind the growing disparity, according to Jared Bernstein, the study's author. Bernstein completed his research for the Economic Policy Institute before joining the Labor Department, where he is now deputy chief economist.

These changes have hurt the earnings of less well-educated blacks, too—but the growth of a gap affecting those with more education suggests that education does not cancel out discrimination, according to the study.

Hourly wages paid to black men with college and graduate degrees have fallen from nearly 102 percent of their white counterparts' wages in 1975, to 92 percent in 1993. In

See TRENDLINES, D16, Col. 1

TRENDLINES, From D13

1989, black degree holders' wages were just 85 percent of white degree holders' wages.

Wages paid to black women show a similar pattern, falling from 111 percent of white women's wages in 1975 to 90 percent in 1993.

At the same time, blacks' scores on the Scholastic Aptitude Test for entry to colleges have steadily improved relative to whites' scores, according to the study. The average black test-taker's math score on the SAT was 72 percent of the average white test-taker's score in 1976 and had climbed to 78 percent by 1990; the average black test-taker's verbal score improved from 74 percent of the average white score to 80 percent during the same period.

And blacks in the 1990s have attended school for nearly as long as whites, closing another gap. But hourly wages have not reflected increased educational levels.

"Labor market analysts expect those variables to go in the same direction," Bernstein said. "Education is supposed to be the great equalizer."

Sectors of the economy that used to employ African Americans in general, the study notes, have contracted as jobs in manufacturing have vanished; blacks have tended to move into lower-paying service jobs, where lack of seniority also has hurt them.

Unions, which in the past benefited blacks disproportionately because blacks were—and are—more likely to be members and more likely to face discrimination, are now weaker, so black employees' wages suffer, according to Bernstein.

While black women could command a wage premium because they had more work force experience than white women in the 1970s, that gap has eroded. And while black men probably enjoyed slightly higher wages simply because of their scarcity in the work force, now there are more black men with college and graduate degrees in the labor market, so greater competition helps keeps wages down.

But discrimination plays a role in Bernstein's story, too.

Bernstein concludes that affirmative action programs should not be scrapped, as some congressional Republicans have maintained. But other academics suggest that formal affirmative action policies and programs are less the issue than are changing attitudes.

"There's just a declining belief in affirmative action," said John Bound, associate professor of economics at the University of Michigan and author of a study similar to Bernstein's. While employers adopted affirmative action policies with some enthusiasm in the late 1960s and the 1970s, he said, now they are more sophisticated and know that they can get out of hiring minorities if they wish.

"How much do I put into getting around the law?" Bound said. "How much am I willing to let [race] influence me, or how much do I feel like I need to bend over backwards to not let that influence me?"

Rather than slackening enforcement of anti-discrimination laws, which Bernstein's study emphasizes, Bound blames a change in popular attitudes: "There is a growing amount of backlash . . . against minority populations," he said.

That sentiment means Bernstein's argument may not find sympathetic ears in today's Congress. But it is unclear whether the "backlash" is sparked by any real gains by well-educated blacks at the expense of whites, according to Bernstein.

Lawmakers Plan to Cut $200 Million From Tax Collectors

By Albert B. Crenshaw
Washington Post Staff Writer

In the business world, a good investment is one that returns more money than the investor puts into it.

With Republicans' emphasis on bringing sound business practices and businesslike attitudes to government, it would seem that putting money into programs that have a net positive return to the government might have strong appeal.

Not so—at least when it comes to taxes.

In the 1996 budget for the Internal Revenue Service, reported out of a House-Senate conference committee on Capitol Hill last week, congressional leaders are preparing to reduce spending for tax law enforcement by $200 million.

The measure is part of a broad appropriations bill for the Treasury Department and Postal Service that is snagged because of a dispute about restrictions on lobbying by nonprofit organizations. Congressional leaders met yesterday to try to untangle that issue, which is not tied to the IRS cuts.

The cuts are not one of those Washington-style reductions that are really increases masked by inflation or some other baseline. Under the measure, the agency's outlays for law enforcement for fiscal 1996 would be below those for fiscal 1995.

The legislators at the same time are giving tax collectors a bit more money for return processing, taxpayer assistance and other management functions, and a heftier boost—though still less than President Clinton had sought—for the agency's ongoing program of modernizing its computers and other data processing systems.

All told, the IRS's overall budget apparently will shrink by a bit more than $100 million this year, and will be more than $750

THE BUDGET BATTLE
WINNERS AND LOSERS

million below the administration's request.

"We've got some concerns about our ability to answer phone calls and provide taxpayer service, but clearly the significant reduction is in tax law enforcement," said IRS Commissioner Margaret Milner Richardson.

Among the budget casualties is $405 million for the second year of a five-year enforcement initiative that was already beginning to pay dividends, Richardson said. She noted that federal receipts were up 8 percent last year, and while "I won't claim every penny" should be attributed to increased IRS efforts, collections did climb by $1.7 billion.

In general, the IRS figures that $1 spent on enforcement produces $5 in new revenue for the government. But much of the cutting mandated by the budget will be in areas such as automated collections—a telephone system that allows the IRS to dun delinquent taxpayers and taxpayers to work out deals to pay—that generate as much as $30 in revenue for every $1 spent.

Revenues generated by the five-year initiative had been earmarked for deficit reduction, and Richardson said that in the budget process "what has surprised me is there has been focus only on the expense side and not on the revenue side. . . . Increasing revenue would be a quick way to reduce the deficit."

Perhaps legislators are relying on another change that has been inserted in the IRS budget: $13 million to hire private debt collectors and attorneys to go after unpaid taxes. The bare-bones budget item simply directs the agency to spend the money for the private collectors.

IRS officials are not happy about what this might do for the tax system. "I know the IRS is sometimes accused of being heavy-handed, but wait'll [taxpayers] meet Bruno from Jersey City," one agency official said.

Doug Sosnik / Rpfr | cc Kevin O'Keefe

THE PRESIDENT HAS SEEN 5/15/95

A Manifesto for the Democratic Party
by John S. Jackson

Speaker of the House, Newt Gingrich, and his Republican legions are wrong about many things; however, they are right about one important subject relevant to the future of the Democratic Party. Gingrich and company correctly recognize that a political party has to stand for something and must advocate a positive plan and a program in order to appeal successfully to the American people. What's more, they recognize that making a coherent national appeal has real payoffs, real benefits for state and local parties and candidates running under the party's banner. Thus, all politics is no longer local in the United States and indeed the fate of the national party and the fate of the constituent state and local parties are inextricably intertwined. State and local parties can no longer stand aside from the national party and its federal candidates and expect to be insulated by our generally decentralized party system. At all party organizational levels we are now all in this together with an interrelated party image and electoral interests which require that we all work together. The November 1994 election results in Illinois and in the nation are evidence of the accuracy of these observations. The Republicans are making common cause, sharing resources, recruiting attractive candidates, and running on unified themes from top to bottom. The Democrats, whether in Illinois, other states or nationally must find ways to lay aside some of the internal internecine strife and factional competition and work together in a more focused and more unified manner if they are to regain competitiveness.

The Democratic Party in Illinois, and nationwide, needs a clear-eyed assessment of what went wrong in the 1994 mid-term elections, and what has been going wrong for the Democrats for several years, and they need to develop a plan to address their problems and to chart a course for the future. It is toward those common, overarching objectives that this position paper is addressed.

A Philosophy and a Future

The Democratic Party first and foremost needs to stand for a philosophy, or at least a coherent set of principles, for an overarching concept which unites it. The party needs a public philosophy that makes sense in terms of where it places itself, what its reason for existence is in the late 20th Century and where it wants to lead the American people in the first decade of the 21st Century. Just as importantly, the party needs to articulate what its philosophy is, what its reason for existence is, and it must articulate this philosophical position in a clear and compelling manner. In this era of mass media driven campaigns, an era which puts a premium on issues and on candidates who can articulate those issues, the Democrats can no longer afford the luxury of an incoherent message. Democrats must articulate the proposition that they stand for something positive, something more than just a different set of political leaders who want to hold office; otherwise they will be reduced to reacting to and opposing Republican initiatives. Being opposed and being against initiatives is the formula which left the national Congressional Republicans in their minoirty status for 40 years. It is the formula that the Democrats seem ready to adopt since the November l994 elections. The Republicans "Contract with America" was full of bad public policy and considerable hypocrisy, but it was a brillant piece of camapign strategy. It did contain a reasonably coherent philosophical rationale for governing. From the Contract has flowed a set of concrete policy proposals which has united the Republicans and which has dominated the policy agenda in the first days of the l04th Congress. This is a level of party unity which the Democrats with their long history of intraparty warfare can only envy.

A Bedrock in Community

The philosophical and policy-oriented conceptual base which should unite the Democratic Party can best be summarized by the phrase, "Investing in the Community". This emphasis on community, on the common good, on the public interest is directed toward underscoring the axiom that what unites us as a people must be greater than that which divides us in warring ethnic, racial, class, geographical, gender-based, or interest group driven factions. This emphasis on the community, on the common good is very consonant with the political traditions of this nation in general and with the heritage of the Democratic Party in particular. It is true that the American political culture places a tremendous stress on individualism, and that strain of thought has been mined very successfully by the Republican Party. Nevertheless, an overemphasis on the rugged infividualism of the mythic American frontier, or a glorified good old days, leads to the kind of social Darwinism the nation saw practiced in the Reagan era. This strain of thought in its unbridled form leads to greed, egotism, and self-centered behavior where the logical conclusion is a kind of moral anarchy where the powerful and those with the most resources continue to increase their own personal prerogatives and rationalize it in terms of what they contend is for the good of the society as a whole. These are the policies which supported and celebrated the rich getting richer and shifting the tax burden to the middle class in the Reagan era. It is this mentality which leads in the direction of a capital gains tax reduction being advocated by the Republicans and by some Democrats in the current era. Individual responsibility is an important precept, and Democrats should find new ways to support it, but individual responsibility often must be taught in social settings for many people. In addition, individual responsibility is best realized within the framework of some overarching community standards and includes due regard for the community's interests.

The Democratic Party must anchor its principles and policies in the need for building our communities, both our literal communities of concrete and steel and our figurative communities of shared interests unbridled by geographical boundaries. The nation has seen far too much of the "wedge issues" which the Republicans have so cleverly used to divide the American people in order to make short-term political gains. A modern society requires a vast array of economic, social, and personal interactions on a close and daily basis. Government has a role to play in helping set the conditions within which those interactions can most successfully and most productively take place. Government can and must provide the balance wheel against the abuses of private power and wealth which can arise in a predominantly market oriented system. Republicans celebrate the unbridled excesses of the market; Democrats must insist on a larger accountability to the common good, the public interest.

Democrats must emphasize that it is in building up our shared communities, whether these be our cities, our states, or the nation as a whole that people ultimately achieve their greatest potential. Contrary to conservative rhetoric, the greatest freedom emanates from living in an orderly society, with an active role provided for the public sector, and it is in such an orderly society that the greatest freedom for the most people can be achieved. It is in a shared context that most human beings excel, and it is in such a shared interaction that an even higher order of freedom can be attained for most people. We all have to give up a bit of theoretically untrammeled personal freedom in order to gain the security and the greater common freedoms provided by social order. It is only in communities that business and industry thrive, people are educated and trained for the jobs of the 2lst century, and the communications and financial networks develop to undergird the emerging global economy. It is in community settings that care can be given to the elderly, the infirm and the youngest members of society, and public policies can and must support the families which are performing these roles for the weakest members of society, and take over that support role when the family is absent or pathological. It is in the community that the local police department and the local fire department can provide for the public safety and protect most people from the predators among us. It is in the community that medical research advances and that common diseases can be treated, controlled, and in some cases eradicated. It is in and through our communities that public transportation systems can provide the way to work and to recreation for thousands of daily commuters at a price both they and the environment can sustain for the long term. It is through public policies, mostly supported by the Democrats, that much progress has already been made on cleaning up an environment severely contaminated and polluted by the industries owned by the robber barons of yesteryear and their corporate descendants of today. It is only the community which can provide the infrastructure of streets, state highways, and the interstate highway system which can move goods and people rapidly from place to place in a manner which enhances and sustains the economy. It is only in and through our communities that fresh water and sanitary sewers and storm sewers are provided to the great majority of people at a price which increases the quality of life for us all. It is in and through our public school systems that most of our young people must be educated for life and work in the 2lst Century. It is in our great public universities that much basic research which expands our knowledge base and makes possible the advances of tommorrow takes place. It is our great public universities which educate an increasing proportion of students at a price which they can afford and to which students from other countries are attracted in increasing numbers. It is only through communities that public symphonies, public museums, public theaters, public television and public radio transmit to the American people the arts on which our culture rests.

The great Republican myth-making machine in the Reagan era convinced many Americans that government was "the enemy", that "government is the problem" and that only Democrats were responsible for the operation of the government. The Gingrich era has refurbished this same myth and used it to great advantage in the 1994 mid-term elections. Democrats must counter that myth by pointing out clearly the many benefits which government has brought to modern society. The Democratic Party must stop being defensive about the proper role government has played in the development of America. A more accurate portrayal and understanding of American history would help the Democrats to overcome the myths.

A (Very) Brief American History

All of this is not "collectivism" and definitely not "socialism" in the ways the Republican Party's myth-making machine has sold those pejorative labels to the American people. What we are talking about here are the fundamental requirements of civilization; this is about the fundamental requirements of people living together in a complicated, interconnected, interdependent mass society late in the 20th century. Thinking anew about what it takes to build strong communities is what we should be about as a society as a nation and as a state and as a party as we reach toward the first part of the 21st Century.

Living by myths and promulgating those myths for short-term political gain is not an adequate or honest plan for the future. The Republican Party constantly tries to take us back on a nostalgia trip to a simple agrarian or frontier society that never even existed in the past and certainly does not provide useful models for the future. The United States was built by government actions, policies, and programs at least as much as by rugged individualism and cowboy capitalism. The whole U. S. Constitution which we rightly venerate was written and implemented partially to build a national community and to support a national economic system. The Constitution provides for a currency system, a taxing system, an interstate commerce system, a Post Office and Post Road system, a patent system, and indirectly a banking system, all of which were crucial for the development and growth of a national economy. The Constitution provided for the raising and support for an Army and a Navy to protect the borders and incidentally to protect the settlers who settled the frontier. The national government protected the land and water rights and defined the settlement rights of those who went west and settled the frontier. The government built roads and canals, and encouraged and supported the railroads as they pushed west. The U. S. Army and the U. S. Marshals helped keep order and protected the peaceful from those who couldn't live in an ordered society. The American frontier was largely settled by people acting in concert or in communities as much as by the lonely cowboy and the isolated farmer. It took the first and greatest Republican President, Abraham Lincoln, and the United States acting in concert to save the union in its time of greatest peril and to free the slaves from their bondage. Beyond the Civil War the other great crisis of the Republic was the Great Depression of the l930's. It was Franklin Roosevelt and the Democratic Party which saved the free market system and ameliorated the excesses of capitalism which had led to the Great Depression. It was the Democrats, with mostly opposition from the Republicans that devised the Social Security System on which millions of our elderly depend today .In the much maligned l960's it was the Democratic Presidents and Congressional Democrats, with occasional help from Republican leaders such as Everett Dirksen who passed the Civil Rights laws which finally freed minorities from the last major vestiges of the era of slavery and Reconstruction. Abraham Lincoln would be ashamed if he could see what his party has done to mine racial tensions and conflict in this country in the name of short term political expediency, and Democrats ought to start explaining the many positive benefits of the policies and programs they have championed in the past. These are accomplishments made possible by government and by people working together for the common good and they are a fundamental part of the American story that one rarely hears from the Republican myth makers.

Americans need a more accurate picture of foreign and military policy and how both of those impact on and are impacted by domestic policy. Democrats have left this explanation to the Republican myth-makers for far too long. It took the United States, the national government, acting in concert with our allies to build the military forces necessary to pursue World Wars I and II and to help keep the world free from tyranny and totalitarianism. It was a bipartisan effort, under the leadership of Franklin Roosevelt, which led to the massive military response to the challenges from Germany and Japan during World War II. Later it was Democratic President, Harry Truman, who devised the collective security pacts with Western Europe and other nations which was the bedrock of our containment policy for over forty years. It was Harry Truman and George Marshall who devised the economic recovery plan for Western Europe which led to their economic rebirth and which directly led to the extraordinary opportunities those nations have in the European Community today. Those policies were consistently supported by the kind of bipartisan majorities in Congress that are very elusive in today's hyper-partisan atmosphere. It was Democratic and Republican presidents alike who supported NATO and all the other collective security arrangements throughout the l950's, l960's, and l970's that contained communism successfully through all of those decades. It was that long twilight struggle under containment, and the foresight of some Russian leaders like Gorbachev, and the long patience of the Russian people which finally resulted in changes in that country and in Eastern Europe that led to the breakup of the Soviet empire and the dramatic tearing down of walls between east and west. To say that Ronald Reagan caused the collapse of the Soviet Union, as the Republican myth-making machine now claims, is to do a grave disservice to the record, to the truth, and to the actions of honorable public servants in both parties for over forty years, and to the longsuffering taxpayers of the United States who paid the bills for much of this long struggle. Members of Congress and Presidents from both parties supported the policies which steadfastly resisted totalitarianism for decades. In the process, government, and the size of the national budget and the military and the deficit all grew. All of these actions were supported by a bi-partisan foreign and defense policy that made the ultimate end of the Cold War feasible. In this unsettled post-Cold War period, the United States must once again develop and articulate a foreign and defense policy concept which summarizes our international commitments and our role in an international community where American force will have to be used judiciously and on occasions where America's economic strength and technological advantages help undergird the global community . Ultimately, the health and strength of our society at home is fundamentally relevant to our role in the world. Thus, domestic and international politics are inseperable. The Republican Party's current efforts to blame most of America's problems on illegal immigrants and to advocate deep cuts in American foreign aid is another example of their willingness to take short term gain rather than advocating the long term good. Our people can build a secure future, both domestically and internationally, but it must rest on a healthy, well educated work force and it must rest on honest, enlightened policies, and social justice simultaneously attained both at home and abroad.

The Republican myth-makers would have the American people believe that the private market and individual effort alone will take care of all of society's ills. That is patent and demonstrable nonsense, and the Democrats must develop the capacity to say so in a convincing manner witha cogent message. As anyone who understands American history can attest, we developed many of the social ills of the 20th Century because of some of the excesses of the private enterprise system. Today the Republicans seem to want to "privatize" virtually every service. Everything from prisons to schools are alleged to be candidates for the greater efficiency of the market place. The real life experiences of experiments like Chris Whittle's "Edison Academy" foray into public education by private enterprise suggest that the problems are much more complicated than the Republicans would have the people believe. There are no panaceas; if there were , they would have been tried already. When the Republicans try to sell simple solutions to complicated social problems, the Democrats must have the courage to say so convincingly. We must have a healthy, vibrant public sector to counterbalance the excesses of the private sector; and we must have a healthy, vibrant public sector to free the private sector to do the market oriented functions it does best. It is in the overlap between and the mixture of these two spheres and in the grey areas that the difficult and challenging public policy issues of the 21st Century must reside. The great communications companies, like Ameritech for example, must have a certain and judicious amount of government regulation in order to prevent chaos from developing in the industry. Many of the most profitable national drug companies headquartered in Illinois have benefitted substantially from the basic research often done in government supported labs that ultimately work to the benefit of the society as a whole. Democrats must look for ways to develop and strengthen public/private partnerships which benefit the whole community if we are going to continue to be competitive in a global economy where such partnerships are looked on as the normal course of business in many nations with which we compete. In order to get ready for the 2lst Century we must give up l8th Century myths. (1)

Implications for Illinois

For the health of the state Illinois needs two competitive parties, and the Democrats are not now competitive. The Democrats must do a better of developing and explaining their message.The thesis of this paper is that Democrats ought to stand for a fairly coherent set of principles and that those principles are firmly grounded in the common good, in the necessities of community and in the American experience. This does not mean that Democrats ought to accept the label of "Tax and Spend" that the Republican myth-makers purvey. Instead, Democrats should be "pay an honest price pragmatists" willing to support the programs people need.

We ought not be defenders of every public program and of bloated bureaucracies. Democrats have a greater stake than Republicans will accept in having public programs that work and in holding public servants accountable. Some programs don't work well, and some government employees don't work. Democrats should defend neither. We, even more than the Republicans, should demand an honest day's work for every tax dollar spent. We , even more than the Republicans, should demand public programs that are efficient and effective. Democrats, even more than the Republicans, should demand accountability because we want public programs to work, and the Republicans frequently seem to want them to fail. Yet, Democrats know that some programs work well; some reach only part of their objectives; and others fail. We should never fear modifying those which are only partially successful and killing those which fail. We must not be the defenders of the status quo when the status quo is indefensible. Nevertheless, we also must resist the Republican myth-making machine which insists that all government programs are flawed or doomed to failiure. We must resist the myth that , "all Democrats want to do is throw more money at the problems". Some problems indeed cannot be solved with more money, but some problems cannot be solved without more money. Democrats must distinguish between the two and then have the courage to say so.

In Illinois it is all too often difficult for the average citizen to tell the partisan players and their policies apart. Democrats ought to stand for something in Illinois just as they should in the nation. It should be a core of beliefs about what it takes to build and enhance communities. It sould be about advocating the proper role for the public sector. It should be about developing and enhancing the higher order freedom available from living and working cooperatively in community. As the cliche says, we don't need a second Republican Party in Illinois or in the nation as a whole. We do need a Democratic Party that knows what it stands for and why and which articulates that stance in such a way as to elicit support from the average voter. In Illinois it is often apparent that the two parties stand mostly for a different set of leaders taking and controlling office, or perhaps for a different political clique having access, or a slightly different set of narrow interests being advantaged. The policy differences between the two parties in Illinois are remarkably obscure for the average voter. If the leaders don't stand for something, it is not surprising that the people can't figure out what the party labels really mean and wind up voting on image, personality, and irrational grounds. It is not surprising , then, that the best demagogic and most negative campaigns often seem to be rewarded with victory in Illinois.

In Illinois, as in the nation, the Democratic Party ought to stand for social justice for the weaker members of our society and for the public investment policies which will build our middle class. There are many important programs and policies which will build our human capital, our investment in people. When we invest in education, in better health for all, in safe streets, in recreational opportunities, in culture, we are investing in the nation's future and we are building a stronger Illinois. When we invest in the infrastructure of the cities, the rural areas, Chicago, Downstate, and the Suburbs, we are investing the common good of these communities and building a stronger, more productive future for all. From Chicago to Cairo there are problems to be addressed and policies which need to be changed. Much of this is the province of state government and it is responsibility which the Democrats cannot allow the state to shirk. Specifically, if the public schools need a more equitable statewide funding system, as leaders as diverse as Dawn Clark Netsch and Pate Phillip have both advocated recently, we ought to have a public dialogue about how that can be accomplished, and the Democratic Party should take the lead. If this means a greater reliance on the income tax and a lesser reliance on the property tax, then let's get started on the debate. We cannot run from the political discourse just because it did not work in the last election. The problem with the last election was that the debate was never joined regarding the difficult issues of education, funding for Medicaid, the overreliance on the property tax, the causes of crime. We settled, instead for symbols, for the exchange of simplistic charges, and for the Republicans definition of the public agenda. The Democrats in Illinois can't control the agenda, or even put items on it if they don't know what they stand for and why. The Democrats must be the party which insists on an honest airing of the issues no matter whose interests are involved. If this means that the state's worker compensation laws are driving out local business expansion, as is often alleged in southern Illinois, then Democrats should take the lead in insisting on changing to a more competitive system. If the sales tax on services is necessary to close the budget deficit, Democrats should take the lead on advocating a realistic, honest assessment of where the need is and then paying for it. Unlike the Republicans, Democrats cannot afford to live by myth-making. We need an honest and analytical assessment of the state's problems, creative programs and policies to address the problems of Illinois, and the political courage to take those to the public. The voters of Illinois need to know why it is important to stop the long term reign of one party rule in this state. The Republicans need to be held accountable for their actions in this next government by a loyal opposition party that stands for something larger than a next generation of Democrats who would like to take office. Democrats should be the party which takes the lead in "investing in communities".

Conclusion

The Democratic Party in Illlinois, and nationally, must stress the building of communities, wherever people are found in their various communities. We must show that the greatest good for the greatest number of people is realized when we cooperate, when we work together as a people. A greater degree of freedom exists in orderly, well maintained, well run communities. The alternative is ultimately the law of the jungle. We must not apologize for helping people to realize their best potential. Society's investment in human capital is crucial and ultimately efficient and productive. Society's investment in and maintenance of the infrastructure that makes our communities possible and liveable is crucial and ultimately efficient and productive. Government must not waste the people's money, but we can and we must convince them that investment in their communities, via their tax dollars, is ultimately an effective and productive investment. If we do this, the people will once again give their trust and their public offices to the Democrats. To do otherwise is to court irrelevancy and to become a pale shadow of the Republican Party for the rest of the 20th Century. To do otherwise is to betray the children of the 2lst Century.

I. For a much more thorough explanation of the frontier myth and its exploitation by Ronald Reagan and one written by an Illinois authority, see: Garry Wills, Reagan's America, New York: Viking Penguin Press Inc. , 1988.

Car Crash: Clinton Ignores Trade Facts

By William R. Cline

More than a decade ago, Ronald Reagan imposed "voluntary" quotas on automobile imports from Japan, costing American consumers billions of dollars. This time around, the protection will be draped in the mantle of aggressive free trade, and justified as the retaliation necessary to force Japan to open its market. However, a good bet is that once again the result will be to protect the U.S. auto industry, with its 700,000 direct and 600,000 related workers. Like the highly protected textile and apparel complex that employs 1.5 million people, the car industry represents votes.

The ostensible justification for the administration's planned sanctions is that the Japanese market is "protected" against U.S. auto imports. To the administration this seems self-evident: After all, imports are only 7% of the Japanese auto market, whereas the U.S. import share (excluding production-sharing Canada) is three times as high. But this "guilt by pattern of results" is a strange concept for a market economy that rewards performance. It would convict Michael Jordan of being unfairly compensated in basketball but not in baseball because his salary in the former is many times that in the latter: The true explanation is that he is better at playing basketball.

Likewise, the true explanation for the import disparity between Japan and the U.S. may be that the former is better at making cars. Recent gains by U.S. manufacturers don't change the fact that consumers, on both sides of the Pacific, still feel the Japanese auto makers produce superior products; this finding was buttressed by a 1990 Massachusetts Institute of Technology study that found the Japanese ahead in productivity and quality.

* * *

There is little evidence that Japanese consumers buy Japanese cars because of trade barriers keeping out U.S. imports. Tariffs and quotas are negligible. U.S. firms complain of restrictive dealerships, but German auto makers that have invested in their own dealer networks (and provide right-hand drive cars) sell four times as many vehicles in the Japanese market as their U.S. counterparts.

A number of statistical studies have tried to determine whether there is "implicit" protection in Japanese car manufacturing. These studies are ambiguous, but the most widely cited report finding protection in such data was subsequently reversed when another researcher looked at the same numbers again with the proper methodology.

Recent studies by the Institute for International Economics do find consumer costs due to protectionism almost three times as high relative to gross domestic product in Japan as in the U.S. But the institute's study of Japan did not find high protection in either autos or auto parts; the prices of domestic cars were not found to exceed those of imports by more than 5%. Similarly, joint surveys conducted by the U.S. Commerce Department and the Japanese Ministry of International Trade and Industry (MITI) in the early 1990s found that Japanese autos sold for the same prices in Tokyo as in New York, contradicting the protection argument.

This may help explain why U.S. trade negotiators have made their central demand not on autos but on auto parts. The administration, picking up a strategy started by President Bush, insists that Japanese firms commit to a target for expansion of imported auto parts and increased purchases by transplanted Japanese firms in the U.S. from U.S.-based suppliers. But as an organizing principle for international trade, quantitative targets risk destroying market principles in order to save them. The administration seems to assume that this extreme approach is justified, but it's unclear exactly what monopoly practices Japanese firms engage in with respect to auto parts, or whether they would be illegal under U.S. law.

* * *

If the administration genuinely believes that Japanese manufacturers are guilty of anticompetitive practices, the U.S. should initiate a joint antitrust investigation with the Japanese government. This is better than the U.S. reaching a unilateral decision. For transplanted Japanese firms in the U.S., the solution is even simpler. If these transplants are in fact violating U.S. antimonopoly law, the Justice Department can prosecute them. If they are not violating these laws, then U.S. negotiators have no basis to insist on numerical targets.

But instead of adopting this rational approach, the Clinton administration seems bent on imposing sanctions. This is only likely to trigger a costly trade war with Japan. Near the 50th anniversary of V-J Day, astute Japanese politicians are likely to win votes by standing up to the U.S.—especially since they can cite free-trade principles for their stand. But while the consequences of this trade battle could be severe for both sides—American consumers, in particular, will suffer—even a clear U.S. victory would not necessarily achieve the administration's objective.

The administration has focused on autos and auto parts because they make up more than half the U.S. trade deficit with Japan. Therefore, some in the administration expect sanctions to reduce the U.S. trade deficit. But Japan's overall trade surplus is driven mainly by its slow growth and high savings rate, while the U.S. trade deficit is fueled mainly by a low savings rate. Until the U.S. corrects this fundamental problem—either by eliminating public dissaving (the budget deficit) or somehow raising private saving—the U.S. external accounts will stand in deficit no matter what happens with auto manufacturers.

The downside of trade sanctions is clear. The upside is illusory. Perhaps the administration should rethink its basic policies before it moves any further down this disastrous path.

Mr. Cline is a fellow at the Institute for International Economics in Washington.

THE PRESIDENT HAS SEEN 5/15

Laura
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THE WALL STREET JOURNAL MONDAY, MAY 15, 1995

09-21-95 07:37PM FROM JIM&DIANE BLAIR TO 12024566703 P002

THE PRESIDENT HAS SEEN
9-25-95

Diane D. Blair
1011 Tanglebriar
Fayetteville, Arkansas 72701

cc Gene Sperling
Erskine
① 9/22
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ASAP

To Ann Lewis / Leon
FYI
September 21, 1995

Dear Nancy:

Just sat down with the new (October) Consumer Reports that arrived today, and the attached brief article on Medicare briefly but thoroughly debunks some of the Republicans' major claims.

Consumer Reports is, I think, highly trusted by millions as an objective source of information, so it might be useful to have as a cite right at this time, but I don't know who to alert. Could you quickly put this in the hands of somebody "doing" the Medicare battle just so it won't be overlooked?

Now I can go to bed.

Best,

Diane

NewsWatch

Is it time to overhaul Medicare?

For 30 years Medicare—the Government-run health-insurance plan for 37 million elderly and disabled Americans—has kept millions out of poverty by covering a portion of their hospital and doctor bills and a small portion of long-term-care services. Medicare offers virtually universal coverage for those over 65: All are entitled to benefits no matter how much money they make or how sick they happen to be. Medicare has done its job efficiently, with remarkably low administrative expenses—less than 2 percent of the premiums paid. No private insurance plan or managed-care organization can even come close. 1

Nevertheless, Congress is debating whether to change the way Medicare pays for care. Proponents of change say their plan will cut the deficit, eventually reduce taxes, give beneficiaries more choice, avoid a future financial crisis, and meet the $270-million cut in the program called for by the congressional budget resolution.

A major proposal for redesigning Medicare is an optional voucher system, under which the Government would offer recipients a fixed amount of money to buy their own health insurance as an alternative to traditional Medicare. People who chose insurance would pay for any extra benefits not bought by the voucher.

The vouchers are supposed to offer greater choices, although there's not much room for improvement. Most Medicare beneficiaries can already use any doctor they wish and can choose among 10 different supplement policies and four managed-care plans.

Vouchers wouldn't buy as much coverage as Medicare provides today.

Photo Steven Peters/Tony Stone Images

Unless Government spending increases, vouchers won't buy as much coverage as recipients get from Medicare today. Private insurance plans have huge marketing costs and sales commissions that eat up between 30 and 50 percent of the premium, and they pay doctors more than Medicare does. After accounting for those added costs, patients would get about half the services they do now, estimates Dr. Karen Davis, president of The Commonwealth Fund.

Vouchers also won't necessarily keep pace with health-care inflation. The amount the Government gives could be frozen, buying fewer services over time.

Furthermore, consumers might pay more for health care under a voucher system because doctors wouldn't be bound by Medicare's cost-cutting mechanisms. It's not even clear whether vouchers will end up saving the Government money.

Healthy beneficiaries—those most attractive to insurers—will be most likely to take the Government vouchers and buy private insurance. But it's the sickest 10 percent who account for 70 percent of Medicare's costs; they'll probably be the ones who stay with Medicare, because many insurers would turn them down. So the Government will end up giving money to people who otherwise wouldn't have filed claims—and still be left to pay the bills of sick beneficiaries.

Proponents of a wholesale redesign point out that the fund paying for Medicare's "Part A"—hospital benefits—will run out of money in 2002 unless Medicare is revamped. Part A is financed with a payroll tax of 1.45 percent. Starting around 2002, the amount it brings in probably won't be enough to cover all of Medicare's hospital costs. But such shortages have occurred from time to time during Medicare's 30-year history.

Part A is only half the story. What's not often discussed is "Part B," which pays for physician, laboratory, and outpatient services, and is financed by general tax revenues and premiums paid by beneficiaries. It's in good financial shape.

The chronic problem facing Part A hardly merits placing Medicare on the critical list. Steps can be taken to assure its solvency well into the next century. One easy way is to move the home-health-care benefit from Part A to Part B and implement a modest increase in the amount consumers pay for Part B, plus some cuts in payments and reimbursements to providers. As we point out on page 661, the Government believes that some providers are now taking unfair advantage of the home-health-care benefit.

Medicare's long-term challenges are the same ones facing other parts of the health-care patchwork: to provide high-quality health care, at a reasonable cost. Those challenges must be resolved in the context of health-care coverage for everyone.

SMART FUND SHOPPING

Investing made easier

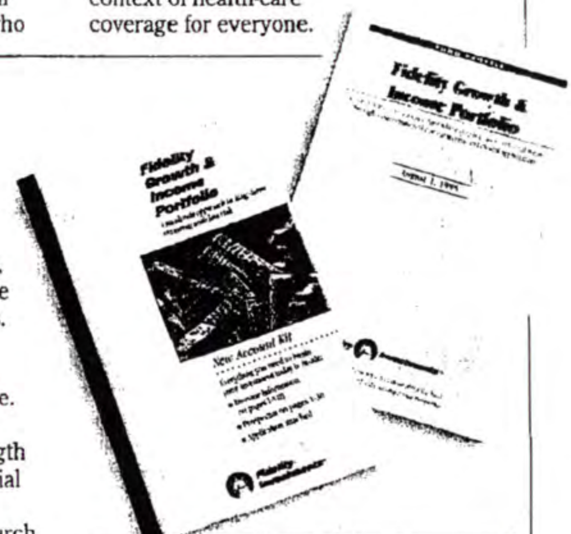
Several mutual-fund companies have begun using a simplified prospectus—the disclosure form that explains what securities a fund invests in and what risks you assume when you invest.

The new prospectus, which eight companies are using in a one-year test approved by the Securities and Exchange Commission, should make it easier to understand what you're buying the next time you invest in a mutual fund. It addresses 11 areas of interest, including the fund's investment strategy, risks, fees and expenses, and past performance.

The new prospectus doesn't give enough detailed information to help you fully understand what you take on when you buy into a fund. For example, it doesn't have to say whether the fund can borrow money to buy investments, or whether the fund invests in a volatile type of securities known as derivatives.

Next year, the SEC will decide if investors can get enough information from the new prospectus to use it alone.

Companies using the short-form prospectus in tandem with the full-length version are: American Express Financial Corp. (IDS Funds), Bank of America (Pacific Horizon Funds), Capital Research & Management Co. (American Funds), Dreyfus Corp., Fidelity Investments, T. Rowe Price Associates, Scudder Stevens & Clark, and The Vanguard Group.



The long & short of it New short-form prospectus (right) is easier to read than the full-length version.

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To: Nancy Hernreich

Number of pages including this page 3

THE WHITE HOUSE

WASHINGTON

T Bruno - 3 yr
- 11 yr - better 120/20
- TR need to raise
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THE WHITE HOUSE
WASHINGTON

THE PRESIDENT HAS SEEN
8-7-95

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3. # yrs
4. Size of tax cut

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2. Size of Ed, Env #s.
3. Mix other
Infrast
Energy
Ag

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rev. neutrality
econ growth.

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THE PRESIDENT HAS SEEN
10-25-95

THE POLITICAL CALENDAR

OCTOBER

3 Mayoral elections in Phoenix, AZ and Memphis, TN

7-8 Intensive Seminar, "Initiative and Referendum Campaigns:Winning Strategies and Cutting Edge Techniques," sponsored by *C&E* and Iron Press, San Diego

10 Montgomery, AL Mayoral election

12 Newspaper Association of America, "Get Ready for '96" seminar, Seattle, WA

16 National Women's Political Caucus meeting, New York City

21 Louisiana Gubernatorial Primary

22-24 NFIB "Campaign '96" Conference, Hyatt Regency Capitol Hill, Washington, DC

23-26 AFL-CIO 21st Biennial Convention, New York

28-29 Oregon Democratic Central Committee, Portland

...vertising Work-
...ourt Hotel.

Funny story from Brooke -

...gue of Conserva-
Washington, D.C.
...ky Gubernatorial

AL–Birmingham
AZ–Tuscon
CA–Modesto, San Francisco, Sunnyvale, Vallejo
CO–Aurora, Lakewood
CT–Bridgeport, Hartford, New Ha... Waterbury
GA–Macon, Savannah
IN–Evansville, Ft. Wayne, Gary, Indianapolis, South Bend
IA–Cedar Rapids, Des Moines
MA–Springfield, Worcester
MD–Baltimore
MI–Flint, Grand Rapids, Livonia, Sterling Heights, Warren
NY–Yonkers
NC–Charlotte, Durham, Greensbo...
OH–Akron, Cincinnati, Columbus
PA–Philadelphia
TN–Knoxville
TX–Houston
UT–Salt Lake CityWA–Tacoma

8 Connecticut Party Budget Comm... meeting, New Haven

14 Massachusetts Democratic Ce... meeting, location TBA

17-18 Florida GOP Convention ...idential straw poll, Orlando

18 LA Gubernatorial runoff election

30-12/2 DNC Executive Committee Meeting, San Juan, PR

Caught With His Pants Down

In Louisiana, St. Bern... Parish President Lynn D...

To VP
a great idea
for next round
of Rego - Mayor
Elaine could do
the voice —
BC

about a blocked culv... Dean dutifully drove to ... site and decided he nee... to wade into the canal ... determine its depth. An e... neer and former Merch... Marine, he said he did... want to pay overtime ... public workers, nor did ... want to soil his pants. T... women then called the pr... which published stories ab... the incident. Dean's respo... to the citizens' voyeuris... "Shame on them. That's ... gusting."

But within this colo... tale lies a political less... constituent service matters.

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The event, sponsored by the H. Lee Atwater Foundation, honored House Speaker Newt Gingrich and was attended by more than 400 Atwater friends and family members, members of Congress, political activists and consultants from both parties. The foundation is a non-partisan, non-profit group that provides scholarships to needy students and grants to educators and educational institutions.

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PHOTOCOPY
WJC HANDWRITING

THE PRESIDENT HAS SEEN
10-25-95

THE POLITICAL CALENDAR

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28-29 Oregon Democratic Central Committee, Portland

31 Cable TV Political Advertising Workshop, CAB, Washington Court Hotel, Washington, D.C.

NOVEMBER

2-6 The United Synagogue of Conservative Judaism, Convention, Washington, D.C.

7 Mississippi and Kentucky Gubernatorial general elections

7 Mayoral elections:

AL–Birmingham
AZ–Tuscon
CA–Modesto, San Francisco, Sunnyvale, Vallejo
CO–Aurora, Lakewood
CT–Bridgeport, Hartford, New Haven, Waterbury
GA–Macon, Savannah
IN–Evansville, Ft. Wayne, Gary, Indianapolis, South Bend
IA–Cedar Rapids, Des Moines
MA–Springfield, Worcester
MD–Baltimore
MI–Flint, Grand Rapids, Livonia, Sterling Heights, Warren
NY–Yonkers
NC–Charlotte, Durham, Greensboro, Raleigh
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Caught With His Pants Down

In Louisiana, St. Bern[...] Parish President Lynn D[...] (R), currently a state Sen[...] candidate, was confident [...] he knew what he was do[...] when he waded stark nak[...] into a Delacr[...] Island can[...] However, unk[...] knownst to De[...] four female re[...] dents were h[...] ing in the sh[...] ows, watchi[...] the 71-year-[...] pol as [...] stripped b[...] and perform[...] his public s[...] vice.

Lynn Dean: *Nothing to hide*

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PHOTOCOPY
WJC HANDWRITING

Affirmative action dress rehearsal

THE PRESIDENT HAS SEEN
5/18

SCOTT WALTER

Overrepresentation

Defenders of affirmative action argue that goals, timetables, set-asides, and perhaps even quotas for specific groups must continue, because women and minorities remain "underrepresented" when you count up society's plums by race and gender. This argument presumes that only bigotry, not genuine diversity, prevents ethnic groups from being equally represented in every social category.

Of course, if you assume we all have an identical equality of interests and talents, then society's very unequal distribution of jobs, hobbies, and businesses among ethnic groups appears to be an injustice that cries out for stern remedies.

There are only three problems with that argument. First, it is an affront to reality: interest in — and aptitude for — football, astrophysics, and the rest of life's activities are tremendously diverse. Little girls who want to be astrophysicists at NASA will lead very different lives from little boys who want to be quarterbacks in the NFL. Second, it is an affront to the American way of life: Since 1776, Americans have been encouraged to pursue happiness as they see fit, under a rule of law that doesn't guarantee equal success in identical lives but only equal rights to live our very diverse lives.

Third, the argument for affirmative action is an affront to liberty. To reach the equality of numbers that affirmative action demands would require totalitarian measures. For wherever one group is said to be underrepresented, other groups must be overrepresented, and those overrepresented folks will have to have their jobs and businesses taken away and redistributed to the underrepresented. If the argument of affirmative action advocates is correct, nothing short of such extreme social engineering will bring justice.

If you're not sure whether equalizing ethnic groups in jobs is an ugly idea, you should consider a few of the "modest proposals" that would be needed to remedy the alleged injustice of America's present diversity:

•Cambodians, a tiny minority of California's population, run more than 80 percent of the state's doughnut shops. Indians run an even higher percentage of the state's motels. Let's seize those businesses and give someone else a chance.

•Eighteen percent of the judges on the federal circuit court in D.C. are black. This is 5 percentage points above their share of the U.S. population, and five times their share of practicing attorneys. At least a third of this overrepresented group needs to be turned out of their chambers.

•Asians and Pacific Islanders are less than 3 percent of the U.S. labor force, yet account for 11 percent of the country's physicians and 7 percent of its professors. Let's make more of these folks serve as migrant farm workers.

•Gay men are overrepresented in glamorous professions like design, professional dance, the fashion industry, and restauranteuring. Most of these men should be forced to trade jobs with, say, auto mechanics. Lesbians are much more important in women's political organizations than their 1 percent or 2 percent of the female population would justify. They could be made to switch jobs with Mary Kay Cosmetics saleswomen.

•Well-above-proportional fractions of the secure, well-paying jobs provided by the U.S. Postal Service, our military services, and the federal civil service go to African-Americans. Does 12 percent of the population grabbing 17 percent of the jobs sound fair to you?

•Single females are overrepresented among holders of full professorships at colleges. And college graduates are overrepresented among public school teachers. Mohawk Indians are overrepresented among steelworkers employed at the construction sites of government buildings, and in many cities Koreans have a lock on 80 percent of the greengrocers and convenience groceries. Perhaps Jesse Jackson could suggest new jobs for these overrepresented groups.

•And what are we going to do about all those Jews in Hollywood? Steven Spielberg, David Geffen, and Jeffrey Katzenberg must be forced to put some Norwegians, Guatemalans and Samoans into high management positions with their new production company real soon.

•Then there's professional sports. First, two-thirds of all pro football players, and close to 90 percent of players in the National Basketball Association are black — a clear injustice. Second, there's the shortage of female players. Can you remember when an Inuit girl last sunk a fallaway three-pointer in the Boston Garden? Why should the nation have to put up with this unfairness anymore?

•Gender brings us to the nation's longest-running overrepresentation: Did you know 100 percent of the country's children have been born to women? There were about 3.7 million births to women in 1992, for example; so 1.8 million of them were unjustly denied to male mothers. Where was the Clinton Justice Department on this one?

Scott Walter is senior editor of the American Enterprise magazine, in which an earlier version of this article was published.

The Washington Times
TUESDAY, MAY 16, 1995 ★

Affirmative action dress rehearsal

BRUCE FEIN

Last March, the public was treated to a dress rehearsal of the Clinton administration's jesuitical defense of affirmative action programs that discriminate against white males because of their skin color and gender.

In a "Draft Report on Reverse Discrimination" commissioned by the Department of Labor and scribbled by Alfred Blumrosen of Rutgers University Law School, reverse discrimination against white males is perversely dismissed as paltry because such invidious unfairness is lawful under existing statutes and regulations. By that Alice in Wonderland type of reasoning, blacks were unscathed by discrimination in the antebellum South because slavery was legal!

The report purports to survey reverse discrimination cases between mid-1990 and mid-1994 in federal district courts and courts of appeal as a reliable proxy of its pervasiveness. Mr. Blumrosen finds such cases are a tiny percentage of all civil rights litigation (1 percent to 3 percent), that a majority of reverse discrimination cases lacked legal merit, and, where it was proved, courts gave appropriate relief. From this research, Mr. Blumrosen audaciously concludes: "The paucity of reported cases casts doubt on the dimension of the 'reverse discrimination' problem. Whites/males are no less able to invoke the Civil Rights acts than are women and minorities who have filed nearly a million-and-a-half claims since 1965." The facts, however, corroborate the opposite: Namely, that reverse discrimination is widespread, but does not typically generate litigation because civil rights laws generally authorize employers to prefer racial and ethnic minorities and women.

In Steelworkers vs. Weber (1979) and Johnson vs. Transportation Agency, County of Santa Clara (1987), the U.S. Supreme Court interpreted the 1964 Civil Rights Act to authorize employment discrimination against white males in occupations where the politically correct groups were sharply underrepresented. Proof of past discrimination against racial or ethnic minorities or women, according to the high court, was not required to justify their preferential treatment. A crabbed sanctuary for discrimination was retained for white males if the racial, ethnic or gender preferences that crowned their job rivals "unnecessarily trammel[ed]" their employment prospects. That daunting standard generally offers protection only against discriminatory discharges.

Reverse discrimination

The Weber and Johnson precedents licensed incontrovertible reverse discrimination, as Mr. Blumrosen's tendentiously assembled research illuminates. Thus, in Enright vs. California State University (1989), a federal district court dismissed a gender discrimination case filed by a disappointed male candidate for a professorship in sociology. The discrimination was undisputed, but the district court parried: "[W]hen approximately 50 percent of the nation's population is women and only 34 precent of the recipients of Ph.Ds in sociology are women, sociology must be considered to be a traditionally segregated field." Preferring women in the hiring of sociology professors was thus justified, the court insisted, irrespective of whether discrimination had caused the segregation. And the denial of equal opportunity to the male competitor was slighted as a bagatelle because the university benevolently desisted from punishing his outre professional aspirations by discharge or disqualification for promotion if another job "should open in the future."

> *Reverse discrimination has been generally ignored over the past decades because it has become prosaic, not because it is a rara avis.*

Mr. Blumrosen, however, obtusely enlists the Enright decision to demonstrate the absence of reverse discrimination. A similar parody of the cerebral faculty reappears in his treatment of Donaghy vs. City of Omaha (1991). There a white male ranked seventh on a merit-based police promotion list challenged the appointment if a minority whose ranking was 13th. The minority preference was made pursuant to a consent decree resting on evidence of underrepresentation and discrimination. A federal appeals court sustained the legality of the reverse discrimination. Mr. Blumrosen, nevertheless, points to the case to suggest that the phenomenon is greatly exaggerated in the minds of querulous white males, and finds no contradiction between the result and his palmy pronouncement that where reverse discrimination exists, "the courts have given relief." That mental somersault betters Emerson's instruction that foolish consisten[cy] is the hobgoblin of little minds.

The Rosenblum polemic derisory of reverse discrimination demonstrated President Clinton's insincerity in appointing a commission to review the issue. That epiphany struck only when the Republican leadership in Congress and a proposed initiative in California commenced a frontal assault on legal privileges based on skin color, ethnicity, and gender reminisc[ent] of the caste system in India. [I]a temporizing tactic to avoi[d] political battle that he frets is [a] loser. Mr. Clinton's duplicity is highlighted by his continued robust defense of minority preferences in faculty positions in the pending case of Taxman vs. Township of Piscataway appeal, while purporting to desist from prejudging the issue.

Reverse discrimination has been generally ignored over the past decades because it has become prosaic, not because it is a rara avis. For instance, last week a black voting rights group touted its endorsement of four Democratic and four Republican candidates [for] the Nassau County legislat[ure] because they pledged that if elected, they will hire a majority of African-American and Hispanic staff members. Do you believe the same media and public nonchalance would have greeted pledges to prefer white males in staffing decisions?

Bruce Fein is a lawyer and fr[ee]lance writer specializing in leg[al] issues.

The Washington Times
TUESDAY, MAY 16, 1995 ★

THE PRESIDENT HAS SEEN 5/18

05/02/95 08:23

THE PRESIDENT HAS SEEN 5/15

Mr President — NEC Response to Bersey's position — Leslie

I will meet with Bersey again this Friday. She will have rep. from the industry —

THE WHITE HOUSE

WASHINGTON

MEMORANDUM

95 MAY 2 A10 : 52

To: Erskine Bowles

From: Tom Kalil TAK

Re: Cable provisions of proposed telecommunications legislation

5/15
Copied Erskine

...right stated that "it is now clear to the industry and the ...easure of cable rate relief is essential to allow the cable ...ecessary to upgrade their networks to compete with the

...is willing to consider some changes in cable regulation, ...s of the Pressler bill which would effectively ... effective competition. Congress passed the 1992 ...President Bush) because cable companies were raising ...ion. Although new technologies (broadband networks, ... of competition, cable companies still have an ...of the United States. The 1992 Cable Act eliminates rate regulation in markets when there is effective competition, which we believe is the right policy.

The Pressler bill would permit cable rates for most programming services to be raised as long as they do not "substantially exceed" the national average. However, the top two companies alone control about 40 percent of the market. Given this concentration, the largest cable companies could easily manipulate national average rates to their benefit. Because the Administration wants a telecommunications bill that will be pro-consumer, we have been working with Democratic Senators such as Senator Lieberman to offer amendments concerning cable rate regulation.

The Vice President has recently met with senior cable industry executives to discuss the telecommunications legislation. Although we believe there is room for compromise, we are not willing to support deregulation of the cable industry before there is effective competition.

Finally, the cable industry is continuing to thrive despite rate regulation. Electronic Media reported that in 1993, "cable TV companies' operating income margins at 20.1 percent outperformed the rest of the communications industry."

Please let me know if you need additional information.

[illegible]

THE PRESIDENT HAS SEEN 5/15

Mr President —
NEC Response to
Betsy's position —
Erskine

THE WHITE HOUSE

WASHINGTON

MEMORANDUM

95 MAY 2 AM 10 : 52

To: Erskine Bowles

From: Tom Kalil TAK

Re: Cable provisions of proposed telecommunications legislation

Date: May 1, 1995

I will meet with
Betsy again
this Friday. She will
have rep. from the
industry —

In a memo to you, Betsey Wright stated that "it is now clear to the industry and the investment community that some measure of cable rate relief is essential to allow the cable industry to accumulate the capital necessary to upgrade their networks to compete with the telephone industry."

Although the Administration is willing to consider some changes in cable regulation, we are unwilling to support provisions of the Pressler bill which would effectively deregulate cable rates before there is effective competition. Congress passed the 1992 Cable Act (and over-rode a veto by President Bush) because cable companies were raising prices at three times the rate of inflation. Although new technologies (broadband networks, satellites) are holding out the prospect of competition, cable companies still have an effective monopoly in most regions of the United States. The 1992 Cable Act eliminates rate regulation in markets when there is effective competition, which we believe is the right policy.

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THE PRESIDENT HAS SEEN
6-8-95

WEEKLY ECONOMIC BRIEFING
OF THE PRESIDENT OF THE UNITED STATES

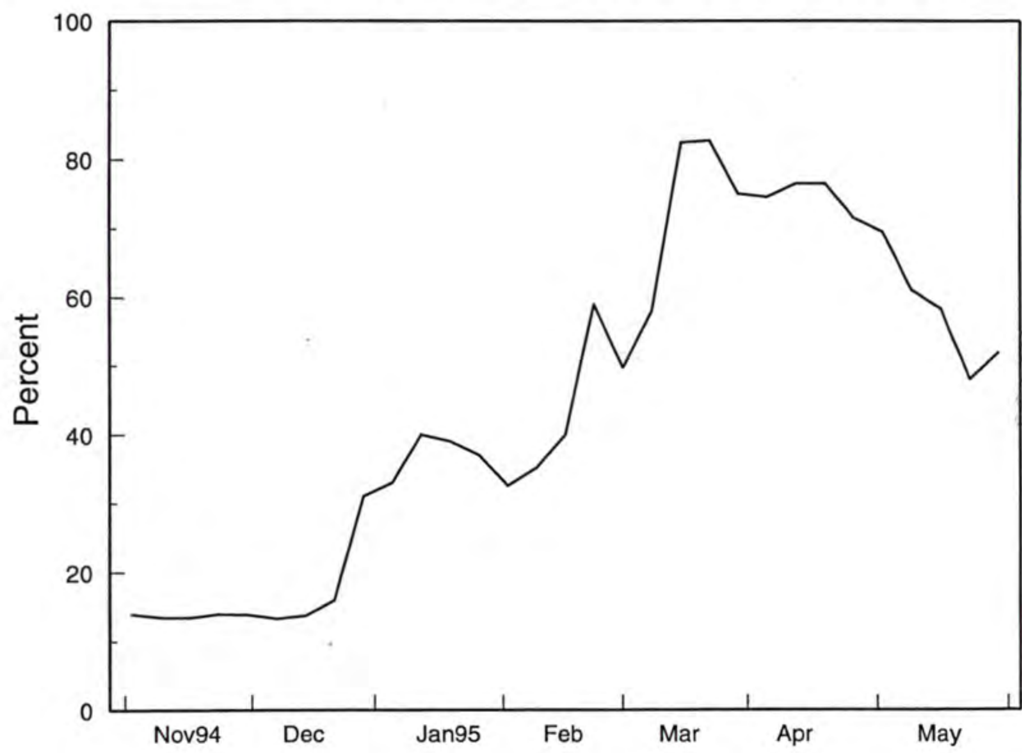
95 JUN 2 A10:15

Prepared by the Council of Economic Advisers
with the assistance of the Office of the Vice President

June 5, 1995

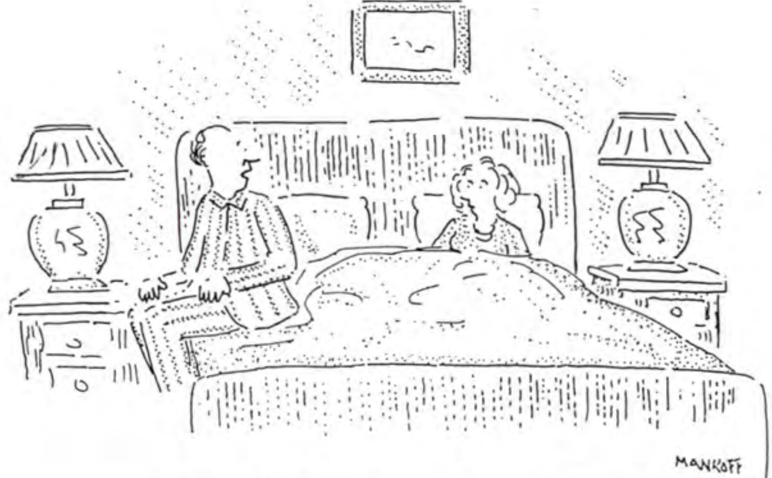
CHART OF THE WEEK

Interest Rates on 28-Day Mexican Government Securities



During the worst phase of the financial crisis in Mexico, short-term interest rates there climbed to more than 80 percent. More recently, as confidence in the stabilization program has increased, rates have dropped back; by late May, they were about 50 percent. A Current Development in this issue of the Weekly Economic Briefing describes the progress of the stabilization program to date.

CONTENTS



"I can't sleep. I just got this incredible craving for capital."

CURRENT DEVELOPMENT

Some Pain, Some Gain

The Mexican people are paying a price for the financial crisis that erupted late last year. More than 500,000 people have lost their jobs, and the urban unemployment rate by February had already increased from 3.2 percent to 5.3 percent. Nonetheless, there are some encouraging signs that the adjustment program is taking effect:

- The peso has stabilized at around 6 pesos per dollar, up from a low of about 7-1/2 pesos per dollar in early March.
- Inflation may have peaked. After rising more than 5 percent in the first half of April, consumer prices rose "only" slightly more than 2 percent during the second half (still more than 60 percent at an annual rate).
- Domestic interest rates have fallen from more than 80 percent in March to about 50 percent today (see Chart of the Week).
- More than half of the troublesome dollar-linked short-term government debt due this year has been retired with the help of the financing package from the IMF and the United States. And there appear to be ample resources for dealing with the remaining 40 percent of this debt.
- The fiscal situation has improved dramatically. Excluding interest expense, the federal budget was in surplus to the tune of 7 percent of GDP in the first quarter of this year, up from 3-1/2 percent one year earlier.
- The trade balance has turned around rapidly (see Chart of the Week, Weekly Economic Briefing, May 1, 1995).

Analysis. At this point, the stabilization plan appears to be on track but there remain some risks. In particular, the plan has been tough on the Mexican people, and it remains to be seen whether the program will continue to command their support.

SPECIAL ANALYSIS

Be Prepared

At the summit you will be attending in Halifax later this month, the G-7 countries will agree on recommendations aimed at improving the ability of the International Monetary Fund (IMF) to deal with financial crises of the type that Mexico suffered late last year:

- Enhanced reporting and surveillance. The G-7 will recommend that all IMF members be required to report certain key economic indicators on a more timely basis. The G-7 will also urge the IMF to sharpen its policy advice, especially to countries that appear to be avoiding necessary policy actions. Some observers have speculated that more timely reporting of data might have led to earlier detection of the crisis in Mexico, and provided the basis for stronger warnings from the IMF to Mexico at an earlier stage.

- Beefed-up crisis procedures. The G-7 will recommend that the IMF establish a procedure for providing emergency financing in crisis situations. This procedure could be activated more quickly than existing IMF arrangements, and would be linked to monies to be provided by the G-7 and other countries.

The G-7 may also recommend the study of a more controversial proposal: institutional arrangements permitting a country to suspend payment to creditors temporarily until it can get its fiscal house in order.

Analysis. Some analysts have argued that advance preparations for financial crises may be counterproductive: By reducing the pain associated with financial crises, such actions may also reduce the incentives for countries to avoid those crises. The opposing view—shared by the United States—is that crisis preparation should have little if any adverse impact on incentives because the IMF will have authority not only to disburse aid but also to impose economic reform programs.

TREND

The Role of the Dollar in the International Economy

In the wake of the dollar's recent slide against the Japanese yen and the German mark, some observers have speculated that the U.S. dollar might be in jeopardy of losing its role as the world's principal reserve currency. But the dollar has endured much greater reductions in its value in the past, and yet retained its central role in the international financial system:

Central banks around the world hold the bulk of their foreign-currency reserves in dollar-denominated assets (e.g., U.S. Treasury securities). At the end of 1994, 57 percent (or about $585 billion) of these holdings were in dollar-denominated assets, compared with only 15 percent for German marks and 8 percent for Japanese yen (see chart). Since at least the mid-1980s, the dollar's share in central bank portfolios has been broadly stable, despite enormous changes in the exchange value of the dollar.

Many international transactions, both trade-related and purely financial, are executed in terms of dollars. For example, U.S. trade is almost always invoiced in terms of dollars. Worldwide, a good guess is that about half of all international trade in goods and services is invoiced in dollar terms. Furthermore, about 40 percent of the nearly $1 trillion in foreign exchange transactions conducted daily involve dollars on either the buying or selling side.

Many residents of foreign countries hold dollars as legal tender. Dollars are often used instead of the local currency in high-inflation countries such as Russia. Dollars are also often used to finance illicit activity such as trade in illegal drugs. All holdings of dollars (whether abroad or at home) in effect amount to an interest-free form of financing for the U.S. government. (Both Treasury bonds and dollar bills represent liabilities of the Federal government. But the holder of a Treasury bond receives interest whereas the holder of a dollar bill does not.) This source of financing may be saving the government as much as $15 billion in debt-servicing charges per year.

Summary. In many respects, the dollar plays a central role in the international economy. History suggests that it will continue to play that role despite the recent decline in the foreign exchange value of the dollar.

ARTICLE

Death and Taxes

If enacted, the tax bill passed by the House earlier this year would ease the terms of the Federal gift and estate tax. Specifically, the bill would increase the lifetime amount of gifts and bequests exempt from tax from $600,000 to $750,000 by 1998, and would index it thereafter. Treasury estimates that this change would cut the number of taxable estates by nearly one-half, at a revenue cost of between $1 billion and $2 billion per year.

Structure of the tax. The Federal tax code treats gifts and estates on a unified basis (i.e., added together and taxed as a single amount). During an individual's lifetime, he or she may give up to $10,000 per recipient per year with no tax consequences (married couples are allowed $20,000). Any excess over $10,000 per recipient per year is added to a running total, as is any bequest. Taxes must be paid only after the running total exceeds the lifetime exemption amount, currently $600,000. An important exception is that married individuals are allowed to transfer an unlimited amount to their surviving spouses without incurring any tax. Statutory marginal tax rates for transfers exceeding the lifetime exemption amount vary from 37 percent to 55 percent (applicable to gift-plus-bequest totals of more than $3 million.)

Who pays the tax? Only 1 percent of adult deaths result in estates subject to taxation. Thus, only the very wealthiest Americans stand to benefit from any relaxation of the estate tax.

How much revenue does the tax raise? Ostensibly, the gift and estate tax raised $15.2 billion in 1994, about 1 percent of total Federal revenues. However, some analysts believe that this figure overstates the net revenue-producing power of the gift and estate tax, because strategic estate planning has the side-effect of reducing income tax revenues. For example, taxpayers may give assets during their lifetimes to persons in lower tax brackets, or to tax-exempt charities. A cut in estate tax rates might reduce the effort expended in tax avoidance, and so might actually result in an increase in income tax revenues.

Oddly enough, the Federal gift and estate tax provides a substantial amount of revenue to state governments. Currently, the Federal estate tax allows a credit to be taken for estate taxes paid to State governments up to a limit. At this time, all States have enacted estate taxes substantial enough to at least cover or "pick up" the amount of Federal credit. This provision, a form of revenue-sharing between the Federal government and the states, yields the states more than $3 billion per year.

The "lock-in" effect in the income tax. One provision of the income tax law has profound implications for estate planning. This provision is called the "step-up" in basis on assets transferred at death; it grants heirs a cost basis on bequeathed assets equal to the fair market value of those assets at time of the donor's death. Effectively, this provision permits any accumulated capital gain on the bequeathed assets to escape income taxation.

The step-up provision will often create a strong incentive for individuals to hold onto their assets until they die. Some analysts believe that this "lock-in" effect distorts economic decisions. For the Federal government, a more pressing concern with the step-up loophole is that it costs the Treasury a great deal of income tax revenue. The Congressional Budget Office estimates that elimination of the step-up in basis might yield as much as $10 billion per year. As a practical matter, any reform of the step-up in basis would probably have to make some special provisions for small businesses and farms along the lines of those currently contained within the estate tax.

Possible reforms. In the past, piecemeal reform of the step-up in basis has run into Congressional opposition. In principle, it should be possible to craft a tax reform *package* that would close an income tax loophole, modify or eliminate the state tax credit, substantially reduce the number of people subject to the gift and estate tax, reduce marginal rates under the gift and estate tax (thereby reducing the incentive to engage in socially wasteful strategic tax planning), and raise revenue. Alternative approaches to designing such a package are under study within the Administration.

BUSINESS, CONSUMER, AND REGIONAL ROUNDUP

Electric Car Technology Surges Ahead. A four-passenger electric car recently set a new world distance record by going 238 miles in mixed city-highway driving without a recharge. Built by Solectria, a Massachusetts-based company, the Ford Taurus-sized Sunrise is powered by nickel-metal hydride batteries. Although nickel-based auto batteries are not yet in commercial production, a joint venture between the Ovonic Battery Corp. and General Motors plans to begin production soon. In attracting consumers, range matters: Many observers feel that electric vehicles will need to offer a consistent range of 100-200 miles, under more punishing conditions than the Sunrise encountered. Cost will also be a factor, of course. Solectria estimates that if battery prices fall as the firm expects and if it can log 20,000 orders per year, it will be able to market the Sunrise at about $20,000.

... and So Does Boeing. Even before making its first commercial flight, Boeing's new twin-engine 777 scored a significant victory. The Federal Aviation Administration (FAA) ruled in late May that the plane can immediately begin flying routes that take it up to 3 hours away from the nearest landing strip. In practice, this means that the 777 is cleared right off the bat to fly all major transoceanic routes. In the past, the FAA has required twin-engine jets to stay close to airports during their first 2 years of commercial flights, while they accumulate safety records under actual flying conditions. But Boeing put its new jet through an extensive pre-launch testing program aimed at winning early approval from the FAA. Wall Street reacted well to news of Boeing's success. The firm's stock rose $1.75 per share, to $58.25, after the announcement.

Poverty's Toll. In its first annual World Health Report, the World Health Organization identifies "extreme poverty" as the world's most ruthless killer. After adjusting for age and sex, the Report found that an inhabitant of the developing world is nearly twice as likely as his/her developed-world counterpart to die in any given year. (In large part, the difference is due to communicable diseases, which cause half of Third World deaths but are generally prevented or treated in wealthier countries.) Children disproportionately bear the health consequences of poverty. For young children in the developing world, the mortality rate from all causes is 10 times the developed-world rate. Each year, 3 million young children in the Third World die of diarrhoeal diseases, 4 million die for lack of inexpensive antibiotics, and more than 2 million because they have not been immunized against measles, tetanus, and other diseases. In most of these cases, the child's life could have been saved with only a small expenditure on drugs or treatments. And history supports the view that efforts in this area can make a difference. The Report estimates that between 1985 and 1993, the number of children dying from vaccine-preventable deaths fell by 1.3 million (more than one-third).

RELEASES LAST WEEK

Employment and Unemployment

****Embargoed until 8:30 a.m., Friday, June 2, 1995****

In May, the unemployment rate declined to 5.7 percent from 5.8 percent in April. Nonfarm payroll employment decreased by 101,000, to 116.2 million.

Leading Indicators

****Embargoed until 8:30 a.m., Friday, June 2, 1995****

The index of leading economic indicators fell 0.6 percent in April, following decreases of 0.5 percent in March and 0.3 percent in February.

Personal Income and Expenditures

Personal income increased 0.3 percent in April (monthly rate). Disposable personal income decreased 0.7 percent. Personal consumption expenditures increased 0.3 percent.

Gross Domestic Product

According to revised estimates for the first quarter, real gross domestic product grew at an annual rate of 2.7 percent.

Consumer Confidence

Consumer confidence, as measured by the Conference Board, decreased 3.0 index points in May, to 101.6 (1985=100).

MAJOR RELEASES THIS WEEK

Producer Prices (Friday)

U.S. ECONOMIC STATISTICS

	1970–1993	1994	1994:3	1994:4	1995:1
Percent growth (annual rate)					
Real GDP	2.5	4.1	4.0	5.1	**2.7**
GDP deflator	5.5	2.3	1.9	1.3	2.2
Productivity					
Nonfarm business	1.2	2.0	3.2	4.0	0.7
Manufacturing (1978-93)	2.1	4.7	3.5	3.4	3.6
Real compensation per hour	0.6	0.7	–0.4	1.2	1.0
Shares of Real GDP (percent)					
Business fixed investment	11.0	12.6	12.7	13.0	**13.6**
Residential investment	4.7	4.3	4.3	4.3	4.2
Exports	8.0	12.3	12.4	12.8	**12.8**
Imports	9.2	14.4	14.6	14.8	**15.0**
Shares of Nominal GDP (percent)					
Personal saving	4.9	3.0	3.0	3.4	**3.8**
Federal surplus	–2.8	–2.4	–2.3	–2.3	**–2.2**

			March 1995	April 1995	May 1995
Unemployment Rate	6.7*	6.1*	5.5	5.8	**5.7**

*Figures beginning 1994 are not comparable with earlier data.

Payroll employment (thousands)					
increase per month			**179**	**–7**	**–101**
increase since Jan. 1993					**6717**
Inflation (percent per period)					
CPI	5.8	2.7	0.2	0.4	N.A.
PPI-Finished goods	5.0	1.7	0.0	0.5	N.A.

New or revised data in **boldface**.
Employment and unemployment data **embargoed until 8:30 a.m., Friday, June 2, 1995**.

FINANCIAL STATISTICS

	1993	1994	April 1995	May 1995	June 1, 1995
Dow-Jones Industrial Average	3522	3794	4231	4392	4473
Interest Rates					
3-month T-bill	3.00	4.25	5.65	5.67	5.50
10-year T-bond	5.87	7.09	7.06	6.63	6.20
Mortgage rate, 30-year fixed	7.33	8.36	8.32	7.91	7.71
Prime rate	6.00	7.15	9.00	9.00	9.00

INTERNATIONAL STATISTICS

Exchange Rates	**Current level June 1, 1995**	**Percent Change from Week ago**	**Percent Change from Year ago**
Deutschemark-Dollar	1.414	0.7	−14.0
Yen-Dollar	84.80	−0.2	−18.9
Multilateral (Mar. 1973=100)	82.65	0.1	−10.6

International Comparisons	**Real GDP growth (last 4 quarters)**	**Unemployment rate**	**CPI inflation (last 12 months)**
United States	4.0 (Q1)	**5.7** (May)	3.1 (Apr)
Canada	5.6 (Q4)	9.7 (Mar)	2.4 (Apr)
Japan	0.9 (Q4)	3.0 (Feb)	−0.4 (Mar)
France	3.7 (Q4)	12.1 (Feb)	1.6 (Apr)
Germany	3.3 (Q4)	6.4 (Mar)	2.2 (Apr)
Italy	2.7 (Q4)	12.2 (Jan)	5.0 (Mar)
United Kingdom	3.7 (Q1)	8.6 (Mar)	3.4 (Apr)