

munication between House Members' offices — a move that could make such Congressional traditions as hard-copy Dear Colleague letters obsolete.

Dear Colleague letters are usually sent in hard-copy form through internal House mail. But with E-Mail, a House Member can transmit text to all 434 colleagues at once through a few quick, easy clicks of the mouse or keyboard; specific groups of Members (such as urban Democrats or Western Republicans) can also be easily targeted. The new technology will save time, money, and paper. HIS is now implementing the service and expects to finish the process in a few months.

But in the Senate, where a brand of E-Mail called CC-Mail has been in operation for several years, most Dear Colleague letters still are sent by conventional, in-house mail, said Bob Harris, director of information systems and technology with the Senate Rules and Administration Committee.

"It's conceivable" that Senate-wide CC-

mail, Harris said, citing one reason why

In the area of district-to-DC communications, the Senate is slightly ahead of the House.

Senators might avoid using a new system. Another reason is that, since the Senate is less than one-quarter the size of the House, hard copies may be sent with less difficulty.

The final frontier — electronic links between the House and Senate — remains to be conquered, however. Blocking the way, for now, is the need to test and buy interfacing software so the electronic mail systems between the two chambers can communicate, Harris said.

Neither Harris nor Murphy could predict when direct E-Mail links between the House and Senate would be established. But a test

was completed after two years of work, Harris said. All Senate state offices now have access to DC files.

Back in the House, 13 personal offices and five committees are participating in a pilot program to test a new Integrated Systems and Information Services (ISIS) system. ISIS simplifies electronic searches of bill status, floor votes, committee hearings, and similar information.

That information now must be gathered through multiple, separate inquiries. ISIS allows a staffer to retrieve several items at once. Those items can then be transferred quickly to a word processing document, graph, or E-Mail message.

Murphy predicts that ISIS will be available House-wide by next year at the latest. ISIS is an option that HIS provides free of charge; Members only need to sign up for it. In some cases, Members may need to upgrade their hardware to receive ISIS.

While ISIS allows searches of Congress-

Through INTERNET, Hill offices will be able to communicate electronically with corporations, universities, and governmental agencies.

thousands of corporations, universities, and governmental agencies.

Currently, 11 committees, 12 Members, and the Congressional Budget Office are communicating in a test program via INTERNET and the commercial X.400 network with several executive branch agencies, including the White House.

Rose noted during hearings of the legislative branch appropriations subcommittee that questions of outside access to Hill files must be resolved before Congress can be broadly tied to the outside electronically.

"Do you want the whole world to have electronic access to your computer? Or do you want some restrictions" to access, like requiring passwords for outside users, Rose asked during the hearings.

"The whole thing is fraught with opportunity for indiscretion," Rose said.

The Senate is also considering INTERNET and is reviewing the same problems.

But inside the Beltway, at least, a new communications system called CAPNET is already up and running. It will be fully operational by next month.

CAPNET allows an exchange of documents and information between the House, Senate, Library of Congress, Office of Technology Assessment, General Printing Office, and CBO.

Foley Names 31 Members to Policy Group Created Under Democratic Rules Package

By Karen Foerstel

House Speaker Tom Foley (D-Wash) this month appointed 31 Members to the Working Group on Policy Development that was created in December as part of a sweeping new rules package approved by the Democratic Caucus (Roll Call, Dec. 10, 1992). The policy group will help formulate legislative priorities at the beginning of each session.

In the original rules package passed by the Caucus last year, the Speaker was called upon to name only 20 Members to the group, but after a flood of requests from Members wishing to join the group, the Caucus on Jan.

6 met and unanimously agreed to allow the Speaker to determine its size.

Foley's appointments on Feb. 10 include six freshmen and eight standing committee chairmen. The 31 Members are: Reps. Jack Brooks (Texas), Glen Browder (Ala), Maria Cantwell (Wash), Eva Clayton (NC), Kika de la Garza (Texas), John Dingell (Mich), Julian Dixon (Calif), Barney Frank (Mass), Sam Gejdenson (Conn), Jane Harman (Calif), Don Johnson (Ga), Larry LaRocco (Idaho), George Miller (Calif), Joe Moakley (Mass), Bill Natcher (Ky), and Dave Obey (Wis).

Also: Reps. Tim Penny (Minn), Charlie

Rangel (NY), Tim Roemer (Ind), Dan Rostenkowski (Ill), Lucille Roybal-Allard (Calif), Bobby Rush (Ill), Marty Sabo (Minn), Chuck Schumer (NY), Neal Smith (Iowa), John Spratt (SC), Charlie Stenholm (Texas), Mike Synar (Okla), Jolene Unsoeld (Wash), Pat Williams (Mont), and Bob Wise (WVa).

Along with Foley, Majority Leader Richard Gephardt (Mo), Majority Whip David Bonior (Mich), and Deputy Whips Butler Derrick (SC), John Lewis (Ga), Barbara Kennelly (Conn), and Bill Richardson (NM) will serve as ex-officio members of the group.

U.S. Urged To Act on Trade Pact

Mexican Leader Warns of Delay

By Tod Robberson
and Jackson Diehl
Washington Post Foreign Service

MEXICO CITY, Feb. 22—President Carlos Salinas de Gortari, signaling growing concern over U.S.-Mexican relations, urged the U.S. Congress today to engage in an "informed debate" over the proposed North American Free Trade Agreement and warned that prejudiced attacks on Mexico could "wreck" bilateral ties.

In an interview, Salinas prodded the Clinton administration to step up the pace on getting the free-trade accord approved by Congress, warning that the longer the process is delayed, "the better for our competitors."

The president's remarks came at a time when Mexican government officials and business leaders have begun to express concern that the new U.S. administration may not be sufficiently committed to pushing the free-trade pact through Congress, in part because of its preoccupation with domestic affairs.

He said the accord, known as NAFTA, has become a matter of extreme importance throughout Latin America and represents a "historic window of opportunity" for the United States to improve the often uneven relations it has had with its neighbors to the south.

Salinas referred to the accord as "a test of the true willingness of the U.S. to have a positive relationship" with Mexico and the rest of Latin America. "The region as a whole would feel rejected" if NAFTA is turned down by the U.S. Congress, he said.

Salinas, who met with Clinton in December in Austin, Tex., said he believes Clinton shares his view that the pact should be ratified by the end of this year. But he grew stern when asked about the current tenor of congressional opposition to the free-trade accord.

The president appeared irritated by a controversy that developed in Washington last week over reports that the Mexican government had helped establish a fund to encourage U.S. manufacturing companies to relocate to Mexico. House Speaker Richard Gephardt (D-Mo.) joined a chorus of NAFTA opponents in accusing Mexican officials of participating in "stealing American jobs."

Another Mexican official, referring to U.S. news reports about the fund, which surfaced as Mexican Commerce Minister Jaime Serra Puche arrived in Washington for talks on NAFTA-related issues with U.S. Trade Representative Mickey Kantor, said today that "we don't believe in coincidences" and suggested that leaks about the fund were deliberately timed for Serra Puche's visit.

Critics of the trade pact in Congress and U.S. labor unions have from the beginning warned that U.S. workers would lose jobs under the new rules as U.S. businesses found it easier to move factories south of the border in search of lower-paid Mexican employees and less stringent enforcement of labor laws.

Salinas referred to the fund controversy as "a minor issue" and denied that his country sought to steal U.S. jobs. He said he believed opponents of NAFTA would use various political ploys to derail the accord, but added that such actions amounted to internal U.S. politics.

However, he said, "The only thing I hope is that any debate ... is an informed debate. That is, that it comes from facts and not from prejudice. I hope that good faith will prevail, and that the aim is to improve relations between Mexico and the United States and not to wreck them."

Salinas also sought to minimize the importance of side accords demanded by the Clinton administration to deal with bilateral problems over labor and the environment. He said Mexico already has taken adequate steps to address U.S. concerns on both issues but said he would proceed nonetheless with the side accords in order to help gain NAFTA's approval by Congress.

However, Salinas warned against attempts to use NAFTA as a lever to force changes in Mexican domestic issues, saying he would limit all negotiations to issues that "make economic sense and do not infringe on our national sovereignty."

One domestic target that Mexico critics have used in arguments against NAFTA is Mexico's lengthy record of electoral fraud and a virtual one-party electoral system in which Salinas's Institutional Revolutionary Party has controlled the presidency for the past six decades.

Salinas said his government was open to "dialogue" on political issues and is "committed to improving our democratic system." He said his government is taking several measures to help ensure fair elections, including a nearly \$1 billion program to provide photo identification cards for registered voters. He added that Mexico will reverse its long-standing opposition to foreign-sponsored exit polls, which can help election observers pinpoint where potential vote fraud has occurred.

Mail

*Need to get this
attached*

THE PRESIDENT HAS SEEN

The Washington Post

2/23/93

Hot line callers: Clinton's plan perplexing

By John Waggoner
and Bill Montague
USA TODAY A-1

Answering the questions 4B

Taxpayers are almost as bewildered as they are bothered by President Clinton's proposed tax changes.

Monday, almost 1,000 called USA TODAY's hot line to ask questions — and vent — about Clinton's economic plan.

Despite the president's hard sell and the amount of news coverage so far, most readers remain baffled by the complex package of tax hikes, budget cuts and spending increases.

One reader wonders if the

plan would limit mortgage interest deductions. (It wouldn't.) Another worries it would tax health-care benefits. (Nope.)

The blizzard of numbers generated by the plan also has left many in the cold.

Many retirees, for example, know Clinton wants to tax more of their Social Security benefits. But they don't understand how it will be computed.

Polls show the public largely supports the Clinton plan. But like a call-in talk show, the hot line attracted a host of outraged voices:

► "Why not just cut spending first and then raise taxes?"

asks Richard Giandomenico of Walpole, Mass.

► "The Clinton plan stinks," says Roxilee Rathbun of Dayton, Ohio, more bluntly.

Not all voices are hostile. Mike Renzi, of Croton Falls, N.Y., praises the plan, including the tax increases.

"Clinton is right on target," Renzi says. "He's thinking long-term, not quick-fix."

Huge audit may attack fed waste

By John Hillkirk
USA TODAY A-1

The White House soon could launch a massive audit to identify waste and inefficiency throughout the government.

The all-out audit would be like a Texas audit in 1991 that found \$4.2 billion savings in a \$60-billion budget. Lawmakers adopted \$2.4 billion in savings.

"We're looking very seriously at what Texas has done," says Bruce Reed, President Clinton's deputy assistant for domestic policy. "There's a very good chance of an audit."

Texas Comptroller John Sharp says 300 non-government auditors would need about six months to examine the \$1.4 trillion federal budget. "Whoever runs it ... better have asbestos underwear."

Auditors would look for:

► Waste and abuse. Texas set up a hot line and received 3,000 calls in three weeks.

► Combining programs. For example, 100 offices run programs for dislocated workers.

► Possible job cuts. Bob Davis, a Library of Congress manager, says if the government was run efficiently "you could eliminate 40% of the people we have." Clinton already plans to cut 100,000 federal jobs.

Experts say the audit might work if its focus is improving government, not laying blame.

"Otherwise, it could leave a bad taste like the (1984) Grace Commission," says auditor John Leitch of the General Accounting Office.

That 161-member panel, led by industrialist J. Peter Grace, urged 2,478 changes to save \$424 billion in three years; less than half were adopted.

*Must consider
the need for
auditing*

COMMODITIES

Clinton's Emphasis on Tax Increases May Mean Commodities Prices Will Decline, Analysts Say

By WARREN GETLER

Staff Reporter of THE WALL STREET JOURNAL

NEW YORK — The Clinton administration's proposed economic package provides little solace to participants in the struggling commodities markets.

An emphasis on tax increases instead of economic stimulus suggests to many commodities experts that prices are headed lower. At best, they say, the impact of the president's plan will be neutral.

"My first gut reaction is that the Clinton program is liable to be deflationary," says Hunt Taylor, managing director of Duich Investment Co., a San Francisco commodity trading adviser. Other analysts say industrial commodities — metals and lumber, mostly — will be the ones most likely dragged down by the president's program.

They're also the ones that have been showing the most price strength lately. Lumber, platinum and palladium have powered the recent rise in the Commodity Research Bureau's index of 21 futures contracts to levels around 202, from earlier lows of 198, prior to the president's speech Wednesday. The CRB index, which is widely regarded as an inflation barometer, closed little changed Friday, at 202.66. And some analysts think it may soon decline.

"A lot will depend on whether this package drives interest rates lower," cautions Steve Platt, a senior analyst with Dean Witter in Chicago. Yields on long-term Treasury bonds, in fact, declined both Thursday and Friday.

Most market watchers believe the unprecedented increase in taxes outlined in Mr. Clinton's plan will more than outweigh any boost from federal capital-spending

projects or short-term declines in interest rates.

"The Clinton plan is not particularly good for metals," says Mr. Taylor, whose company trades in a range of commodities from metals to crude oil. "The infrastructure spending is going to be more than offset by the tax hikes."

Some analysts say the spending cuts and tax increases proposed Wednesday by Mr. Clinton helped trigger a sharp fall Thursday and Friday in certain industrial metals, such as platinum, palladium and silver. Platinum futures skidded more than \$9 lower for April delivery and palladium futures for June delivery tumbled \$8 in trading Thursday and Friday on the New York Mercantile Exchange.

But others insist that U.S. fiscal policy — whether inflationary or deflationary — has no dramatic effect on short-term swings in commodity prices. They point out that commodities are traded around the world and that price swings are rooted in world-wide supply and demand factors.

Merrill Lynch futures strategist William O'Neill argues, for instance, that the recent downturn in futures prices of palladium and platinum — metals used extensively in the automotive industry — is the direct result of reports last week that Japan was going to cut its imports of the two metals because of declining auto sales. Prior to the Japanese reports, news that Russia was experiencing sharp production roadblocks had sent palladium and platinum prices soaring.

"The United States is only a small piece of the picture," Mr. O'Neill says. "The global recession is really more important than what goes on in the United States."

This is one reason we've had a muted response in metals."

But other traders and analysts argue that the stimulus package may give at least short-term support to some commodities prices. They expect futures prices of certain metals, such as copper, aluminum and nickel, to rise moderately as a result of the \$31 billion stimulus package proposed by the president for roads, bridges, mass transport systems and other infrastructure projects.

At the same time, they expect energy-intensive industries, such as agriculture and aluminum smelting, to experience a gradual rise in costs as result of the new, broad-based energy tax that will, among other things, raise the price of gasoline by 7.5 cents by 1996.

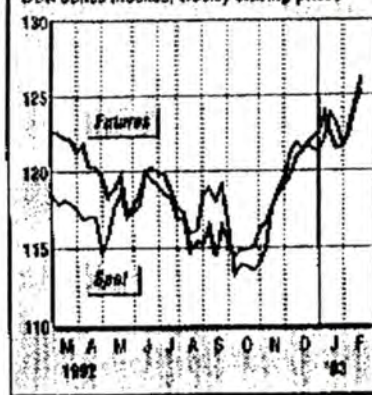
Paul O'Neill, chairman and chief executive officer of Aluminum Co. of America, says the energy tax "will increase aluminum costs, but marginally, compared to what's really plaguing the industry: the huge increase in available supply as a consequence of the Soviet Union collapsing upon itself."

Nick Gerber, who runs the Marc Stevens Futures Index Fund in San Francisco, believes the Clinton proposal will provide a mild bounce for broad-based industrial commodities, which have dropped by more than 30% over the past five years. "Clearly the economy is picking up, and this \$30 billion stimulus will spark some more demand," he says. "I'm not expecting a huge price increase, however."

On the agricultural front, the Clinton plan "really has not had that much impact, in terms of foods," observes Dean Witter's Mr. Platt. "Certainly the higher cost of

Commodity Prices

Dow Jones Indexes; weekly closing prices



Friday, February 19, 1993

	Close	Chg.	Yr. Ago
Dow Jones Futures	126.36	+ 0.35	122.67
Dow Jones Spot	125.32	+ 0.02	118.72
Reuters United Kingdom	1777.1	- 3.1	1808.3
C.R.B. Futures*	202.72	+ 0.39	209.54

*Division of Knight-Ridder.

transportation, which will result from the new energy tax, will have some bearing on food prices over the longer term. Energy, in general, is a key component in the agricultural sector."

Fred Brill, director of energy research at Pegasus Econometric Group in Hoboken, N.J., predicts that the new energy tax, if approved by Congress in its current form, will not significantly affect the energy market but will have mild inflationary repercussions for the rest of the economy.

"The increase in energy prices due to this tax will be less than the volatility that we see in a normal yearly cycle of swings in the price of crude oil of around 25 cents a gallon," Mr. Brill said.

"The fact is, we are paying less for oil products today than in 1980 in nominal terms, and even less in inflation-adjusted terms," and this is not going to change after the energy tax is implemented, he added. Since Thursday, light sweet crude for delivery in March has gained more than 25 cents a barrel to \$19.62.

Looking ahead to commodities markets this week:

Livestock & Meats

Cattle prices are expected to come under pressure today in the wake of a government report that cattle feedlots in the seven major ranch states are the most crowded since 1974.

A monthly survey released after the close of trading Friday by the Agriculture Department showed 9.07 million cattle on feedlots on Feb. 1, up 11% from the same 1992 date.

The jump was larger than expected by most cattle traders. The population on feedlots — where livestock are fattened for slaughter — is a leading indicator of beef supply, and thus retail prices.

The government also reported that feedlots during January sold 10% fewer mature cattle to meatpackers compared with January 1992.

Meanwhile, ranchers placed 3% more young cattle onto feedlots during that month compared with the same 1992 month. The cheap price of corn is spurring ranchers to move their cattle to feedlots, where they are fattened quickly on a corn-based diet.

THE PRESIDENT HAS SEEN

THE WALL STREET JOURNAL

2/22/93

Brub's
We need a strategy
of farm prices
B.

Infrastructure Investment Commission To Disclose Funding Plan Tomorrow

By JOHN CONNOR

Staff Reporter of THE WALL STREET JOURNAL

WASHINGTON — An ambitious plan to channel billions of investment dollars into infrastructure projects will be unveiled tomorrow by a bipartisan commission created by Congress.

Fashioned by the Infrastructure Investment Commission, the plan calls for creating a federally chartered corporation, the National Infrastructure Corp., to help make infrastructure investments attractive to institutional investors through such methods as bond insurance and guarantees.

"The commission estimates that each new one billion dollars of federal capital in the corporation has the immediate potential to prompt \$10 billion in infrastructure project activity," the panel says in its final report.

The report says the proposed corporation, which would have a limited line of credit to the Treasury and would also be empowered to sell its own bonds, "will provide a focal point for infrastructure that is essential to a timely, effective national policy response to the infrastructure financing challenge."

The commission was established by

Clinton Is to Unveil Today New Policy on Technology

By a WALL STREET JOURNAL Staff Reporter

SANTA MONICA, Calif. — President Clinton will outline this morning a new technology policy for the nation when he speaks at Silicon Graphics, a high-technology firm near San Jose, Calif.

A major theme will be the need to redirect some of the billions of dollars spent on research and development of military technology into civilian use, according to senior White House officials. In addition, the policy is likely to emphasize the need for government and private industry to form partnerships to create jobs and turn new technology into marketable products.

In a speech here yesterday to promote his economic plan, the president said he will "announce a new technology policy." Mr. Clinton also plans to visit a Boeing Co. plant in Everett, Wash., to discuss the need to revive the nation's aircraft and aerospace industries. The president said yesterday that the nation must move toward forging an industrial strategy and that such a strategy has paid big rewards for Europeans but has cost Americans.

Noting that Boeing was laying off 23,000 workers, he said it was only partly due to defense cuts and he criticized the previous Republican administrations. "The last several years, we have stood by while Europe invested \$26 billion in taxpayer money to build the Airbus to push American people out of work, not because they won any sort of free-market competition, but because Europe had a theory about how to get high-wage jobs going into the 21st century in aerospace."

Congress to find ways of drawing more investments into such projects as highways, bridges and sewage systems, perhaps branching eventually into such high-tech areas as computer networks. Most panel members were appointed by the Democratic and Republican leaders of the House and Senate.

Senate Finance Committee Chairman Daniel Moynihan (D., N.Y.), a leading force behind creating the panel, is expected to introduce a bill to enact its proposals and to press for inclusion of key recommendations in the legislative package that will incorporate most of President Clinton's economic plan.

Mr. Clinton, during last year's presidential campaign, advocated a "Rebuild America Fund" to leverage money for infrastructure. He didn't mention a new infrastructure agency in the economic program he outlined last week. But commission officials who have briefed Clinton aides on the panel's recommendations report receiving "very positive feedback" from the White House, particularly the idea of leveraging substantial activity with a limited up-front federal commitment.

A focus of the commission is to fashion infrastructure securities that would be attractive to institutional investors, particularly pension funds with some \$4 trillion in assets. The proposed corporation would be empowered to insure infrastructure securities issued by state and local governments, thus enhancing their credit-worthiness, and to sell its own debt securities. With the proposed line of credit from the Treasury and the corporation's federal charter, the plan envisions these securities being accorded "agency" status by the capital markets like the securities of such government-sponsored enterprises as the Federal National Mortgage Association. Agency securities enjoy preferential borrowing rates.

The commission stresses that pension plan purchases of securities insured or sold by the corporation "would be on a purely voluntary basis in accordance with the fiduciary duties" set forth in current laws and rules governing pension fund investments. "Pension funds clearly indicated the desire to have an option to invest in a new infrastructure security paying a competitive, taxable, market rate of return," the report says.

Eastman Kodak Sets Coupons

ROCHESTER, N.Y. — Eastman Kodak Co., in its latest effort to spur sales of its Photo CD player, said it will offer coupons to customers worth \$50 when they transfer pictures to compact discs.

The coupon offer — available to consumers who buy the machines from March 15 to Sept. 30 — comes just over a month after Kodak slashed prices on the Photo CD players. Kodak said it's pleased with sales so far, but didn't provide figures.

The company said it costs about \$20 to develop and transfer a 24-exposure roll of 35mm film. The coupons expire Sept. 30, 1994.

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THE WALL STREET JOURNAL

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FOR REVIEW

The Worst Kind of Short-Term Thinking

By ALLAN H. MELTZER

The Clinton administration hit the ground backpedaling. Instead of tax reduction for the middle class, we will see tax increases. Instead of cutting the deficit in half by 1997, we will see very little reduction in the budget deficit when we get to 1997. Instead of \$2 of spending reduction for every dollar of tax increase, there will be \$4 in tax increase for each dollar of reduction in spending growth. If Congress adopts the president's program. Part of the so-called spending reduction comes from higher taxes on Social Security checks and Medicare fees paid by consumers. The government will spend less on Medicare by making the public pay more. Government spending will continue to rise, as it has every year since 1965. The projected increase is \$300 billion in five years.

Our fiscal history for the past 30 years can be written in three sentences: 1) The share of total earned income taxed by the federal government has remained between 18% and 20%; in 1992, it was 18.6%. 2) The share of federal government spending to total spending has increased from about 17% or 18% to about 23% or 24%. 3) The deficit has increased with spending.

The Clinton administration harangues about the deficit to get more revenue. If the administration were serious about reducing spending it would eliminate the \$30 billion space station, reduce entitlements, and cut wasteful projects.

Instead of reducing spending, the administration plans to spend more than \$30 billion to create short-term "jobs" at a time when signs show the economy does not need additional stimulus. Further, the Clinton program is not a good use of tax dollars. Half the program, \$15 billion over two years, goes for a temporary investment tax credit. But corporations will pay an additional \$6 billion a year in permanent taxes. The higher taxes will fall heavily on corporate saving and investment. And energy taxes raise costs and reduce output, just as they did when OPEC hit us.



This is puzzling policy. What is the point of a temporary kick to an economy that is doing moderately well if it is paid for by a tax increase that discourages long-term investment? The answer to the puzzle is this: The temporary tax credit will have a big effect just before the end of 1994—just before the next congressional elections. When the credit is about to expire, it pays businesses to shift purchases of equipment from 1995 to 1994. The policy penalizes the future because the tax on corporate income will remain long after the temporary credit expires. But it may serve a political purpose.

Corporate and individual tax rates are

likely to rise even more in the future. The health care plan, now in preparation, will be costly. During the campaign, Mr. Clinton encouraged the belief that the public was going to save money on health care. Most of us will pay more either in taxes or in premiums for insurance, or both. Taxes on cigarettes and alcohol are often mentioned as one of the ways to pay for an expanded health care program. These taxes, again, will backpedal on candidate Clinton's pledge to lower taxes on the middle class. And raising taxes will not solve the budget problem.

What matters most about spending is how we as a nation use resources. If the deficits of the 1980s and 1990s had paid for productive investment in education and physical capital, we would be more productive and richer. We could reduce the deficit from our increased earnings, just as businesses do when they borrow.

Public policy has discouraged investment in several ways. Inflation has taxed invested capital, particularly long-lived capital. The 1986 tax act shifted taxes from consumers to owners of capital. Earned income—including savings—will be taxed at higher rates under the Clinton plan.

Taxing saving is not a way to encourage growth and raise living standards. Taxes should be shifted from earned income to consumed income. To spur saving, allow taxpayers to subtract their annual savings from their taxable income and levy the tax on the remainder—spending or consumed income. Corporations should be allowed to write off their purchases of machinery and equipment. This would increase productive investment and productivity. There should be a limit on the government's share of total spending. Give government an incentive to encourage economic growth.

We should encourage, too, general research and development and improvements in education and training by promoting competition in schools and increasing incentives for learning. Instead the president's program spends money on costly government training programs and make-work summer jobs for teenagers. In many countries, school grades are important for getting a first job. In the U.S., our laws can treat such information as evidence of discrimination.

My late friend, Prof. Harry Johnson, often said that when a government wanted to do something that made little sense, it either described its program as a "war" or asked for "sacrifice." That's what the president has now done—a few good ideas are buried in a bad program. There's not a word about deregulation to lower private-sector costs. We are headed for more burdensome regulation. There's too much taxation, too few spending cuts, too little growth, too much government. What's the big change? Let's urge the president to backpedal again.

Mr. Meltzer is professor of economics at Carnegie-Mellon and visiting scholar at the American Enterprise Institute.

THE WALL STREET JOURNAL.

2/22/93

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The Washington Post

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2-23-93

The New Straight Talk

I don't know how many dozen conventional State of the Union speeches it took before I made my basic discovery about the applause that everyone monitors so earnestly during these annual events, reaching conclusions as to party reaction, committee chairman's attitude, chances of passage and so forth. It was that this applause in fact had practically nothing to do with any such considerations, but was a function of something else: The members rose and roared, disrupted the speech with prolonged applause and otherwise loudly indicated their approval precisely and almost exclusively for those pronouncements that they knew to be untrue.

Indeed, the more patently untrue, the lustier and more protracted the cheer. The fundamental proposition was always the same: that we could have it all—a stronger defense and more investment in domestic programs, environmental purity and accelerated energy development, lower taxes and increased benefits, etc. We will do this, but not at the expense of that... the speaker would intone, his voice rising to indicate deep conviction for the wholly implausible second part of the sentence. And the place would go nuts.

You do not have to buy all of Bill Clinton's program or to check your view that there was too much of some things, not enough of others, to acknowledge that his Feb. 17 address for the most part crashed through this tradition of mutual dissembling between presidential speaker and congressional audience. Yes, there were some muzzy, unpersuasive moments. But in the main Clinton was saying not that we could have it all, but that we couldn't and that we now had to choose how to get out of the economic predicament that had been talked about mostly by indirection or even covertly in Washington for years.

Over those years, the dialogue on the question of the budget deficit and its effect had become ever more tortured, demeaning and involuted—embarrassingly so, I would have thought, for grown men and women. We at The Washington Post, starting back in the early Reagan years, would occasionally be visited ("off the record") by prominent Republican legislators and others urging us editorially to help bring about some bipartisan deal wherein big shots of both parties would just sort of close their eyes, hold hands and jump off the cliff

together, always with careful provisions to keep one of the parties from cheating and being left standing there on the ledge while the other—poor fool—plummeted into the political abyss. They would talk about ways to frame the thing so that Reagan more or less wouldn't notice or at least wouldn't have the wit to object. They discussed him as if he were the mad

Clinton has taken the debate over the deficit from dishonest dithering into the reality zone.

uncle in the attic who, unfortunately, still had title to the house.

It was unbelievable, now that I think of it, but at the time it seemed only mildly strange. That is because Washington had pretty thoroughly bought into the proposition that some of the things Bill Clinton was to say the other night simply could not be said, not even argued about—too dangerous. People outside this city who complain about the waste of taxpayers' money should, if they want to get even madder, merely contemplate how much they paid out in both executive and legislative branch salaries over the decades to people who gave over hours and days and weeks of paid time to fussing about who would or wouldn't get the blame for saying aloud what they were all whispering among themselves.

Do you remember those episodes during the past decade in which it would be leaked that the White House and the congressional leadership were both in a frame of mind to do something about the deficit which would necessarily involve a tax increase, but that the understanding was that neither should be seen to have initiated the move? We had plenty of that going on, and more than once the deal would collapse because one side or the other said the wrong thing about whose idea it had been.

Such breaches of the delicate political protocol were generally thought to be far more odious than, say, the deficit problem itself or the resolute

failure of the parties to attack it honestly. Only think of the hilarious run-up to the budget agreement of 1990, an interminable spat over forcing Bush to speak the words "tax-revenue increases" before the Democrats would proceed. By last summer's election campaign the dialogue had degenerated into an not/are too arguments over whether trivial license fee increases in Arkansas under Clinton qualified as tax hikes and whether similar federal actions under Bush did as well.

Whatever else he did and whatever you may think of his proposals, Clinton in his State of the Union address took us from this dishonest dithering into the reality zone. He fundamentally altered the character of the discussion. It became both serious and real. This seemed to me to be a relief to everybody, including even some of those who oppose what he wants to do. They can talk out loud and not worry about pretending to be talking about something else as if the public itself were a bunch of children who must not be frightened.

I cannot say what transformed the moment so that this became possible. Some other pols have attempted to talk straight on this subject and vanished without a trace. But people seemed ready, and Clinton seized the moment. Kennedy did this on civil rights after the televised Birmingham police behavior scandalized the public; Johnson did it after the shock of the assassination of Kennedy created a brief period when legislators were ready to act. Bush failed to take advantage of an opportune moment to get some domestic business done in the aftermath of the gulf war when his popularity was at a spectacular high.

These moments of opportunity, of course, also end. I figure the Clinton administration has at best a couple of months in which to keep the momentum going and get its program on the tracks. If it can't do this—can't get it going—then the moment will have been irrevocably lost. But whatever happens, I think the particular verbal taboos that made discussion so difficult (and so silly when it occurred) may have been junked for good. Maybe there will be new taboos. But meanwhile we can at least take advantage of the new candor and have, for once, an honest fight.

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Erskine Bowles Expected to Be Choice to Head SBA

BY JEANNE SADDLER

Staff Reporter of THE WALL STREET JOURNAL

WASHINGTON — President Clinton is expected to nominate Erskine Bowles, a North Carolina investment banker and a fund-raiser for the Clinton presidential campaign, to head the Small Business Administration within the next two weeks.

The appointment would end weeks of intense speculation among small-business owners and their advocacy groups, which have said the person selected would indicate whether President Clinton will follow through on promises to give small-business issues a higher priority. In past adminis-

Oregon Court Upholds Use Of Autodial Sales Pitch

A WALL STREET JOURNAL News Roundup

The Oregon Supreme Court upheld a lower court ruling overturning a 1989 state law that banned the use of computers that automatically dial telephone numbers and deliver recorded sales pitches.

The case was brought by the American Civil Liberties Union on behalf of A-A-1 Lucky Leprechaun Co., a Kelzer, Ore., chimney-sweeping business. The Supreme Court affirmed an appeals court decision that Oregon's constitution gives commercial speech the same level of protection as noncommercial speech.

Lucky Leprechaun and the National Association of Telecomputer Operators won a preliminary injunction late last year stopping the Federal Communications Commission from enforcing a key provision of a similar federal law designed to protect consumers from telemarketing calls.

trations, the agency's top job usually has gone to recently defeated members of Congress.

Mr. Bowles, the founder and president of Bowles Hollowell Conner & Co. of Charlotte, N.C., an investment banking concern serving small and medium-sized companies, was a fund-raiser for the Clinton campaign in North Carolina and other parts of the South. A White House source said Mr. Bowles is the prime candidate for the job. He is now undergoing background checks.

In a telephone interview, Mr. Bowles said he has talked to several people in the administration about the SBA job but not in an official capacity, and he stressed that he hasn't been offered the position. "I'm real good at telling the truth; I'd rather not comment on the process," he said. "The president has considered lots of people. I do know he plans to give the position a lot more emphasis in the future."

Interesting Credentials

Although Mr. Bowles, age 47, is virtually a stranger to the capital's small-business lobby, he would bring two interesting credentials to the job. His career has focused on what is currently a hot topic, the financial problems of medium-sized companies, and he is considered an "FOBH," a friend of Bill and Hillary.

Mr. Bowles said he met the president just over a year ago through Ken Brody, a partner at Morgan Stanley & Co., the New York investment banking firm where he began his career. Attracted to Mr. Clinton's ideas on the economy and small business, Mr. Bowles decided to become a fund-raiser. His wife, Crandall Bowles, was a classmate of Hillary Rodham Clinton's at Wellesley College but wasn't a personal friend, he added. Mrs. Bowles is

executive vice president of Springs Industries Inc., a large textile company based in Fort Mill, S.C.

"He seems to be an incredibly interesting candidate," said John Paul Galles, executive vice president of National Small Business United, which has the second-largest membership among the nation's small-company organizations. "And if he's got solid connections with President Clinton, that should help small business air its concerns at the White House."

Mr. Bowles established his company to work with smaller businesses because he felt their transactions were handled poorly and assigned to inexperienced people at New York's major investment banking concerns. He took a leave of absence from Morgan Stanley and returned to his native North Carolina in 1972 to help his father, Hargrove "Skipper" Bowles Jr., in his unsuccessful bid for governor.

He decided to establish his own firm and began looking for partners with backgrounds in law, taxation and finance who could focus on small and medium-sized concerns. The company now has 55 employees and handles about 30 transactions a year.

Direction of SBA

There has been some speculation that the SBA could take on a new direction under the Clinton administration to match some of his campaign themes. The president has stressed the importance of access to capital for growing companies that create jobs, encouraging those who want to see more emphasis on aggressive young concerns. But Mr. Clinton also has stressed the importance of community-based development banks to aid tiny start-up businesses.

Mr. Bowles said that so far, he knows only that the president plans to "revitalize SBA . . . he believes small business deserves a place at the table."

A new administrator will inherit an agency that was nearly eliminated by the Reagan administration and which has been used as a dumping ground for political appointees by several other presidents. Employee morale remained low as each of a series of administrators stayed on for relatively short periods.

Loan-Guarantee Program

The agency's main loan-guarantee program, however, is growing at a rate of about 37% annually, because banks are reluctant to make loans to small companies without the assurance that the federal government will stand behind 75% to 90% of the loan amount. The program also is considered a well-managed one.

But the SBA has come under continued criticism over the past several years for its management of the federally licensed investment companies that operate as venture capital firms and for its government-contracting program for minority-owned and disadvantaged businesses.

Mr. Bowles is a graduate of the University of North Carolina at Chapel Hill, and earned his master's of business administration at Columbia University's Graduate School of Business. The president had considered a long list of candidates to head the agency, including several women, blacks, Hispanics and white men. The most prominent candidates included former Rep. Parren Mitchell of Maryland, a former chairman of the House Small Business Committee, and Barbara Blum, president of Adams National Bank in Washington, D.C. The nomination requires confirmation by the Senate.

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Salary Cuts Crimp Clinton Ethics Rules

The much ballyhooed Clinton ethics guidelines—the subject of the president's first executive order—were intended to stop the revolving door at the White House by barring senior staff from lobbying the government for five years after leaving office.

As it turns out, Clinton aides originally thought the rules would apply to the top 100 or so "senior appointees" in the White House. In fact, they only apply to about 20 very senior people.



The reason is that the executive order defines those senior appointees not by title or duties but by pay grade—about \$105,000 a year at Level V of the senior executive schedule. When the new rules were announced in Little Rock, Ark., in December, that salary level would have drawn the line at deputy assistants to the president.

But then came the salary cuts for White House staff.

People at the assistant to the president level, those who earn about \$139,000 or so a year, were cut back to the \$110,000-to-\$120,000 range. Deputy assistants fell below the \$105,000 cutoff.

Word is that some of those who found themselves just above the cutoff point were all set to get with the president's "sacrifice" program and take even lower salaries, thereby avoiding the lobbying ban. Not a bad investment that. Defer a few thousand a year now and cash in on millions as a lobbyist later.

Well, White House deputy chief of staff Mark Gearan recently noticed the disconnect and asked Jack Quinn, counsel to Vice President Gore, for a memo on how to revise the executive order so that those originally subject to the lobbying ban would still be covered.

Where Is the Clinton Administration?

■ Now a month old, the Clinton team still has named only a few dozen officials for senior positions, and far fewer have been confirmed.

Who is to blame? The White House says the FBI has been slow, but others say the White House has been distracted by the Zoe Baird-Kimba Wood fiasco and unable to move.

Transportation Secretary Federico Peña, for example, does not have one senior aide on board, not a deputy, not an assistant secretary, not a Federal Aviation Administration chief, nobody. It's not that he hasn't tried to get some staff. All his "tier-one" appointments are awaiting White House approval.

A little of his frustration slipped out the other day in an interview.

"I have a whole page of names over at the White House right now, so we're waiting to get a response

back," he said. "You know the process here. . . . These are all presidential appointments. People keep reminding me they're presidential appointments. That's why they're called presidential appointments, they're not called 'secretarial' appointments. So we're working with the White House in trying to get some of these names out so we can start making some appointments."

Peña quickly caught himself and added that White House staffers are "working very hard" to clear the names, and they "understand the urgency" of the situation.

Talk About Lame Ducks

■ Four of the five members of the Federal Energy Regulatory Commission are making quacking sounds as they head toward the door. Former chairman Martin L. Allday, a Republican friend of former president George Bush, has announced he is returning to Texas to practice law. Commissioner Branko Terzic has notified the White House he plans to leave soon. The terms of commissioners Jerry J. Langdon and Charles A. Trabandt already have expired.

Under the law that created this little-known but powerful agency—which regulates interstate gas pipelines, hydroelectric power and wholesale electricity sales—no more than three commissioners can belong to one political party, so at least two of the four members Clinton will appoint have to be Republicans or independents.

Candidate for Commodity Post

■ Usually the chairman of the Commodity Futures Trading Commission is picked on the basis of political connections, farm state alliances or industry loyalties.

But one candidate scheduled to replace Wendy Gramm, the wife of Sen. Phil Gramm (R-Tex.), is Gary Perlin, vice president and treasurer of the Federal National Mortgage Association.

A specialist in the esoteric financial instruments that have become the main business of the futures market, Perlin surprised Fannie Mae recently by announcing he wanted a change and was giving up his high-profile post—to say nothing of the stock options that have made him wealthy.

Ambassador to France?

■ Over at State, the word from a knowledgeable source is that Democratic Queen Mother Pamela Harriman is a "done deal" to be the next U.S. ambassador to France. Despite her lack of a college degree, the British-born Harriman certainly meets the traditional qualifications for the job—tight political connections and oodles of campaign contributions. And what of Secretary of State Warren M. Christopher's edict that ambassadorial posts not be rewards to major campaign contributors?

—Al Kamen

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Doing Good While Doing Well



As we cut the deficit, we'd cut consumption and pollution. And—a bonus—we'd spur new conservation technology.

By LEE SCHIPPER

Taxing energy to raise revenue, as proposed by President Clinton, would not only reduce the budget gap, but would also have the bonuses of encouraging of energy efficiency, addressing environmental problems and improving our energy security.

The size of the tax should be related to the twin goals of stemming the deficit and reducing the negative impact of using energy. A \$50-billion initial target would mean taxes of 8 cents per gallon of gasoline, 0.6 cents per kilowatt hour of electricity or 60 cents for a thousand cubic feet of natural gas. On average, prices would increase 12%, leading to nearly a 10% decline in energy demand over the pretax level, once users adjusted their technology and behavior.

The decline in energy use from an energy tax would help mitigate such problems as pollution, emissions of carbon dioxide from burning fossil fuels and our heavy reliance on oil imports. Even with modern pollution-control technology, energy production and use still results in significant environmental damage.

Is such a tax regressive? While taxes on the 40% of our energy use that includes gasoline, electricity and household fuels are regressive, extending this tax to the remaining 60% of energy that is used to make the goods and services we buy compensates for most of the problem, since the wealthy buy so much. Keep in mind, too, that the hidden costs of the budget deficit (high interest rates, cuts in social services) are paid disproportionately by low- and middle-income households. And when we go to war over oil, it is these households that send their children.

Will higher energy costs hurt the U.S. economy? Our recent study shows that energy-intensive industries (steel, cement, chemicals, paper) actually produce a small share of output with an even smaller share of employment, and have enormous potential to save energy by adopting new technologies. Higher energy prices will accelerate the move to such improvements, which have been occurring on their own for the past 50 years but slowed when the price of oil crashed in 1986.

Others fear that energy taxes will affect our competitiveness. We found that U.S. industry paid less, on balance, for coal, oil and natural gas, and nearly the lowest for electricity, than industry in Europe or Japan. This suggests that cheap energy is not a vital ingredient to industrial success. In all, only about

one-third of all the energy used in the United States is for manufacturing of products relevant to international competition.

In fact, energy taxes are common in Europe. The Nordic countries tax carbon dioxide and other pollutants from all fossil fuels and have various taxes on electricity. Germany, France and Italy have a variety of taxes on household fuels and smaller taxes on industrial fuels. And every country taxes both gasoline and road diesel heavily.

In the United States, we use far more energy than Japanese and Europeans in our overlit and overcooled buildings. Although we have pulled even with Europeans in the efficiency of heating homes, we still use more money to heat water, per person, and our appliances use more electricity. We use one-third more fuel per mile of car travel than Europeans, drive about twice as far per person and use significantly less mass transit. Clearly, we have much more energy fat to squeeze from our economy.

Are energy taxes inflationary? Energy costs represent less than 10% of our GNP. Energy is more than 15% of costs in only a handful of industries, like cement or certain chemicals. But there are countless ways for us to reduce

energy costs that have not yet been exploited. To avoid being inflationary, such taxes should be gradually imposed. Ultimately, the impact on inflation will be small.

What about the gasoline tax? Even though it is directed at only 13% of the energy we use, this tax has merit because transportation has its own budget gap, with users of the roads not really paying their full social costs. The energy tax alone will only have a small impact on the price of gasoline. In the end, we probably need both.

Deciding the "right" level of environmental tax and revenue to be raised is no easy task, politically. Presidents Ford and Carter tried and failed. Even President Reagan struck out when his 1986 energy security study essentially recommended either a gasoline tax or an oil import fee.

Those who oppose energy taxes should ask themselves: Should we tax income or investment, both in short supply? And taxing labor means taxing jobs, another scarce resource. Avoiding any tax because we can't agree on the exact level means forgoing a ripe opportunity to close the budget gap, as well as the environmental and efficiency gaps. Let's buoy up the energy-tax idea before it sinks, and keep our children's future from being swamped by the deficit and foul air.

Lee Schipper, staff senior scientist at the Lawrence Berkeley Laboratory, is the co-author, with Steve Meyers, Richard Howarth and Ruth Steiner, of "Energy Efficiency and Human Activity: Past Trends, Future Prospects" (Cambridge University Press, 1992).



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ON THE NATION

Big Populist Woof, Little Economic Bite

*Clinton made good noises,
but the wrong people will pay.*

BY ALEXANDER COCKBURN

Some smart animal breeder should go to work on a populist watchdog. Given the liability problem these days, it should have tiny teeth but a terrific bark. It could be called the Clinton, a popular item in pet stores at least for the next four years.

Like many a politician before him, Clinton has long known the importance in political life of letting out a really lusty, populist WOOF once in a while, before wagging an apologetic tail at the chauffeur to let him know that the rich folk are safe any time they care to step out of the limo.

Heavily freighted with rich folks' campaign contributions, Clinton let out a regulation number of populist woofs through last year's campaign about the rich paying their share, before heading for Washington to appoint a cabinet 77% solid with millionaires, a higher percentage even than the Reagan-Bush muster.

Now comes the populist woofery of Clinton's economic plan, as laid before Congress last Wednesday night.

The next day's headlines announced that the rich were going to "take it on the chin," with the top marginal rate going up to 36%, estate taxes going up, allowable itemized deductions going down. Given the hubbub, you'd have thought Clinton had set platoons of Jacobins to stack copies of the Forbes 400 'round the houses of the rich and burn them to the ground.

Fair's fair. At least the dog did bark in the night. Clinton told Congress he wanted rich people to pay more, just as they supposedly had done in 1986 when the top marginal rate was 50%, or in the 1960s when it was over 90%.

The problem is that whatever the notional top marginal tax rate, rich folks hire accountants and politicians to make sure the system stays the same. And the top capital gains tax rate did stay the same, at 28%. So the accountants will be working overtime shoving money from one column to another, and the congressional finance committees will heave with mighty purpose, designing safe harbors for the new tax shelter industry that Clinton's tax plan is conjuring into being like God's finger moving over the primal slime.

The trouble with this sort of economic populism is that it never really ends up changing the terms of the fundamental equation, as represented by the Byzantine system of tax credits and expenditures that end up costing the Treasury in revenue each year an amount roughly level with the federal deficit as it now stands. It's a structure so incapable of permitting any genuine redistribution—the basic idea of a progressive tax—that some radicals supported Jerry Brown's plan last year for a flat tax, which would at least cut the hypocrisy down to size.

President Clinton's proposals were entirely traditional in that regard. Nothing truly dangerous—economic populism with teeth as well as bark—was offered. No suggestion of limiting home mortgage interest deductibility, a notorious gift to the better off. Nothing dismaying to Wall Street, like a securities transaction tax.

And indeed Clinton's entire plan pivoted on Wall Street's central demand to the new Administration, that the agenda be first and foremost concerned with deficit reduction. "If there's anything this program is directed at," Clinton economic coordinator and erstwhile financier Robert Rubin told reporters Wednesday, "it's interest rates." The theory here is the one, beloved by Wall Street, that the prime inhibition to economic growth is the deficit, and that with an attack on the deficit, interest rates will fall and rosy times return once more. The theory does not require anything so raffish as promotion of growth via consumer demand.

The answer to Wall Street is that the relationship between interest rates and investment growth is weak and that there are cheaper ways of getting interest rates down than by cutting demand.

But Wall Street won the day, and the deficit cutters won the day, as it was clear they had from the moment Clinton announced his economic team.

We're paying the penalty for 15 years' worth of Chamber of Commerce propaganda about the deficit, which ordinary Americans now wrongly conceive to be as big a crisis as cancer. A timid, shriveled jobs and infrastructure plan barely dares lift its head above the rubble of urban America. On a day when it was announced that housing starts had dropped 7%, and when the National Guard was rehearsing how to put down the next riot in Los Angeles, the dominant turn was one of belt-tightening and austerity, graced with those barks of the watchdog fretting excitedly at the end of its chain.

Alexander Cockburn writes for the Nation and other publications.

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California Jobs Hinge on Design of Space Station

By ROBERT W. STEWART
TIMES STAFF WRITER

WASHINGTON—The Clinton Administration's plan to cut the \$30-billion bill for building space station Freedom could yield a streamlined laboratory that will be cheaper and easier to assemble in space, but it also will cost California more aerospace jobs.

The precise impact of the proposed cuts will remain uncertain until the National Aeronautics and Space Administration produces a new design for the space platform, which is to orbit about 200 miles above the Earth. The new design is scheduled to be completed in about three months.

However, Rep. George E. Brown Jr. (D-Calif.), chairman of the House Committee on Science, Space and Technology, said Friday that the Administration plans to cut several billion dollars out of the program over the next four years. NASA already has spent \$8 billion on it.

In announcing the fifth space station redesign in nine years, the Clinton Administration said it will try to preserve the approximately 70,000 jobs directly and indirectly related to station construction. More than 4,200 California workers are directly employed by space station contractors.

But a key congressional aide familiar with the program said the pledge to the workers "can only be a one-year promise."

In an interview Friday, NASA Administrator Daniel S. Goldin said the impact on space station jobs will not be felt until the end of 1994. By then, he said, the Administration's plan to boost spending on aeronautics research will create new jobs to make up for any losses associated with downsizing the space station.

Goldin acknowledged, however, that the new jobs would not necessarily be at the same companies that will lose space station workers.

"We're going to do our very best to maintain continuity," the administrator added.

Details of the internal White House battle that produced two weeks of topsy-turvy space station news began emerging Friday.

According to space industry analysts and congressional sources, longtime station critic Leon E. Panetta, director of the Office of Management and Budget, touched off the firestorm two weeks ago when he formally proposed killing both the space station and an \$8-billion atom smasher known as the superconducting super collider.

Clinton and Vice President Al Gore, who had supported both projects during the presidential campaign, vetoed that plan, but suggested that the space program could be trimmed. At that point, Goldin held a series of meetings in which he reportedly presented Panetta with a number of options for scaling back the program.

"Goldin made a really strong pitch that he would do anything he [Panetta] wanted," said Brown, both to save the program and to demonstrate his effectiveness as an administrator. Appointed by former President George Bush a year ago, Goldin would like to remain NASA administrator under Clinton.

The intent of the new design, Goldin said Friday, is to reduce both the space station's \$30-billion development cost, and operating costs over its projected 30-year life. Operating costs have been variously estimated at anywhere from \$60 billion to \$180 billion, depending on the accounting method.

Goldin said he has been particularly concerned that current plans call for 17 space shuttle flights to assemble the space station in orbit, and will seek to reduce that figure. The first flight had been scheduled for November, 1995, but could be pushed back because of redesign efforts.

Senior congressional aides familiar with the space program said the Administration could have done a better job communicating its plans to Congress, but that the early mixed signals are not likely to produce serious problems.

Brown said it is too early to tell what kind of reception the new space station plan will get on Capitol Hill. One scenario, he said, gives the station a much easier ride this year.

The hardest task remains the redesign, Brown said. The congressman said that Goldin will choose Joseph F. Shea, a retired senior vice president of Raytheon Co. and a former NASA official, to lead the team that will plan the new station.

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Modern Witch Hunt—Child Abuse Charges

THE PRESIDENT HAS SEEN

By RICHARD A. GARDNER

Janet Reno, Bill Clinton's nominee for attorney general, has made her name largely in cases involving the defense of children. She may well continue this focus if she is confirmed in her new job. For all those in the new administration, though, a task awaits. It is the modification of the Child Abuse Prevention and Treatment Act.

The 1974 act—sometimes known as the Mondale Act, after one of its sponsors—was implemented to fight a genuine problem. Up to that year, child abuse was rarely reported and frequently covered up. It was Congress's intent to rectify this deplorable situation by providing incentives for states to set up programs for child abuse research, identification, prosecution and treatment. Federal funding was made available to match state spending, and this served as an incentive for states to create such programs.

The law, however, has had results that its authors did not intend. In America today, child sex-abuse accusations are burgeoning. In many cases, it is probable that the charges are valid. But when the charges arise from vicious child custody disputes, where the vengeance element and the opportunity for exclusion of a hated spouse is operative, or in venues such as day-care centers, where the potential pedophile has little opportunity for contact with the child alone, the prevalence of child abuse is in reality quite low.

The Child Abuse Establishment

Nevertheless, the number of charges in these areas escalate. The primary reason: The Mondale Act has strengthened the "child abuse establishment"—a network of social workers, psychiatrists, psychologists and law enforcement officials—that through its very existence frequently validates an individual's charges. In other words, this establishment, unintentionally or intentionally, encourages charges of child abuse whether they are reasonable or not.

Some examples from cases in which I have personally evaluated the accused as well as other parties:

On March 5, Raymond and Shirley Souza (both 61) of Lowell, Mass., will be sent to prison, possibly for the rest of their lives. They are accused of having performed a series of perverted sexual acts on three of their grandchildren. The accusations began when one of the Souzas' daughters had a dream in which she envisioned her parents and her brother sexually abusing her when she was a child. In the dream her mother had a penis. She concluded that the dream indicated that she had actually been sexually abused as a child by her parents and that the Souza grandchildren had probably been abused

as well. She suggested that her siblings question the grandchildren. Thus began the wave of hysteria that ultimately resulted in the Souzas being found guilty of these alleged crimes. (Dorothy Rabinowitz writes about this on the Leisure & Arts page of this paper today.)

On the basis of my examinations of the Souzas, I was convinced that there wasn't a scintilla of evidence that they committed these crimes or even exhibited pedophilic tendencies. Furthermore, I carefully reviewed many of the documents in this case, especially videotapes of the interviews with the grandchildren conducted by the prosecutor's overzealous examiners. I found the interviews to be coercive, with the use of many leading questions and the selective ignoring of

penalties (usually fines and/or prison sentences) for failure to report. In effect, this provision has made it a criminal offense for such people not to report suspected abuse. As a result, these professionals are put on the defensive—if they don't report, they might be deemed criminals. The result has been overreporting of even the most absurd and impossible accusations.

During the few years following the Mondale Act's passage, all 50 states and the District of Columbia passed legislation providing for the establishment and funding of the appropriate programs.

The basic problem is that the system is biased. State and federal money is available for the treatment of children who are found to have been abused, but no funds have been specifically allocated for the

The child abuse establishment—social workers, psychologists, law enforcement officials—encourages charges of child abuse whether they are reasonable or not.

comments by the children that would have led any unbiased examiner to question whether these allegations had any merit whatsoever.

Another example: Kelly Michaels, a New Jersey nursery school teacher, was sentenced to 47 years for allegedly sexually abusing 20 children under her care. After examining the alleged victims, the accusing parents, and Ms. Michaels, I was convinced that she did not engage in the variety of abominable acts attributed to her. Yet the parents' hysteria was fueled by overzealous "validators" and law enforcement officials, leading to Ms. Michaels's conviction.

Part of the problem is that since 1974, the Mondale Act has been expanded several times, progressively increasing the federal funds allocated to the states. Certain provisions of the original law and its successors worked to encourage people to bring child abuse charges that were frivolous, and sometimes malicious, fabrications.

To qualify for federal money, states had to pass legislation that provided immunity from prosecution for all those reporting child abuse. With the advantage of the screen of immunity, many people in legitimate cases gained the confidence to come forward. However, the same immunity protected people making frivolous and even fabricated accusations.

To get federal funds, states were also required to pass laws requiring specific people (such as health-care professionals, law-enforcement officials, teachers and school administrators) to report suspected child abuse to the appropriate child protection agency. Such mandated reporting, of necessity, had to be backed up by

protection and treatment of those who have been falsely accused. Nor has money been available for another special and growing group—children who have suffered psychiatric disturbances because they have been used as vehicles for the promulgation of a false accusation. Evaluators who conclude there has been abuse set in motion events that bring their offices both state and federal funds. If they conclude there was no abuse, their facilities receive no funding for further evaluation of treatment.

The "child abuse establishment" also furthers itself. Mental health facilities, child protection services, and investigatory agencies (including police, detectives and prosecutors) all depend on each other. It behooves them to work together, because the greater the number of referrals, the greater the justification for the requisite funding. The current system generates an endless stream of referrals for investigators and "validators." All this predictably fuels sex-abuse hysteria, hysteria in which an accused individual's constitutional due-process protections are commonly ignored.

Here are some changes at the federal level that could help:

- Drop the federal immunity clause. Immunity from prosecution is generally available only to specific groups essential to the functioning of the legal system—e.g., judges and prosecutors. It is incompatible with the basic philosophy of our legal system. Such immunity encourages frivolous and fabricated accusations. I would go further and recommend that states that include the immunity provision should not be entitled to federal funding.

- Drop the clause mandating the re-

porting of child abuse. In practice, it has resulted in the reporting of the most frivolous and absurd accusations by two- and three-year-olds, vengeful former spouses, hysterical mothers of nursery school children, and severely disturbed women against their elderly fathers. Highly skilled examiners, professionals who are extremely knowledgeable about sex abuse, examiners who know quite well that the accusation is false, are required by law to report the abuse to individuals who they often know to be overzealous, inexperienced and even incompetent. Yet they face criminal charges if they do not report these accusations.

- End federal funding to states in which suspected individuals are deprived of due-process protections.—Prosecutors typically use their own experts to evaluate the children but are allowed to prevent defense experts from evaluating them. The accused, then, is deprived of a fair trial, a right guaranteed to him by the U.S. Constitution.

- Provide funding for programs to assist those who are falsely accused, as well as children who have been victimized by being used as vehicles for a false accusation. Such programs could be combined with existing child abuse and child neglect programs.

- Require investigatory agencies at all levels to routinely notify and invite for voluntary interviews every individual accused of child abuse or neglect. (These suspects, of course, must first be informed of their legal rights.) The failure to routinely extend such invitations should deprive the agency of funding.

- Require legal representation for children who may be victims of embroilment in false accusations.

The New Hysteria

These recommendations sound strong. But from my perspective, the U.S. appears to be witnessing its third great wave of hysteria. The first, the Salem Witch Trials, in 1692, lasted only a few months. Nineteen people were hanged before it became apparent that the accusations were suspect. In the 1950s, at the time of the McCarthy hearings, hysteria over the communist threat resulted in the destruction of many careers. Our current hysteria, which began in the early 1980s, is by far the worst with regard to the number of lives that have been destroyed and families that have disintegrated. There is no question that most efforts at rectification will prove futile unless the Mondale Act modifications described here are implemented.

Dr. Gardner, a clinical professor of child psychiatry at Columbia University, is an expert on the sexual abuse of children.

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02/23/93

RM:

This handwritten note was given to me by John Podesta with only the small folded paper, attached, as background.

I called Harbor View Hospital for the address. (apparently this lady was on her way to see the President on his trip to Seattle on Monday, 02/22 and had an accident.)

Betty Joyce Merkel
Harbor View Hospital
Rm 6 North 13
325 Ninth (just ninth, not street/avenue)
Seattle, WA 98104

This was federal expressed this evening, authorization given by Room 1.

sewagner.

I did call Nancy Hernreich before dispatching this note, since the hospital had this lady listed at 'Betty Joyce Merkel and the President's note addressed her as 'Joyce'. I asked if she wanted it back to double check on how to address this lady. She said she had not seen this note, but to let it go as it is.



THE PRESIDENT

2/22/93

Dear Joyce

I'm so sorry you were
hurt today. After working so
hard for me for so long it was
a shame for this to happen, especially
today. Get well soon — take a lot
of care with the healing — I'll see you on
my next trip Sincerely, Bill Clinton

Ray & Summer

Joyce Merkel

- broke knee on
way to Seattle
Harbor View Hosp.

- worked on campaign
for a year
- note or call?

THE WHITE HOUSE
WASHINGTON

DATE: 02/23/93

NOTE FOR: MARK GEARAN

The President has reviewed the attached, and it is forwarded to you
for your:

Information	☒
Action	☐ XXX

Thank you.

JOHN D. PODESTA
Assistant to the President
and Staff Secretary
(x2702)

cc:

To God Casny

Q: shw we
do let us to
other Gods?

B



THE WHITE HOUSE

WASHINGTON

2/23

Dear Bob -

Thanks so much for
your fine statement
after last Wednesday's
speech to Congress. I
really appreciate it.

Sincerely

Bob

The Honorable Robert P. Casey
Governor of Pennsylvania
Harrisburg, Pennsylvania 17120

THE PRESIDENT HAS SEEN
2/23/93

THE WHITE HOUSE
WASHINGTON

93 FEB 22 P
93 FEB 22 P4:23

February 20, 1993

MEMORANDUM FOR THE PRESIDENT

FROM: Mark D. Gearan 
SUBJECT: Governor Casey

I thought you might be interested in reading the attached statement issued by Governor Casey, following your address to the Joint Session of Congress.

attachment

**STATEMENT BY GOVERNOR ROBERT P. CASEY
February 18, 1993**

In his speech last night, President Clinton offered a plan for economic recovery and deficit reduction that was a bold and dramatic change from the economic and fiscal policies of the last 12 years. The plan would jump-start the economy with infrastructure investment, and tax credits for small business and businesses which target investment designed to spur economic growth.

The President's economic program strongly parallels our Pennsylvania programs for technology assistance to business, infrastructure investment, voluntary citizen service, youth apprenticeship programs, enterprise zone investment and strong financial support for children's programs like immunization and the Women, Infants and Children (WIC) nutritional program.

The plan would reduce the deficit by sharply reducing spending in over 100 areas of the national government. The tax proposals place the major burden for new revenues on those best able to afford it, while minimizing the impact on the middle class and the poor. The new jobs created by the proposal are designed to raise the income levels of middle class Americans; the expansion of the earned income tax credit will help working families. In fact, the biggest winners in the plan seem to be families with children.

We have not yet seen all the details of the plan. As these become available, further questions may arise. But as described last night, while each of us can find things in the plan we disagree with, the overall plan seems balanced and fair. When compared to the alternative of doing nothing and simply continuing present policies, which would only see the deficit continue to soar and the country suffer even further, the urgency of enacting the President's plan is compelling. He spoke with confidence and passion about the national interest, and all of us must remember that the national interest of our country is at stake here. Critics have the heavy burden of offering specific spending reductions or alternative tax measures in place of those in the President's plan with which they disagree. Anything short of that will be seen by the American people as narrow, partisan posturing of a kind which has already brought on the deep economic crisis in which we now find ourselves.

I believe the President offered a bold, new plan for economic growth and deficit reduction which is designed to get the country back on its feet again.

x x x

THE WHITE HOUSE
WASHINGTON

DATE: 02/23/93

NOTE FOR: BERNIE NUSSBAUM

The President has reviewed the attached, and it is forwarded to you
for your:

Information ☒ XXX

Action ☐

Thank you.

JOHN D. PODESTA
Assistant to the President
and Staff Secretary
(x2702)

cc:



THE WHITE HOUSE

WASHINGTON

2/23

Dear Judge Zobel —

You letter pleased and
impressed me deeply, as did
our visit.

I am grateful for your
willingness to consider the
appointment and hope our
paths will cross again —

Sincerely
R. M. Clinton

United States District Court
District of Massachusetts
Post Office and Courthouse Building
Boston, Massachusetts 02109

THE PRESIDENT HAS SEEN
02.23.93

Rya W. Zobel
District Judge

February 16, 1993

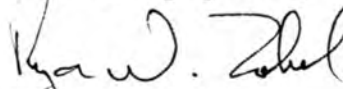
The Honorable William J. Clinton
President of the United States
The White House
Washington, DC 20500

Dear Mr. President:

The call to the country's service can take many forms. Sometimes, if I may paraphrase Milton, one also serves who only stands and waits. In these times, being asked to serve even by waiting is an honor, and I thank you for having conferred it upon me.

I wish you and your Attorney General-designate -- indeed, your entire administration -- success, wisdom, and justice in the years to come.

Sincerely yours,



RYA W. ZOBEL
United States District Judge

THE WHITE HOUSE
WASHINGTON

DATE: 02/23/93

NOTE FOR: MACK MCLARTY
HOWARD PASTER

The President has reviewed the attached, and it is forwarded to you
for your:

Information ☒

Action ☐

Thank you.

JOHN D. PODESTA
Assistant to the President
and Staff Secretary
(x2702)

cc:

THE WHITE HOUSE
WASHINGTON

THE PRESIDENT HAS SEEN

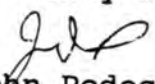
023.93

February 23, 1993

Mr. President,

Attached is a memo from Tony Lake and Howard Paster together with a response to Chairman Rostenkowski's letter our MFN policy for China.

We circulated the Rostenkowski letter and proposed response to Mickey Kantor and Bob Rubin as well. They have no objection.


John Podesta

THE WHITE HOUSE
WASHINGTON

February 22, 1993

THE PRESIDENT HAS SEEN
0370

02-23-93

93 FEB 22 P8:22

ACTION

MEMORANDUM FOR THE PRESIDENT

FROM: ANTHONY LAKE *RL*
HOWARD PASTER *HP*

SUBJECT: Proposed Response to Chairman Rostenkowski
Regarding Policy on Most Favored Nation Status
for China

Purpose

To respond to Chairman Rostenkowski's concerns about our policy toward China.

Background

In his letter, Rostenkowski states that Congresswoman Pelosi and Senate Majority Leader Mitchell are currently crafting freestanding legislation that would attach specific conditions on MFN. We have not yet seen copies of the bills, but have heard that the legislation could be introduced in early March.

While the Administration's policy on MFN is under study, your public statements are clear and have been used in the reply to Rostenkowski. U.S. agencies are actively monitoring agreements signed with the Chinese in key areas over the past year. In particular, USTR is actively monitoring implementation of the market access and intellectual property rights agreements.

RECOMMENDATION

That you sign the letter to Chairman Rostenkowski at Tab A.

Attachments

Tab A Proposed Response to Chairman Rostenkowski
Tab B Incoming Correspondence

cc: Vice President
Chief of Staff

THE WHITE HOUSE

WASHINGTON

February 23, 1993

Dear Mr. Chairman:

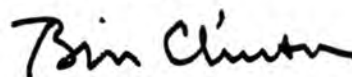
Thank you for your letter on Most Favored Nation trade status for China which I read with great interest. We are in the midst of our review of policy toward China and your comments were especially useful.

I share your view that we need to consider well before June 3 how best to approach the renewal of MFN to China. We must work for improvements in human rights, nonproliferation, and market access. I believe we can achieve progress in these areas with a policy that does not isolate China but rather helps to promote a market-oriented and democratic society.

The recent release of political prisoners is indication that there may be opportunities for some further improvements. I would welcome your thoughts and advice over the coming weeks on how best to address the issue of MFN and hope you will keep in touch on this important issue.

As always, it is good to hear from you.

Sincerely,

A handwritten signature in black ink, appearing to read "Bill Clinton". The signature is fluid and cursive, with a long horizontal stroke at the end.

The Honorable Dan Rostenkowski
Chairman
Committee on Ways and Means
House of Representatives
Washington, D.C. 20515

SAMI M. GIBBONS, FLORIDA	BILL ARCHER, TEXAS
J. PICKLE, TEXAS	PHILIP M. CRANE, ILLINOIS
CHARLES B. RANGEL, NEW YORK	BILL THOMAS, CALIFORNIA
FORTNEY PETE STARK, CALIFORNIA	E. CLAY SHAW, JR., FLORIDA
ANDY JACOBS, JR., INDIANA	DON SUNDQUIST, TENNESSEE
HAROLD E. FORD, TENNESSEE	NANCY L. JOHNSON, CONNECTICUT
ROBERT T. MATSUI, CALIFORNIA	JIM BUNNING, KENTUCKY
BARBARA B. KENNELLY, CONNECTICUT	FRED GRANDY, IOWA
WILLIAM J. COYNE, PENNSYLVANIA	AMO HOUGHTON, NEW YORK
MICHAEL A. ANDREWS, TEXAS	WALLY HERGER, CALIFORNIA
SANDER M. LEVIN, MICHIGAN	JIM MCCREERY, LOUISIANA
BENJAMIN L. CARDIN, MARYLAND	MEL HANCOCK, MISSOURI
JIM McDERMOTT, WASHINGTON	RICK SANTORUM, PENNSYLVANIA
GERALD D. KLECZKA, WISCONSIN	
JOHN LEWIS, GEORGIA	
L.F. PAYNE, VIRGINIA	
RICHARD E. NEAL, MASSACHUSETTS	
PETER HOAGLAND, NEBRASKA	
MICHAEL R. McMULTRY, NEW YORK	
MIKE KOPETSKI, OREGON	
WILLIAM J. JEFFERSON, LOUISIANA	
BILL K. BREWSTER, OKLAHOMA	
MEL REYNOLDS, ILLINOIS	

COMMITTEE ON WAYS AND MEANS

U.S. HOUSE OF REPRESENTATIVES
WASHINGTON, DC 20515-6348

February 4, 1993

JANICE MAYS, CHIEF COUNSEL AND STAFF DIRECTOR

PHILLIP D. MOSELEY, MINORITY CHIEF OF STAFF

MEMORANDUM

TO: President Bill Clinton

FROM: Dan Rostenkowski

RE: Policy on most-favored-nation (MFN) status for China

As I am sure you are aware, U.S. policy on trade with the People's Republic of China (PRC) has been among the thorniest and most controversial trade matters the Ways and Means Committee has faced in recent years. Judging from discussions I have already had with U.S. business representatives and with others interested in this issue, MFN for China will again become a lightning rod for impassioned legislative activity during the 103rd Congress. I, therefore, thought it wise to put my views on this matter in writing.

As you know, technically, the extension of China's MFN status does not come up until June 3, at which time you are required to make a decision on whether to give the PRC a 12-month extension of this preferential trade status. The current extension is good through July 3; however, notification of the extension must be made at least 30 days prior to expiration.

In practice, much will be done in Congress and much could be done in the Executive branch well in advance of the actual expiration of the extension. There is already significant Congressional movement toward formally conditioning the extension of MFN for China on Beijing's meeting codified conditions on human rights, trade, and weapons proliferation policies.

Specifically, Congresswoman Nancy Pelosi (D-CA) and Senate Majority Leader George Mitchell (D-ME) are crafting legislation that would specify conditions the President would have to consider in determining whether China deserves MFN for another year. I understand that you have had conversations with Congresswoman Pelosi regarding her plans on this matter. You are no doubt aware

Memorandum
February 4, 1993
Page 2

then that she is one among many who fear that your position on China's trading status has grown more conciliatory since the election in November.

Many of those who have supported conditional China-MFN bills in the past are likely to be willing to force your hand on this matter by pushing for passage of a bill this year. Keep in mind that during the 102nd Congress alone, two conditional MFN bills passed both the House and Senate by comfortable margins: (1) H.R. 2212 passed the House initially by a vote of 313 to 112 and the Senate by a vote of 55 to 44; and (2) H.R. 5318 passed the House initially by a vote of 339 to 62 and the Senate by voice vote. In both instances, I joined with a sufficient number of House colleagues to override the President's veto, but the Senate fell several votes short of an override.

Although a number of other Democrats, who supported the Pelosi bill in the past, and I would be willing to follow your lead on this issue, this may well be offset by a swing of Republican votes, who had supported President Bush but now would support a tougher stance on China. In light of this, I believe that you will be facing a potentially hostile Congress toward preserving China's MFN status by this summer, unless you take some rather aggressive steps in the months leading up to your June 3 notification.

In my judgment, you must use the next several months to demonstrate to the Chinese Government, the Congress, and the American people, that you are not willing to accept business as usual in China as it pertains to the important issues of human rights, weapons proliferation, and trade. The Chinese Government must be made to understand that they must take significant and tangible steps before June 3 in these areas in order for you to advocate, with credibility, continuing China's MFN status.

Furthermore, because they have so much at stake in this issue, you should strongly encourage the American business community to work with you to pressure the Chinese Government to make tangible progress in addressing these concerns. The last thing in the world U.S. companies want to see is the signing into law of legislation that would circumscribe the U.S.-China trade relationship. Maintaining close commercial ties with China not only means a great deal to those U.S. firms that source from this Asian nation, but also to those interested in selling to China and even investing in this market.

Memorandum
February 4, 1993
Page 3

X I, therefore, think it essential that business be co-opted into any and all efforts made by your Administration to persuade the Chinese Government to release political dissidents; refrain from illegal trading practices, such as transshipment to avoid textile quotas; and cease transfers of weapons and weapons technology to terrorist states, such as Syria and Iran.

In conclusion, I think you are in a strong position to effectuate change in China's policies. We have already seen evidence in recent months, due largely to apprehension in China about the direction that your Administration may take in our bilateral relationship, that the Chinese Government is willing to take some positive steps in the areas of trade and human rights. On trade, for example, in October of last year, Beijing agreed to a Memorandum of Understanding that settled a U.S. Section 301 investigation into China's failure to provide U.S. firms with fair access to its market. On human rights, The New York Times reported this week that Beijing has announced the release of two prominent political prisoners before the completion of their sentences.

I am convinced that China is likely to do even more if you send a clear and direct message to Beijing that MFN extension in July will come only in exchange for China's demonstrating significant progress on human rights, trade, and weapons proliferation issues.



THE WHITE HOUSE
WASHINGTON

February 23, 1993

Dean and Angie Cox
10327 U. S. 250 North
Milan, Ohio 44846

Dear Dean and Angie:

Hillary and I were so saddened to learn of Joshua's death. While he was here he brightened your days and we know he will be missed.

We know how much he wanted to attend the Faces of Hope luncheon and we would have loved to have met him.

Please take hope in knowing that the love and support of your friends and family will comfort and sustain you during this difficult period.

You are in our prayers.

Sincerely,

Bill Clinton

THE WHITE HOUSE
WASHINGTON

February 23, 1993

The Honorable Jesse Brown
Secretary of Veterans Affairs
6743 Kirk Lane
Warrenton, Virginia 22186

Dear Jesse:

I want you to know how saddened I was to learn
of the death of your father.

I know that the love and support of your family
will sustain you during this difficult time.

Hillary and I will be thinking of you. Please
let me know if we can help.

Sincerely,

Rin

THE WHITE HOUSE
WASHINGTON

Chron
2/23/93

DATE: 2/23/93

TO: Trey Schroeder

FROM: **JOHN D. PODESTA**
Assistant to the President and
Staff Secretary

For appropriate handling.

cc: Marcia Hale

CC: Marcial
Hale

—



The American Legion

DEPARTMENT OF TEXAS

P. O. BOX 789
AUSTIN, TEXAS 78767

February 17, 1993

Honorable William Jefferson Clinton
President of the United States
1600 Pennsylvania Avenue
Washington D.C.

Dear Mr. President:

Just a short note to let you know everything looks good for the convention here in El Paso, Texas in July. Enclosed is the latest letter I have received from Mexico.

I am assuming that your middle name is after President Jefferson, and if so, I've included an article showing he too, cut the budget.

I'll be in Washington D.C. with The American Legion Legislative Conference on Saturday, February 20th until Wednesday, February 24th, and I will try to meet with Secretary Jerry Brown or Hershel Gober, as to our concerns, and an update on the July Convention in El Paso.

Good luck, and my prayers are with you as you grasp firm the reigns of leadership over our great Nation.

Sincerely,

Ronald P. McCluskey
Ronald P. McCluskey
Department Commander

RPM/bac
Enclosures: as

93 FEB 23 AIO: 28

*to Marsha
Scott
for apppro.
handelling?
RPM*



PRESIDENCIA DE LA REPUBLICA

THE AMERICAN LEGION
RECEIVED

FEB - 8 1993

DEPARTMENT OF TEXAS

10.73 59697

Palacio Nacional, 19 de enero de 1993.

Señor

RONALD P. MCCLUSKEY

Comandante del Departamento
de Texas de la Legión Americana
Presente.

Por este conducto me permito comunicar a usted que el señor licenciado Carlos Salinas de Gortari, Presidente Constitucional de los Estados Unidos Mexicanos, quedó enterado del contenido de su escrito de fecha 9 del pasado mes de diciembre, mediante el cual le agradece la audiencia que le concedió recientemente, en la que le formuló una invitación para que asista a una convención que llevarán a cabo en fecha próxima en El Paso, Texas.

Sin otro particular, me es grato presentarle las seguridades de mi más distinguida consideración.

SUFRAGIO EFECTIVO. NO REELECCION.
EL SECRETARIO PARTICULAR



ANDRES MASSIEU BERLANGA

MS.RFM/3es



THIRD PRESIDENT 1801-1809

IN THE THICK of party conflict in 1800, Thomas Jefferson wrote in a private letter, "I have sworn upon the altar of God eternal hostility against every form of tyranny over the mind of man."

This powerful advocate of liberty was born in 1743 in Albemarle County, Virginia, inheriting from his father, a planter and surveyor, some 5,000 acres of land, and from his mother, a Randolph, high social standing. He studied at the College of William and Mary, then read law. In 1772 he married Martha Wayles Skelton, a widow, and took her to live in his partly constructed mountaintop home, Monticello.

Freckled and sandy-haired, rather tall and awkward, Jefferson was eloquent as a correspondent, but he was no public speaker. In the Virginia House of Burgesses and the Continental Congress, he contributed his pen rather than his voice to the patriot cause. As the "silent member" of the Congress, Jefferson, at 33, drafted the Declaration of Independence. In years following he labored to make its words a reality in Virginia. Most notably, he wrote a bill establishing religious freedom, enacted in 1786.

Jefferson succeeded Benjamin Franklin as minister to France in 1785. His sympathy for the French Revolution led him into conflict with Alexander Hamilton when Jefferson was Secretary of State in President Washington's Cabinet. He resigned in 1793.

Sharp political conflict developed, and two separate parties, the Federalists and the Democratic-Republicans, began to form. Jefferson gradually assumed leadership of the Republicans, who sympathized with the revolutionary cause in France. Attacking Federalist policies, he opposed a strong centralized government and championed the rights of states.

As a reluctant candidate for President in 1796, Jefferson came within three votes of election. Through a flaw in the Constitution, he became Vice President, although an opponent of President Adams. In 1800 the defect caused a more serious problem. Republican electors, attempting to name both a President and a Vice President from their own party, cast a tie vote between Jefferson and Aaron Burr. The House of Representatives settled the tie. Hamilton, disliking both Jefferson and Burr, nevertheless urged Jefferson's election.

~~Jefferson's second term~~ the crises in France had passed. He slashed Army and Navy expenditures, cut the budget, eliminated the tax on whiskey so unpopular in the West, yet ~~Jefferson's second term~~ He also sent a naval squadron to fight the Barbary pirates, harassing American commerce in the Mediterranean. Further, although the Constitution made no provision for the acquisition of new land, Jefferson suppressed his qualms over constitutionality when he had the opportunity to acquire the Louisiana Territory from Napoleon in 1803.

During Jefferson's second term, he was increasingly preoccupied with keeping the Nation from involvement in the Napoleonic wars, though both England and France interfered with the neutral rights of American merchantmen. Jefferson's attempted solution, an embargo upon American shipping, worked badly and was unpopular.

Jefferson retired to Monticello to ponder such projects as his grand designs for the University of Virginia. A French nobleman observed that he had placed his house and his mind "on an elevated situation, from which he might contemplate the universe." He died on July 4, 1826.

Jefferson gained the immense Louisiana Territory for the infant Republic.



THIRD PRESIDENT 1801-1809

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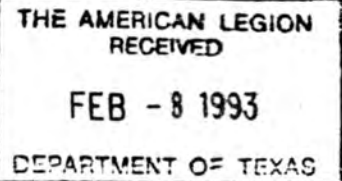
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PRESIDENCIA DE LA REPUBLICA



10./3 **59697**
Palacio Nacional, 19 de enero de 1993.

Señor
RONALD P. MC CLUSKEY
Comandante del Departamento
de Texas de la Legión Americana
Presente.

Por este conducto me permito comunicar a usted que el señor licenciado Carlos Salinas de Gortari, Presidente Constitucional de los Estados Unidos Mexicanos, quedó enterado del contenido de su escrito de fecha 9 del pasado mes de diciembre, mediante el cual le agradece la audiencia que le concedió recientemente, en la que le formuló una invitación para que asista a una convención que llevarán a cabo en fecha próxima en El Paso, Texas.

Sin otro particular, me es grato presentarle las seguridades de mi más distinguida consideración.

SUFRAGIO EFECTIVO. NO REELECCION.
EL SECRETARIO PARTICULAR



ANDRES MASSIEU BERLANGA

MS.RFM/tes

RESUME

Name: Ronald P. McCluskey

Address: 4701 Tropicana, El Paso, Texas 79924

Telephone Number: (915) 779-3638 (office); (915) 751-6990 (home)

Social Security Number: 460-66-9202

Marital Status: Divorced, one child.

Present Position and Description of Duties:

President of the law firm of McCluskey and Associates of El Paso, Texas and Chief Counsel and Executive Director of the El Paso Employers' Association, for labor law purposes. Prime Counsel for public sector employee grievances and lawsuits.

Past Position and Description of Duties:

Military service, U.S. Army 101st. Airborne 1962-65. Honorable Discharge Rand E-5. Staff Director and Counsel to the United States Congress, House of Representatives, Subcommittee on Compensation and Employee Benefits 1975-Feb., 1981. Duties included organizing the Subcommittee, advise and assist the chairman and all Members of Congress on legal matters arising from current and proposed laws pertinent to the Subcommittee's jurisdiction (Employee, Retirement, Pay, Health and Life Ins., and Classification).

Member of State Bar of Texas, Washington, D. C., American Bar Association, and the Texas Criminal Defense Lawyers Association.

Admitted to practice before the United States Supreme Court, the United States Military Court of Appeals and the Army Court of Military Review, United States Court of Appeals for the District of Columbia Circuit.

Member of the President's "Working Committee on Civil Service Reform"(1978).

Assistant Counsel to the United States Congress, House of Representatives, Subcommittee on Census and Statistics, April-June, 1974.

Member of Civil Service Commission for the City of El Paso, Texas, (1984).

Member of the Employers Advisory Council to the Texas Industrial Accident Board.

Education:

High School: Portland High, Portland Maine, Graduated 1962;
Activities: Football and Track

College: University of Texas at El Paso, graduated Top
Ten Seniors with B.A. In January 1970.
Activities: Student Body President 1968-69
President, Phi Kappa Tau Fraternity
1967-68
Vice President, Texas Intercollegiate
Student Associations (TISA) 1968
Member of Who's Who in American
Universities and Colleges 1967-70.

Law School: One year of Law School at University of San
Diego, California 1970-71
Graduated from Texas Tech University School of
Law, Lubbock, Texas, receiving J.D. in December, 1973
Activities: Appointed Special Administrative
Assistant to President of the Law
Student Division of the American Bar
Association, 1971-72. Member and
Vice-Justice of Phi Alpha Delta (PAD),
International Legal fraternity 1971-73

Graduate Work: University of Miami, Center of Law and Economics
April-May 1977, Health Economics and the Law
The George Washington University, 1978-79;
Legislative Affairs, the Politics of Legislation
(12 hrs). Georgetown University, Public Issues
Institute for professional legislative staff,
January, 1979. Present member of National Health
Forum, Washington, D.C.

REFERENCES AVAILABLE UPON REQUEST

Chron

2/23

President Clinton

THE PRESIDENT HAS SEEN
2/23/93

~~Personal & Confidential~~

Margia Heller
agrees w/ Howard
consider this —
Bj.

DETERMINED TO BE AN ADMINISTRATIVE
MARKING INITIALS: Mr DATE: 2/11/12
2018-0662-S

Shelia Davis Lawrence

Dear President Clinton,

21 Feb 93

Enclosed is information on a program in San Diego that I recommended to the White House scheduling office for your California trip. They decided to go to Santa Monica instead but I hope you will consider it for a future trip. It is a very interesting and effective program. I think it would be a great event for you to do at some time.

You might want to let scheduling know that LA is not the best place to call to get information on San Diego, as they have been doing. Since it is the 6th largest city in the country with almost 3 million people, they should contact us directly. You wouldn't call New York to get the lay of the political land in Boston, would you?

Best wishes for your success,
Shelia

THE WHITE HOUSE
WASHINGTON

DATE: 02/23/93

NOTE FOR: MACK MCLARTY

The President has reviewed the attached, and it is forwarded to you
for your:

Information ☒ X

Action ☐

Thank you.

JOHN D. PODESTA
Assistant to the President
and Staff Secretary
(x2702)

cc:

THE PRESIDENT HAS SEEN
THE WHITE HOUSE
WASHINGTON

February 23, 1993

MR. PRESIDENT:

Mack asked that the attached
be forwarded to you.



John Podesta

cc: D.Watkins
B.Nussbaum
R.Emanuel

2/23/93

Mack
DeSe

FEBRUARY 22, 1993

MEMORANDUM FOR JACK MCLARTY
MARCIA HALE
RAHM EMANUEL

FROM: Howard Paster *HP*
SUBJECT: Senator George Mitchell

Senator Mitchell called to discuss the feasibility of having the President travel to Maine for the Senator's major in-state fundraising event scheduled for Saturday June 19.

- 1.) Is that date available?
- 2.) Would the President want to do this? (The Senator says he would need the President in Portland for as few as two hours, stopping by a moderate priced event and spending additional time at a more costly event.)
- 3.) Do we know how to price the reimbursement for political travel?
- 4.) Can the President travel on a smaller aircraft for a quick political trip?

Obviously, I would like to accommodate the Majority Leader without forcing him to incur more expenses than necessary. May I get some immediate guidance on how matters like this are to be handled? I have promised to let the Senator know in a day or two if this is date is available, and then we can go from there.

Thanks.

THE WHITE HOUSE
WASHINGTON

DATE: 2/23/93

NOTE FOR: Carol Rasco

The President has reviewed the attached, and it is forwarded to you for your:

Information ☐

Action ☒

You may want to call this gentleman instead of sending a Presidential letter.

Thank you.

JOHN D. PODESTA
Assistant to the President
and Staff Secretary
(x2702)

cc:

THE PRESIDENT HAS SEEN

2/23/93

Mr. Pres-

As requested



Dartmouth College HANOVER • NEW HAMPSHIRE • 03755-3547

Department of Education • 6103 Silsby Hall • TELEPHONE: (603) 646-3462

Chasno

use on Policy
and on Unit

very interesting B

January 22, 1993

William Clinton
President of the United States
1600 Pennsylvania Avenue
Washington, D.C.

Dear Mr. President,

Your personal quotes about me as carried in the Inaugural Edition of the Wall Street Journal (1/20/93) are indeed flattering. Not being a regular reader the edition was brought to my attention by students who called it awesome whereas I prefer to think of it as mind-blowing. I only hope such distinction will not be an embarrassment for you as there is no question in my mind that many educators are better qualified. That is not false modesty. I do thank you most kindly and as I have indicated on previous occasions I wish you well and if there is anything I can do to be of "service" just call. I am not seeking a job, nor pay as I owe a great deal to the nation and can never fully repay my obligation other than through service. Thus if there is a study, a commission, a task force or a committee that is interested or dedicated to aiding the urban youth of America especially in relation to the massive obstacles to formal learning I would happily serve. Again, I am a lifelong teacher, a pragmatist committed to educational reforms believing that schools and school systems can change, must change as must the public's attitude and opinion that the schools have failed. I doubt if I can live up to such a billing as you have presented but I will try, and try again, and I deeply appreciate and am humbled by your words.

Most cordially,


Robert Binswanger

will serve as White House
 raves about how helpful Mr.
 out how much he likes the
 sonally.

Mr. Gore has taken pains to
 with Mrs. Clinton. During the
 ported to have been angered
 to defend her husband vigor-
 presidential debate. These
 Mr. Gore frequently lets it be
 ferred with Mrs. Clinton by
 ve talked with Hillary about

self-effacing Al Gore would
 ble. His 1988 campaign for
 ed in some minds an image
 ffy. Some of his Senate col-
 e at what they regarded as
 ambition; he wasn't among
 bers of the chamber, and
 Clinton would be making a
 Mr. Gore into his point man
 ons.

the past few months indi-
 hasn't exactly undergone a
 he at least is smart enough
 do to get along with the ad-
 venters, and is disciplined

is new job, Mr. Gore has
 upants of the office, and he
 ndale and Dan Quayle. Mr.
 y be something of a role

Continued on Page R6



AL GORE

JOE CIARDIELLO

on in miniature golf.

ers do you most admire,

hev, because he had the
 forces of change which
 ultimately destroy him;
 reasons of character
 hope he'll shed some of
 (c) ideas.

otland [prime minister of
 strong and clear vision
 world to respond to the
 isis. Carlos Salinas de
 exico, for proving that a
 duate from the South can
 resident.

levision program?

ou read this year? What
 le) that you have ever
 important to you? Why?
 ons of Marcus Aurelius,
 erson who believed in
 od life but was also a
 anding figure.

re of Scientific
 Kuhn, because I read it
 clear description of how
 occur made a big dif-
 on of many other books
 of those could have just
 to this question.

ou seen in the last

CLINTON: Two
 GORE: Twenty

What do you
 CLINTON: Golf
 GORE: Running

What car or
 CLINTON: 1967
 GORE: Plymouth Voyager van, Mercury Sable
 sedan.

Do you know your IQ? If you do, what is it?
 CLINTON: No.
 GORE: No.

If you weren't in politics, what field would you
 like to be in right now?
 CLINTON: Run international business or make TV
 documentaries.
 GORE: Writer.

Other than your spouse, who are your two clos-
 est personal friends?
 CLINTON: Carolyn Staley, who used to live next
 door when I was a kid; and Maurice Smith, who
 heads the Highway Department [in Arkansas].
 GORE: My father and Frank Hunger (my brother-
 in-law).

What scientist or scientific discovery most
 changed society for the better during your life-
 time?
 CLINTON: Jonas Salk.
 GORE: The computer.

children can learn and that learning is a function
 more of effort than IQ. Also, Robert
 Bingswanger, principal of Boston Latin.
 GORE: Neil Rudenstine, president of Harvard
 University.

What was the most successful economic decision
 America made since World War II? What econom-
 ic decision would you like to rescind?

CLINTON: [On the first question] The GI Bill. [On
 the second question] The 1981 tax bill, because it
 unleashed a flood of red ink on the economy and
 began a period of speculation unrelated to the
 production of goods and services.

GORE: [First question] The GI Bill. [Second ques-
 tion] Trickle-down economics.

What event before 1900 helped shape your vision
 of American society? Your view of America's
 place in the world? What more recent event?

CLINTON: [On the first two questions] None,
 because most of the things the U.S. did before
 1900 were totally inconsistent with the global role
 I'd like us to play, or were narrow disputes over
 territory. [On the third question] America's 4½-
 decade stance against totalitarianism and sup-
 port for freedom.

GORE: [First question] The Civil War. [Second
 question] The Revolutionary War. [Third ques-
 tion] The U.N. Conference on Environment and
 Development conducted in Rio de Janeiro.

What individual has had the most influence on
 your life?

CLINTON: Mother.
 GORE: My wife, Tipper.

Donaldson, Lufkin & Jenrette

Donaldson, Lufkin & Jenrette, Inc. • 140 Broadway, New York, N.Y. 10005-1285 • (212) 504-3000

FOL

John S. Chalsty
President & Chief Executive Officer
(212) 504-4740
Fax (212) 504-4009

January 25, 1993

President Bill Clinton
The White House
Washington, D.C.

Dear President Clinton:

Having had the opportunity to talk with you prior to your inauguration I wanted to wait until after January 20 before writing this letter.

I wish to express my profound and heartfelt best wishes to you at the beginning of your Presidency. It has been a privilege to know you, and we all embark with you on this grand adventure in hope and anticipation. My very best to you and Mrs. Clinton.

enc I am enclosing a New York Times article of January 4 quoting Elliott Platt, DLJ's Director of Economic Research. As you can see we are "officially" optimistic about interest rates and the possibility of deficit reduction. Finally, I have taken the liberty of enclosing a transcript of my brief comments to you as part of the Renaissance gathering. They were delivered - and now sent - with great sincerity.

Very truly yours,

John

The recent Presidential election presented many of us with a painful choice between an old friend for whom we felt genuine affection and gratitude, and an extraordinarily attractive candidate who held out to us — frustrated as we were by years of rancor, gridlock and even apathy — the exciting prospect that we could indeed "do better." As an immigrant, I have an abiding respect for the cumulative judgment of the American people, the American voter, and — once again — we have elected the candidate who deserved to be elected.

In my view, voters made that decision thru the intelligent exercise of their right to be intolerant of irresponsible and negative campaigning and to demand a positive program for governance.

Bill Clinton gave us that, and we rewarded him with our trust. We saw in him a man of courage and intelligence; we knew that he had won his party's nomination without accumulating obligations to special interests, to the radicals of the right and left; we observed that he had the special opportunity of working with a Congress of his own party. Most of all we came to trust his judgment.

So, in addition to our trust, we also have burdened him with our hope — him, not his advisers, not the leadership of the Democratic party, not the Congress. So, with the greatest respect, Sir, my advice is simple to offer, appropriate to expect, but oh so difficult to implement.

Be your own man. Surround yourself, as you are doing, with the best available people, listen to the best advice — but, exercise your own judgment. You are the person we elected to lead us. Be your own man. Then we will expect — and get what we deserve.

John S. Chalsty

12/31/92

The 'Can You Believe It' Outlook for Rates in '93

By JONATHAN FUERBRINGER

Looking into 1993, the surprise is not that some analysts are forecasting a drop in long-term interest rates. The surprise is in their reasons.

Among traders, economists and investors, there is a willingness to believe in themes, like low inflation, and possibilities, like Democrats doing the right fiscal thing, that have not been credible in the past.

This means that some forecasters are including in their outlooks the prospect for what was normally unthinkable: a year of low inflation while the Government works in a credible way to reduce the record Federal budget deficit. With these oil-and-water events coming together, some forecasters see the 30-year

bond interest rate falling under 7 percent, into territory it has not seen in decades. The bond ended 1992 at 7.39 percent.

"This is a little bit of wishful thinking," said Alan Sinai, chief economist at the Boston Company Economic Advisors. "But it is an intriguing wild card for 1993."

Mr. Sinai, a participant in President-elect Bill Clinton's economic teach-in last month, is giving the fall below 7 percent a probability of 20 to 25 percent in his forecast for this year. Just four years ago, when George Bush was elected to succeed Ronald Reagan, Mr. Sinai said he would have given such a forecast of deficit reduction and low inflation no more than a 5 percent probability.

Elliott Platt, the director of economic research at Donaldson, Lufkin

& Jenrette, is even more optimistic, arguing in his main forecast for the year that the Clinton Administration will have enough success in beginning to tame the deficit that the yield on the long bond should get down to 7 percent by midyear. He holds this view, he said, in part because he decided to ask what could go right this year rather than what could go wrong.

Mr. Platt acknowledges that his forecast is not in the mainstream, and Mr. Sinai says he still thinks that the more likely path for the yield on long bonds is ups and downs during the year but little change once 1993 is over. That would be a repeat of 1992.

Still, these themes are touching most forecasts for the year in some way, meaning there is a big change in thinking on Wall Street about infla-

tion and the Democrats. This has already been positive for the market and is part of the reason that the price of the 30-year bond rallied after the election and the yield dropped from the 7.76 percent rate reached on Nov. 6.

But such views can be fragile, and that means the market this year could face a lot of volatility as each word and deed of the Clinton Administration is weighed to see if this unusual confidence is warranted and each inflation report is studied to see if this faith is misplaced. There will also be the test of whether the political gridlock of the last four years will dissolve to cooperation.

Joseph Liro, the chief economist at S. G. Warburg & Company, has the

Continued on Page D5

Continued From First Business Page

inflation theme in his forecast. He is betting that 2.75 percent inflation, as measured by the Consumer Price Index, along with a slowing of the economy from the 3 percent-plus pace at the end of last year, will help pull the yield on the 30-year bond down to 7.20 percent by midyear.

But he suspects that faster economic growth by the end of the year will push the yield back close to where it is today, as a faster economy ignites a fear of higher inflation. And he is not ready to expect that a Democrat in the White House can work out what he calls "ironclad" deficit reduction with the Democrats in Congress.

"I have more confidence in the inflation story than the new Administration," he said.

But traders and investors all over Wall Street still seem to have a lot more confidence in the new Administration than would have been expected. And many seem to have converted to the newest theory about the Clinton Administration.

Just before the election, interest rates rose after a strong summer rally because of fear that a Clinton Administration would try to stimulate the economy, go too far and jack up the Federal budget deficit and get prices rising again.

View Fostered by Clinton

But now there seems to be an accepted wisdom that says that if the economy shows it is growing well enough on its own, the new Administration will apply much less fiscal stimulus. It is a view that Mr. Clinton and his aides have fostered. But the fact that bond market players — who are supposed to be the anti-inflation and deficit vigilantes — are accepting it is a noticeable turn of events on Wall Street.

"This is a very pragmatic Administration driven more by information input than doctrine and dogma," said Mr. Sinai, summing up the view of many when he explained his confidence. "It is an Administration that can change its mind based on information."

A big drop in the yield on the 30-year bond would be quite a change from last year.

While there were sharp ups and downs during 1992 — from the high of



8.10 percent on April 27 to the low of 7.21 percent on Sept. 8 — the yield on the 30-year bond wound up at 7.39 percent at the end of last year, the same yield as the year before despite the two big cuts in interest rates by the Federal Reserve, one just before Christmas 1991 and the other in July. And there has not been much more change over the last three years. The yield on the 30-year bond was 7.97 percent at the end of 1989.

Except for the drop in short-term interest rates last year, which touched 30-year lows in the fall, there was also little change elsewhere along the line of Treasury maturities, except for the two-year note.

3.07 Percent at Year's End

The discount rate on the three-month bill ended the year at 3.07 percent, down from 3.84 percent a year ago but above its 2.58 percent low for the year in early October. The yield on the 10-year note, which fell as low as 6.21 percent on Oct. 5, ended the year at 6.68 percent, 2 basis points, or hundredths of a percentage point, below the 6.70 at the end of 1991. And the yield on the five-year Treasury note, which saw a high of 7.13 percent in March and a low of 5.16 percent in October, ended the year at 6.03 percent, 10 basis points above 1991's close of 5.93 percent.

The basic ingredients of the outlook for 1993 are these:

The economy will continue to grow, but only at a moderate pace. One reason is that companies like I.B.M. and General Motors will still be facing problems of slow sales and too much debt. Cutting costs will mean more layoffs. In addition, individuals will still be trying to pare their debt, which will curb spending. The recessions in Europe and Japan will also curtail growth here as American exporters sell less abroad.

Inflation, as measured by the Consumer Price Index, will stay in the 2 to 3 percent range. Unit labor costs are very low, and the Commodity Research Bureau index is not signaling any bad news on prices.

The Federal Reserve Board will not cut short-term interest rates any

further. But it is also not likely to feel the need to raise them until well into the year.

The new Administration, many of the forecasts assume, will go easy on taming the deficit, beginning with the 1994 fiscal year, which begins Oct. 1.

A Debatable Point

The Administration might decide to reduce the number of 30-year bonds the Treasury sells as a way to lower the cost of borrowing. Whether there would actually be savings by shifting borrowing to shorter maturi-

ties that have lower interest rates is debatable. But a cut in the \$10 billion or so of 30-year bonds that have been sold each quarter recently could help hold prices up and yields down, analysts contend.

These basics, which exclude a successful drive to bring down the deficit, produce forecasts that have the yield of the 30-year bond falling a little — to around 7.25 percent — to ending the year little changed. The real differences are in the pattern for the year. Some forecasts, like Mr. Liro's, are "U" shaped, with the yield falling close to 7 percent on slower growth and low inflation in the first half of the year while rising again at year's end as the economy picks up some speed.

Others are arched, with yields rising early in the year as the bond market confronts the reality of Mr. Clinton as President and the difficulty of getting things done. But as the year progresses, the economy continues to grow only moderately and the inflation story takes deeper root and the yield on the long bond comes down close to 7 percent.

There is more uniformity on short-term interest rates, which are expected to rise slightly. The timing depends on when the Federal Reserve finally decides it has to prove its anti-Federal funds rate.

Together, this produces what traders call a flattening yield curve. That happens when the difference between the yield on the 30-year bond and the 2-year Treasury note narrows. This spread reached a record high of nearly 370 basis points this year but ended the year at 284 basis points, 31 basis points above last year's finish of 254.

Chron

THE WHITE HOUSE
WASHINGTON

DATE: 02/23/93

NOTE FOR:

GEORGE STEPHANOPOULOS
ALEXIS HERMAN
RAHM EMANUEL

The President has reviewed the attached, and it is forwarded to you
for your:

Information ☒

Action ☐

Thank you.

JOHN D. PODESTA
Assistant to the President
and Staff Secretary
(x2702)

cc:

THE WHITE HOUSE

WASHINGTON

February 23, 1993

Dear Congresswoman Ros-Lehtinen:

Thank you for your letter of January 20, regarding your views on U.S. economic assistance to Nicaragua. I share your concern for the development of democratic institutions and respect for human rights in Nicaragua, as well as for the resolution of American citizen property claims.

Our policy goals in Nicaragua include consolidation of democracy and promotion of self-sustaining economic recovery. In particular, we seek to promote human rights and the rule of law, civilian control over the military and police, an end to political violence, and a resolution of outstanding property claims.

In this context, we are undertaking a thorough review of U.S. assistance to Nicaragua. We will be mindful of your views in deciding our policy toward Nicaragua, particularly regarding foreign assistance.

Sincerely,



The Honorable Ileana Ros-Lehtinen
House of Representatives
Washington, D.C. 20515

HELENA ROS-LEHTINEN

18TH DISTRICT, FLORIDA

COMMITTEES:

FOREIGN AFFAIRS

GOVERNMENT OPERATIONS



Congress of the United States
House of Representatives

000140
PLEASE RESPOND TO:

☐ 127 CANNON BUILDING
WASHINGTON, DC 20515-09
(202) 225-3831

☐ DISTRICT OFFICE:
8757 BLUE LAGOON DRIVE
(NW 11TH STREET)
SUITE 240
MIAMI, FL 33126
(305) 262-1800

January 20, 1992

9301882

File
The President
The White House
Washington, D.C. 20500

Dear Mr. President:

Senator Jesse Helms and other have taken a stand opposing 104 million dollars of U.S. assistance from being given to the government of Nicaragua. However, some 54 million dollars was subsequently dispersed. I am writing to once again add my own concern to continued U.S. assistance to Nicaragua unless certain conditions are met by the Nicaraguan government.

I believe that assistance from the U.S. taxpayers to Nicaragua should be conditioned on the implementation of true democratic reforms and respect for human rights, as well as protection of property rights in Nicaragua. I do not believe that, as of yet, there is truly significant progress being made in these areas.

The Nicaraguan government should do more to stop the human rights violations and the growing lawlessness that exists in Nicaragua. There are growing and denouncing allegations of corruption of high government officials. For instance, it has been alleged that deposits of public funds were made into a Canadian bank account for Army Chief Humberto Ortega.

The Sandinistas have gained controlled of the courts, armed forces, police and now of the legislature. Thus, the remaining funds should be held until the Chamorro Administration takes action against human rights violators, resolves property claims and produces real democratic reforms.

Sincerely,

Helena Ros-Lehtinen
Member of Congress

IRL:ae

THE WHITE HOUSE
WASHINGTON

DATE: 2/23



TO:

The V.P.

FROM: JOHN D. PODESTA
Assistant to the President and
Staff Secretary

The attached has been forwarded
to the President.



THE PRESIDENT HAS SEEN
THE WHITE HOUSE
WASHINGTON

February 23, 1993

MR. PRESIDENT:



The attached has also been
sent to Tony Lake and
Leon Panetta.

John Podesta

THE PRESIDENT HAS SEEN

2/23/93

THE WHITE HOUSE

WASHINGTON

93 FEB 22 P8:22

Monday, February 22, 1993

MEMORANDUM FOR THE PRESIDENT

FROM: Howard Paster *HP*
SUBJECT: Senator Robert C. Byrd

The Senator called subsequent to last week's leadership meeting and your speech to the Joint Session to express the view that foreign aid is an area that can take further spending cuts. He feels it is tough to ask citizens in the U.S. to take percentage cuts higher than those taken in foreign programs, and specifically cited the assumption by Israel and Egypt that their money was protected.

I call this to your attention since he wanted it shared with you, as well as to avoid any surprises when you next talk with him.

THE WHITE HOUSE
WASHINGTON

DATE: 2/23/93

NOTE FOR: Alexis Herman

The President has reviewed the attached, and it is forwarded to you
for your:

Information ☒

Action ☐

Thank you.

JOHN D. PODESTA
Assistant to the President
and Staff Secretary
(x2702)

cc:

THE WHITE HOUSE
WASHINGTON

Dear Mr. President:

I was greatly saddened to learn of the heavy loss of life when the ferry Neptune sank en route to Port au Prince. On this sad occasion, Hillary and I would like to extend, on behalf of the American people, our deepest condolences to you and your nation. All the families who lost loved ones in this terrible tragedy have our deepest sympathies.

Sincerely,

Bill Clinton

The Honorable
Jean Bertrand Aristide
President of the Republic of Haiti

THE WHITE HOUSE

WASHINGTON

February 22, 1993 93 FEB 22 PG: 44

ACTION

MEMORANDUM FOR THE PRESIDENT

FROM: ANTHONY LAKE 

SUBJECT: Haiti: Letter of Sympathy on Ferry Disaster

Purpose

To convey sympathy to President Aristide for the heavy loss of life as a result of a maritime disaster February 17.

Background

There are reports from Haiti that approximately 800 passengers and crew drowned early February 17 when a ferry making a domestic run capsized. U.S. Coast Guard vessels are assisting in rescue recovery efforts. Though this disaster has no direct connection to the migrant problem or other policy issues, it will focus new public attention on Haiti and the suffering of the Haitian people.

The State Department has recommended that you send Haitian President Aristide a letter of sympathy, both as a humanitarian gesture and a reiteration of the Administration's broader interest in Haiti. I support that recommendation. A proposed letter is attached at Tab A.

RECOMMENDATION

That you sign the letter at Tab A.

That you authorize public release of the letter.

Approve _____ Disapprove _____

Attachments

Tab A Letter to President Aristide
Tab B Incoming Draft from State

cc: Vice President
Chief of Staff

003916

003916

THE WHITE HOUSE

WASHINGTON

Dear Mr. President:

I was greatly saddened to learn of the heavy loss of life when the ferry Neptune sank en route to Port au Prince. On this sad occasion, Hillary and I would like to extend, on behalf of the American people, our deepest condolences to you and your nation. All the families who lost loved ones in this terrible tragedy have our deepest sympathies.

Sincerely,

The Honorable
Jean Bertrand Aristide
President of the Republic of Haiti

STATE DEPARTMENT RECOMMENDED

DRAFT

Dear Mr. President:

I was greatly saddened to learn of the heavy loss of life when the ferry Neptune sank en route to Port au Prince. On this sad occasion, Hillary and I would like to extend, on behalf of the American people, our deepest condolences to you and your nation. All the families who lost loved ones in this terrible tragedy have our deepest sympathies.

Sincerely,

William J. Clinton

The Honorable
Jean Bertrand Aristide,
President of the Republic of Haiti.

THE WHITE HOUSE
WASHINGTON

DATE: 4/23

NOTE FOR: *Sperling*

The President has reviewed the attached, and it is forwarded to you for your:

Information

☒

Action

☐

Thank you.

JOHN D. PODESTA
Assistant to the President
and Staff Secretary
(x2702)

cc:

THE PRESIDENT HAS SEEN

2/23/93

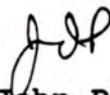
THE WHITE HOUSE
WASHINGTON



February 16, 1993

Mr. President:

Enclosed is the information you
requested concerning distribution
of tax changes.


John Podesta



February 15, 1993

MEMORANDUM TO THE PRESIDENT

FROM: Gene Sperling

SUBJECT: Distribution Tables

Distribution Tables:

You asked for specific facts about how much each income category pays both as a percentage of the overall revenue raised, and as a percentage of their income. As it turned out, these were needed for the chart we were considering, so you have probably seen much of the data. Here is the back-up charts as you requested them. The first one just groups from 0-\$30,000 and \$30,000-to-\$50,000. The second one breaks down the first \$50,000, by categories of \$10,000.

As you can see, those under \$30,000 are basically held harmless. It is worth noting that it would only take another \$4.1 billion -- perfectly placed -- to hold harmless those in the \$30,000 to \$50,000 category. They currently pay \$181 more a year, or \$15 a month or about \$3.50 a week -- though this is certainly not a trivial amount of money to many of the families in this category. Treasury is still finalizing these numbers.

Note: I will get you the capital gains indexing figures first thing in the morning. There is one important fact I need to check about how much our raising the top marginal rates changes all the calculations.

Administration's Revenue Proposals (1)
(Offsets: EITC expansion & increases in LIHEAP & Food Stamps)
(Includes Taxation of Social Security Benefits)
(1994 Income Levels)

Family Economic Income Class (2) (000)	Number of Families (millions)	Tax Change as a Percent of Income (%)	Average Tax Change Per Family (\$)	Total Tax Change	
				Amount (\$B)	Percent Distribution (%)
0 - 30	49.2	0.0	5	0.2	0.4
30 - 50	22.4	0.5	181	4.1	7.0
50 - 75	17.4	0.7	403	7.0	12.0
75 - 100	9.9	0.7	564	5.6	9.6
100 - 200	8.8	0.7	868	7.7	13.1
200 & over	2.4	2.9	14,140	33.7	57.7
Total (3)	110.7	1.0	527	58.4	100.0

Department of the Treasury
Office of Tax Analysis

15-Feb-93

- (1) This table distributes the estimated change in tax liabilities due to the Administration's revenue proposals. Taxation of Social Security benefits and increases in the EITC, LIHEAP, and Food Stamps are included.
- (2) Family Economic Income (FEI) is a broad-based income concept. FEI is constructed by adding to AGI unreported and underreported income; IRA and Keogh deductions; nontaxable transfer payments such as Social Security and AFDC; employer-provided fringe benefits; inside build-up on pensions, IRAs, Keoghs, and life insurance; tax-exempt interest; and imputed rent on owner-occupied housing. Capital gains are computed on an accrual basis, adjusted for inflation to the extent reliable data allow. Inflationary losses of lenders are subtracted and gains of borrowers are added. There is also an adjustment for accelerated depreciation of noncorporate businesses. FEI is shown on a family rather than a tax-return basis. The economic incomes of all members of a family unit are added to arrive at the family's economic income used in the distributions.
- (3) Families with negative incomes are included in the total line but not shown separately.

Administration's Revenue Proposals (1)
(Offsets: EITC expansion & increases in LIHEAP & Food Stamps)
[Includes Taxation of Social Security Benefits]
(1994 Income Levels)

Family Economic Income Class (2) (000)	Number of Families (millions)	Tax Change as a Percent of Income (%)	Average Tax Change Per Family (\$)	Total Tax Change	
				Amount (\$B)	Percent Distribution (%)
0 - 10	14.9	-0.2	(10)	-0.2	-0.3
10 - 20	18.4	0.0	2	0.0	0.1
20 - 30	16.0	0.1	21	0.3	0.6
30 - 50	22.4	0.5	181	4.1	7.0
50 - 75	17.4	0.7	403	7.0	12.0
75 - 100	9.9	0.7	564	5.6	9.6
100 - 200	8.8	0.7	868	7.7	13.1
200 & over	2.4	2.9	14,140	33.7	57.7
Total (3)	110.7	1.0	527	58.4	100.0

Department of the Treasury
Office of Tax Analysis

15-Feb-93

- (1) This table distributes the estimated change in tax liabilities due to the Administration's revenue proposals. Taxation of Social Security benefits and increases in the EITC, LIHEAP, and Food Stamps are included.
- (2) Family Economic Income (FEI) is a broad-based income concept. FEI is constructed by adding to AGI unreported and underreported income; IRA and Keogh deductions; nontaxable transfer payments such as Social Security and AFDC; employer-provided fringe benefits; inside build-up on pensions, IRAs, Keoghs, and life insurance; tax-exempt interest; and imputed rent on owner-occupied housing. Capital gains are computed on an accrual basis, adjusted for inflation to the extent reliable data allow. Inflationary losses of lenders are subtracted and gains of borrowers are added. There is also an adjustment for accelerated depreciation of noncorporate businesses. FEI is shown on a family rather than a tax-return basis. The economic incomes of all members of a family unit are added to arrive at the family's economic income used in the distributions.
- (3) Families with negative incomes are included in the total line but not shown separately.

THE WHITE HOUSE
WASHINGTON

DATE: 2/23

NOTE FOR: *Bob Rubin*

The President has reviewed the attached, and it is forwarded to you
for your:

Information ☒

Action ☐

Thank you.

JOHN D. PODESTA
Assistant to the President
and Staff Secretary
(x2702)

cc:

2/23/93

THE WHITE HOUSE

WASHINGTON

February 15, 1993

MEMORANDUM FOR THE PRESIDENT

FROM: ROBERT E. RUBIN *per*

SUBJECT: **Senator Moynihan's Position on Moving to 1997 the Date for Beginning to Increase the Retirement Age under Social Security**

Howard Paster suggested I send you this exchange of notes between Senator Pat Moynihan and me, in preparation for your meeting with him. Moving up the increase in the retirement age for Social Security is not currently in the economic plan, and Howard's judgment is that we should not force the issue with Senator Moynihan at this time.

I would note, as a matter of interest, that Senator Moynihan specifically told me he would be willing to try to get this through the Committee if you wanted, despite his policy objection. This note could be interpreted as reflecting a bit of back-tracking on the Senator's part.

Attachment

cc: Howard Paster

THE WHITE HOUSE

WASHINGTON

February 15, 1993

The Honorable D. Patrick Moynihan
United States Senate
Washington, D.C. 20510

Dear Pat:

Thank you for your note with regard to the retirement age under Social Security. I suspect your suggested alternative, Treasury bond maturity deferral, might raise a few eyebrows. This rather nicely makes your point as to Social Security, though I think one could argue the analogy both ways.

I have passed this on to the relevant people, as we consider this still unresolved issue.

Sincerely,



Robert E. Rubin
Assistant to the President
for Economic Policy

P.S. On another note, I do have a call in to Steve Ricard. I have discussed this with both the President and the First Lady, and we are in the process of setting up a meeting very shortly.

BR/Bo/GS/sm

DANIEL PATRICK MOYNIHAN, NEW YORK, CHAIRMAN

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MALCOLM WALLOP, WYOMING

United States Senate

COMMITTEE ON FINANCE
WASHINGTON, DC 20510-6200

LAWRENCE O'DONNELL, JR., STAFF DIRECTOR
EDMUND J. MIHALSKI, MINORITY CHIEF OF STAFF

February 5, 1993

MEMORANDUM FOR ROBERT RUBIN

I have been busy with the actuaries concerning the matter the President asked you to bring up with me. I assume the Progressive Policy Institute proposal to raise the retirement age by 2 months per year beginning with those who reach age 62 in 1994. This would produce \$800 million in savings during the President's first term. Another \$8.1 billion in his second.

I cannot know this, but would state with some confidence that it will raise holy hell. 1.7 million people retire each year; the majority at age 62. For many, perhaps most of these folk, retirement involves lots of planning and no small amount of pleasant anticipation. Then, of a sudden, the President says I am breaking the deal. You had planned on X amount of money per month. I am making it X minus. (All of the savings in the first term will come from lowering the 80 percent rate at which persons now retire at age 62.)

I hate to sound so negative. But these are quasi-fiduciary undertakings. If we want to raise real bucks, why not announce that the maturity date of 30-year Treasury Bonds will be put off two months a year starting in 1994 with no interest to be paid for the extra waiting period?



THE WHITE HOUSE
WASHINGTON

DATE: 2/63

NOTE FOR: *Bruce Lindsey*

The President has reviewed the attached, and it is forwarded to you
for your:

Information ☐

Action ☒

Thank you.

JOHN D. PODESTA
Assistant to the President
and Staff Secretary
(x2702)

cc:

THE WHITE HOUSE
WASHINGTON

THE PRESIDENT HAS SEEN

2/23/93

February 19, 1993

MR. PRESIDENT:

Mack asked that the attached
letter from Senator Jim
Sasser be forwarded to you.

John Podesta

BK

JIM SASSER
TENNESSEE

United States Senate

WASHINGTON, DC 20510-4201

COMMITTEES:
APPROPRIATIONS
BANKING, HOUSING,
AND URBAN AFFAIRS
BUDGET—CHAIRMAN
GOVERNMENTAL AFFAIRS

February 15, 1993

The President
The White House
Washington, D. C. 20500

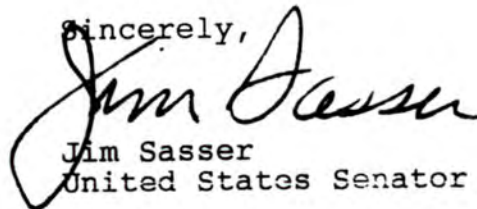
Dear Mr. President:

I want to strongly recommend that my Chief of Staff, Craven Crowell, be appointed to the upcoming nine-year term as a Director at the Tennessee Valley Authority. Of all the candidates mentioned so far, Craven is by far the most qualified, having worked as an executive at TVA for nine years.

I also believe Craven would do an excellent job of promoting the Clinton Administration agenda, particularly those goals involving the environment and conservation. He believes in team work and would seek opportunities to form partnerships with other government agencies for the common good.

Your consideration of this request would be greatly appreciated.

Sincerely,



Jim Sasser
United States Senator

THE WHITE HOUSE
WASHINGTON

DATE: 2/23

NOTE FOR: *The V.P., Rubin, Sec. Baker*

The President has reviewed the attached, and it is forwarded to you
for your:

Information ☒

Action ☐

Thank you.

JOHN D. PODESTA
Assistant to the President
and Staff Secretary
(x2702)

cc:

THE PRESIDENT HAS SEEN

2/22/93

THE WHITE HOUSE
WASHINGTON

93 FEB 19 P6:18

February 19, 1993

*To B. Rubin / Cal Bunker
HGT*

INFORMATION

MEMORANDUM FOR THE PRESIDENT

FROM: Steve Ricchetti
SUBJECT: Senator Mitchell phone call

I. SUMMARY

Senator Mitchell called today to alert you to a provision in the economic program regarding home heating oil.

II. DISCUSSION

Senator Mitchell called today to express his concern that the Administration's economic proposal **does not** contain a provision for an offset to the increased cost of home heating oil to New England consumers. He said that in his conversations with you, he believed it was your mutual understanding that an offset to the Energy tax for New England users would be provided. (Our economic plan only recommends that the implementation of the tax be postponed for one year).

Senator Mitchell expressed a desire to revisit this issue in the budget process, to try to achieve some level of accommodation for New Englanders who would be disproportionately affected by the tax on home heating oil. He wanted to bring this provision to your attention so that in our characterization of the plan in the region we did not unintentionally suggest that an offset is being provided.

THE WHITE HOUSE
WASHINGTON

DATE: _____

NOTE FOR: *PASTER, George S., Walden*

The President has reviewed the attached, and it is forwarded to you
for your:

Information ☒

Action ☒

Thank you.

JOHN D. PODESTA
Assistant to the President
and Staff Secretary
(x2702)

cc:

2/23/93

THE WHITE HOUSE
WASHINGTON

February 12, 1993

MEMORANDUM FOR THE PRESIDENT

FROM: JOHN PODESTA *JJP*
SUBJECT: LETTER FROM JOHN KERRY

Attached is a letter from Senator John Kerry concerning campaign finance reform. He was very concerned that you see this personally. I have discussed with Howard in general terms and we both think that a phone call to Kerry would be appropriate. If you agree, you can handle directly or we can provide talking points.

I also think this letter can be appropriately shared with George/Waldman.

cc: Mack McLarty

*on general point
I agree with
Mack can*

United States Senate

WASHINGTON, DC 20510

FEB 12 10:50

Personal

February 10, 1993

The President
The White House
Washington, D.C. 20500

By Messenger

Dear Mr. President:

I very much appreciated the opportunity to participate in the meeting on campaign finance reform that you had with Congressional leaders at the White House last week. Your desire to secure early enactment of reform legislation was evident to all of us, and your willingness to consult was much appreciated.

I write today, however, not about the process of consultation, which I think has been good; but about the possible outcome of that consultative process, which I fear will not be nearly as good as it should be.

To be blunt, I do not agree with those in Congress who are advising you to be cautious, to go slow and to settle for half-measures on this issue. I believe, to the contrary, that the time is right for dramatic change and that only dramatic change will serve the interests of our party, your Presidency and our political system.

I do not, for a minute, question the sincerity of those who are advocating a "go-slow" approach. The political concerns that they raise have legitimacy. But I believe they are seriously underestimating the catalyzing impact that a strong position from the President on this issue would have. I do not believe that politicians in either party will find themselves in a winning position arguing for a less reformist, more business-as-usual

position than the President; and I suggest that an uncomfortable Congress is more likely to do the right thing on this issue than a Congress that has managed once again to avoid the hard, real choices.

Yes, it is true that some, including Democrats, will oppose a reform package that generally replaces PAC and large donor contributions with public funds and contributions from small donors, that ends bundling and that forces accountability on soft money. But as Robert Kennedy once said, "if there's no one in your way, it's because you're not going anywhere." I am convinced that you would be able to convince the vast majority of the American people, and a simple majority of the Congress that you are right and your opponents wrong--and I believe you would find a substantial number of allies in that effort.

I believe a strong reform bill, supported by energetic lobbying from the White House and public interest groups, can pass the Senate. I believe Senate passage would dramatically enhance the prospects for House action, although I recognize that the House presents a more difficult challenge and may have to go a different route. Notwithstanding, it is far better to begin with a strong and clearcut position in favor of genuine reform, rather than start by compromising and continue by compromising more.

I have heard that some Members of Congress have told your legislative office that if they are pressed too hard on campaign finance reform, they will be less likely to support you on your economic package. My advice, respectfully, is to challenge this assertion. If members believe they can change the President's position by complaining that it asks too much of them on one issue, they are more likely to dig in their heels in hopes of achieving similar movement on later issues. Moreover, the people who will tell you now that comprehensive campaign finance reform is inadvisable will be the same people who are most tied to the interests who will seek to prevent you from achieving major changes in our approach to the economy.

There is one additional argument I would make for your consideration. During your campaign, you warned that millions of Americans had come to feel excluded from the political process. I believe that the current system of financing Congressional campaigns has a lot to do with that feeling of exclusion and with the resultant lack of diversity within Congress, itself. A shift to public financing and spending limits would enable those without great personal wealth, or access to the wealth of others, to run for office more frequently -- and with greater success. Thus, the enactment of campaign finance reform at the Congressional level would supplement the process of reforming and "reinventing government" that you have initiated at the executive level.

So, in summary, I urge you to stand firm and to propose legislation that would: 1) replace all private donations with public funding in the general elections (with the possibility of a small-donor exception); 2) include strict "anti-bundling" provisions with no loopholes; 3) reduce PAC contributions to a maximum of \$1,000 per candidate per election, limited to 20 percent of the total raised by a candidate; and 4) find a mechanism for controlling the flow and ensuring the accountability of soft money. I believe that this approach is the right approach, the smart approach and--with your leadership--the approach that has the greatest promise of success.

I want to thank you in advance for your consideration of my views and I look forward to working with you and supporting you on this and I hope many other issues of importance in the months ahead.

Sincerely,

A handwritten signature in dark ink, appearing to be "John Kerry", written over a horizontal line.

John Kerry

JOHN KERRY
MASSACHUSETTS

United States Senate

WASHINGTON, DC 20510

TO: NANCY HERNREICH
Secretary to President Bill Clinton

FROM: TRICIA FERRONE
Secretary to Senator John Kerry

DATE: FEBRUARY 11, 1993

Senator Kerry would appreciate the enclosed letter being brought to President Clinton's attention. Would someone from your office please call this office (224-0214) to confirm receipt of this letter.

Thank you.

Handwritten: D. J. [unclear]
called

Chron

THE WHITE HOUSE
WASHINGTON

DATE: 2/23

NOTE FOR:

Carol Rasco / Howard Pasco

The President has reviewed the attached, and it is forwarded to you
for your:

Information

☐

Action

☒

Thank you.

JOHN D. PODESTA
Assistant to the President
and Staff Secretary
(x2702)

cc:



THE WHITE HOUSE
WASHINGTON

THE PRESIDENT HAS SEEN

2/23/93

February 19, 1993

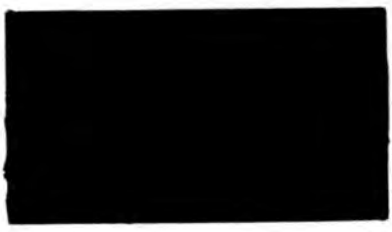
MR. PRESIDENT:

Howard has no problem with introduction of a separate bill in the manner described so long as Chairman Rostenkowski is briefed in advance.



John Podesta

Handwritten notes:
C. Rando
John Podesta is familiar with as
in fact no problem with
2nd bill to Congress
As a matter of
fact, no problem
with it
Kutler



Podesta

MEMORANDUM

cc: HRC

ASAP

Done 2/19/93

TO: The President and First Lady
FROM: Marian Wright Edelman
DATE: February 18, 1993

I have never been as proud of a President in my lifetime as I was of you last night. You were wonderful! (My favorite moment was your 'don't mess with me' response to Republican laughter.) Thank you for speaking the truth to all of us about the problems we face and for the balanced solutions you propose. We are ready to work really hard and to rally others to work hard to see that your policies succeed. We thank you for your investments in Head Start, WIC, and childhood vaccinations.

Your immunization speech was terrific. Hope we can keep the momentum going and give your supporters inside and outside of Congress an immediate universal bill to rally around. A lot of people, including freshmen in Congress, are eager to be identified with the immunization issue and to give you a clear victory. If you send the signal, Kennedy and Waxman will follow your lead. Introducing a separate bill immediately keeps pressure on the drug companies as you negotiate with them, allows hearings and support to build, and in no way limits your later options about when and how to bring the bill to the floor. Indeed, our desired strategy is to fold a comprehensive immunization package into an overall budget reconciliation or earlier revenue package so that it is not subject to undesirable amendments. Not to introduce a separate bill right away leaves a huge vacuum that will let countless people do their own version and undermine your friends who want a strong bill.

Yea on Janet Reno. She looks strong.

You and Hillary are in my prayers every day. Tell Chelsea she's making a great impression at school.

Please don't waste time responding to any notes I send.

MWE:bag

THE WHITE HOUSE
WASHINGTON

DATE: 2/23

TO: *Bruce Lindsey*

FROM: **JOHN D. PODESTA**
Assistant to the President and
Staff Secretary

per our discussion

February 22, 1993

GRAPEVINE: A YO-YO FOR USDA RUMORS

The on-again, off-again prospects for California's Richard Rominger as deputy secretary of agriculture were on again last week but there was no definitive word about presidential nominations for sub-cabinet jobs at USDA in what has started to look like one of Washington's long-running soap operas . . . Meat and poultry industry officials say they've been assured that USDA will not combine jurisdiction of food and consumer functions with those concerning marketing and inspection programs under one assistant secretary. The word came Tuesday in a meeting with Secretary Mike Espy at which they registered concern over the proposed organization chart (F&FL 2/15 P2) that would have combined the duties of two assistant secretaries under one, the choice for which is said to be Ellen Haas of Public Voice for Food and Health Policy. While industry focused its objection to the size of the workload, privately they object to Haas being in charge of meat and poultry inspection. One reliable informant said the decision to scrap the idea was made following an objection registered by Arkansas poultry executive Don Tyson.

Mike Espy has not been secretary of agriculture for a month but a rumor has him setting his sights on being governor of Mississippi. The rumor has it that Espy plans to funnel rural development funds there for a 1995 race when Republican Gov. Kirk Fordice's term expires. It recalls 1977 rumors that then-Secretary Bob Bergland would resign to run for the U.S. Senate in Minnesota.

Floyd D. Gaibler resigned effective last week as executive director of the National Cheese Institute and VP of the International Dairy Foods Association to "pursue other interests." Gaibler has been at NCI since 1988 after serving as executive assistant to former Secretary of Agriculture Richard E. Lyng. In a statement, Gaibler said "the time is now right for me to move on to other challenging pursuits."

Newest of the contingent of new members of the House Agriculture Committee are Keps. Pat Williams, D-Mont., and Blanche Lambert, D-Ark., appointed to seats vacated by Mike Espy and Leon Panetta when they joined the Cabinet. Republicans have one seat to fill . . . The Senate Agriculture Committee cut subcommittees from seven to six by merging the previous conservation and forestry subcommittee into a new Subcommittee on Agricultural Research, Conservation, Forestry and General Legislation chaired by Sen. Tom Daschle, D-N.D.; the ranking Republican member is Sen. Larry Craig, R-Idaho.

Herbert L. Forest, the legendary director of the Dairy Division of USDA's Agricultural Marketing Service and its predecessor agencies since 1953, died Feb. 12 in Washington of a heart attack. He was 82. Forest, a University of Massachusetts economics graduate, joined USDA in the Boston milk market order administrator's office in 1934. He retired in 1982, but not after training nearly everyone who has been involved in the milk marketing order business in the last few generations.

A few weeks before leaving office, former Secretary of Agriculture Edward Madigan awarded some \$900,000 in bonuses to about 120 career USDA employees, part of the Senior Executive Service compensation system in effect since 1979. Personnel Director Larry Slagle says the awards came "in the normal course of events." President Clinton ordered an investigation of a report that outgoing secretaries of four departments made last-minute bonuses to senior political appointees . . . Association officers: Jeff Lundberg, Cheyenne, Wyo., president of National Association of Wheat Growers . . . Robert W. Allen, Wessanen USA Dairies, Binghamton, N.Y., chairman of International Ice Cream Association.

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THE WHITE HOUSE
WASHINGTON

DATE: 2/23

NOTE FOR: Carol Rasco

The President has reviewed the attached, and it is forwarded to you for your:

Information ☐

Action ☒

Carol - I know you're getting two copies of this; I wanted to add my two cents. We got pretty good play in the technology paper by assembling matters we had previously announced into a coherent "strategy" paper. You might think about the same approach on Annulies. I've attached the tech. paper.

Thank you.

JOHN D. PODESTA
Assistant to the President
and Staff Secretary
(x2702)

cc:

Where Will Clinton Stand on the Issue of Family Values?

■ **Policy:** Two advisers have drafted wide-ranging proposals aimed at protecting children and giving parents more assistance. Now it's up to the President to establish his priorities.

By LYNN SMITH
TIMES STAFF WRITER

Plunging into the thorny thicket of family values, advisers to President Clinton have proposed that he wage an intense campaign against out-of-wedlock births, make divorce more difficult, mandate drug treatment for pregnant addicts and try to make parents and the media more responsible toward children.

The proposals can be found in a handbook, "Mandate for Change," published recently by Berkley Press and endorsed by Clinton. It was prepared by the Progressive Policy Institute, the think tank of the Democratic Leadership Council, which Clinton once headed and whose president, Al From, leads Clinton's transition team on domestic policy.

The authors of the book's family policy section also propose tax subsidies for middle-class and working-poor parents, federal assistance for child support, quick passage of the Family and Medical Leave Act and government leadership in making workplaces more "family friendly." In addition, they emphasize family preservation over foster care.

Will any of these proposals come close to materializing? Observers say it depends on the priorities Clinton chooses within heavy budget constraints and how he deals with opposition from the right and the liberal wing of the Democratic Party.

The authors of the section on family policy are William A. Galston, a public affairs professor at the University of Maryland who is also Clinton's adviser on plans to link national service with student loans, and Elaine Ciulla Kamarck, a senior fellow at the Washington-based Public Policy Institute.

Galston said he and Kamarck aimed to carve a path somewhere between traditional liberal and conservative notions of what is best for families.

"Traditional liberals have focused on economic problems to the exclusion of culture and family structure, and conservatives have done just the reverse. It's not a useful debate to continue," Galston said.

Some of the proposals ring a moralistic bell, not unlike former Vice President Dan Quayle's attacks last year on single mothers and the media. But Galston said what Americans *really* want is to improve family life, not to condemn other lifestyles.

"Americans are very worried about the state of the American family and of children," said Galston.

"Americans are very worried about the cultural sea on which families are floating. They see the media, particularly TV, as an almost uncontrollable force that diminishes their own efforts to bring up children and impart to them the common-sense values they would like them to cherish."

Some conservatives, pleased by Galston's and Kamarck's tax-relief and pro-marriage proposals, say they are nonetheless bothered by the idea of federalized child support.

"It's basically a new government subsidy for single parents. That would be disastrous," said Robert Rector, family issues analyst for the conservative Heritage Foundation, which published its own manifestoes on public policies for the Reagan and Bush administrations.

Rather than forging a centrist path, the Galston/Kamarck proposals represent a "deep schizophrenia" within the Clinton Administration, Rector said. He said he expects opposition to the proposals to come from liberal Democrats and to be carried out behind the scenes.

Please see VALUES, B11

VALUES

Continued from B10

Here are some of the proposals in more detail:

Divorce

Galston and Kamarck say the child support system should be federalized to ensure that payments are made. Payments should take into account the fact that motherhood often diminishes a woman's earning capacity, they say, and they propose that, in general, divorce should be made more difficult.

Child Subsidies

For middle-class families, Galston and Kamarck say government should provide a package of tax cuts that includes an \$800 increase in the personal exemption for parents of preschoolers. The exemp-

tion would be gradually phased out so that by the time a child is 11, the relief would be the same as current exemptions.

In addition, they say, single parents should be taxed at the lower rate that applies to married couples. And the government should explore an increased personal exemption for families caring for relatives over 70 in their homes.

Galston and Kamarck also propose an expansion of the Earned Income Tax Credit for working-poor families, whose children make up more than half of all poor children. The proposal builds on a \$12.4-billion expansion of the credit passed by Congress last year.

Some critics say the tax cuts would be better directed to the poor, rather than spread around to include the middle class. Irv Garfinkel, Columbia University professor of contemporary urban problems, said that, rather than an exemption increase, he prefers Clinton's stated campaign proposal of a refundable tax credit, which would provide more real relief to

Los Angeles Times

2/3/95

1/2

poor families. Garfinkel added: "The big issue as to whether anything happens in this area is the cost."

Help for

Working Parents

The President should sign the Family and Medical Leave Act, reintroduced Jan. 5, as a "minimum signal" to businesses of what they ought to do. The act would guarantee up to 12 weeks of unpaid leave for family members who need time off from work to care for a newborn infant or a seriously ill child, parent or spouse or to recover from their own disabling illness.

The family leave act is seen as largely symbolic but has widespread congressional support. Indications are that it will be passed this month, said Mike Russell, spokesman for the House Education and Labor Committee. As one of the nation's largest employers, the federal government, Galston and Kamarck say, should adopt family-friendly poli-

cies, particularly home-based work and telecommuting.

Parental Responsibility

Galston said Clinton should help families by creating a "certain tone, even a certain moral tone, as a critical supplement to the law." He should use the "bully pulpit" of the office to encourage states to pass laws like California's Street Terrorism Enforcement and Protection Act, inspired a Los Angeles city ordinance to punish parents for their children's gang-related activities. It was successfully challenged by the American Civil Liberties Union and is pending before the state Supreme Court.

Family Preservation

"The child-welfare system is in need of a massive overhaul from the top down," Galston and Kamarck write, and they promote in-home family-preservation services for the poorest of the poor.

Typically, family-preservation programs send counselors into the homes of at-risk families to teach parenting skills in the hopes that the state won't have to intervene and place the children in the "confusing and ultimately damaging world of foster care," the handbook says.

Media

Claiming that the media share responsibility for family disintegration, the authors stop short of proposing government regulation, instead suggesting that Clinton promote a "broad national discussion" of media responsibility.

Some observers expect Tipper Gore, who championed warning labels on explicit recordings, to lead a campaign advocating more media responsibility. But according to media critic Michael Medved, "What's problematic is that the Clinton-Gore ticket got a huge amount of money from Hollywood. So Tipper has been very quiet on all this for a long time."

Los Angeles Times

2/3/95

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THE PRESIDENT HAS SEEN
2/23/93

Barro
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of Union
but Nat. shows
more of the computer
family structure

Etc
C. S. M. M.
helpful
need to decide whether/
what to do on future agenda

BC

**Technology for America's Economic Growth,
A New Direction to Build Economic Strength**



**President William J. Clinton
Vice President Albert Gore, Jr.**

February 22, 1993

2/19/93

Dear Vice President Gore,

My 4th grade class would like you to visit and discuss ecology, a subject they know well. They even raised money to buy rain forest in Costa Rica.

We would enjoy your visit.

Ms. Jamir
Thomson Elementary
12th + L Streets, N.W.
Washington, D.C. 20015

THE PRESIDENT HAS SEEN
2/23/93

To Vice President Gore

TO AGJ for Cide TV show
from —

THE PRESIDENT HAS SEEN
2/23/93

Biden
her many needs
are answered
on time

The Outlook

Clinton Falls Short On Spending Revamp

A1

WASHINGTON

By now it is clear the Achilles' heel of President Clinton's economic plan is its reliance on tax increases rather than spending cuts to reduce the deficit. While selling the plan last week, Mr. Clinton continued to insist it contains one dollar in spending cuts for every dollar's tax rise. But only the most generous sort of accounting—combined with an immodest puff of blue smoke—enables him to make such a claim.

Among the least questionable items counted as "spending cuts" in the plan are \$21 billion raised over the next four years by taxing Social Security benefits, \$11 billion saved by shifting from long-term to short-term debt, \$24 billion in reduced debt-service costs, at least \$6 billion in new "user fees," and more than \$80 billion in spending cuts over four years that were required — if not actually specified — under the 1990 budget agreement. Take those away, and the net spending cuts virtually disappear.

Even if you allow Mr. Clinton's loose definitions, tax increases account for roughly 85% of the deficit reduction in 1994, and more than 60% in 1995. It's not until 1997 that one can begin to argue, using the administration's calculus, that spending cuts are as large as tax increases.

But anyone who was half-awake during Mr. Clinton's campaign shouldn't be surprised. What made candidate Clinton different from his Democratic predecessors wasn't a commitment to reducing the scope of government, but a commitment to changing the scope of government. His contribution to the Democratic debate was the notion that a healthy, high-wage economy "is the most important family policy, urban policy, labor policy, minority policy and foreign policy America can have."

To serve that end, Mr. Clinton pledged to increase government "investment"—spending that would improve the long-term productivity and earning power of the American work force; and to decrease government "consumption"—spending that merely provides relief today but does little to build for tomorrow. In assessing whether the plan unveiled last week is true to that promise, the overall balance between taxes and spending is less important than changes made among spending programs.

Economic terms such as "investment," of course, can quickly lose definition when applied to government spending; every constituency lobbies overtime to make sure their spending is included in the favored category. Anyone who doubts that need only look at how the new administration defined "stimulus" in compiling its \$16 billion economic stimulus package. There, tucked away with spending on highways and mass transit, are big boosts in programs such as food assistance to the poor, AIDS research, Head Start and college grants. All are worthy programs, but they will do little to jump start the economy.

Still, a close look at the economic plan shows the new administration has ladled a lot of new money into programs that can be termed investment. Vice President Gore and Labor Secretary Robert Reich, who both attended most of the long sessions in which the plan was assembled, argued tirelessly for more spending on technology, and for education, training and apprenticeship programs. The administration also put a high priority on programs for children, which may in the end be the most important long-term investment — assuring that the next generation is prepared for the economic challenges it will undoubtedly meet.

The Clinton administration was far more timid, however, when it came to cutting government spending on consumption. The federal government sends out hundreds of billions of dollars of checks each year to senior citizens, veterans, military retirees, farmers and others. There are no semantic gymnastics that allow such programs to be characterized as "investment." Yet those are the programs that have grown like wildfire in recent decades, dwarfing government spending on children, education, technology and, lately, even on defense.

The Clinton budget ax barely grazed the surface of those benefit programs. The new president did decide to tax the Social Security benefits of high-income Americans; and he has made some small adjustments in farmers and veterans benefits. His cuts in the Medicare program for the elderly, on the other hand, fall almost entirely on health-care providers, not health-care consumers. For the most part, the huge government consumption budget has been left intact.

Budget director Leon Panetta and his deputy, Alice Rivlin, made an attempt to take more out of those benefit programs by proposing a one-time freeze in cost-of-living increases, made to counter the effects of inflation. To protect the poor, they proposed giving full cost-of-living benefit increases to those at or below the poverty level; others would have gotten a benefit increase limited to the dollar amount given those at the poverty level.

But even that modest plan was rejected. Those on the president's economic team who championed investment spending lost their stomachs when it came to cutting consumption spending. "Leon and Alice," said one budget official, "ended up with tread marks all over the faces."

While it is still far from the radical realignment of spending priorities that candidate Clinton promised, the result is a plan that reduces the deficit largely through tax increases. It also begins to tilt government spending in a direction that will do more to help long-run economic growth.

—ALAN MURRAY

THE WALL STREET JOURNAL.

2/22/93

Comment

ON THE NATION

A Dynamic Due to Spark the Cities

BY WILLIAM FULTON

VENTURA, Calif.

The Clinton Administration is trying to look as if it is doing something about America's inner cities. Last month, Bill Clinton met with several Cabinet members at Camp David to craft an integrated urban agenda. Exhibit No. 1, says Henry Cisneros, the new secretary of housing and urban development, is South-Central Los Angeles. He hopes to use the Administration's efforts there as a model.

It remains to be seen whether a moderate President hoping to appeal to a suburban constituency will pay serious attention to urban issues. But the potential for coordinated federal action is especially propitious—because while Cisneros, the former mayor of San Antonio, warms the HUD chair, his old friend Federico Peña, the former mayor of Denver, is settling in at transportation.

Cisneros and Peña were key figures in the Reagan-era movement toward more economic self-reliance among struggling large cities. They rejected the Great Society solution of groveling in Washington for more federal aid, though they did seek large grants for specific economic development projects. Instead, they tried to help their cities "grow their own" economic prosperity.

Today, the two share an opportunity to redirect federal urban policy, for the first time, toward the root causes of inner-city decay. To achieve this, they must develop a "metropolitan policy," one that recognizes Washington's profound influence in shaping metropolitan growth patterns and fueling suburban sprawl.

Federal transportation and mortgage policies, for example, are often blamed for "white flight" in the postwar era. And though Washington plays a less important role today, federal money—especially transportation funds—still goes a long way toward determining the shape and pattern of metropolitan areas. These patterns, in turn, help shape private investment decisions.

No urban leader understands these influences better than Cisneros. He is a believer in the leading theory among city-governance dweebs in the 1980s: Central cities are not merely social-service agencies or trash collectors; they also are engines of a region's economy and prosperity. As such, central-city governments can be used to stimulate certain kinds of economic growth. Reflecting this view, Cisneros' urban strategy will probably employ a range of federal incentives to encourage prosperity in inner cities.

But true political clout requires money and, thanks to Reagan-era budget cuts, Cisneros doesn't have much at HUD. So here is where Peña becomes important.

At transportation, Peña will spend most of his time dealing with airlines, trucking, shipping and highway safety. But he'll also be in charge of Washington's biggest pot of infrastructure gold—the \$150-billion surface-transportation vault. This fund is one of George Bush's few domestic legacies, and it's exactly the kind of program Clinton has advocated to get the economy moving again.

Whether the transportation money can jump-start the economy in the short term is questionable. But there's no question the money is the single most important federal presence in metropolitan planning. The transportation projects financed—highways, transit systems, etc.—will determine where future business investment will occur. Put those projects in the suburbs, and you'll likely fuel a further decentralization of jobs. Put those projects in older communities, and you might induce a few of those jobs to stay put. Most federal "urban policy" ideas are a drop in the bucket compared with the power of federal transportation funds to shape and steer investment decisions.

Yet, there are three potential obstacles to a sound urban policy. First, it might be difficult to persuade Clinton that infrastructure money should serve a social agenda, rather than being plowed into the economy as quickly as possible. Second, since the President downplayed urban problems in his campaign to woo suburban voters, he may not be politically motivated to take on inner-city decay. Finally, though both are Latino, Cisneros and Peña are essentially cross-over politicians who have constituencies in both the suburbs and the cities.

For decades, suburbs have grown and cities have decayed and administrations have ignored the problem. But Cisneros and Peña should use their access to the President to reverse these longstanding trends.

William Fulton is the editor of California Planning & Development Report and author of "Guide to California Planning."

Los Angeles Times

2/12/93

THE PRESIDENT HAS SEEN
2/23/93

Chen

The Depression of the 1990s—It's Already Here ✓

Most observers, including The Wall Street Journal, believe that the economy has now emerged from recession. The consensus expects 3% real growth, declining unemployment and a sustained improvement in earnings. Don't bet on it.

The past three years have not been a normal postwar recession, but a depression. Depressions don't end just because we have an election or a Christmas shopping spree. They are periods of long-term structural adjustment that require the liquidation of bad debts and the shrinkage of excess capacity. This process has only begun. If I am correct, the current episode of strength will soon peter out in a triple dip, followed by a deeper stage of depression.

The key to recognizing the deflationary danger facing the economy is to move

Counterpoint

By James Dale Davidson

beyond the conventional view that economic history began with the end of World War II. We are now experiencing the end of the ninth great credit cycle since the middle of the 16th century. Each of these episodes has involved a similar pattern of economic shocks and adjustments, spreading over decades. Each began with a major property rights disturbance. These usually are associated with wars. But the current depression was set in motion 20 years ago by the OPEC shock, a trillion dollar wealth transfer that raised inflation and lowered real rates of growth.

As in previous credit cycles, the acute inflationary period lasted for most of a decade. This was a time when debtors made windfalls and returns to investors in real assets skyrocketed. Eventually, however, the market compensated. Nomi-

nal interest rates and commodity prices rose and then peaked. There followed a decade of relatively benign disinflation. It is no coincidence that the world's great asset manias have occurred during disinflationary decades: Tulipmania, the South Sea Bubble, the Mississippi Scheme, Wall Street in the roaring '20s, the recent Tokyo boom of the 1980s.

These investment booms were driven by the logic of disinflation. Lower nominal interest rates tend to raise the capital value of many types of assets. When capital gains are temporarily compounding faster than both the rate of interest and the rate at which the economy grows, investors are encouraged to expand debt. But the compounding of debt sets a trap that ultimately brings the boom to an end.

Just as everyone has come to count on the idea that the lofty asset valuations are permanent, there is a crash in the assets market of the leading economy. This tends to happen nine to 10 years after the peak in commodity prices, and 15 to 20 years after the initial property rights shock that set in motion the decade of inflation. Tokyo's 1990 crash fits that pattern. It is one of the strongest hints that the troubles in Japan, as well as those in the rest of the world, are the result of a major world depression which is still to reach its deepest stage.

The crucial difference between the depression of the 1990s and that of the 1930s is that the first phase of the current depression has been dragged out. Governments are playing a much larger role in economies today. By borrowing against the future, politicians have so far been able to prevent the collapse in income and the debt liquidation associated with the second and deeper stage of the Great Depression.

Notwithstanding the most expansionary monetary and fiscal policy in Ameri-

can history, and the role of automatic stabilizers (such as unemployment insurance and banking bailouts) in delaying the progress of depression, economic growth has been the weakest since the 1930s. Real disposable income rose by only 1% from the supposed start of the recovery to end of the third quarter of 1992. Payroll employed is lower now than when the recovery is supposed to have begun 23 months ago. Actual jobs, as opposed to "seasonally adjusted" figures, fell again in November and December.

Looking across the globe, there is little sign that sustainable recovery is at hand. Quite the contrary. Debt levels have reached the saturation point in all the

Notwithstanding the most expansionary monetary and fiscal policy in American history, economic growth has been the weakest since the 1930s.

leading countries. This has put the credit cycle into reverse, arresting the tendency for spending growth to be financed through debt growth. Because spending can no longer be accelerated by rapid debt growth, income has started to fall, and credit problems are growing in all the leading economies.

Real asset prices have been under sharp deflationary pressures. The fall in property prices is most acute in countries that had the greatest access to world capital markets in the 1980s: Japan, Britain, the U.S., and other English-speaking industrialized countries. But banking systems are strained everywhere. Europe and Japan are rapidly weakening.

The downturn of the early 1990s has been a depression, but not yet one with a capital "D." Only Britain among the advanced countries has experienced a fall in output as severe as that of the 1930s, and only in Scandinavia has unemployment reached the extreme levels seen in the deepest stage of the Great Depression. If this is depression, as I believe, the worst is still to come.

Programs to prevent debt liquidation, such as the Federal Deposit Insurance Corp., Fannie Mae, the Resolution Trust Corp., and a whole host of other subsidy programs, do not alter the basic contractionary forces in the system; they make them worse. They add to the total debt burden, and do so in ways that exhaust the good credit of the government even before the contraction has reached its deepest stage. Far from being a policy to prevent or contain depression, this is a policy that guarantees absolute ruin if it is wrong.

History shows that once nominal growth slows in a heavily indebted economy, there can be no recovery until the excess debt is eliminated. Political efforts to expand debt do nothing to lift the burden of debt service, which is the cause of slow growth and faltering incomes in the first place.

Too many people have become complacent about deflation. From Toledo to Tokyo, few believe that the inevitable consequences of deflation are inevitable. But watch out. Debt has grown too large to be sustained out of cash flow. As soon as the balance sheet is depleted, a deeper crisis of asset liquidation will catch the world by surprise.

Mr. Davidson is co-author of "The Great Reckoning" (Simon & Schuster) and a principal of Strategic Advisors Corp., Baltimore.

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INS Criticized for Not Acting to Stem Smuggling of Asians by Gangs

By John Pomfret
Washington Post Staff Writer

An estimated 100,000 Asians are illegally entering the United States each year, enriching Asian gangs that smuggle in the human cargo and prompting complaints among law enforcement officials that the U.S. Immigration and Naturalization Service is not doing enough to combat the flow.

The officials say Asian gangs are taking in as much as \$3 billion annually by sneaking mainland Chinese, Taiwanese and ethnic Chinese from Vietnam into the country. The money is financing the rise of Asian criminal syndicates here and abroad.

High-ranking INS field agents have complained that the service's headquarters is, for various reasons, thwarting investigations of immigrant smuggling rings and even backing legislation that would have the effect of facilitating the crime.

Official estimates say the gangs—which are linked to Hong Kong criminal organizations, called Triads—bring 100,000 Asians, mostly mainland Chinese, to the United States each year and charge each immigrant \$30,000. Because the immigrants cannot afford the fees, their relatives or prospective employers pay. The immigrants then wind up working as indentured servants in Asian communities, laboring in sweatshops or restaurants to pay off the debts.

An undetermined number join the gangs after they arrive and commit crimes to pay their passage. Some

in a subsequent letter to INS headquarters, the U.S. attorney for California's central district, Terree A. Bowers, said she dropped the cases "in the face of a policy which operates to defeat the overall objective of these prosecutions, i.e., the destruction of the smuggling organizations and the prosecution of their leadership."

Hayes's document criticized headquarters for failing to furnish agents with intelligence about smuggling rings. "Headquarters Investigations' position seems to be one where they prefer to retain all the information for themselves rather than disperse it to the field where it can best be put to use."

He recommended that "the issue of Chinese alien smuggling be raised to the level of national security due to its connections with organized crime and narcotics trafficking."

The INS assistant commissioner for investigations, John F. Shaw, said in an interview the main reasons the agency has not done enough about the smuggling of Asians are that Congress has not given the agency enough money to fight the problem and a reorganization of the INS's investigations division, supposed to be finished by January 1992, has yet to be completed.

"We're not giving coherent, well-planned direction to the field," he said. "We recognize the frustration in the field but they seem to think

Chinatown violence and the connection of the smuggling of Asians to organized crime demand that the service take the matter seriously. The latest twist in the racket—smuggling by boat—was also cause for alarm, they said.

Since August 1991, INS agents have intercepted 10 rickety fishing trawlers packed with mainland Chinese off Hawaii and both the east and west coasts of the U.S. mainland, and estimate that dozens more have made the trip undetected. Chinese smuggling by boat "has now evolved into a continuing activity which shows no sign of subsiding," Hayes's memo said.

Coast Guard officials said yesterday they had thwarted one of the

largest smuggling attempts in recent years in the Pacific with the seizure last week of the 341-foot East Wood. The Panamanian-registered merchant ship was apparently headed for Hawaii from Hong Kong with 400 to 500 Chinese nationals in the cargo hold, they said. Petty Officer Cameron Hardy said that the ship was seized after a group of 40 people armed with knives and machetes took charge of the vessel on Dec. 29.

In interviews, four high-ranking agents in four separate INS offices made the following criticisms of the INS's headquarters operations:

- Headquarters has rejected three proposals from the field to conduct a coordinated investigation of Asian

become prostitutes, like the Taiwanese women smuggled into the United States in the 1980s by one ring that established a seven-city call-girl service before its leaders were jailed in 1988.

Immigrants who cannot repay the money are sometimes tortured and even killed, police officials say. On Jan. 8, in New York City's Chinatown, gunmen with automatic weapons shot and killed two Chinese illegal immigrants. Three months earlier, another gunman in Chinatown pumped 13 bullets into the chest of a Chinese man, also in this country illegally. Failure to repay the money advanced for their fares is a motive in the slayings, said New York City Police Det. Sgt. Joseph Ayres, of Chinatown's 5th Precinct.

In a confidential memorandum late last year, Jim Hayes, assistant district director of the INS's anti-smuggling operation in Los Angeles, wrote: "While we have repeatedly proposed innovative local actions to attack this problem, we have been thwarted by Headquarters Investigations' lack of a clear vision on how to confront this dilemma."

The memo said the U.S. Attorney's Organized Crime Strike Force in Los Angeles had recently stopped prosecuting smuggling of Asians because the INS had failed to provide agents with sufficient resources to bring good cases

we're sitting on pots of money here."

The department's anti-smuggling branch, for example, which bears the brunt of the Asian cases, has been without a chief for the past 18 months because of shortfalls in the agency's budget, he said.

Field agents contend, however, that incompetence and the unwillingness of the U.S. government to deport illegal Chinese immigrants because of concerns about human rights were more important factors than funding.

While the number of illegal Asian immigrants pales in comparison to the estimated 1.5 million Mexicans who sneak into the United States each year, agents said the recent

The Washington Post

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smuggling rings. The agents say the probes would have focused on ringleaders, notably Paul Wong, alias Fuchou Paul, who is wanted for murder and extortion by the FBI and suspected of ordering at least one of the recent slayings in New York. In the highest-level U.S. law enforcement contact with China ever, Jim Moody, chief of the Organized Crime and Drug section of the FBI, went to China in October to ask, among other things, for help in capturing Wong. Moody said Wong is hiding in China.

■ One of the investigations stopped by headquarters was a 1989 probe of two alleged immigrant smugglers—William Chan, a convicted heroin trafficker also known as

"The Old Fox," and a man called Kenny Li. Chan, who spent three years in federal prison on a 1979 drug conviction, was working with Li in Hong Kong, smuggling Chinese to the United States via Latin American countries, according to INS agents. The investigation was shut down without explanation by INS headquarters after INS agents posing as immigrant smugglers met with Li. In September, federal agents finally caught up with Li, arresting him in Bangkok on an 11-count federal complaint of alien and heroin smuggling. Li bribed his way out of jail in Bangkok and remains a fugitive.

Shaw, in response, said the INS
See SMUGGLING, A5, Col. 1

THE WASHINGTON

Asian Gangs May Gain \$3 Billion Yearly

SMUGGLING, From A4

was not "Miami Vice going abroad. We have to be sensitive to diplomacy."

■ Perhaps the most controversial of the agents' complaints concerns their call for a revision of former president George Bush's Executive Order 12711 to allow the deportation of Chinese criminals or illegal immigrants. Designed to protect Chinese fleeing the 1989 crackdown on the pro-democracy movement in Beijing, the order has basically stopped the INS from sending anyone back to China even if he or she has no claim to political asylum, is a convicted criminal or known gang member. More than 90 percent of the immigrants who arrived on the 10 boats, for example, have been released from detention centers and are presumably living in Chinese communities in the United States.

■ Agents contend that the INS is also backing legislation that would have the effect of making it easier to

smuggle Chinese into this country. On Dec. 23, the service submitted a proposal to the Justice Department to enact the aspect of Bush's order that allows Chinese men and women to stay in the United States by saying they fear forced abortions or sterilizations under China's one-child population control policies. Agents said the proposal, pushed by the INS general counsel, reflected the Bush administration's interest in fighting abortion worldwide.

However, the proposed legislation, like Bush's executive order, is so broad that it is open to abuse, agents said. In early September, a boatload of Chinese arrived off the shores of Morehead City, N.C. All of the passengers, mostly men and mostly farmers from southern Fujian province, have since applied for political asylum, some under the one-child category, said INS special agent Jeannette Chu.

"The people who are going to benefit from this will be young Chinese men, possibly with gang

links, not pregnant women worried about their babies," she said. "The U.S. just won't send them back and the gangs know this."

A Senate subcommittee report issued in December also took issue with the INS's handling of Asian smuggling.

"No sustained or coordinated effort has yet been undertaken by INS to enforce current immigration laws against Asian organized-crime leaders. This must change," said the report prepared by the Senate Governmental Affairs investigations subcommittee.

Shaw said the service would soon complete a plan to thwart immigrant smuggling. One of his ideas is to create a task force to respond to boat landings.

Field agents, however, said that was not a solution because it would still allow the illegal immigrants into the United States without fear of deportation and leave the ringleaders, generally based in Hong Kong, unscathed.

The Washington Post

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U.S. Meat Inspections Come Under Scrutiny

By Carole Sugarman
Washington Post Staff Writer

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meat inspector can't see it, or smell it, or feel it. Neither can a short-order chef or someone flipping burgers on a backyard barbecue. Microbiological contamination—the most serious public health threat to the nation's food supply—can't be detected by human senses.

But the recent food poisoning outbreak on the West Coast, in which hundreds of people became ill and two children died after highly virulent bacteria infected hamburgers at Jack in the Box restaurants has called into question the nation's meat inspection system.

The entire system is based on a faulty premise, said James Marsden, vice president of scientific and technical affairs at the American Meat Institute, a trade association that represents meat packers and processors. "The inspection system was designed in 1906 to prevent diseased animals from entering the food chain. For that, it works beautifully," he said. But that was never the threat, he added. "It's microorganisms that cause human disease."

"All the inspectors in the world wouldn't have made any difference" in the recent poisonings, added Marsden. "Visual inspections have nothing to do with detecting microbial contamination."

The deadly outbreak last month has been tied to *E. coli* bacteria, which lives in the intestinal tract of warm-

its presence was used to analyze the meat shipped to Jack in the Box after the outbreak was identified. But this test and other more rapid ones currently being developed are not part of slaughterhouse inspections.

The U.S. Department of Agriculture runs the country's meat and poultry inspection program, with a staff of 7,200 inspectors monitoring 6,000 slaughtering and processing plants. Inspectors need a high school diploma and receive two to six weeks training, depending on the what species they will be inspecting and the nature of their assignment.

In the slaughterhouse, it's a meat inspector's job to look at the carcasses moving down the processing line and feel for signs of disease, such as inflammation, large tumors or hard nodules, according to Ed Menning, executive vice president of the National Association of Federal Veterinarians. If an abnormality is detected, the carcass is examined by the federal veterinarian assigned to the plant, Menning said.

Since 1985, three reports from the National Academy of Sciences have called for reforms of the nation's meat inspection system. The reports criticized the current system because it has not taken into account recent scientific research on meat contamination and has remained largely unchanged since the early 1900s. None of the inspection systems in use or being tested are "designed to detect or eliminate microbial or chemical hazards presented by meat products," according to a 1990 NAS report.

Last week, Secretary of Agriculture Mike Espy, appearing before a congressional subcommittee looking into the food poisonings, said that "it is time everyone stopped blaming someone else for this *E. coli* 0157:H7 outbreak." Espy added, "We all must share the responsibility for ensuring the safety of food. No one producer, consumer, meat processor, agency or government official can do it alone." Nonetheless, he called for overhauling the meat inspection program.

Developing a new system "from scratch," will take two or three years, he said. In the short term, Espy outlined dozens of plans, including hiring more meat inspectors and encouraging the use of organic sprays to reduce bacteria on the surface of beef carcasses. He also recommended the use of explicit instructions for safe handling on the labels of raw meat and poultry and he pressed for approval of irradiation for raw beef.

Irradiation is a technology that exposes food to gamma rays from radioactive sources to kill bacteria, extend ripening or control insects. The process, which does not make food radioactive, has been approved for use on raw poultry, pork, flour and fruits and vegetables.

The Agriculture Department has "been moving toward a science-based system for several years," said Jim Greene, spokesman for the Agriculture Department's Food Safety and Inspection Service. Last October, he noted, the department began sampling carcasses from 110 beef slaughter plants for seven microorganisms, including *E. coli* 0157:H7. The plants account for 90 percent of all federally inspected meat, and federal officials hope to establish a baseline so that any subsequent changes in the inspection program could be measured against the past to see if the efforts reduce the level of contamination by microorganisms.

As the extent of the West Coast outbreak has become known, many critics question why it has taken so long to get changes in the meat inspection system.

Some industry groups contend that overhauling the meat inspection system has been stalled because of a powerful meat inspectors' union that fears loss of jobs if a more science-based system is adopted.

"Inspectors are very effective in organizing resistance

See INSPECT, Page 10



RAY LUSTIG—THE WASHINGTON POST
Agriculture Secretary Espy seeks inspection overhaul.

blooded animals, including humans. But the version involved in these poisonings was identified as *E. coli* 0157:H7, which is not tolerated by humans. In cattle, this strain of *E. coli* has been found more often in dairy cows, which are often retired into hamburgers, since their meat is tough and not palatable enough for steaks or roasts.

Officials believe the infection was spread during the slaughtering process when bacteria from the intestines can come in contact with other parts of the carcass. An animal with *E. coli* 0157:H7 doesn't look sick or have symptoms of illness. A genetic probe that takes 48 hours to detect the bacteria and another four days to confirm

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to change," said AMI's Marsden. "They don't know where they'll fit. They're not microbiologists."

"I take offense to that," said Dave Carney, president of the North Central Council of Food Inspection Locals, the meat inspectors' union. "This is not a labor issue. This is a consumer issue."

Carney said that the union is "not against technology, and we're not against moving forward. What we have a problem with is removing inspectors from their traditional mode and replacing them with a scientific-based system. We need to maintain traditional inspection and enhance it with a scientific program."

Nevertheless, Carney believes that the training conducted for inspectors by the Agriculture Department is too focused on supervisory and managerial skills, and doesn't include continuing education for inspectors, such as teaching them about bacterial hazards in the meat supply.

Other critics of the system such as Rod Leonard, director of the Washington-based advocacy group the Community Nutrition Institute and a former USDA official during the Johnson administration, said that the past 12 years of Republican administrations have tried to deregulate meat and poultry inspection while restricting the authority of inspectors in the field.

In addition to the political and bureaucratic difficulties in revamping the inspection system, the Agriculture Department is also faced with what some see as an almost impossible task of ensuring the safety of food.

Little is known about the amount of bacteria it takes to make people sick.

For example, Carol Tucker Foreman, former assistant secretary of agriculture for food and consumer services under President Jimmy Carter, said that little is known about the amount of bacteria it takes to make people sick. That's why there aren't standards for how much disease-causing bacteria can remain in meat and poultry. AMI's Marsden believes such standards are impossible, given the fact that individuals respond so differently to different types and amounts of bacteria. Neither are there rapid on-line diagnostic tests for bacterial contamination that could be used in meat plants, Foreman added.

From the farm to the table, the food chain is long, with many opportunities for improper handling and contamination.

AMI's Marsden said he believes that even if USDA greatly increased its microbiological sampling program, or even if meat arrived at food service establishments in sterile form, there is still no guarantee that pathogens couldn't be reintroduced.

"I don't think we'll ever be able to entirely eliminate it [bacterial contamination]," said the Agriculture Department's Greene. "... But if we can lower the bacteria level, that's to everyone's advantage." ■

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Bill Seeks to Coordinate NIH Research on AIDS

The Washington Post

Skeptics Fear Proposal Could Slow Progress

By David Brown
Washington Post Staff Writer

Can better strategic planning, coordination and prioritizing bring the AIDS virus to its knees?

It is an appealing notion, and one the National Institutes of Health appears ready to try as the AIDS epidemic enters its second decade.

The Senate last week passed a bill that would strengthen NIH's Office of AIDS Research and make its director, if not a "czar," then at least a person with unprecedented influence over how the government spends money studying the disease and searching for a cure.

Under the bill, the office would prepare an overall budget for AIDS research and eventually acquire major influence in the decisions of what scientific questions will be most studied—and funded.

The office would have no AIDS researchers of its own. Laboratory experiments, epidemiological surveys and clinical trials would still be done by NIH's 21 institutes or by NIH-funded academic researchers.

NIH's AIDS research budget for this year is about \$1.1 billion. The largest amount—about \$458 million—goes to the National Institute of Allergy and Infectious Diseases, whose director, Anthony S. Fauci, now heads the Office of AIDS Research.

The proposed change, which is supported by the Clinton administration, represents a victory by several AIDS activist groups that believe current research efforts are hampered by duplication, disorganization and a problem in recognizing quickly what new scientific questions are the most important.

"AIDS is very complicated, and someone needs to see that there is an appropriate balance between the various fields, such as basic science, clinical research, drug discovery, behavioral issues," said Mark Harrington, a member of the New York-based Treatment Action Group, which spearheaded the proposal to give the AIDS research office more power.

Many researchers, however, are skeptical that central planning will produce better science and are fearful that a revamped AIDS coordinating office will add a thicker layer to the NIH bureaucracy and possibly slow the pace of research. Furthermore, they argue, the current system has produced an enormous amount of knowledge since the AIDS epidemic was first detected in 1981, and does not warrant tampering with.

The idea that AIDS research could benefit from a strategic plan was first mentioned several years ago in a report by the Institute of Medicine, an organization similar to the National Academy of Sciences, which studies medicine and health policy.

The idea got a further boost last summer when the Treatment Action Group presented an analysis of NIH's 1991 research program at the international AIDS conference in Amsterdam. The study outlined deficiencies that its authors believed could have been prevented by better planning.

The proposal to route all of NIH's AIDS research through a single office came to the attention to Sen. Edward M. Kennedy (D-Mass.), who wrote it into the Senate version of the NIH Revitalization Bill. A House subcommittee will consider a similar bill on Tuesday; an amendment enlarging the authority of the Office of AIDS Research is expected to be added as an amendment.

Under the Senate bill:

■ The Office of AIDS Research would have a full-time director with no other responsibilities at NIH and an advisory council of scientists and lay people.

■ The director of the office, with help from the council and the heads of NIH institutes, would formulate a long-range plan addressing, among other things, what is the best balance of basic and applied research and how much should be done inside and outside NIH. The plan also would set research objectives and an estimate of how much time and money would be needed to meet them.

■ Neither the head of NIH nor the secretary of Health and Human Services could alter the AIDS budget request, which would go directly from the AIDS research office to the president. The final appropriation would be disbursed to NIH institutes by the director of the AIDS research office, according to the strategic plan.

In its first year, the office would control only about 20 percent of the AIDS budget. This is because the director could not take money away from multi-year projects funded by NIH but being done by outside researchers, or from ongoing experiments by the institutes' own scientists. But as those projects ended, more of NIH's AIDS budget would come under the aegis of the director of the Office of AIDS Research, although probably never all of it.

■ If NIH's total AIDS budget rises, the director of the AIDS research could use 25 percent of the increase to pay for emergency research or help fill gaps in existing programs.

No one can say for certain that scientists would know more about AIDS and its treatment today if there had been more central planning from early in the epidemic.

But Harrington, a coauthor of the Treatment Action Group's critique of NIH, cited three examples of areas he thinks have been overlooked in recent years: HIV-related cancers (for human immunodeficiency virus, which causes AIDS), the syndrome of extreme weight loss experienced by many AIDS patients and certain questions about the immunology of the virus.

Some activists say an empowered Office of AIDS Research could streamline research.

Derek Hodel, of the AIDS Action Council, last week questioned whether NIH needs nearly a dozen "clinical networks," which are groups of HIV-infected persons in treatment trials. He suggested the groups could be merged for patient studies, saving administrative costs.

Proponents of the bill have sent some members of Congress a list of 78 researchers who favor the proposed changes. Among the scientists skeptical about the reforms, however, are the heads of 22 institutes and centers at NIH, who sent a letter to NIH Director Bernadine P. Healy last month saying, in part, that the "additional bureaucratic layer ... will have the effect of impeding the progress of AIDS research and, at the same time, having negative effects on non-AIDS research." Several institute directors would not discuss the Senate bill, and Healy was unavailable for comment.

Other groups critical of the Office of AIDS Research's proposed power to allocate research funds include the independent advisory council of the National Institute of Allergy and Infectious Diseases and the Infectious Diseases Society of America.

Some of the changes envisioned in the Senate bill are not without precedent at NIH. Since the Nixon administration declared a "war on cancer" in the 1970s, the National Cancer Institute has had a budget that is submitted directly to the president, bypassing the NIH hierarchy.

AIDS research, however, cuts across more fields than cancer research, which would make the director of the AIDS research office uniquely influential over a highly visible field of scientific inquiry.

John Bartlett, an AIDS researcher and the head of infectious diseases at Johns Hopkins Hospital, said last week that although he does not have strong feelings about the bill, he doubts that changes in the research bureaucracy are a key to progress in AIDS.

"On the surface, this kind of organizational control has an intuitive attractiveness that can be overly simplistic and actually turn out to be destructive rather than constructive," he said. "Life is a lot more complicated, and I don't think this should necessarily be viewed as a step forward."

THE PRESIDENT HAS SEEN
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Where Will Clinton Stand on the Issue of Family Values?

■ **Policy:** Two advisers have drafted wide-ranging proposals aimed at protecting children and giving parents more assistance. Now it's up to the President to establish his priorities.

By LYNN SMITH
TIMES STAFF WRITER

Plunging into the thorny thicket of family values, advisers to President Clinton have proposed that he wage an intense campaign against out-of-wedlock births, make divorce more difficult, mandate drug treatment for pregnant addicts and try to make parents and the media more responsible toward children.

The proposals can be found in a handbook, "Mandate for Change," published recently by Berkley Press and endorsed by Clinton. It was prepared by the Progressive Policy Institute, the think tank of the Democratic Leadership Council, which Clinton once headed and whose president, Al From, leads Clinton's transition team on domestic policy.

The authors of the book's family policy section also propose tax subsidies for middle-class and working-poor parents, federal assistance for child support, quick passage of the Family and Medical Leave Act and government leadership in making workplaces more "family friendly." In addition, they emphasize family preservation over foster care.

Will any of these proposals come close to materializing? Observers say it depends on the priorities Clinton chooses within heavy budget constraints and how he deals with opposition from the right and the liberal wing of the Democratic Party.

The authors of the section on family policy are William A. Galston, a public affairs professor at the University of Maryland who is also Clinton's adviser on plans to link national service with student loans, and Elaine Ciulla Kamarck, a senior fellow at the Washington-based Public Policy Institute.

Galston said he and Kamarck aimed to carve a path somewhere between traditional liberal and conservative notions of what is best for families.

"Traditional liberals have focused on economic problems to the exclusion of culture and family structure, and conservatives have done just the reverse. It's not a useful debate to continue," Galston said.

Some of the proposals ring a moralistic bell, not unlike former Vice President Dan Quayle's attacks last year on single mothers and the media. But Galston said what Americans *really* want is to improve family life, not to condemn other lifestyles.

"Americans are very worried about the state of the American family and of children," said Galston.

"Americans are very worried about the cultural sea on which families are floating. They see the media, particularly TV, as an almost uncontrollable force that diminishes their own efforts to bring up children and impart to them the common-sense values they would like them to cherish."

Some conservatives, pleased by Galston's and Kamarck's tax-relief and pro-marriage proposals, say they are nonetheless bothered by the idea of federalized child support.

"It's basically a new government subsidy for single parents. That would be disastrous," said Robert Rector, family issues analyst for the conservative Heritage Foundation, which published its own manifestoes on public policies for the Reagan and Bush administrations.

Rather than forging a centrist path, the Galston/Kamarck proposals represent a "deep schizophrenia" within the Clinton Administration, Rector said. He said he expects opposition to the proposals to come from liberal Democrats and to be carried out behind the scenes.

Please see VALUES, B11

VALUES

Continued from B10

Here are some of the proposals in more detail:

Divorce

Galston and Kamarck say the child support system should be federalized to ensure that payments are made. Payments should take into account the fact that motherhood often diminishes a woman's earning capacity, they say, and they propose that, in general, divorce should be made more difficult.

Child Subsidies

For middle-class families, Galston and Kamarck say government should provide a package of tax cuts that includes an \$800 increase in the personal exemption for parents of preschoolers. The exemp-

tion would be gradually phased out so that by the time a child is 11, the relief would be the same as current exemptions.

In addition, they say, single parents should be taxed at the lower rate that applies to married couples. And the government should explore an increased personal exemption for families caring for relatives over 70 in their homes.

Galston and Kamarck also propose an expansion of the Earned Income Tax Credit for working-poor families, whose children make up more than half of all poor children. The proposal builds on a \$12.4-billion expansion of the credit passed by Congress last year.

Some critics say the tax cuts would be better directed to the poor, rather than spread around to include the middle class. Irv Garfinkel, Columbia University professor of contemporary urban problems, said that, rather than an exemption increases, he prefers Clinton's stated campaign proposal of a refundable tax credit, which would provide more real relief to

Los Angeles Times

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poor families. Garfinkel added: "The big issue as to whether anything happens in this area is the cost."

Help for

Working Parents

The President should sign the Family and Medical Leave Act, reintroduced Jan. 5, as a "minimum signal" to businesses of what they ought to do. The act would guarantee up to 12 weeks of unpaid leave for family members who need time off from work to care for a newborn infant or a seriously ill child, parent or spouse or to recover from their own disabling illness.

The family leave act is seen as largely symbolic but has widespread congressional support. Indications are that it will be passed this month, said Mike Russell, spokesman for the House Education and Labor Committee.

As one of the nation's largest employers, the federal government, Galston and Kamarck say, should adopt family-friendly poli-

cies, particularly home-based work and telecommuting.

Parental Responsibility

Galston said Clinton should help families by creating a "certain tone, even a certain moral tone, as a critical supplement to the law." He should use the "bully pulpit" of the office to encourage states to pass laws like California's Street Terrorism Enforcement and Protection Act, inspired a Los Angeles city ordinance to punish parents for their children's gang-related activities. It was successfully challenged by the American Civil Liberties Union and is pending before the state Supreme Court.

Family Preservation

"The child-welfare system is in need of a massive overhaul from the top down," Galston and Kamarck write, and they promote in-home family-preservation services for the poorest of the poor.

Typically, family-preservation programs send counselors into the homes of at-risk families to teach parenting skills in the hopes that the state won't have to intervene and place the children in the "confusing and ultimately damaging world of foster care," the handbook says.

Media

Claiming that the media share responsibility for family disintegration, the authors stop short of proposing government regulation, instead suggesting that Clinton promote a "broad national discussion" of media responsibility.

Some observers expect Tipper Gore, who championed warning labels on explicit recordings, to lead a campaign advocating more media responsibility. But according to media critic Michael Medved, "What's problematic is that the Clinton-Gore ticket got a huge amount of money from Hollywood. So Tipper has been very quiet on all this for a long time."

Los Angeles Times

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Barbara J. Coombs

Community Values and Health Care Costs

PORTLAND, Ore.—During the campaign, both Bill Clinton and Al Gore invoked themes of community values. "We need more than new laws," Clinton declared. "We need a new sense of community." Al Gore asserted it was time for our rights as individual people to be justly balanced with our responsibilities as citizens. They talked about respect toward others and an attitude of restraint in human affairs.

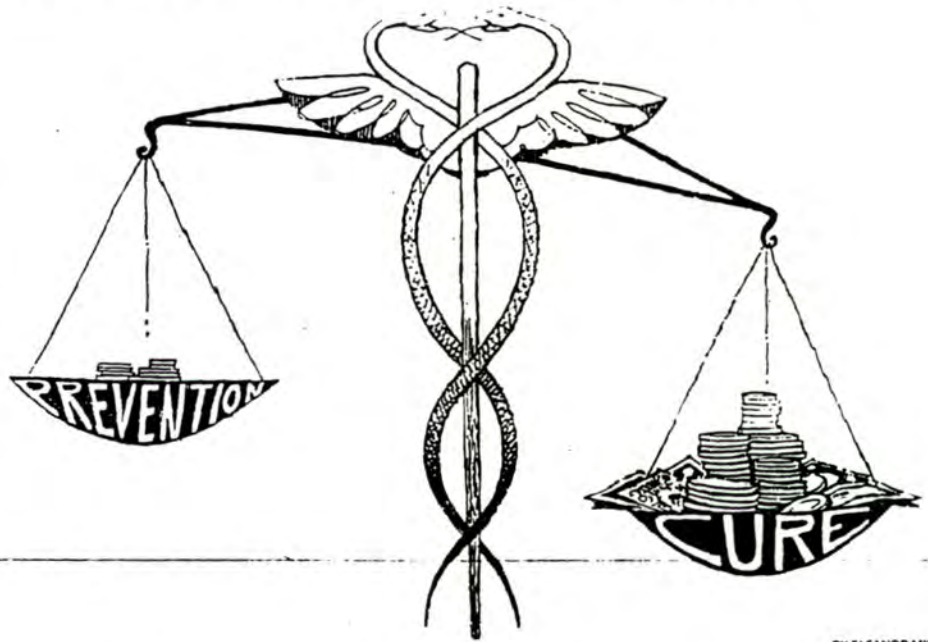
One way they can put these ideas to work is by accepting the Oregon Plan for health care, a controversial proposal that was put aside by the Bush administration but is now back on the table. In the past Al Gore has called discussion of the Oregon Plan the single most important health care debate in the United States. It is important in part because it raises the question of what role community should play in individual health care decisions.

The Oregon plan stands for the infusion of community values into those decisions and into the processes of problem-solving and resource allocation. The new administration might look to Oregon to discover how the sense of community it seeks can guide the work of dedicated people to create health care solutions.

I submit that the Oregon Plan, and specifically its process of ranking health services, embodies the first cure for a profound imbalance in American thinking about individual choice and the utilization of resources. It is a call to inject a sense of community obligation into decisions we make in our private lives. It would have us examine how we use medical resources—and by extension *all* resources—in the larger context of society's needs and priorities. It is a courageous and intelligent effort to achieve a more just balance between the needs of the community and the rights of the individual.

The struggle to secure individual rights has been crucial to American democracy, but we now need new covenants between individuals and community to guide us in the '90s and beyond. The Oregon plan is one such covenant.

Voices across the political spectrum decry the diminished moral character of the country, but it is increasingly apparent that our social ills are much more malignant than platitudes about "family values" can describe. Writing in the *New York Times*, Cornel West, professor of religion at Princeton, lays blame for the Los Angeles riots on societal trends that have created a "rootless, dangling people with little link to the supportive networks—family, friends, school—that sustain some sense of purpose in life." He



BY ELEANOR MILL

asserts that the collapse of communities has left us lacking the forces that have always helped a people face despair, disease and death and carried virtues such as dignity, decency and excellence across generations. One of his prescriptions for recovery is a focus on the common good to shape and sustain our national destiny.

Oregon's list of health services, with its setting of priorities, would be one step in this direction. Crafted from societal ethics revealed in community meetings throughout the state, it is based on the principle that effective treatment, offering the greatest good, should have the highest priority. It is the first open repudiation of the questionable assumption that all health care services are equally valuable and desirable and that no expense should be spared if there is *any* chance a particular service could enhance the wellbeing of a patient. It weighs the value of a service by the magnitude of the good it will likely do. Does the treatment actually make a significant difference in the course of recovery? Is the cost of the treatment proportional to its effectiveness?

The plan emphasizes services that are valued by Oregonians, such as health education and relief of suffering during the process of dying. It deems less important those services that neither cure disease nor relieve suffering, such as treatment for the common cold and other self-limiting illnesses. The plan embodies the obligation we all have—insured, uninsured, rich and poor—to avoid squandering resources on ineffective, futile and unnecessary treatments.

By setting priorities, the plan accepts the fact that no service delivery takes place in a vacuum, that each dollar spent on ineffective or unnecessary treatment is one less dollar for care that would strengthen the community, build hope, effect a cure or relieve suffering. Under the Oregon Plan, businesses, taxpayers and other purchasers are not asked to provide every imaginable medical service with any possible benefit, but rather a basic benefit package of essential services. The community has volunteered to extend services to those who are without access to care, and it would receive in return the assurance that pooled resources will be spent in a manner affecting the greatest good for the greatest number of people.

Resources are finite, everyone dies, and disease is not fair. Those fortunate enough to live in community can accept these truths with courage and grace. It is the compassion in a human face that comforts us, the toil of human hands that brings us hope, and the sound of human voices raised in prayer and song that bears witness to the spiritual peace we seek.

But in order for the community to do all these things, it must be nurtured and honored and its limits respected. We cannot doggedly pursue only our self-interest and expect a compassionate community to sustain us when sickness, sorrow and pain come to us.

The writer is an attorney, physician assistant and administrator of the Senate Committee on Health Care and Bioethics in Oregon.

The Washington Post

2/15/93

A Dose of Reality

By Mike Causey
Washington Post Staff Writer

National health insurance is a top priority of Congress and the White House. But some readers suggest that the politicians who will design the program are out of touch with reality because they are covered by the multi-option government health program that is open only to current and retired civil servants and politicians.

Today's Monday Morning Quarterbacks suggest that President Clinton try a health maintenance organization or that politicians share their health plan with the rest of the nation:

■ "We are surely in a health care crisis. It is such an emergency that the command and control center has been removed from the National Institutes of Health and Department of Health and Human Services into the White House. That is almost like moving the 'War Room' from the Pentagon to the Oval Office itself.

"Pundits predict that 'managed care' in 'super Health Maintenance Organizations' will be the cure. Some definitions are in order.

"Managed care is when approval for an extra day in the hospital for a coma patient in Little Rock, Ark., is being granted by a nurse in Appleton, Wis. This supervision can be tedious and upsetting, on both ends, and may not be cost-effective at all, because it can take more time to explain to the nurses why the tests are necessary than it takes to order and interpret the results of the tests. If doctors charged for all the hours they spend talking to 'managers,' there might be a net loss of money on managed care.

"The difference between a

regular HMO and a Super HMO is that in an HMO your doctor is in the next county. But in a 'Super HMO' he is in the next state. There is not true rationing, except by busy signal trying to get your 'gatekeeper' to come to the phone. Why don't they have a phone at the gate?

"President George Bush was enrolled in the Blue Cross-Blue Shield plan under the federal employees health benefits program. What about President Bill Clinton?

"... Sending Chelsea Clinton to Sidwell Friends School was reasonable for security purposes, but there is no reason President Clinton couldn't enroll in an HMO, like the George Washington Hospital HMO, just down the street from the White House.

"The GW plan is a very good (but not a 'super') HMO. It would give the president a taste of 'managed care' before he makes the big decision about the future of American health care."

Dr. John H. Lossing, M.D.
Washington

■ "Members of Congress, the president and other high government officials are all eligible for coverage under the federal employees health program. The government pays 60-70 percent of the total premium, workers and retirees can switch plans once a year (and the plans must accept them regardless of age, health or preexisting medical conditions) and all benefits of the health plan carry over into retirement.

"I don't begrudge good health coverage to anyone. But while our national leaders are soul-searching about what is good for the rest of us, why don't they offer the rest of us what they already have?"

William E. Avis
Hampton, Va.

The Washington Post

2/15/93

The Xerox Health-Care Model

A Search for Limits

A periodic look at prescriptions for an ailing health-care system.

By MILT FREUDENHEIM

Special to The New York Times

STAMFORD, Conn. — Marie T. Lyons, a 28-year-old computer operations trouble-shooter at the Xerox Corporation, joined a health maintenance organization for the first time in late 1991, largely because the price seemed right.

As a single person, she pays \$6.33 in monthly premiums, while her employer contributes the balance of the \$183.43 a month that her H.M.O. charges. The big office machine manufacturer provides the subsidy to encourage workers to join H.M.O.'s that have met Xerox's standards for quality of care and service and, even more important, have held down costs.

Xerox, a \$17 billion company with 55,000 employees in 47 states, has been one of the most aggressive and innovative large companies in the pursuit of lower health costs. It has given its employees strong incentives to join H.M.O.'s, in which care is offered for a prepaid price and patients are limited in their choice of doctors, and the company has fostered competition among H.M.O.'s for its contracts.

Rewards and Limits

In its stress on managed care and competition, the Xerox approach includes several elements of an approach known as managed competition that has gained the interest of many economists and President Clinton.

Yet Xerox, which has been refining its strategy since the mid-1980's, still faces jumps in health costs that it considers unacceptable.

Although one company with employees spread around the country cannot make the sweeping changes in the health system that many experts think are needed, its experience offers lessons about both the potential

rewards and limits of managed care within the current system.

More than 60 of the 190 H.M.O.'s that serve Xerox employees are limiting their price increases for Xerox workers this year to an average of only 5.5 percent, well below the rise in health costs most companies face. But most of the H.M.O.'s have not held down cost increases as extensively.

And 16,500 Xerox employees — 30 percent of the company's work force — still choose to remain in traditional insurance plans despite the extra cost.

Like many Americans, including Xerox's chairman, Paul A. Allaire, they want to be able to choose any

Continued From First Business Page

family doctor or medical specialist rather than being limited to a list of H.M.O.-approved physicians who would control the patients' access to specialists.

'He's the Best'

"I love my doctor; he's the best," said Nancy-Jean Bono, a 29-year-old administrative assistant at Xerox headquarters in Stamford. To keep him, she pays \$137.83 a month to cover her family. She could get similar coverage in an H.M.O. for less than \$20 a month. But then she would need a new doctor. She said that her current physician prefers to remain independent.

So while nearly two-thirds of the company's employees have selected the prepaid health plans (and about 7 percent are covered by their spouse's benefits), Xerox's overall medical costs are expected to rise by a burdensome 12.7 percent in 1993, quadruple the projected national inflation rate. Projected costs per active employee jumped to \$4,324 this year from \$3,154 in 1990, the first year of the company's current system.

Even a company as large and profitable as Xerox blanches at the prospect of facing 12 percent annual increases, doubling its expenses every six years. If this continues, Mr. Allaire, the chairman, said, "it would clearly make us less competitive internationally." His main competitors are Japanese companies that spend far less than their American counterparts for employee health care.

The company uses many of the country's most admired health maintenance organizations, including the Kaiser Foundation's national network and two in Rochester, where the largest cluster of Xerox employees live.

'Not the Magic Bullet'

'Health maintenance organizations are the cornerstones of most proposals to address the nation's growing medical problems. But most have yet to demonstrate significant, steady savings. "H.M.O.'s are not the magic bullet," said Dr. Robert Brooks, health sciences director at the Rand Corporation, an independent research center in Santa Monica, Calif.

Following a practice called shadow-pricing, H.M.O. charges usually rise steadily at a rate that is just a bit lower than traditional health plans. Kaiser, for example, increased its rates by 12.8 percent a year, on average, between 1990 and this year, while national rates for traditional fee-for-service medicine were rising about 16 percent a year.

And too often, economists and other experts add, H.M.O.'s attract the younger and healthier members of a group who need relatively little care, but this is not reflected in lower rates. The fee-for-service plans, meanwhile, get more than their share of people who believe they have medical needs, said Helen Darling, Xerox's health-care strategy manager.

Kaiser, which is under pressure from large customers like the California Public Employees Retirement System and employers hit by the recession in its California stronghold, is raising its 1993 rates only 6.8 percent, on average, across the country. In several regions, Kaiser is wooing Xerox employees with 5.5 percent increases.

In Rochester, where Xerox has joined with other large employers to restrain medical spending, prices are 20 percent to 30 percent below national averages. But Rochester Blue Cross has also posted H.M.O. rate increases averaging about 12 percent for the last four years. In the same period, its fee-for-service increases averaged 17 percent a year.

Contrary to the common perception of health maintenance organizations as the lower-cost choice, Xerox said H.M.O. rates for its Rochester employees were currently higher than fee-for-service charges there.

Traditional Care

Traditional medicine is expensive for Xerox and getting more so. It is expected to cost \$6,322 per active employee in 1993, up 15.4 percent from last year. Xerox projects \$3,846 per employee for H.M.O.'s in 1993.

And even though participants in the traditional health plans face steep deductibles before the company starts picking up most of the costs (they have to pay all charges until they reach 1 percent of their income), Xerox estimates it will spend nearly half of its \$235 million health-care budget to cover these employees.

Xerox promotes enrollment in its lowest-cost H.M.O.'s by paying more than 90 percent of the charges. These H.M.O. members pay only \$239 a year

The New York Times

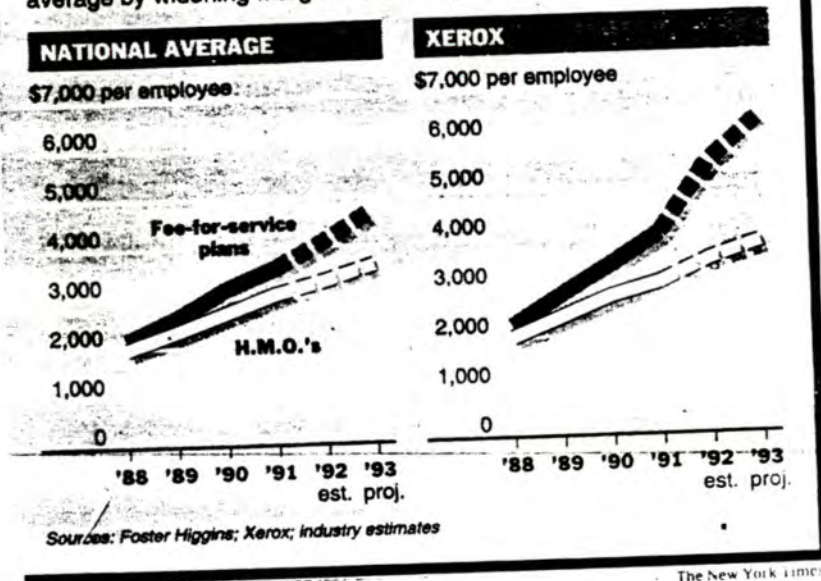
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Soaring Cost of Health Benefits

Xerox Corporation's costs per worker for coverage by health maintenance organizations (H.M.O.'s) are about average nationally, but its fee-for-service plans' costs have been exceeding the national average by widening margins in recent years.



A BIAS IN HEALTH-CARE POLICY

The President's health-care policy was to have balanced regulation and competition. So far, it seems to emphasize regulation. Page A14.

for full family coverage, which includes expensive items like fertility therapy as well as free checkups and other preventive care.

To steer people away from H.M.O.'s that charge more, the employees' share of the costs is in-

creased. Employees pay the most, \$1,654 a year for family coverage, for the company fee-for-service plan, which covers 80 percent of physician fees but only after the employee has paid 100 percent of the deductible.

6 Picked to Direct Network

Patricia M. Nazemetz, Xerox's benefits director, chose six H.M.O.'s, including some of the nation's largest, to direct the network. The goal, she said, was to concentrate the company's buying clout, which had been dispersed across 250 Xerox offices

and 180 H.M.O.'s.

"It struck me that I wasn't able to have a relationship with 200 H.M.O.'s," she said.

With the smaller group of H.M.O.'s, Xerox was able to insist on improvements in quality of care as measured by surveys that asked employees to assess their health plan's performance. "Some are doing a very good job," she said, "but it doesn't mean they couldn't get better."

"Can they say to a member, for example, 'You've just passed your 40th birthday; it's time for your mammogram?'" she asked. "Are they saying, 'the last time you had your blood pressure checked was 12 months ago; it's time to come back in?'"

The Choice at Headquarters

Employees at Xerox headquarters in Stamford have a choice of three of the six H.M.O.'s in the company system: Kaiser Foundation Health Plans; U.S. Healthcare, whose home office is in Blue Bell, Pa., or Prucare, which is owned by the Prudential Life Insurance Company in Newark.

The other H.M.O. contractors are Blue Cross and Blue Shield of Rochester, where Xerox has 13,000 workers; FHP International, based in Fountain Valley, Calif. and the HMO Group in New Brunswick, N.J., an association of several nonprofit plans. Besides their own enrollees, these six also supervise the scores of independent Xerox-approved H.M.O.'s around the country, so employees usually have a choice.

Xerox is ready to "share our ideas with the Clinton Administration, if they're interested," Mr. Allaire said. But he avoided making specific recommendations. "I'm not sure we could say that what Xerox did is right for the country," Mr. Allaire said. "It sure isn't perfect."

The New York Times

2/16/93

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Handwritten signature: "A. A. Allaire"

Wrestling Health-Care Costs to the Mat

A1 By ROBERT REINHOLD
Special to The New York Times

SACRAMENTO, Calif. — From his third-floor office in a sleek building near the domed Capitol of California, Tom J. Elkin is a commander in the war against the ever-rising costs of health care.

"I know what is a reasonable price for a compact disk or a refrigerator," he said. "But what is accessible health care worth? I don't know yet what a fair price is for the product we're buying. That's what we're after."

Promising Prototype

Mr. Elkin has plenty of ammunition in this crusade to drive costs to rock bottom. Each year he buys \$1.3 billion worth of health care as associate executive director of the California Public Employees' Retirement System, or Calpers, which represents more than 875,000 state and local government employees and their families across California.

He has taken up the banner of "managed competition," a hotly

A California Agency's Efforts Are Forcing More Competition

debated approach for reorganizing the nation's medical care that has attracted growing support in Washington. In essence, the approach holds that costs can be controlled by forcing health providers to compete with one another under government supervision.

Calpers is a prototype for insurance-purchasing cooperatives, a concept that lies at the heart of managed competition. The cooperatives are envisioned as giant pools that smaller companies and individuals would join to gain leverage in buying coverage from competing health plans.

But Calpers has already shown promise, even without the benefit of the sweeping national changes in insurance, tax incentives and delivery of care called for by pro-

ponents of managed competition. Exercising the power of its numbers, Calpers shocked the health industry in California last year by freezing new enrollments for the state's largest insurer, Kaiser Permanente, because it refused to restrain its rate increases. Apart from Kaiser, Calpers was able to hold 20 other insurers it deals with to average premium increases of 3.1 percent in 1992, when the state industry average was 13.2 percent.

Favored by Clinton

Today, Calpers is expected to announce what it considers another great success: average premium increases in the low single digits for 1993.

Promoting such competition has been endorsed in principle by President Clinton and has drawn support in both liberal and conservative circles. But the full-blown proposal for managed competition includes other major changes that are more contentious, and it is not

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California Plan Tests Popular Theory Of Holding Down Health-Care Costs

Continued From Page A1

clear how many Mr. Clinton or Congress will embrace.

Managed competition, as envisioned by the informal group of health economists who originated the concept, would require all employers to offer coverage to full-time workers. Tax incentives would push most people into health maintenance organizations or other groups that offer comprehensive care but limited choice.

On the other side, most doctors, hospitals and insurers would join health maintenance organizations, or H.M.O.'s — clinical partnerships that curtail their freedom but offer subscribers health care for a single overall fee. To promote comparison shopping, the Government would study each H.M.O.'s quality and cost of care, while a national board would decide what coverage should be mandatory and which medical procedures were wasteful.

Skeptics say managed competition, with its combination of regulation and free market innovation, is untested. In fact, it is being tried here in California to some degree, although these efforts cannot be fully effective in the absence of a comprehensive national scheme.

Insurers Forced to Cut Waste

Pressure from Calpers, an early example of the kind of giant insurance-purchasing cooperatives called for in managed competition plans, is forcing Kaiser, Health Net and other insurers here to root out wasteful administrative costs, reduce unnecessary care and squeeze hospitals and doctor groups to lower their rates.

"The experience of Calpers is a preview of what the nation will encounter, given President Clinton's commitment to hold down health-care costs," said Gray Davis, the state Controller, who sits on the 13-member Calpers board. "Ultimately something has to give — speed of access to elective surgery, the right to choose a doctor, the range of procedures that will be covered. Everybody wants the best care."

But Mr. Elkin maintains that far more fat can be trimmed away before consumers notice such effects. "You'd be amazed how low some of these plans will go with their rates before it goes to the quick," he said. "There is an astronomical amount of unnecessary administration and unnecessary procedures. We have not gotten fully into it yet."

Elective: a Point of View

Yet one person's unneeded procedure — a hip replacement, for example — may be what another doctor and patient feel is necessary, illustrating how divisive any uniform national standards may become.

Calpers, a 57-year-old agency, administers health-care plans not only for the state government but also for 784 other public employers, including local school districts, cities and even tiny entities like the California Prune Board, which has eight employees.

A Search for Limits

A periodic look at prescriptions for an ailing health care system.

Joining the cooperative gives each employer bargaining power it would otherwise lack. Calpers offers its members a choice among 19 H.M.O.'s, with which it negotiates rates and services; it offers a traditional health insurance plan for members in remote areas not served by H.M.O.'s.

The agency was galvanized into creating an ambitious program to eliminate waste when fast-climbing premium increases peaked at 21 percent in 1990. With the advice of Alain C. Enthoven of the Stanford University Business School, a founder of the managed-competition concept, Calpers took a tough new stance starting in 1991 and began to standardize benefits among plans to make comparisons easier. It demanded detailed data from each provider so that the costs of services could be compared, then used that information to encourage carriers to cut waste.

For 1992, it set a zero increase as its initial negotiating position. When Kaiser, an H.M.O. that cares for about 345,000 Calpers members, insisted on increases of more than 10 percent, Calpers barred new enrollments in it.

A Bit of Consumer Choice

"That served as an example that Calpers meant business," said Scott R. Kelly, vice president of major accounts at another major carrier, Foundation Health, a California Health Plan, which is a profit-making company based in Sacramento that serves about 78,000 Calpers members. Foundation settled for a 2.9 percent increase. (Kaiser said it was unable to go so low because it offered richer benefits.)

For the most part, the Calpers system appears to be well accepted by patients, although some younger, healthier workers have complained about rising premiums. Under the system, a member chooses among participating H.M.O.'s and may then pick a personal physician within the H.M.O. selected. If the patient seeks care outside the H.M.O., he must pay himself.

For all the new pressures, leaders of Kaiser and the other H.M.O.'s here say they prefer managed competition to alternative proposals because it maintains a measure of consumer choice and avoids the kind of government-run plan used in Canada, which leaves insurers with little role.

Indeed, any system that pressures more people to join H.M.O.'s stands to benefit large, efficient operators like Kaiser, which has 4.7 million members and 6,500 doctors in California.

"We are a strong exponent of managed competition," said Robert J. Erickson, senior vice president for government relations for Kaiser in California. He added that Kaiser expected to ask Calpers for "little or no rate increase" for the coming year.

Treatment by the Rules

H.M.O.-type medicine has long been more accepted by patients and doctors in California than in some other areas, like New York City, and it remains to be seen whether Calpers's success could be matched in

communities that resist H.M.O.'s. But even here, patients may soon find their care more closely managed in ways like these:

¶Health Net is beginning an experiment this month in which neonatal nurses will make six monthly telephone calls to certain pregnant Calpers members to give them advice and encourage them to seek early maternal care. The results will later be compared to other pregnancies in which such calls were not made.

¶The 80-doctor Bay Shores Medical Group in Torrance has installed a new computer system meant to thwart patients who visit different doctors within the group to get excessive prescription pain killers and other drugs or to seek redundant care. The system is also used to detect when doctors prescribe excessive diagnostic tests.

¶Southern California Permanente Medical Group, which contracts with Kaiser to care for 2.3 million people, is developing strict guidelines for its 3,200 doctors to bring consistent care

A state agency with the muscle to take on the health-insurance industry.

to its network of hospitals and clinics. For example, its medical director, Dr. Frank E. Murray, said the guidelines would probably eliminate routine mammography for women before age 50 because research had found no benefit in early testing.

Such tight management has forced a new reality on doctors. After eight years of private practice, Dr. Mark P. Schwartz, an internist, found his work dwindling as his patients joined H.M.O.'s. So he left his practice in 1990 and became a salaried employee of a group, Bay Shores in Torrance. "The handwriting was on the wall," Dr. Schwartz said.

The change was something of a shock. "In a setting like this, there's a great deal of attention to the dollar figure," he said. "So I had to reorient my thinking in terms of what can I spend for a test."

"The consensus is there has not been any suffering in patient outcome. But my big fear is how far this will be taken."

William Raspberry

A Health Plan That Makes Sense

TALLAHASSEE—In government, as at the race track, says Gov. Lawton Chiles, "you make dust or you eat dust."

The longtime U.S. senator and, for the last two years, governor of Florida does not intend to eat dust on health care reform.

"As of December 1994," he says confidently over breakfast at the governor's mansion, "everyone in Florida will have health coverage."

If he's able to deliver on that one, he's likely to be well ahead of most states and the federal government as well. President Clinton's universal health care plan isn't even on the drawing board yet. Indeed, Chiles thinks the White House could learn a thing or two by watching Florida.

The essence of the plan, which Chiles expects to begin implementing next July, is something called CHPAs, Community Health Purchasing Alliances, which pool employers, government and individuals into an organization that then can negotiate with medical care providers for the best combination of care and price.

The trick is to have a big enough bargaining unit to capture the concern of the providers. Florida's unit would begin with state employees and Medicaid enrollees, to which would be added

"Florida would pay doctors and hospitals to keep people well."

Medicare recipients (assuming the necessary federal waivers can be obtained) and any private employer groups that want to join.

One intriguing difference between the Florida plan and others being talked about to address the health-cost crisis is that Florida would pay doctors and hospitals to keep people well. In effect, as Chiles explains the scheme, a health care provider might negotiate an annual fee based on last year's income. But once the price is agreed to, necessary treatment and preventive services would be provided with no further billing. Thus it would, for the first time, be in the medical profession's interest to prevent health problems rather than to treat them after the fact.

"That's the big difference," says Chiles. "As things are now, doctors and hospitals take the attitude 'the more I charge the more I make.' So they look for ways to charge more. The sicker the patient, for example, the more procedures they can order. We tried to control the costs by putting limits on the price of individual procedures. The result? They just ordered more procedures. You can't beat them at that game. Our plan changes the incentives 180 degrees."

There's already been one 180-degree turn—in Chiles' thinking on universal care.

"I used to think you couldn't get universal coverage until you first got the costs down. Now I'm absolutely convinced it's just the other way around. You can't get the costs down until everybody is covered."

What obscures this truth, he says, is something he calls "cost shifting." If you look only at money paid to private physicians under the present system, bringing in the currently uninsured—some 2.5 million in Florida and as many as 35 million nationally—would seem to add significantly to the cost of care.

But not as much as we might think. Says Chiles: "The way things are now, the hospital emergency rooms become the primary medical care for many uninsured people. If my child gets a fever, I call the pediatrician, who tells me to give him a couple of aspirin, stick him in the tub and call in the morning. An uninsured parent might just take the child to the emergency room. The hospital, of course, has to charge paying patients enough to cover the cost of this treatment, so insurance premiums go up. More than that: Many adults postpone medical treatment at the beginning of an illness—and they ignore preventive care altogether—and only show up at the doctor when they've got a really serious (and expensive) condition. The point is, one way or another, we still pay."

Chiles acknowledges that there will be some added start-up costs for the new plan, and he is frank to say that some procedures—liver transplants, for instance—might not be covered at all under his system. But he is convinced that the savings from long-term cost containment will make the plan a bargain—and possibly a national model.

"I'm not saying our plan is the only way to achieve universal coverage and contain costs. I've just come back from the Governors' Conference in Washington, and I know what Oregon is trying to do. Vermont, whose governor [Howard Dean] is a physician, has an interesting plan. Hawaii has a single-payer plan that covers 80 percent of its people. There's a lot of interesting stuff going on."

And much of it is going on here, where Chiles expects shortly to begin a campaign to reduce the infant mortality rate, and maybe later to have a go at nursing home costs. There are problems with his current plan, including opposition from some physicians' groups and the necessity for a number of federal waivers. But it makes so much sense—imagine, paying doctors to keep us well!—that you have to hope it works.

The Washington Post

2/10/93

2/8/93

Broad Veterans Health Care Reforms Urged

By GEBE MARTINEZ
TIMES STAFF WRITER

WASHINGTON—In an effort to repair a health care system on the verge of collapse, Veterans Affairs Secretary Jesse Brown is proposing sweeping changes that would enable the agency to raise money, improve its medical facilities and extend treatment to millions of vets who now are shut out.

The nationwide network of 680 veterans hospitals, community clinics and other health facilities has suffered, critics say, from decades of meager financing, inadequate staffing, lax management and political neglect. Barely able to address the needs of a relatively small "core group" of poor and disabled vets, the system is generally shunned by other veterans who have the ability to obtain care elsewhere.

Now, as the Clinton Administration begins work on a comprehensive national health care reform agenda, Brown said he sees an opportunity to revitalize the veterans health system by allowing it to compete on more equal footing with other medical providers.

"It's my goal to get [veterans] health care reform done in a year, and it's my vision that we want to provide access to all veterans who want it," said Brown, who headed the 1.4-million-member Disabled American Veterans organization before Clinton chose him for his Cabinet.

Brown said he wants legislative authority to obtain reimbursements from Medicare, Medicaid and other third-party payers for patients treated in veterans facilities. He also wants to begin selling health policies to veterans who are not covered by other insurers and who do not qualify for mandated

Please see VETERANS, A7

VETERANS: Big Changes in Health Care Are Sought

Continued from A1
free care.

The obstacles—mostly financial—are formidable. Brown's proposals will have to be balanced against competing pressures to develop a plan consistent with the Administration's goal of reducing the federal budget deficit.

Still, said Brown, a "window of opportunity" has been created by the election of President Clinton, who made health care reform one of his principal campaign platforms. And as a member of the health care task force headed by First Lady Hillary Rodham Clinton, Brown will be able to advocate the interests of veterans as the Administration crafts its reform agenda.

If enacted, Brown's proposals could bring about a radical transformation of a self-contained health care system that dates back to before the Civil War. Originally designed to care for soldiers wounded in war, the system gradually was expanded to accommodate veterans with illnesses and injuries unrelated to their military service.

But in recent years, as the federal deficit has grown and funding has become more limited, the Department of Veterans Affairs has been forced to cut back service significantly by tightening eligibility rules and, in some cases, simply turning people away.

"Quality care has been going down, bed levels have been going down, staffing has been going down. People in the priority group cannot get into the system; they are on waiting lists; there's no follow-up care," said Rick Heilman, legislative director for the Disabled American Veterans. "The resources have been squeezed and squeezed and squeezed and squeezed, and the VA cannot take care of the system they are supposed to be taking care of now."

Bolstering the arguments of veterans advocates is the size of the constituency they represent: Roughly one-third of the nation's population is made up of potential beneficiaries and their families.

"This is not a political issue. We think it is a moral issue because of who they are and what they have done [for the country]," said House Veterans Affairs Committee spokesman Jim Holley.

Under the law, the department is required to provide hospital care to a core group of about 3 million vets who suffered service-related disabilities, who have other disabilities and fall below specified income levels or who were prisoners of war. Even members of this core group sometimes cannot obtain outpatient or nursing home care.

For the remaining 24 million vets who do not meet the core group's stringent income and disability criteria, the department is authorized to provide care at its discretion to

those who agree to pay a portion of the cost. But the network is so overtaxed that few discretionary patients ever enter the system.

The department that Brown heads depends almost entirely on congressional appropriations for its operating revenues. Its current medical care budget of \$14.6 billion has not grown sufficiently to keep pace with rising medical costs, officials complain.

Lacking sufficient resources, "more and more of America's veterans have been turned away from . . . facilities or have chosen not to seek care from the [Department of Veterans Affairs] because of reports of the erosion of the quality of available care," Brown said in written testimony to Congress.

The changes advocated by Brown are designed to provide the money needed to improve the quality of care at veterans facilities by giving the department the ability to tap new sources of revenue.

Two key sources are Medicare, the federal government's health insurance program for the elderly, and Medicaid, the federal-state program that provides care for the poor, including older Americans who need nursing home care. Under current practices, Medicare and Medicaid patients have few incentives to use veterans health facilities, and any reimbursements flow into the U.S. Treasury instead of the department's coffers.

Brown hopes to persuade Medicare and Medicaid officials that his system could treat veterans and their families at lower cost than other health care facilities, and to obtain legislative approval for direct reimbursements from both networks.

Brown wants to be able to begin selling a form of medical insurance to veterans who are outside the core group and who are not covered by Medicare, Medicaid or employer-provided health insurance. The policies would entitle the holders to receive a full range of health services at facilities operated by the department.

Brown's proposals would simplify the rules for determining eligibility. The 3 million vets in the core group would receive free care at all levels: inpatient, outpatient and extended. All those outside the core group would be able to obtain care as long as they were covered by some form of insurance or were willing to make out-of-pocket co-payments.

Brown said the ideas represent a "starting point" for discussion and could be revised before they are submitted to the White House.

Most experts agree that the veterans health care system badly needs repair.

An independent commission made up of 15 veterans, former government staffers and health care professionals told the George

2/8/93

Bush Administration more than a year ago that unless the system is infused with new funding, the number of acute-care beds would decline 25% by the year 2010.

The study characterized the quality of care at veterans facilities as "variable," and noted that eligibility rules for inpatient, outpatient and long-term care are unnecessarily complex.

"There was a time in the not-too-distant past where any veteran was entitled to the benefits," Brown said. "That kind of open-ended eligibility has shrunk. Now we are down to just providing mandated care."

Under the current rules, for example, a Vietnam veteran who became disabled in a car accident after the war and cannot work is eligible to receive free care only if his household income falls below \$23,290. If his income is higher, he must pay a deductible.

Even for those willing to pay such deductibles, the system will provide services only if space and resources are available. And they almost never are, according to veterans advocates.

Critics complain that even those vets who are eligible for free hospital care may not qualify for outpatient or nursing home care because the rules differentiate between degrees of disability, income levels, wars fought and other factors.

One likely point of contention involves how the department will define eligibility for long-term health care and under what circumstances home-based assistance should replace nursing homes. The population of older veterans, like that of the nation as a whole, is steadily increasing. The group also contains a disproportionate share of younger members with disabilities who will require long-term care.

"It's going to cost money, and it's going to cost a lot of money," said a congressional budget staffer. "There are a lot of people

who need long-term care and are not getting it."

Many of the findings advocated by the blue-ribbon commission were contained in a bill introduced in Congress last year. The measure did not advance beyond a couple of preliminary hearings, and the proposals to seek reimbursements from Medicare and Medicaid met with congressional resistance because of the potential fiscal impact.

Brown and others favoring third-party reimbursements argue that the practice would save money, not add to the costs. Many veterans, for example, obtain Medicare-covered care at private facilities that charge more than VA hospitals.

"The VA can treat patients cheaper than the private sector by at least 5%, which is a hell of a lot," Brown said.

While most veterans advocacy groups are supporting the proposed reforms, the American Legion's National Veterans Affairs and Rehabilitation Commission has expressed reservations about any changes that would require direct out-of-pocket expenses by veterans.

"But we also say that if it's necessary to collect money, it ought to be done on a veteran's ability to pay," said Frank Buxton of the American Legion.

Calling himself the "secretary for veterans affairs," Brown is confident the veterans health care network will remain independent. His predecessor in the Bush Administration, Edward J. Derwinski, was removed from office last year after offering to open underutilized hospitals in rural areas to non-veterans.

"It's my job to make sure that veterans are not adversely impacted in the nation's effort to balance the budget," Brown said. "We want to do our part, but we would want [the veterans budget] evaluated equally, across the board."

2/2

by *Fein and
Emanuel J.*

Freeze Health Care Costs

*And stop building
unnecessary facilities.*

Health care reform can't wait for the answers that normal political processes will yield. It will take two years or more before a compromise health care reform package is fashioned, enacted and implemented. But during that time, health care expenditures will not stand still; they will have risen yet another 20 percent, perhaps considerably more. Even worse, health care providers, anticipating a comprehensive cost-containment program, will view the next two years as an irresistible window of price-increasing opportunity. The costs of health care will grow by \$200 billion to more than \$1 trillion dollars. We can't grow the economy by drowning it in health care dollars.

To stop the hemorrhaging, there are two emergency actions the president should take immediately.

Proposal (1): Put in place now a wage-price freeze for the health care industry. This structure—analogue to the Cost of Living Council, part of the Economic Stabilization Program of the early 1970s—would remain in force until replaced by the new mechanisms created by the comprehensive health care reform legislation Congress will enact. Among the benefits of such a freeze are:

- A saving, over the next two years, of as much as \$200 billion in national health expenditures.
- Because tomorrow's permanent cost containment efforts will phase in at today's spending levels, we will enter the future at a lower expenditure base, reaping immense savings from then on.
- Accordingly, health care cost increases won't subvert either the economic stimulus or the long-term growth package the administration will submit.
- Health care interest groups will be far more likely to come to the bargaining table and play a constructive role in helping to develop the comprehensive reform program the nation so eagerly awaits. The desire to be rid of the freeze will do much to concentrate the mind.

The administration will be told this action is unfair and ineffective. It will be told that the earlier Economic Stabilization Program was fair and worked because it controlled all economic sectors, not just health care. But the fact is that today the rest of the economy is already stabilized at an inflation rate of about 3 percent. Today's problem isn't general runaway inflation, it is the particular run-away inflation of health care expenditures. We'd settle for health care increases of only 3 percent per year, but that's not even close to what we're getting.

The administration will also be told that a freeze won't really help, because when controls are removed we'll see a huge burst of pent-up increases. It's true that's what happened in the '70s. But the criticism misses the point: The freeze (or perhaps only a chill, if the health sector is permitted to increase in line with inflation in the rest of the economy) will not disappear into a void with nothing to replace it. Instead, the stabilization program will phase into a comprehensive long-run health care program with its own cost control mechanisms.

Proposal (2): Announce now that the administration will submit legislation to eliminate the automatic construction cost reimbursement provided by Medicare, NIH and other agencies for health facility construction that is undertaken after the date of the announcement. Today, expansion of hospital beds, ambulatory care facilities and research labs is done with borrowed money rather than donor dollars. It's easy to borrow that money when the federal government guarantees it will reimburse that share of principal and interest cost related to the patients it pays for and the research it sponsors. We often end up building facilities the community doesn't need but that institutions want in order to compete with their neighbors down the street.

Merely issuing the statement proposing legislation eliminating these construction guarantees will dry up the bond market and, thus, free capital for projects more important for America's long-run economic growth. Since today's construction leads to tomorrow's operating expenses, the statement will not only save money in the short run, but will generate even larger long-run savings of health care dollars. Individual institutions will certainly complain, but this short-run moratorium, to be replaced by mechanisms that will make certain that construction decisions consider community interests, will serve the nation well.

These two proposals deal with emergency cost containment measures that would save money today and, in so doing, would provide an immediate economic boost to the American economy. They should be seen, therefore, not only as relevant to the problem of health care costs per se, but as critical components of a deficit reduction and economic stimulus package. By reducing the rate of increase in employer health insurance premiums, the proposals would save employers as much as \$20 billion in the first year. Government at all levels would save even more, as would individual households. Slamming shut the current window of opportunity to increase health care costs and profits opens the door to economic growth.

Should we do this?

The Washington Post

2/8/93

20

Prognosis Good for Lower Medical Inflation

By MICHAEL RAPPEPORT

President Clinton demonstrated his strong desire to increase access to medical care and contain health-care costs by naming Hillary Clinton to oversee the realization of this elusive dream. Indeed, if Bill Clinton could have just one wish, he might well choose a medical inflation rate no higher than the overall inflation rate.

Surprise. Such a wish may well be on the way to coming true. In six months (April - October 1992), the annualized rise in the consumer price index was about 3.3%, while the medical component of that index was up 5.6%. This 2.3-percentage-point gap between medical inflation and overall inflation is the smallest in years and closing steadily. Just a year ago it was about 4.3 percentage points, which in turn was a major improvement from the mid- and late 1980s, when the gaps were regularly five to six points.

A two-percentage-point improvement for a single year is nothing to sneer at. In a country that spends about three-quarters of a trillion dollars yearly on medical costs, a two-percentage-point difference amounts to more than \$15 billion in the first year. But the real gains come when the rate is compounded. In the four years of a presidential term, this would compound to more than \$150 billion. Even the short-term improvement over a few months may have been a key reason that spending on Medicare and Medicaid in the fourth fiscal quarter (July-September 1992) was actually lower than had been estimated in July. Any wonder a decline in medical cost inflation ought to be the president's number one wish?

Cynics may dismiss the narrowing gap between medical inflation and overall inflation as a statistical aberration. But the evidence is that there has been a significant change in the forces driving health-care costs—one that bodes well for the next few years. To quantify this change we need to clear away some misconceptions as to

why medical costs rose so sharply for most of the 1980s.

The real impetus to the acceleration in medical costs started with a crisis about a decade ago—not in costs, as is commonly thought, but in the availability of basic care.

At its core was an alarming shortage of nurses. Hospitals were desperate. Many administrators sent recruiters as far afield as Indonesia and the Philippines. The crisis was viewed as permanent. After all, everyone knew all kinds of reasons why young Americans didn't want to be nurses anymore.

Then a funny thing happened: the market system went to work, and the imbalance between supply and demand led

Pricing Health Care

to a change. Nursing salaries climbed, reaching a point where they were attractive enough to boost the supply of nurses. Enrollments in nursing schools, after a long period of decline, started to rise—and not an hour too soon.

In 1981 a 150-bed suburban hospital where I do consulting used about 286,000 hours of medical/surgical and critical-care nursing, or roughly the equivalent of 143 full-time nurses. In 1991, the hours had actually decreased to 281,000, or about 2½ fewer nursing years. Yet the payroll for those nursing hours had climbed from \$2 million to \$4.5 million. In just 10 years the cost per nursing hour had risen 125%. Compare that with the general cost-of-living rise for that period of just 45%.

At the same time the nursing shortage intensified, there was a shortage of technicians. Major advances in diagnosis and rehabilitation generated demand for a variety of these professionals, and hospitals and physicians suddenly needed more staff in the new arenas of ultrasound, CAT scanners, MRIs and cardiac angiography.

Such high-tech equipment was itself the third biggest factor in increased costs. This is not so much a classic imbalance in supply and demand as a case of what happens when something new and better is invented. While the total number of non-diagnostic surgical procedures on a per-capita basis went down, the number of expensive, high-tech diagnostic procedures per person doubled. Likely some were "unnecessary defensive medicine," but this testing did help to lower the death rate from heart disease for men age 55 to 64 to slightly more than half of what it was in 1960.

Not all medical costs went up so fast. One that didn't was doctors' income. Physicians' fees aren't physicians' incomes. The median doctor's income from practice rises at a slightly slower rate than overall inflation, while office expenses rise at a rate more than double that of inflation. And what are the main forces in doctors' office expenses? Our old friends, nursing and technician salaries and the cost of all that new-fangled equipment.

Some good news: Hospital administrators report that the nursing profession now attracts and holds people at the same time that salaries have stabilized; while replacement of the first generation of new diagnostic equipment will cost money, much of that equipment is computer-based, and each new generation of equipment costs less than the old. Moreover, generation two rarely involves an increase in personnel. Partly as a result, the number of technicians in many subfields is catching up with demand and the pressure for sharp salary increases has abated.

In sum, it is clear that all three critical inflationary pressures are vaporizing. So Mr. Clinton ought to make that one wish; it can come true.

Mr. Rappeport is a partner in a research and management consulting firm in Princeton, N.J.

THE WALL STREET JOURNAL

2/8/93

THE PRESIDENT HAS SEEN

Hillary

You may have seen them
already, but I wanted to
warn you - Also have a
couple of notes on —

B,

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HOTLINE/STATS



Directorate of
Intelligence

Handbook of Economic Statistics, 1986

A Reference Aid

For Reference

Not to be taken from this room

Table 2
Economic Profile: Developed Countries, 1985

	United States	Canada	Japan	European Community					
				Total	France	Italy	Netherlands	United Kingdom	West Germany
Aggregative data									
Population									
Million persons at midyear	238.6	25.4	120.7	272.8	55.0	57.1	14.5	56.4	61.0
Percent change	0.8	1.0	0.6	0.1	0.4	0.2	0.4	NEGL	-0.4
Gross national product									
Billion 1985 US \$ ^a	3,988.5	331.3	1,328.6	2,250	510.3	357.8	124.2	443.2	623.2
Percent real growth	2.3	4.5	4.6	2.2	1.2	2.3	2.0	3.4	2.4
Per capita (1985 US \$)	16,710	13,040	11,010	8,240	9,280	6,270	8,570	7,860	10,220
Industrial production (percent growth)	2.3	4.4	4.7	NA	0.5	1.2	3.2	4.6	5.0
Industry									
Primary energy (million b/d oil equivalent)	32.6	5.9	1.4	12.1	1.8	0.5	1.5	4.9	2.7
Electricity (billion kilowatt-hours)	2,635	457	665	1,390	319	194	63	297	397
Crude steel (million metric tons)	80.1	15.0	105.3	121	18.8	23.7	5.5	15.7	40.5
Cement (million metric tons)	72.6	9.9	71.9	123	22.2	37.8	2.6	12.2	26.3
Trade									
Exports, f.o.b. (billion US \$)	213.1 ^b	90.6	177.2	619.8	101.7	79.0	68.3	101.2	183.9
Imports, c.i.f. (billion US \$)	361.6	81.5	130.5	625.8	107.8	91.1	65.2	109.0	158.5
Trade balance (billion US \$)	-148.5	9.2	46.7	-6.1	-6.1	-12.1	3.1	-7.7	25.4
Indicators of living standards									
Grain production (kilograms per capita)	1,450	1,860	130	500	990	320	100	390	420
Meat production (kilograms per capita)	108	97	29	85	93	62	155	57	85
Automobile registrations (units per thousand persons)	535 ^c	426 ^d	216 ^d	328 ^d	375 ^d	347 ^d	324 ^d	286 ^d	359 ^d
Energy consumption (barrels oil equivalent per capita) ^e	56	65	23	26	26	18	35	25	32
Consumer prices (percent growth in 1985)	3.5	4.0	2.0	NA	5.8	8.6	2.2	6.1	2.2
Life expectancy (years) ^f	73	74	76	NA	74	73	76	71	72

^a Data were converted from national currencies at average 1985 Par Rate/Market Rate factors.

^b Excluding Department of Defense shipments.

^c Data are for 1983.

^d Data are for 1982.

^e Data are for 1984.

^f Latest available data.

Table 3
Economic Profile: Communist Countries, 1985

	USSR	Eastern Europe							China	Yugo- slavia
		Total	Bulgaria	Czecho- slovakia	East Germany	Hungary	Poland	Romania		
Aggregative data										
Population										
Million persons at midyear	278.9	111.8	9.0	15.5	16.7	10.6	37.2	22.7	1,042.4	23.1
Percent increase	0.9	0.4	0.2	0.3	NEGL	-0.2	0.9	0.4	0.9	0.7
Gross national product ^a										
Billion 1985 US \$	2,062.6	812	57.8	135.6	174.4	80.1	240.6	123.7	354.3	129.4
Percent real growth	1.2	1.4	-0.8	1.7	2.4	-0.9	1.6	1.8	12.0	0.2
Per capita (1985 US \$)	7,400	7,260	6,420	8,750	10,440	7,560	6,470	5,450	340	5,600
Industrial production (percent growth)	2.8	2.0	2.4	2.7	2.0	1.5	2.2	2.0	18.0	2.5
Industry										
Primary energy (million b/d oil equivalent)	31.1	6.8	0.2	1.0	1.5	0.3	2.6	1.2	11.5	0.6
Electricity (billion kilowatt-hours)	1,545	473	42	81	115	26	138	72	407	72
Crude steel (million metric tons)	155.0	59.3	2.9	15.0	7.9	3.6	16.1	13.8	46.6	4.5
Cement (million metric tons)	131.0	58.0	5.2	10.3	11.6	3.7	15.0	12.2	142.5	9.0
Trade										
Exports, f.o.b. (billion US \$)	87.0	98.2	12.8	17.8	24.0	13.5	17.8	12.2	31.3	10.7
Imports, f.o.b. (billion US \$)	82.9	94.1	13.1	17.9	22.2	13.0 ^b	17.4	10.4	39.5	12.2
Trade balance (billion US \$)	4.0	4.1	-0.2	-0.1	1.8	0.5	0.3	1.8	-8.2	-1.5
Indicators of living standards										
Grain production (kilograms per capita)	680	820	780	750	690	1,410	640	900	360	680
Meat production (kilograms per capita)	61	92	94 ^c	97	125	170 ^c	74	93	17	73 ^c
Automobile registrations (units per thousand persons) ^d	25	95	99	159	168	110	80	11	NEGL	119
Energy consumption (barrels oil equivalent per capita) ^c	34	29	29	36	43	21	25	23	4	15
Life expectancy (years) ^e	70	NA	71	71	72	70	71	70	67	68

^a Data were converted at US purchasing power equivalents.

^b Data are on a c.i.f. basis.

^c Data are for 1984.

^d Data are for 1982.

^e Latest available data.

THE PRESIDENT HAS SEEN
2/23/93

Tom Law
su mu n: Thi
DC

MEMO

To: President Clinton
From: Jerry M. Hultin 
Date: February 19, 1993
Subject: **Student Loan Marketing Association**

- ☐ Although the Administration's proposal on direct lending says that it will be phased in and will protect the current \$60 billion portfolio, the market is reacting negatively.
- ☐ Sallie Mae has lost \$2.4 billion in capitalization in the past two weeks – \$1 billion in the day after your speech to Congress. These losses are principally in institutional portfolios, many of whom manage very substantial pension funds.
- ☐ Sallie Mae's CEO, Larry Hough, met with Bo Cutter yesterday about how to protect the stockholders' value, counter negative private sector fallout, and probably advance the direct loan program. It involves ending Sallie Mae's GSE status, basically moving it outside the government.
- ☐ Because of the urgency of the market's reaction, and the high potential for unexpected repeat incidents over the course of the next few months, this idea needs to be considered quickly and by the Administration's top people at the White House and the Treasury – Rubin and Altman.
- ☐ **Can you give Rubin and Altman a clear message that stopping the hemorrhaging and finding a solid solution to the problem is what you want done?**
- ☐ Corporations, investors, and private capital markets will have a role in your Administration. The cratering of a GSE so early in your term will not go unnoticed.
- ☐ **Will you convey to the public now your support for Sallie Mae's immediate movement from a GSE to full private operation in light of your decision to implement direct lending?**

THE PRESIDENT HAS SEEN
2/23/93

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A Huge Disappointment from Clinton on Bosnia

Suddenly Administration sees some good in Vance-Owen

After a long and much-publicized review of policy options in the Balkans war, President Clinton on Wednesday ratified former President Bush's policy and, in fact, offered the Serbian aggressors in Bosnia the strongest indications yet that they need not fear the United States. The Clinton Administration promises that U.S. ground forces will be available for an eventual U.N. peacekeeping force in the Balkans, but then the Bush Administration had never ruled that out. What's the difference between the Clinton policy and that of Bush? Not much.

Here was the flip-flop. Clinton abandoned the range of intermediate options that he had favored as a candidate, options lying between the quagmire of ground war, on the one hand, and acquiescence in genocide, on the other. The arms embargo on Bosnia will not be lifted. The no-fly zone will not be enforced. The detention camps will not be closed, nor will the Red Cross be given access to them. U.N. relief efforts will not be given protection. There will be no air strikes against Serb artillery shelling Sarajevo nor any air cover for Bosnian forces on the ground. And Clinton offered a less-than-ringing confirmation of Bush's commitment of unilateral U.S. deterrence of a Serb attempt at "ethnic cleansing" in Kosovo.

BLOOD AND OIL: Clinton has appointed the Bush Administration's NATO ambassador to serve as a superfluous third Balkans mediator, superfluous because the Administration now seems to have all but endorsed the peace plan of the current mediators, Cyrus R. Vance and Lord David Owen. The Administration speaks vaguely of raising the cost of war to the Serbs through the trade embargo. That embargo, lately being enforced with new thoroughness in Germany, a major prewar trading partner of Serbia and Montenegro, could work in the long run if other countries were to enforce it with comparable rigor. But it is no bar to genocide in the short run.

That being the case, the inference

that the disgruntled Muslims of the world will draw from the Clinton renewal of Bush passivity in the Balkans is: No blood for no oil. The inference that the Russian right will draw is: If the West can't stop the Serbs, it surely can't stop us. The inference that rabid nationalists will draw in planning a "final solution" of their (fill-in-the-minority) problem is, in Elie Wiesel's words: You can get away with it.

The Vance-Owen plan is unenforceable. It was reckless for Clinton to commit even the 5,000 to 12,000 U.S. troops that the European mediators ask in the doomed effort to enforce it. But there is every likelihood that negotiations will never reach the point of enforcement. The costs of aggression for the Serbs have now gone down, and down with them go any remaining Serbian will to even temporize with the negotiators.

THE RUSSIAN FACTOR: "Our values and interests give us reason to help create an international standard for the fair treatment of minorities," Secretary of State Warren Christopher said in announcing the Administration policy. No partner in the creation of that standard will be more important than Russia; and for that reason, the new U.S. attempt to involve Russia in forming a Balkans agreement that the Serbs will accept is welcome. However, the current Russian position contradicts the Administration regarding any tightening of the trade embargo against Serbia: The Russians ask that the embargo now be lifted in view of Serbian cooperation with Vance and Owen.

The hour is still early for the Clinton Administration; it may come to realize that the Vance-Owen plan will, most likely, serve one purpose only: A problem that Europe, through NATO, could have resolved will be kicked upstairs to the United Nations, where it cannot be resolved but where it can and will be entertained indefinitely. The Clinton Administration should want no part of this. There is still time to stop the shelling and start the true peace.

Los Angeles Times

2/12/93

THE PRESIDENT HAS SEEN 2/23/93

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Clinton Advisers Warn of Potential

■ **Foreign policy:** The island might join the short list of trouble spots, and options are studied to minimize aftershocks in the U.S.

By PAUL RICHTER
TIMES STAFF WRITER

WASHINGTON—Weighing the prospect of new foreign policy crises, government advisers to President Clinton are warning that an uprising in Cuba is likely during his term and that a number of options should be considered to minimize potential aftershocks in this country.

Thousands of Cuban-Americans living in Florida might quickly rush to involve themselves in an upheaval on the island as soon as one begins, say officials who have analyzed Cuba's precarious condition. The U.S. Navy and other government agencies could find themselves forced to contend with an armed armada of Cuban-Americans headed from South Florida to Cuba, or a flood of refugees headed the other way.

In an extreme scenario, an embattled President Fidel Castro might even react to a perceived threat to his rule by lashing out at a South Florida target, perhaps a power station or other large facility, one leading government analyst said.

Because of these possibilities, which underscore the close ties between the two countries, an upheaval in Cuba would rapidly become as much a domestic problem as a foreign policy dilemma, they say.

Confronting challenges in Bosnia, Somalia, Iraq and other hot spots, the new Administration's foreign policy team has been focusing on crises that demand immediate attention, hoping Cuba will not boil over soon in a way that forces the United States to act.

"Too many things are already blowing up," an Administration official said.

But these government advisers warn that Cuba could join the short list of foreign-policy trouble spots, and believe that the Administration needs to consider how to

head off a crisis. The warnings may force a troublesome issue for the Administration, because they raise the question of whether Washington should try to improve relations with Cuba—perhaps by lifting the trade and tourism embargo—to help ease Cuba's transition from Castro's rule to another regime.

Some advisers urge such a course, arguing that it might strengthen market forces in Cuba and sweep the country toward an American-style system.

But improving relations would collide with Clinton's campaign promises to conservative Cuban-Americans that he would maintain a hard line toward Castro and do nothing that could be interpreted as appeasement.

The warnings from within the new Administration reflect the views of many outside analysts, who assert that the economic chaos that has followed the end of Soviet aid to Cuba has made the island a powder keg.

The lack of visible opposition may mean little, some believe.

"It's so repressive that there may be no ground between what looks like total calm and mass rebellion," said Susan Kaufman Purcell, vice president at the Americas Society in New York. "Ten minutes before Romania collapsed [former President Nicolae] Ceausescu looked strong."

Without \$4 billion in annual Soviet subsidies, Cuba's economy has shrunk 40% in two years; there have been widespread shortages of food and fuel, growing inflation and the withering of many basic industries. Castro's 3-year-old regime has responded with harsh repressive measures.

Although the timing of Castro's end is a subject of debate, analysts say a change in regime could mean trouble for the United States in a variety of ways.

If a military coup or some uprising brings civil war, there could be an exodus of as many as 1 million Cubans to the United States, some analysts believe. One in 10 Cubans has a relative in this country.

For several years, the U.S. military has planned for the possibility that a domestic upheaval would trigger a huge Cuban exodus. It has plans to house fleeing Cubans in huge refugee camps at the U.S. base on Cuba's Guantanamo Bay;

A Crisis in Cuba

recently, the area has been used to shelter Haitians who have fled their country for the United States.

And with Cuba only 90 miles from Florida, the possibility of a Cuban military strike by Castro in the waning hours of his rule is taken seriously by many experts. In October, 1991, a defecting Cuban MIG pilot said Castro had told Cubans he had laid plans to attack the Turkey Point nuclear plant south of Miami.

"You can't rule out the possibility of a military action," said Mark Falcoff, a Cuba specialist at the American Enterprise Institute, a conservative think tank.

Falcoff believes that the end of Castro's regime could create so many problems for the United States that policy-makers' best hope may be for no change in Cuba.

So far, the new Administration has sent out mixed signals about its Cuba policy.

Last month, it decided not to nominate Mario Baeza, a Cuban-American corporate lawyer in New York, as assistant secretary of state for Latin American affairs. Conservative Cuban-Americans objected to Baeza on grounds that he might be too accommodating to the Castro regime.

The rejection of Baeza, who was backed by Clinton transition chairman Vernon Jordan and Commerce Secretary Ronald H. Brown, was considered a measure of the strength of the conservative Cuban-American groups. Their political backing was important for Clinton in Florida and New Jersey.

But more recently, the Administration has given key policy jobs to two men who are seen as moderates on Cuba.

One is Peter Tarnoff, who as undersecretary of state for political affairs has the agency's No. 3 position. During the Jimmy Carter Administration, Tarnoff was among the officials who went to Cuba seeking, unsuccessfully, some kind of normalization.

A second is Richard Feinberg, who this week took a post on the National Security Council. Feinberg takes a centrist position; he has written that the United States should cooperate with Cuba on such issues as anti-drug enforcement, and should work toward a freer exchange of information.

Los Angeles Times
2/5/93

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2/23/93

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Inequality and Its Charms

By ROBERT J. BARRO

During the presidential campaign a number of writers argued that the share of the rich in total income had grown rapidly, while that of the poor had declined. These outcomes were assumed to be bad and were usually blamed, at least implicitly, on the policies of the Reagan and Bush administrations.

Recent research has brought out two important developments that underlie the changes in income distribution. The first, which began well before a Reagan administration even looked probable in the early 1970s, is an increase in the spread between the wages of skilled and unskilled workers. In the 1980s, for example, the wages of highly educated workers rose sharply relative to those of less educated workers. This changing wage pattern reflects technological advances, including the proliferation of computers, that make worker skill more important in the production process.

In other words, economic forces are at work that governments cannot and should not seek to control. A useful governmental role in this area might involve improved access to education and training, not efforts to redistribute income or policies like trade protection that would retard the spread of new technologies.

The second development is a sharp increase in the share of income received by the richest individuals. Recent research indicates that changes at the top of the income distribution are justifiably tied to the Reagan period, specifically to the tax reforms of 1981 and 1986, but that the outcomes should be viewed as desirable.

For the richest taxpayers, what matters is the marginal tax rate at the top. This rate was lowered on unearned income by the 1981 law and on earned and unearned income (other than capital gains) by the 1986 law. The response was a dramatic increase in non-wage income reported by the rich after the 1981 law and in wage and non-wage income reported by them after the 1986 law.

Supply-Sider Dreams

These reactions, which have been strong enough to raise the number of tax dollars paid by the very rich, are the stuff of supply-sider dreams. But the results have somehow been twisted into the view that supply-side economics did not work—because, as a matter of arithmetic, the dramatic rise in the income reported by the rich had to show up as an increase in the share of income received by the rich.

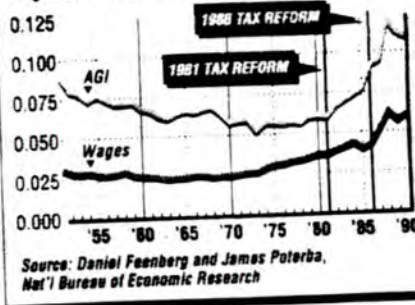
Most researchers have relied on information about income distribution from the Congressional Budget Office (CBO), but some shortcomings in their procedures have confused matters. The CBO adjusts the underlying income data in ways that remain mysterious to outside observers, and their corrections for changes in family-size composition are indefensible. (The calculations imply that a family with a given total income is worse off if it chooses to have another child. This is like saying

that a family is worse off if it buys a TV set because family income net of expenditures on TV sets is thereby reduced. Similarly, the computations assume that two single adults—who have chosen to live separately—would be better off if the government forced them to cohabitate.) We can also learn more about changes in living standards from the distribution of consumer expenditure, which reflects long-run levels of income, than from the distribution of income in a single year.

David Cutler and Lawrence Katz—two Harvard economists who have unfortu-

Larger Share of the Wealth

The share of the richest 1/2% of taxpayers in the aggregate gross income (wages plus other income) grew sharply after the 1981 and 1986 tax reforms. The share of the richest 1/2% of taxpayers in the nation's wage income grew sharply after the 1986 tax reform.



nately accepted government employment—have calculated the changing distribution of consumer spending for six family types (one or two adults and zero, one, or two children). They compute for each type how much of the total pie of spending is accounted for by the 20% with the least spending, the next 20%, and so on.

For averages over the family types, the share of the lowest 20% in total spending fell from 8.3% in 1972-73 to 7.9% in 1980 and 7.0% in 1988, while that of the highest 20% rose from 36.9% to 39.2% and 41.1%. Thus, in the 1980s, the share of the richest one-fifth grew by about two percentage points.

By contrast, if one looks at income, then the poorest one-fifth appears much worse off, with only 4.6% of total income in 1989. In addition, the increase in the share of the highest quintile in the 1980s becomes greater, about three percentage points, compared with the even larger value of 4½ percentage points reported by the CBO. Thus, in relation to the more reasonable values computed by Messrs. Cutler and Katz, the CBO procedure more than doubled the estimate of the gain by the top quintile in the 1980s. Moreover, all the estimates agree that, at the broad level of quintiles, the movement toward a less equal distribution began in the early 1970s.

Much of the media excitement has centered on the notion that more and more of the income pie is being cornered by the very rich. The facts have been clarified by

Daniel Feenberg and James Poterba ("Income Inequality and the Incomes of Very High Income Taxpayers: Evidence from Tax Returns," National Bureau of Economic Research working paper no. 4229, December 1992), who studied the behavior of the 0.5% of taxpayers with the highest adjusted gross incomes. In 1990, this group consisted of the 564,000 tax returns with incomes in excess of \$258,000.

The chart shows the share of this rich group from 1951 to 1990 in the nation's totals of wage income and of a broader income measure, the aggregate of adjusted gross incomes from the tax returns. For wages, the share rose from its low point of 2.5% in 1970 to 4.3% in 1986, jumped to 6.2% in 1988, and then changed little through 1990. For gross income, the share grew from a trough of 5.3% in 1973 to 6.0% in 1981, 7.8% in 1985, 9.2% in 1986, and 12.0% in 1988, before falling to 10.9% in 1990.

One conclusion is that the recent increase in the share of the very rich shows up in wage income, as well as in other forms of income, such as interest, dividends and capital gains. The key finding, however, is the response to changes in tax policy.

The dramatic increase in the rich group's share of wages from 1986 to 1988 appears to be a response to the 1986 tax law, which sharply lowered the top marginal tax rate on earned income. The rich reported a lot more income in the form of taxable wages, although it is not yet clear how the extra amount divided up between reduced tax avoidance and more work. Either way, the response has to be viewed as desirable.

Successful Tax Cuts

The share of the rich in other forms of taxable income also grew from 1985 to 1988. (The timing is complicated by the shifts of capital-gain realizations from 1986 to 1985 due to the rise in the capital-gains tax rate in 1986.) Similarly, the increase in the share of gross income from 1981 to 1985 reflects the cut in the top tax rate on unearned income in the 1981 law.

The strong responses of incomes reported by the rich to tax-rate changes accord with supply-side predictions and indicate that the cuts in the top marginal tax rates were a success. The evidence also implies that the restoration of higher tax rates at the top, as urged by President Clinton, would be a mistake. The higher tax rates would induce the rich to report enough less income so that the taxes paid by this group would fall. Although measured inequality would decline, this soaking of the rich would not benefit the poor—unless the poor would feel better simply because the rich were worse off. I presume, however, that one group's enjoyment of another group's misery is not what underlies Mr. Clinton's vision of shared sacrifices.

Mr. Barro, a Wall Street Journal contributing editor, is an economics professor at Harvard.

Asides

Now They Tell Us

One of the themes we've been developing here is that the Clinton presidency is turning out to be much more liberal than the centrist campaign he represented to the American people. Below the headline, "Old-Fashioned Liberals (And Without Apology)," we have the following from New York Times reporter Robert Pear: "Under its new Secretary, Donna E. Shalala, [Health and Human Services] has eagerly returned to its liberal roots." Dr. Shalala, Mr. Pear writes, "is not a

'new Democrat' who tacks toward the political center but an old style liberal, and proud of it." Mr. Pear further reports that Dr. Shalala's chief policy adviser, Patricia Fleming, worked years for Rep. Ted Weiss of New York City. "I work for activists," Ms. Fleming said. "It's a joy to be here working for Secretary Shalala, who will make big policy changes." Another HHS special assistant from New York City is described as a "West Side Democrat active for many years on issues of social and economic justice."

THE WALL STREET JOURNAL.

2/10/93

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THE PRESIDENT HAS -
2/23/93

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Do we have
an answer, Pres?

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More Military Muscle, Not Less



By William E. Odom

WASHINGTON

Bill Clinton won the election with poetry about the economy. Now comes his policy prose: raise taxes before spending cuts are assured, drift toward protectionism and let defense inordinately as wars proliferate and world order declines. But he needs a new slogan — "Guns and butter, stupid!"

America cannot solve its problems at home unless it meets key challenges abroad. Interdependent economies require security if they are to increase the production of butter. Guns are merely an overhead cost.

Our economy is highly interdependent with those of Europe and East Asia. International prosperity requires international governance, not just national competitiveness. Post-war economic growth was possible because of the umbrella of U.S.-led military alliances, which allowed unprecedented cooperation through global-economic institutions.

Most international security organizations are weakening. The collapse of the Warsaw Pact inspires doubts about NATO's utility and the wisdom of keeping U.S. forces in Japan and South Korea. The United Nations is bending under the weight of too many challenges while its agencies become work-barrel bureaucracies rather than problem-solvers.

The General Agreement on Tariffs and Trade is shaky, and the European Community has slammed the brakes on its drive toward unification. The World Bank shows confusion about its purpose, while the International Monetary Fund deals out medicine that cures too few patients.

The end of the cold war has made the world safe for regional wars and not just in the third world. Eastern Europe and the former Soviet Union have several wars today and expect more tomorrow. The arms trade will remain a growth stock, despite non-proliferation efforts. The spread of wars has less to do with the spread of arms than with the weakening of international institutions.

Optimism about the spread of democracy, inspired by the large increase of elected governments, is no longer justified. This trend is likely to abate, perhaps reverse, for a time. Stable democracy requires political order, and political order is declining — unless something is done to reverse it. But what?

verse it. But what?

Helping Russia is important. So are peace in the Middle East, human rights everywhere, environmentalism, health and population control. These goals, however, are secondary because none is likely to be realized

Bush failed at a new world order. Clinton can't.

without the new world order George Bush promised but failed to create. Bill Clinton must do that first.

First, the President must convince us that world order does not spring up organically, that it is made by the major powers. Because the big powers failed at Versailles in 1919, war resumed in 1939. With less tidy diplomacy at Potsdam in 1945, they produced a longer peace. Why? After

World War I, America stood high on principle but short on military power. After World War II, it stood on principle but added military power.

The first step in building a new order is the revitalization of our old alliances in Europe and East Asia. That requires new thinking about old institutions. They dealt not only with the Communist military threat but also with the emergence of German and Japanese power.

Just because Germany and Japan are liberal democracies does not mean they are less important. They have proved critical for the construction of a new international system. After the Korean War, America's strong military ties with Germany and Japan meant peace in Europe and northeast Asia.

If there is to be a new world order, the U.S.-German tie in NATO and the U.S.-Japanese security alliance will be the cornerstones. That is primary.

President Clinton's first order of business is adapting those alliances

to the new realities. If he can, adequate coalitions can be formed to keep a balance of power in the Middle East and southwest Asia.

Saddam Hussein and George Bush made a mess in southwest Asia. After Saddam Hussein invaded Kuwait, President Bush had the choice of going to war with Iraq and destabilizing the region or defending Saudi Arabia indefinitely to maintain a power balance. In choosing war, he could still have restored stability by occupying Iraq indefinitely.

Mr. Clinton would be wise to resolve Mr. Bush's dilemma by resuming the defensive, allowing Saddam Hussein to regain control of all of Iraq. This would be painful, but the alternative is to invade and rule Iraq.

A permanent U.S. military ground and air presence in Saudi Arabia and Kuwait is essential for a durable regional balance. When Saudi Arabia and Kuwait become sufficiently frightened to accept this, President Clinton should move at once.

NATO must fill the security vacuum in Eastern Europe. It would have to accept some Eastern European countries as members and should consider a large-scale long-term intervention in Yugoslavia. Lesser measures will not stop the inexorable drift toward an international conflict. Secretary of State Warren Christopher's compelling assessment of the crisis there justifies sending 10 NATO divisions. Yet he sent only one ambassador, Reginald Bartholomew.

Western influence in the former Soviet Union is limited. NATO cannot fill the security vacuum there, and U.S. nagging of Russia will eventually backfire. Although they deserve help, the Russians must help themselves first. American guidance and largesse will not suffice.

Still, Russia deserves special attention. It has the first real chance in its history to break its pattern of autocracy. All Western economic and political institutions must be open to the Russians, and their participation with NATO in some aspects of security in Eastern Europe can be useful. Intervention in Yugoslavia should include Russian forces but in a way that does not pit them directly against their friends the Serbians.

Our security ties to Japan and South Korea will be taxed by the eventual reunification of Korea, Taiwan-Chinese tensions and Chinese-Japanese competition. Every country in northeast Asia but North Korea awaits President Clinton's reassurance that he will keep U.S. forces there. They understand the unsettling rearrangements that could lead to war if U.S. forces withdrew.

Outside of these three strategic zones — Europe to the Urals, northeastern Asia and the Middle East — wars are under way and others will arise, but America should stand aside in virtually all of them. The moral impulse to enter, as in Somalia, will not serve the larger moral good if it weakens the larger world order. Places where moral and strategic reasons overlap deserve first priority, and that means Korea and Eastern Europe before Africa, Southeast Asia and South America.

Revitalized Western alliances would give the economic prosperity President Clinton seeks a chance. Reform of international economic institutions would be more feasible. Otherwise, the outlook will remain grim. The resources to deal with other central issues will not be available.

William E. Odom, who headed the National Security Agency from 1985 to 1988, is director of national security studies at the Hudson Institute.

THE PRESIDENT HAS SEEN
2/23/93

~~Ben Loh~~

Fish - pretty intense

The Case of the Missing ... Refrigerators?

President Clinton may think he's making headway in cutting the government by saving a few million dollars in White House staff salaries and perks.

But wait till he tries to do something about bureaucratic waste, fraud and abuse. Now we're talking real money—countless millions, even billions.



THE NEW REGIME

We're also talking mind-boggling bureaucracy; a bizarre world of Walt Disney and Franz Kafka.

Exhibit number one: A new General Accounting Office report on the loss of \$120,000 in government property at the U.S. Embassy and consulates in Mexico in 1990 and 1991.

This is not paper clips but "automated data processing equipment ... shredders and other security items ... typewriters ..." and household items "such as lamps, lawn furniture, vacuum cleaners, stereo equipment and refrigerators."

Embassy officials, reviewing the situation, concluded the records were in such bad shape there was no way to figure out what happened.

"It is sad that so much property is lost, or unaccounted for, and we feel that those responsible should pay," embassy officials emphatically noted in a late 1991 report. "Unfortunately, we have no choice but to sweep it under the rug. Even the record of who is responsible is obscured. ... We hope that there has been no theft or malfeasance, but ... it is the easiest explanation for so great a loss."

The GAO report also concluded embassy cashier operations, which routinely handle \$15 million a year, were essentially out of control. Ambassador John Negroponte certified that improvements had been made, the report said, but some measures had not been fully implemented and the situation is still not resolved. "Management oversight is lacking," the report said.

Embassy auditors are supposed to regularly venture to the nine consular posts throughout Mexico. Some posts are rarely visited, the GAO report said, but it was not clear whether that is because auditors are not sent from Mexico City or whether those sent are never heard from.

One auditor noted in a late 1991 report before setting out: "As I said, I have a bad feeling about what is lurking out there."

Candidates in Line to Replace Archivist

■ Potential successors to National Archivist Don W. Wilson were lining up long before the embattled Wilson threw in the towel last Friday. Wilson had been under a barrage of criticism from Capitol Hill for mismanaging the agency that preserves governmental records.

A transition team report had urged Clinton to

focus on Wilson's stewardship. The job does not carry a fixed term and is supposed to be filled without regard to politics, although the president can remove the incumbent provided he informs Congress why he is doing so.

Two names are being floated as replacements: Princeton University historian Stanley M. Katz and Larry J. Hackman, director of the New York State Archives and Records Administration.

It is not clear when a successor will be chosen.



DON W. WILSON

On the International Front ...

■ Rufus Yerxa, U.S. ambassador to the General Agreement on Tariffs and Trade (GATT) negotiations and formerly senior trade counsel on the House Ways and Means Committee, is to remain a deputy to U.S. Trade Representative Mickey Kantor and will be based in Washington. Washington attorney Ira Shapiro, a former aide to Sen. John D. "Jay" Rockefeller IV (D-W.Va.), will be general counsel to Kantor.

Rick Inderfurth, former ABC News Moscow Bureau chief is in line to be named deputy to U.N. Ambassador Madeleine K. Albright. Inderfurth used to work for Albright at the National Security Council in the Carter administration.



MADELEINE K. ALBRIGHT

Opposition to Energy Candidates

■ Like bubbles in a tank of waste, the names of people opposed by environmental activists and citizen watchdog groups for running the massive weapons plant cleanup at Energy keep coming to the surface.

This week's list of possible nominees floated to be assistant secretary for environment, safety and health includes: New Mexico state legislator Gary King, son of Gov. Bruce King, and Seattle lawyer Lynda Brothers.

The rap on King is that his law clients include firms that have Energy Department contracts at some of the facilities involved in the \$6 billion-a-year cleanup effort. The rap on Brothers, a former House staffer and Carter administration official, is that her pro-environment positions as a public official disappeared when she went into private practice representing firms accused of toxic pollution in Washington state.

—Al Kamen

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E.J. Dionne

Clinton and the GOP Options

What's a Republican to Do? The Party Needs a Plan.

Coming up with an economic plan has not been easy for President Clinton. Responding to it will be no easier for the Republicans.

Republicans will no doubt have fun bashing Clinton for his tax increases—and for failing to do as much for the middle class as he promised in his campaign.

That's where the easy part stops. While divisions in the party over social issues such as abortion get the most publicity, the GOP is equally split over economic policy, something former President Bush learned in painful ways. The Republican Party formally bought into supply-side economics with the large tax cuts of the early Reagan years, but for many in the party, conversion was only skin deep.

Indeed the fiercest battles during the Bush administration were not between Bush and Congressional Democrats, but among Republicans: say, Senate Republican Leader Bob Dole vs. House Whip Newt Gingrich, and Bush's Budget Director Richard Darman vs. just about every conservative ideologue in Washington. This split helped Clinton in the 1992 campaign, and it may yet help him win support for his program.

In the meantime, Clinton and his lieutenants have already signaled that they plan to put Republicans on the defensive right from the start. Any pain in the president's economic package, they will argue, is there because Ronald Reagan and George Bush ran up such big deficits.

What's a Republican to do? The most

tempting approach will be to hit Clinton on taxes and oppose anything he puts forward. You might say that's opportunistic, but given how little power Republicans have, they have every right to seize what few opportunities they are handed.

And at least some defenders of the supply-side creed are still willing to make the case that not all tax cuts have to be matched by spending cuts. Sure that's passe, and maybe it's dangerous. But I bet that former representative Vin Weber will somehow manage to make himself sound quite intelligent when he argues that there's nothing wrong with supply-side economics that more supply side economics can't cure.

Most Republicans will prefer what you might call the modified, limited hang-out route. They will insist that some sort of vague ceiling on spending—say the old Gramm-Rudman targets—will be enough to justify the tax cuts they want to propose or at least prevent Clinton's tax increases. But the conservative Heritage Foundation is putting out an even farther-reaching version of that approach this week.

The Heritage proposal calls for a 2 percent limit on the growth of all domestic spending. Doesn't sound like much, does it? Except when you consider that inflation in health costs and the normal increase in Social Security payments will gobble up so much money that this modest-sounding idea will in fact require

some Draconian cuts elsewhere in the budget.

Heritage is willing to accept that and complicates its own task even more by proposing two additional tax cuts: the old conservative standby of a reduction in the capital-gains rate and the creation of a child tax credit, which is essentially a version of Clinton's old middle-class tax cut. Will any conservative Republicans be radical enough to stand up for the Heritage plan? Rep. John Kasich, the ranking Republican on the budget committee, is talking about putting together an alternative Republican budget to Clinton's that might end up looking a bit like Heritage's. I hope he does this. Among other things, an alternative budget with really deep cuts would make clear the extent of the mess we're actually in.

There is finally a fourth approach, which would involve some Republican cooperation with Clinton in getting the deficit down. And there are two Republican leaders, Dole and Sen. Pete Domenici, who have a sufficiently candid track record on the deficit problem that they might be able to get away with bipartisanship. If you go through old clippings on the deficit from the Reagan and Bush years, one of the most striking findings is how similar Dole and Domenici's views are to those of Clinton's budget director, Leon Panetta.

Dole and Domenici have already staked out some differences with Clinton by opposing the president's \$31 billion stim-

ulus package. In other words, they could end up being real players—if they choose to be and if the Democrats think they need bipartisan cover.

Given how similar his views are to Dole's, it might be tempting for Panetta to bring the Republicans in. But Clinton himself may end up being better off if he and his party take full responsibility for the package, pain and all. The Republicans could never get their act together on the deficit when they held the White House because they could never reach agreement among themselves. It would be ironic if Clinton brokered even a limited budget peace where both Reagan and Bush failed.



BY MARGARET SCOTT

2/16/93
The Washington Post

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Al to Bill: A Few Tips On the Recovery

An iron law of Washington is that if you build it, they will come — and stay forever. Which is why American taxpayers, and especially President Clinton, should thank Albert Casey.

For 15 months Mr. Casey has been president and chief executive of the Resolution Trust Corp. (RTC), the federal salvage yard for savings and loans. His mission implausible has been to manage the biggest sale (some \$323 billion so far) of real estate and financial assets from public to private hands since West Germany swallowed the east. He's one of those Washingtonians whose obscurity is a virtue because it represents a debacle averted.

Mr. Casey has done this task well enough, which is to say fast enough, that he may work himself and as many as 6,700 co-workers out of jobs by the end of this year. In the process he has helped to lift the U.S. economy from recession. And he has given Mr. Clinton a lesson in how to "reinvent government" the old-fashioned way — by doing away with it.

"My proposal is to put this agency out of business by Dec. 31," averred the feisty, often profane former airline executive in an interview this week. "That'll be three years ahead of plan." He made his pitch this week to the Clinton Treasury, which doesn't yet seem to appreciate the RTC's contribution to its own economic fortunes.

No less an oracle than Alan Greenspan, the Federal Reserve chairman, has cited the RTC for helping to "liquefy" U.S. real-estate markets. That's Fed-speak for selling assets that "overhang" local real-estate markets like a threat. Once the threat lifts, so does uncertainty. Private investors and lenders are then more willing to put their own money at risk.

This has eased the notorious "credit crunch" that Mr. Clinton has himself assailed. Economist John Rutledge says the

Potomac Watch

By Paul A. Gigot

2/5/93

THE WALL STREET JOURNAL

RTC was "the elephant in the bath tub" during the recent recession. It exacerbated the plunge in housing prices that made millions of Americans feel poorer, thus causing them to spend and invest less. The RTC's going-out-of-business sale amounts to a step out of the tub, helping to reverse that housing deflation.

"They get a nine out of 10 in the way they've pulled it off, especially in the last year," says Mr. Rutledge. Since the White House and Congress have so far earned a zero out of 10 on economic policy, maybe we should call this the Casey Recovery.

Of course, this success has attracted political predators. Sen. Donald Riegle (D., Mich.) may hold hearings soon to scream that someone, somewhere made a profit from the RTC. (Mr. Riegle, who was Charlie Keating's pal, is to S&L propriety what Madonna is to chastity.)

"There will be very good deals," replies Mr. Casey, who is sometimes called the Terminator. And some investors will "get rich rewards. But as far as I'm concerned, they're the ones who charged out and did it, took the risk before the market turned."

In some cities no one has had a clue about a perfect sales price, he adds, because "there was no market." In any case, the attraction of a profit helps lure more investors and thus bids up RTC prices, yielding even more for taxpayers.

Such capitalist nuances elude some of Washington's dimmer bulbs (such as Minnesota Rep. Bruce Vento). They want to fire Mr. Casey immediately but keep the RTC around forever as a federal "liquidator."

"That's gonna be holy hell," says Mr. Casey, who at 72 years old has nothing to lose from candor. The feds already have a liquidator, the General Services Administration. If the RTC also gets into the act, Mr. Casey says, "that means we are going to keep a whole bureaucracy here — personnel, law, government relations, even public relations. We don't need all that."

The Casey record, as good as it is, has a few smirches that even he'll acknowledge. "We're up to 81,000 lawsuits. I think that's obscene," he says, accurately describing the RTC's legal mayhem.

These suits are supposed to exact revenge from S&L offenders, but many also terrorize innocents and make it harder to attract new market players. Of course if Mr. Casey ever asked his lawyers to ease up, the Ventos and Riegles would only raise more unholy hell.

Similar congressional spite has already slowed down RTC sales by blocking the \$25 billion more that the RTC needs to finish its job. That money would run the total cost of the S&L bailout to some \$110 billion (excluding interest). As nauseating as that is, it's lower than the \$160 billion once predicted, and lower than it will be if Congress stalls some more.

The Clinton administration says it wants to reform government, so letting the RTC go out of business would seem a natural. The danger is that it will lose its nerve amid the congressional grandstanding. Roger Altman, the deputy Treasury secretary, says the matter is being studied, but does add the hopeful observation that "I personally think the idea of less government and fewer appendages is better than more government."

That's one good way to look at it. Another is this: If the Clinton team is going to raise as many taxes and impose as many mandates as they're now advertising, they are going to need Al Casey's wisdom a lot more than he'll need theirs.



Albert Casey

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2/23/93

Bob Pulcin

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Gutting Tax Reform ...

Every so often, the president and Congress do the right thing. They did just that when they passed the 1986 tax reform. It lowered the top income tax rate for individuals from 50 percent to 28 percent and broadened the tax base by reducing the number of deductions and credits. The idea was that government should stop dispensing tax breaks as political favors and economic "incentives." President Clinton is about to gut the reform.

His major income tax proposals—to be outlined in tonight's congressional address—repudiate the 1986 law. By all reports, Clinton would raise the top tax rate from 31 percent to 36 percent for individuals (it was increased from 28 percent in 1990) and from 34 percent to 36 percent for corporations. At the same time, Clinton wants Congress to pass new tax incentives: a tax credit for business investment; a cut in the tax on "capital gains" (stock profits) on investments in small companies.

Rhetorically, Clinton's program sounds fine. It's one part populism (soak the rich) and one part economic engineering (reward those, mainly the rich, who do government's bidding). But the second part of this formula is precisely the expansive tax philosophy that was rejected—correctly—in 1986, because it is presumptuous in theory and corrupt in practice.

Presidents and governments don't know enough (nor does anyone) to orchestrate economic growth through customized tax breaks. Every incentive invokes a worthy cause, but almost all have unintended consequences—often undesirable. The business investment incentives of the 1981 tax law helped create a glut of office buildings. Clinton's capital gains break, modeled on a proposal by Sen. Dale Bumpers (D-Ark.), aims to steer money to small companies in industries such as electronics and biotechnology. But these industries aren't uniquely deserving, and even if they were, they are doing okay without special help.

It is naive to think Clinton's proposals, if enacted, would constitute only a limited unraveling of the 1986 reform. By embracing high rates and selective preferences, he sanctions a new quest for tax breaks. The process is corrupt, because one person's justifiable incentive is another person's ugly loophole. The more some groups get breaks, the more all groups want them. Tax breaks spread, creating pressure to raise top tax rates. All this feeds cynicism and unproductive work: tax avoidance and lobbying for new breaks. It's a boon for lawyers, accountants and lobbyists.

What's at issue is how government taxes—not the need for new taxes or Clinton's commitment to tax the rich. Budget deficits can't be cut without higher taxes. The wealthy can afford to pay (in the campaign, Clinton said the higher tax rates would apply to

couples with incomes of more than \$200,000), and politics demand that they be seen to pay. Otherwise, the "sacrifice" demanded of others (higher taxes, lower benefits) will seem "unfair."

The practical question is whether these ends could be met without raising tax rates. They could. The Congressional Budget Office publishes a long list of policies that would reduce the deficits. Consider some tax proposals on CBO's 1993 list:

- **Tax capital gains at death.** Profits on stocks or other investments escape taxation when an investor dies. The investments go to the heirs at the current market value, not the original purchase price. Taxing profits when the investor dies would raise about \$7 billion annually. The impact would fall mainly on the wealthy. The richest 0.5 percent of Americans own roughly half of all individually held stock.

- **Curb the mortgage interest-rate deduction.** Limiting this deduction to \$12,000 for a single taxpayer and \$20,000 for a couple would raise about \$4 billion annually. Again, the burden would fall on upper-income taxpayers. A \$20,000 deduction at today's interest rates would finance a \$310,000 home, assuming a 20 percent down payment. In 1990, only about 1.4 million taxpayers (5 percent) had deductions exceeding these amounts.

- **Limit tax-exempt state and local bonds.** These bonds are intended to finance public projects, such as schools and roads. But the bonds are also used to finance everything from local industrial development to ports. Wealthy investors cut taxes by buying the bonds. Limiting the tax exemption to bonds used for true government projects would raise about \$1 billion annually.

Clinton will reportedly endorse some proposals like these. But he obviously hasn't adopted enough of them to avoid higher rates. There

was also another way to prevent a big rate increase. He could have proposed broadening the tax base for everyone—for example, by limiting the value of all itemized deductions—and then lowering tax rates for all but the richest. This, too, would have concentrated the tax increase on the wealthy.

It's easy to see why Clinton isn't defending the 1986 law. It was never popular among congressional Democrats, even though a few Democrats (notably Sen. Bill Bradley of New Jersey) were among its main architects. The symbolism of raising top tax rates—an oft-made campaign pledge—is more compelling than ending many obscure tax breaks. Moreover, each of these tax breaks has powerful protective lobbies. Clinton's plan to cut the deficit will arouse much opposition. Why pick more fights?

The answer is simple: Because it's good government.

After the 1986 law, taxpayer compliance rose. When tax rates drop, the rewards of cheating or of sheltering income drop. Fewer deductions mean fewer opportunities to overstate deductions. Between 1984 and 1988, the compliance rate for individuals (the share of taxes owed paid voluntarily) rose from 80 to 82.5 percent, says the Internal Revenue Service. That's more than \$10 billion. A study by Daniel Feenberg and James Poterba for the National Bureau of Economic Research found a surge in reported income by the wealthy after the 1986 law. Low rates reduced the "incentives to defer taxable income, to transform income into untaxed fringe benefits and to engage in ... tax avoidance."

Clinton recently complained that the wealthy see "the tax code as a table game to be won." Actually, this game was slowing down. Now, he's speeding it up. The big winners are the accountants, lawyers and lobbyists.



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Informed Retirees Back Entitlement Cuts

By JOHN STOSSEL

Sunday, as I listened to senators deride Leon Panetta's proposed Social Security cuts as a "death wish" to be forgotten "right now," I wondered if voters, once informed, would be as resistant as the senators fear.

Last fall, ABC's "20/20" assembled a group of 50 affluent seniors from a retirement community in Maryland, saying we wanted to interview them about the deficit. Initially most said that while they did want the deficit reduced, Social Security and Medicare should never be touched. Social Security was "an insurance policy" they said, they'd paid their dues, and now deserved their "entitlement."

A 75-year-old man said: "I'll never forget when it started . . . the first week they took 60 cents out of my salary. And I've been paying ever since. And I am never going . . . to give any of it back!" Most of the seniors said they would never live long enough to recover the money they'd paid in. Some thought they'd be paid back only if they lived another 30 years.

Then we gave them some facts from the Congressional Research Service and the Congressional Budget Office:

- They paid in less than they thought. Those who retired 10 years ago (most of this group) had recovered everything they paid in, plus interest, three years after retirement. In essence, since then, they had been collecting welfare.

- When the Roosevelt administration created Social Security, life expectancy was less than 60 years. By 1940, it reached only 63 years. In other words, when Social Security guarantees were made, it was expected that most Americans wouldn't collect anything. Now the average life span is 75 years, and rising.

- Yes, Social Security is "in surplus" now, but only because of the baby boom. When the baby-boom generation retires, it will require huge tax increases or payment cuts to keep Social Security and Medicare going.

- When Social Security began, seniors were the poorest Americans. Today, they are the wealthiest age group. About \$70 billion in Medicare and Social Security goes to households with cash incomes exceeding \$50,000 a year. The Office of Management and Budget says that fiscal 1992 entitlements were 52.8% of the total budget; Social Security costs accounted for 21 of those percentage points, a big chunk of the entitlements slice of the pie.

- Only entitlements are big enough to make a difference. Furthermore, largely because of Medicare, entitlements are the fastest growing slice of the pie. In the two decades before 1990, real spending on

entitlements grew by more than 6% a year; the economy, by 2.7% a year.

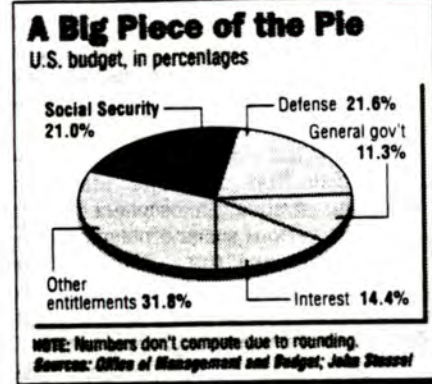
Once the seniors heard this, attitudes changed:

20/20: "Are you willing to turn some of the money down?"

Elderly man: "Why not? I mean, good heavens, I've got enough."

Elderly woman: "If there are those that are more needy, I would be more than willing to give. I want this country to be where it should be."

Another woman: "I would definitely give back part of my Social Security . . . if



we could help some of the children."

Then I interviewed Horace Deets, president of the American Association of Retired Persons, and was surprised to hear that even the senior lobby may be willing to compromise.

Horace Deets: "Listen, we're not the people who are giving over the belief that you can have everything you want and never pay. I mean, that's been a popular theme for the past 12 years. And there is no Santa Claus, and we're going to have to take a look at the entire budget. And I'm not saying entitlements shouldn't be part of it."

I broadcast this report with trepidation. Would viewers lurch for their remote controls to avoid talk of deficits? They didn't. And more than a thousand people wrote us. There were plenty of angry letters — even threats:

"Stossel will pay a very dear price the next time around. . . . He's putting his life on the line." Unsigned.

But from people who absorbed the statistics the response was encouraging:

"Thanks for showing the truth. People need to know. Entitlements are going to ruin us unless people get excited about this." Kathy Taylor, Scottsdale, Ariz.

"Looks as though AARP would rather the country go down the drain than tell its members the truth about problems with the trust fund. And I belong to that organization." Judith McAloon, Springfield, Va.

"I will receive my first Social Security check next month. While I am not wealthy, my income will cause me to pay taxes on 50% of my Social Security benefit. My feeling is that anyone who receives Social Security should be taxed on their total income. . . . The AARP and other senior action groups cannot be allowed to fiscally destroy our country!" Joe A. Stephens Jr., Grand Marais, Minn.

"We cannot begin to deal with the two-headed monster of poverty and racial division that is destroying the soul of this nation until we deal with the deficit. And we cannot deal with the deficit unless we address spending on entitlements." Lois Snyder, Philadelphia.

Perhaps if voters are informed, dealing with entitlements need not be a "death wish."

Mr. Stossel is a correspondent for ABC's "20/20."

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