Document No. 021007

WHITE HOUSE STAFFING MEMORANDUM

DATE: 06/02/93 **ACTION/CONCURRENCE/COMMENT DUE BY:** ASAP

SUBJECT: REVITALIZATION OF THE U.S. MARITIME INDUSTRY

	ACTION	FYI		ACTION	FYI
VICE PRESIDENT	☐	☑	MONTOYA	☐	☐
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GEARAN	☐	☐	PASTER	☐	☐
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GIBBONS	☐	☐	STEPHANOPOULOS	☐	☐
HALE	☐	☐	TYSON	☐	☐
HERMAN	☐	☐	VARNEY	☐	☐
LAKE	☐	☐	WATKINS	☐	☐
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REMARKS: I'd like to forward to the President as soon as possible. Please advise

RESPONSE:

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JOHN D. PODESTA
Assistant to the President
and Staff Secretary
Ext. 2702

Fax to Al Kamen
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334 5451

THE WHITE HOUSE

WASHINGTON

OFFICE OF THE STAFF SECRETARY

Fax Transmittal Sheet

TO: AL KAMEN   FAX # 334-5451

FROM: John Podesta

SUBJECT:

DATE: 06/21/93

Phone Number: 456-2702   **Fax Number:**

NUMBER OF PAGES (including cover sheet): 22

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UNITED STATES DISTRICT COURT
FOR THE DISTRICT OF COLUMBIA

ASSOCIATION OF AMERICAN PHYSICIANS AND SURGEONS, INC, AMERICAN COUNCIL FOR HEALTH CARE REFORM AND NATIONAL LEGAL & POLICY CENTER, Plaintiffs, v. HILLARY RODHAM CLINTON, DONNA E. SHALALA, Secretary of Health and Human Services, LLOYD E. BENTSEN, Secretary of the Treasury, LES ASPIN, Secretary of Defense, JESSE BROWN, Secretary of Veterans Affairs, RONALD H. BROWN, Secretary of Commerce, ROBERT B. REICH, Secretary of Labor, LEON E. PANETTA, Director of the Office of Management and Budget, ALICE RIVLIN, Deputy Director of the Office of Management and Budget, CAROL RASCO, IRA MAGAZINER and JUDITH FEDER, White House Advisors and THE PRESIDENT'S TASK FORCE ON NATIONAL HEALTH CARE REFORM, Defendants.	Civil Action No. 93-399 (Judge Lamberth)

DEFENDANTS' MEMORANDUM IN SUPPORT OF THEIR
MOTION FOR RECONSIDERATION AND
SUPPLEMENTAL MEMORANDUM REGARDING ALLEGATIONS
OF NONCOMPLIANCE WITH THE COURT'S MARCH 10 ORDER

PRELIMINARY STATEMENT

On June 15, this Court entered an order requiring defendants to preserve the documents of the President's Task Force on National Health Care Reform and the interdepartmental working group; to identify custodians of those records; and to provide the Court -- and plaintiffs -- with general descriptions of the records being preserved. Plaintiffs sought this Order notwithstanding that:

* for many weeks, defendants offered to stipulate that all documents created and received by the Task Force and working group would be preserved as they had been to date;
* the sole basis for this order was an unsubstantiated, vaguely-worded article in the Washington Times that the Court acknowledged was nothing more than uncorroborated hearsay;
* such hearsay clearly constitutes an insufficient basis for the award of injunctive relief;
* plaintiffs plainly "sandbagged" the defendants by filing a 21-page reply brief, filled with unsubstantiated assertions, just two hours before the scheduled hearing on June 15; and
* defendants reasonably requested, but were denied, a brief adjournment of the scheduled hearing so that defendants could demonstrate that the assertions by the plaintiffs and the Washington Times were baseless.

In fact, after having had a brief opportunity to determine the truth, defendants demonstrate below that:

* the Washington Times' hearsay suggestion that Task Force or working group documents were shredded is not only totally baseless, but is flatly denied by the General Services Administration ("GSA") employee who

purportedly spoke to -- but tellingly was not quoted by -- the Times reporter who wrote the story;

* the "First Lady correspondence" identified in the Times article had been delivered to the New Executive Office Building on Friday, June 11, so that it could be available in that building to a group of volunteer students who helped open, sort and process it on Saturday, June 12;
* the mailing containers at issue were returned with their contents to the Old Executive Office Building on Monday, June 14;
* long before the Court's June 15 hearing, the Task Force and working group had taken extraordinary steps -- including a lengthy oral presentation to all working group members and special written instructions for all Task Force and working group members -- to ensure that all Task Force and working group documents would be preserved;
* already for several weeks, starting well before plaintiffs' motion was filed, the White House Office of Records Management has been accountable for, and has preserved, Task Force and working group materials that have been delivered to that Office for long-term storage and preservation;
* contrary to plaintiffs' unsubstantiated assertions, the Task Force did complete its work as of May 30, 1993,

has not convened since, and no plans exist for the Task Force to be reconvened;

* contrary to plaintiffs' untimely assertions, the Task Force held approximately twenty meetings in April and May, each of which was noticed in the Federal Register; and,

* notice in the Federal Register was provided pursuant to GSA regulations which allow less than 15-days' notice in the event of "extraordinary circumstances," such as the short time-frame within which the Task Force was asked to complete its work.

With this submission, defendants thus accept this Court's invitation to move for reconsideration of the June 15 Order. In so moving, defendants emphasize that they have already agreed to preserve, and have been preserving, all Task Force and working group documents. Defendants also note that Terry Good, Director of the White House Office of Records Management ("ORM"), serves as the custodian of all Presidential records and has been, and remains, the appropriate custodian of Task Force and working group documents.

The requirement in the Court's Order that there be a description of the documents at each location was designed to serve as an assurance that no documents will be destroyed. Given the extraordinary steps defendants have taken to ensure preservation of Task Force and working group documents -- and given the absence of any credible evidence that documents are not being preserved -- there is no justification for imposing on defendants any additional burden to "describe" to the Court and the plaintiffs the documents to be preserved.

Defendants respectfully request that plaintiffs respond to this motion for reconsideration no later than 9:00 a.m. Tuesday, June 22, and that a hearing, if desired by the Court, be scheduled as soon thereafter as possible. This motion should be resolved prior to June 29, when defendants' "description" obligation matures.[1]

ARGUMENT

I. DEFENDANTS DESTROYED NO TASK FORCE DOCUMENTS AT THE NEW EXECUTIVE OFFICE BUILDING SHREDDER ON JUNE 11 AND ARE PRESERVING THE TASK FORCE AND WORKING GROUP DOCUMENTS.

A. Plaintiffs' Claim That Task Force Documents Were Destroyed on June 11 Is Baseless.

Concededly relying solely on a June 14 Washington Times article, plaintiffs asserted that Task Force documents had been destroyed on June 11. The article was introduced for the truth of the matter asserted and admitted over defendants' timely objection. The article was textbook hearsay and its inherent unreliability should have required its exclusion from evidence. As the D.C. Circuit has held, unsubstantiated press clippings are hearsay and not admissible for the purpose of establishing the truth of their contents. Carter v. District of Columbia, 795 F.2d 116, 123 (D.C. Cir. 1986); see also Abruzzin Foods, Inc. v. Pasta & Cheese, Inc., 986 F.2d 605, 606-07 (1st Cir. 1993)

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[1] The Court's Order required action within ten days. That period excludes Saturdays and Sundays. Fed. R. Civ. P. 6(a).

(magazine article is inadmissible hearsay); Larez v. City of Los Angeles, 946 F.2d 630, 641-42 (9th Cir. 1991) (admission of newspaper articles reversible error); New England Mutual Life Ins. Co. v. Anderson, 888 F.2d 646, 650 (10th Cir. 1989) (newspaper article introduced for the truth of the matters asserted is inadmissible).

Moreover, as set forth in several detailed declarations submitted herewith, the newspaper article is totally inaccurate. The Times article states that, on June 11, a GSA employee told the reporter he had shredded letter campaign materials relating to health care and that two carts of documents bearing a label "Office of the First Lady" were located outside the shredding room -- implying that those documents, too, would be shredded. The Declaration of the GSA employee, Lawrence Downes, categorically refutes these assertions.

Mr. Downes, a low-level GSA employee, does not read the material he is asked to destroy and has no occasion to know what these materials concern. Declaration of Lawrence C. Downes ("Downes Decl."), ¶ 5. Mr. Downes' job is simply to shred the documents he is asked to destroy in the shredder at the New Executive Office Building ("NEOB"), located next to the loading dock. Id.. Mr. Downes denies reading any of the documents he destroyed on June 11 and states that he had no knowledge of their contents. Id. Contrary to the statement in the Times article, Mr. Downes did not tell the reporter that he was shredding health care documents received through a letter campaign. Id., ¶¶ 4-5.

Rather, Mr. Downes told the reporter he did not know anything about the contents or source of the materials he was shredding on June 11. Id., ¶ 4.[2]

It is also clear that Mr. Downes did not shred the documents contained in mailing carts located on the NEOB loading dock next to the shredding room. The Washington Times article implies that on June 11, documents in mailing carts labelled "Office of the First Lady" were destroyed because the reporter saw the carts on the NEOB loading dock next to shredding room. Mr. Downes does not destroy documents located in canvas mail or plastic trash carts, Downes Decl. ¶ 8, and did not do so on June 11. Id., ¶ 9.

Indeed, the Declaration of Marsha Scott, Assistant to the President and Director of White House Correspondence and Presidential Messages, confirms that the material inside the mail carts at the loading dock was not destroyed. Scott Decl., ¶ 4. Rather, the mail carts contained correspondence sent to the President and the First Lady that has been preserved. Id. , ¶¶ 5-7, 13. On June 11, this mail was transferred from the Old Executive Office Building ("OEOB"), where the President's and

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[2] A subsequent Washington Times article, published June 17, states that the Times removed partially destroyed material from the shredding room on June 11. Mr. Downes explains, however, that no partially destroyed documents lie in the shredding room and none did so on June 11. Downes Decl. ¶ 6. Rather, Mr. Downes removes documents from boxes and places them on a conveyor belt to the shredder unit. Id. Once the documents reach the end of the belt, they are destroyed very quickly and very thoroughly. Id. Mr. Downes states that recovering partially destroyed documents would require climbing several feet up the shredder and reaching into the machine at great personal risk. Id. He did not see the reporter do this or see her remove any partly destroyed documents from the shredder room. Id.

First Lady's correspondence units are located, to the NEOB so that a group of 1,000 student volunteers could assist in processing the correspondence on Saturday, June 12. Id., ¶¶ 4-8.

The Correspondence Department arranged for the students to process this mail in the cafeteria and a conference room in the NEOB. Id., ¶ 9. The mail was placed in nine mail hampers in the OEOB and sent to the NEOB by truck by 2:30 p.m. on June 11. Id., ¶¶ 8-9. Five of the hampers were marked with labels identifying them as containing the First Lady's mail. Id., ¶ 7. The cafeteria and conference room were not prepared by 2:30 p.m. Id., ¶ 9. As a result, the mail containers were left at the loading dock at the NEOB until 3:45 p.m. Id., ¶¶ 9-10. The containers were then moved to the NEOB cafeteria and conference room and remained secured in the NEOB over the weekend. Id., ¶ 11. On Monday, June 14, the mail carts containing the mail were returned to the OEOB and are stored there. Id., ¶¶ 12-13. None of the correspondence in those containers was delivered to the NEOB for shredding. Id., ¶ 13. The Washington Times' suggestion that material contained in mail carts seen on the NEOB loading dock in the mid-afternoon of June 11 was destroyed is simply wrong.[3]

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[3] The Washington Times article also asserts that the Task Force's reading room was disorderly. The Task Force simply has lacked the resources or manpower to index, categorize or classify in a detailed way the tens of thousands of pieces of mail it has received and has provided in the reading room. Now that the Task Force has completed its work, some staff support has been made available to organize the material in the reading room. The defendants, of course, are under no obligation by either the Order or FACA, § 10(b) even to keep the reading room open. Yet,

The Downes and Scott Declarations alone rebut and disprove the assertions contained in the Washington Times article. Defendants' additional declarations[4] further demonstrate that any records destroyed by Mr. Downes on June 11 were not Task Force records.

The White House Correspondence Office receives and distributes all mail that is addressed to the White House. Scott Decl., ¶ 2. Mail addressed to the Task Force and to the First Lady as Chairperson of the Task Force has been forwarded to the Health Care Intake Center since the creation of the Task Force. Id., ¶ 14; see also Declaration of Marjorie Tarmey [attached as an Exhibit to Defendants' Motion to Dismiss Count 2, or, in the Alternative, for Summary Judgment], ¶ 13. Procedures employed by the White House Correspondence Office do not call for sending any such mail to the RMO or GSA for shredding. Scott Decl. ¶ 16. Nor do Intake Center procedures provide for the forwarding of any Task Force or working group mail to the RMO or GSA for destruction. Declaration of Helaine Greenfeld, ¶¶ 9-10; Declaration of Mary Schuneman, ¶¶ 8-9. Given these well-established procedures, there is no evidence to suggest that any

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they do so currently as a public service and are working to improve the accessibility of the thousands of documents available in the reading room for public inspection.

[4] Attached are the Declarations of Terry Good, Director of the White House Records Management Office ("RMO"); Mary Schuneman, former Director of the White House Health Care Intake Center; and Helaine Greenfeld, Acting Director of the White House Health Care Intake Center.

material received by the Task Force was destroyed by Mr. Downes.[5]

[5] If any White House Office documents relating to health care were destroyed by Mr. Downes on June 11, they were not mail addressed to the Task Force or any of its members, and thus could not conceivably be covered by this Court's Order or the FACA. Rather, any such mail would have been Presidential correspondence cleared by the National Archives for destruction.

The White House Correspondence Office receives and processes letters addressed to the President, the First Lady, the President's family and the Chief of Staff. Scott Decl., ¶ 2. Again, mail to the First Lady as Chairperson of the Task Force was forwarded to the health care intake center. Id., ¶ 14. After the Correspondence Office responds to correspondence or determines that a response is not necessary and collects a number of letters deemed not to have sufficient historical, administrative or evidentiary value to warrant permanent retention, it periodically notifies the ORM. Declaration of Terry Good ("Good Decl."), ¶ 7.

ORM contacts GSA to collect the boxes and to transport them to the ORM's store room, located in the NEOB. Id.. Employees of the National Archives then review the boxed materials to verify that the documents lack historical, administrative or evidentiary value. Id., ¶ 8. In accordance with long-standing procedures established by the Archives and White House, Good Decl. Exhs. A-B, the Archives removes samples of the documents as needed for retention for the historical record. Id., ¶ 8. The remaining documents remain in the cartons, each of which is assigned a four digit number by the Archives that is written in red marker on the box. Id., ¶ 9. The Archives employees maintain a list of the box numbers with a generic description of their contents, such as "Miscellaneous Propaganda" or "Unacknowledged Mail." Id. Those boxes remain stored in the RMO storeroom located in the NEOB. Id., ¶ 10.

Periodically, ORM contacts Mr. Downes to arrange for a mutually convenient time for delivery of these cartons. Id. If Mr. Downes has space in the shredding room to hold them and time to destroy the documents, GSA employees remove the cartons from the storeroom and carry them to the shredding room, located next to the loading dock at the NEOB. Id. Mr. Downes destroys the contents of these cartons in a shredder located in the NEOB, near the loading dock. Id. The only documents Mr. Downes destroys from the White House Office are contained in boxes bearing a red four digit number. Downes Decl. ¶ 7. Based upon his experience, knowledge and investigation, Mr. Good believes that any documents from the White House Office destroyed by Mr. Downes would have been routine Presidential correspondence, not Task Force documents. Id., ¶ 11.

In short, neither the Health Care Intake Center, the White House Correspondence Office nor the ORM forwards any Task Force documents to Mr. Downes for destruction. The only documents Mr. Downes destroys from the White House Office are those contained in boxes bearing a four digit red number. Such boxes contain Presidential correspondence and are destroyed only after review by the Archives. No evidence exists to suggest that Mr. Downes destroyed any materials created or received by the Task Force.

B. Defendants Are Preserving Task Force and Working Group Documents.

The defendants are committed to preserving all the documents created or received by the Task Force and working group (with the exception of unneeded duplicates). As is the case with all Presidential records, the White House Office of Records Management has served as the custodian of Task Force and working group records. Terry Good, who has served in White House records management for nearly twenty-five years, is the Director of that Office. Good Decl. ¶ 1.

The White House has made substantial efforts to ensure the protection of these documents. Prior to the termination of the Task Force and working group, the White House circulated a memorandum to all Task Force and working group members. Second Declaration of Marjorie Tarmey ("Second Tarmey Decl."), ¶ 5, Exh. B; see also Good Decl., ¶ 12. That memorandum instructed Task Force and working group members to take steps to preserve their records, even beyond those steps required by the Presidential Records Act. Id. The memo directed all personnel to preserve all documents, including those on electronic media, and provides instructions for doing so. Id.

Moreover, on April 29 -- long before plaintiffs filed their preservation motion -- Mr. Good and an Associate Counsel to the President each delivered oral briefings to most working group members. Tarmey Decl., ¶¶ 4, 6; Good Decl., ¶ 12. At that briefing, the members were instructed that all correspondence forwarded to them by the intake center must be returned to the intake center. Tarmey Decl., ¶ 6. They were also told to store remaining documents in boxes and to deliver those boxes to the working group office in the OEOB or to the ORM. Id.; see also Good Decl., ¶ 12.

Finally, Marjorie Tarmey, who assisted in coordinating the administration of the interdepartmental working group and was assigned as the contact person for management of Task Force and working group documents, has notified working group leaders and other members since February to preserve the documents that they have produced or used. Id., ¶¶ 3, 7. She has received materials from working group members and has arranged for ORM's retrieval of them. Id., ¶ 8.

Mr. Good and his Office are now preserving the Task Force and working group documents that they have received. Good Decl., ¶¶ 2, 14. No Task Force or working group documents sent to ORM have been destroyed by ORM or at ORM's direction. Id., ¶ 14. Instead, ORM has recorded receipt of Task Force and working group materials on a computer database. Id. Presidential records, like those at issue here, are stored by ORM in secured locations at the OEOB, NEOB and Archives. Id., ¶¶ 2-3.

Of course, thousands of Task Force documents remain for public inspection at the reading room. Outside mail received by the Task Force that is exempt from disclosure or that has yet to be acknowledged remains in the intake center and in other secure storage facilities. When all the mail is processed and the reading room is closed, these materials will be forwarded to Mr. Good's Office. Mr. Good's Office, moreover, will preserve additional Task Force and working group documents forwarded to him. Good Decl., ¶ 14.

The defendants thus are, and have been, preserving the Task Force and working group documents. The Task Force and working group members have been told both in writing and orally to preserve their documents. To the best of our knowledge, no Task Force documents were destroyed on June 11 or at any other time. With or without the Court Order entered June 15, the defendants will preserve these materials. Defendants have no objection to preserving them or to formally designating Mr. Good as their custodian.

The Court's requirement that defendants describe the Task Force and working group documents at each location where they exist, however, was apparently designed as a mechanism for determining whether any documents have been destroyed. The concern that some documents had been destroyed, again, was triggered solely by the Washington Times article, which defendants have shown to be entirely false. There is, therefore, no justification for requiring defendants to describe the Task Force and working group documents held at each location within ten days.

We do not understand the Court to have required a detailed description of the hundreds of thousands of Task Force and working group documents. Indeed, the Court correctly rejected plaintiffs' request for a Vaughn index. Nevertheless, requiring even a general description of the documents, which would serve little protective purpose, would be unnecessarily burdensome and disruptive. Mr. Good's Office is, in any event, tasked with recording receipt of single documents, folders or boxes as they arrive. This recording process and the ORM's standard procedures for checking out documents, Good Decl. ¶ 3, provides a mechanism for tracking materials received by Mr. Good's Office.

At a minimum, this portion of the Court's Order should be reconsidered.

II. PLAINTIFFS' CLAIMS THAT THE DEFENDANTS HAVE VIOLATED THIS COURT'S MARCH 10 ORDER ARE MERITLESS.

A. The Task Force's Mission Has Been Completed, Its Charter Has Expired and It Is No Longer in Operation.

The Task Force's Charter expired without renewal by the President on May 30 and defendants' counsel have so advised both the D.C. Circuit and this Court. Nevertheless, on the basis of newspaper articles, plaintiffs assert that the Task Force remains in operation. Plaintiffs' Reply Memorandum in Support of Their Motion to Preserve Records ("Pls' Reply") at 5 n.3. As the attached Second Declaration of Ira Magaziner[6] states ("Second Magaziner Decl."), ¶ 2, plaintiffs are flatly wrong.

As Mr. Magaziner stated in his first declaration[7] and as was provided in the Task Force's Charter,[8] the Task Force's charge was to provide the President with recommended proposals and options for health care reform. Second Magaziner Decl. ¶ 3. At meetings held in late April and May, the Task force assessed and developed these proposals and options. Id., ¶ 5. The President attended several of these meetings and obtained advice from the Task Force as well as specific proposals and options for health care reform legislation. Id., ¶ 7. By May 30, 1993, the Task Force had completed its efforts to present the President a comprehensive set of reform proposals. Id., ¶ 9. Its work done, the Task Force terminated on May 30 in accordance with the terms of its Charter, Charter, § IV. The Charter has not been renewed. Id. The Task Force has not reconvened since May 30 and no plans exist to reconvene the Task Force in the future. Id.

The President is now considering the Task Force's recommendations and is in the process of developing his health

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[6] Defendants file a faxed copy of Mr. Magaziner's Declaration as he is out of town. We will furnish the Court with an original copy when available.

[7] See Declaration of Ira Magaziner, ¶¶ 2, 5 (attached to Defendant's Memorandum in Opposition to Plaintiffs' Motion for a TRO and a Temporary Injunction and in Support of Defendants' Motion to Dismiss or, in the Alternative, for Summary Judgment).

[8] The Charter is attached as Exhibit 1 to the Declaration of Marjorie Tarmey, submitted in support of Defendants' Motion to Dismiss Count 2, or, in the Alternative, for Summary Judgment.

care reform package. Id., ¶ 10. This effort, quite appropriately, is not a solitary one. During the course of his final decision-making process, the President has consulted with Mr. Magaziner and is expected to continue to receive assistance from his senior advisors, some of whom served on the Task Force or working group. Id., ¶ 10. In doing so, the Task Force has not been surreptitiously reconstituted to formulate consensus advice or recommendations for the President. Id.. To the contrary, like all Presidents have, the President is merely obtaining information and support from his senior staff on an ad hoc basis as part of his final decision-making process. Id.; see also 41 C.F.R. § 101-6.1004(h)-(k).

The newspaper articles upon which plaintiffs solely rely say nothing more than that the President is in the process of making the final decisions required to complete development of his health care reform proposal to Congress.[9] They do not state or even suggest that the Task Force continues to function. Indeed, the articles merely reflect the reality that the Administration's health care reform process has passed from the stage in which the Task Force makes recommendations to the President to the phase in which the President considers them in formulating his reform

[9] The June 3 New York Times article upon which plaintiffs rely correctly reports that the Task Force "went out of existence on Sunday [May 30]." The June 17 Washington Times article itself described the Task Force as "defunct" and as having been "disbanded."

proposal.[10] That the President is developing his reform package based on the final recommendations of the Task Force demonstrates its termination, not its continued operation. Plaintiffs' assertion to the contrary is meritless.

B. Defendants' Public Notices of Task Force Meetings Substantially Complied with the FACA and this Court's Order.

Although the first Federal Register notice for the closed Task Force meetings was published on April 20, 1993 and the Task Force terminated on May 30, plaintiffs waited weeks to claim that the Task Force failed to notice some meetings and that its public notices for Task Force meetings conducted in April and May violated the FACA and this Court's March 10 Order. Plaintiffs claim that they were deprived of the opportunity to tell the Court that the meetings were being held and to require defendants to explain why the meetings were closed. Pls' Reply at 3 n.2.

Plaintiffs' unsubstantiated assertion that some Task Force meetings were not noticed at all is simply wrong. All of the Task Force's meetings were noticed in the Federal Register. Second Magaziner Decl., ¶ 6. Moreover, had plaintiffs read the

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[10] Plaintiffs also rely on a postcard, postmarked June 4, which suggests that the Task Force remains in operation. This form postcard has been used since the advent of the Task Force to acknowledge offers of service to it. Schuneman Decl., ¶ 10. The postcard responded to mail received by the Task Force prior to May 30. Id. Its mailing only reflected the diligent efforts of the intake center volunteers to acknowledge back-logged mail using available stocks of stationery, rather than any high-level White House decision to continue the Task Force in operation. Id. The intake center has discontinued use of this postcard and other acknowledgement letters that indicate in any way that the Task Force remains in existence. Greenfeld Decl., ¶ 11.

Federal Register notices when they were published, they would have recognized that many of the closed meetings of the Task Force were noticed several days in advance. Yet, they sought no relief at that time.

In any event, during the last weeks of the Task Force's existence, it conducted deliberative meetings as the notices stated. Second Magaziner Decl. ¶ 5. Moreover, to require the defendants to explain the nature of the deliberative meetings to justify their closure would have undermined the confidentiality that this Court held warranted constitutional protection. AAPS v. Clinton, 813 F. Supp. 82, 90-93 (D.D.C. 1993).

This Court's March 10 Order and 5 U.S.C. App. 2, § 10(b)(2) required the Task Force to make timely notice of its meetings in the Federal Register. The Task Force substantially complied with these requirements. See 58 Fed. Reg. 15177, 16264 (March 19, 25, 1993) (public notice for the Task Force's March 29 open hearing); 58 Fed. Reg. 21330 (April 20, 1993) (notice for closed meetings from April 20-29); 58 Fed. Reg. 28655 (May 14, 1993) (notice for closed meetings from May 13-20 and May 1-7); 58 Fed. Reg. 29854 (May 24, 1993) (notice for closed meeting on May 24). Assuming that § 101-6.1015(b)(1)'s 15 day notice requirement applied at all[11], § 101-6.1015(b)(2) permits less advance notice if

[11] That requirement applies to agency advisory committees, see § 101-6.1003, .1007, and independent Presidential advisory committees. The Task Force, assuming it was a FACA committee at all, was neither. The President is not an agency. Franklin v. Massachusetts, 112 S. Ct. 2767 (1992). And, the Task Force was not an independent Presidential advisory committee because GSA did not provide administrative services to it. See § 101-6.1003.

"extraordinary circumstances" required it. They did so here.

Two meetings (April 20 and May 14) were noticed on the day they were conducted and one noticed the day after (May 13) because the meetings were called on extremely short notice. Second Magaziner Decl., ¶ 8.[12] It must be recognized that the Task Force meetings were scheduled under exceptional circumstances, often at the request of the President or to accommodate his schedule, and to meet the scheduling needs of several high-level government officials. Id.

Moreover, the President requested recommendations to be made to him in May. Given the President's wishes, it was simply not possible to delay having a Task Force meeting fifteen days after scheduling one. Id. To do so would have severely impaired and delayed the Task Force's efforts. Id. These exceptional circumstances justified less than 15 days advance notice of these meetings -- notice which in no way prejudiced plaintiffs because such meetings were not open to the public.

CONCLUSION

For the foregoing reasons, the Court should grant defendants' motion for reconsideration. Plaintiffs' assertions that the defendants have violated this Court's March 10 Order are baseless.

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[12] Defendants acknowledge that advance notice of six meetings from May 1-7 was inadvertently not provided. When this oversight was discovered, notice of those meetings was provided in the Federal Register. 58 Fed. Reg. 28655.

Respectfully submitted,

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Attorneys for Defendants

Dated: June 18, 1993

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Health care task force awash in unread letters

By Karen Riley
THE WASHINGTON TIMES

Under the threat of a court order to open more of its records, Hillary Rodham Clinton's aides are racing the clock to catalog and clean up the public reading room of her health care task force before tomorrow.

Just a week ago the dimly lit and poorly furnished reading room, opened March 29 under court order, was a shambles. Hundreds of books and reports spilled off desks and tables while cabinets stood empty. Some 50 boxes stuffed with letters to Mrs. Clinton and other task force members clogged floor space.

The contents of opened cartons were spilled onto tables, jumbling resumes from job seekers with correspondence from trade groups and plaintive handwritten pleas from ordinary citizens who sometimes enclosed family photos.

By Friday, the books and reports were being tucked into bookcases and cabinets and a team of three White House interns and a supervisor were reading and sorting letters.

However, across town at the New Executive Office Building, mail to the task force — some never opened — still was being shredded.

The rush to organize the reading room began after a "status meeting" Tuesday among a federal judge and lawyers from both sides in a lawsuit brought to force the task force to comply with federal open-meeting laws.

U.S. District Judge Royce C. Lamberth ruled in March that the task force must give advance notice of all meetings, hold open sessions in certain cases and make its records available to the public. The task force has since filed its report to the president and gone out of existence.

Unlike other government reading rooms, the health care collection contained nothing more official than the transcript of the task force's one and only public hearing.

It became a dumping ground for task force detritus — books, pamphlets, videotapes, bumper stickers and letters that poured in since President Clinton solicited public opinion on health care reform.

Photo by Ruth Fremson/The Washington Times

Books, reports and boxes of letters sent to the health care panel are piled up in the public reading room at the Department of Health and Human Services.

Some letters bore notes that indicated a task force staff member had read them. But some of the most intimate letters — which the task force had moved into the reading room despite its policy that personal letters remain confidential — were apparently unread and unanswered, perhaps because they were mistaken for the products of computerized letter-writing campaigns.

One was from Myrtle Crawford, an 86-year-old retired teacher in Norfolk, who wrote to Mrs. Clinton about the anguish she faced at having to give up all of her assets to enter a nursing home. That tale, apparently unread by any government official, ended up in one of the boxes of computerized mail.

"I never did hear back," Mrs. Crawford said in a telephone interview. She said she had sent another unanswered letter, about drug prices.

Debbie Rutledge of St. Peters, Mo., sent a handwritten note telling of financial and marital distress because her insurer refused to pay $13,000 in bills for a complicated pregnancy that followed fertility treatment. She enclosed a photo of her "miracle" twin girls.

Another apparently unread letter, which urged that alcohol and drug treatments be covered under any new health care plan, was from Richard Weedman, a health care consultant in Naples, Fla. He said he spent three days researching and writing it, but he got no response.

"That was disappointing," he said. "A lot of thought went into the letter."

Susannah Wellford, who supervised Friday's cleanup of the first-floor room in the Hubert Humphrey Building of the Department of Health and Human Services, said in an interview that the task force always planned to organize the room but delayed until college interns arrived.

"We get so much mail, it takes a lot of time," explained Miss Wellford, an aide to task force director Ira Magaziner. She said the task force replies to all personal correspondence but acknowledges only the sponsors of an organized mailing campaign.

On Tuesday, Kent Masterson Brown, a lawyer for the plaintiffs in the federal suit, told the judge that the unkempt nature of the reading room raised fears for the safety of all task force documents.

Later, he said in an interview: "If this is the way they treat records designed for public inspection, one wonders how they treat others. Do they treat them as cavalierly? And where are they?"

Other missives to Mrs. Clinton haven't fared even as well.

On Friday, a worker at the New Executive Office Building shredded several boxes of letters on health care issues in the soundproof room located next to the building's loading dock.

The General Services Administration worker said most were from organized letter-writing campaigns on health care issues. But some of the mail there and on the adjacent loading dock seemed to be individually written rather than part of what government people call "Astroturf mail."

Waiting outside the shredder room were two carts, labeled "Office of the First Lady," that had just arrived from the White House. A large unopened envelope atop one of the carts was addressed to Mrs. Clinton from a Minnesotan at Abbott Northwestern Hospital, bearing $1.21 in postage.

The task force says it received 750,000 letters from individuals and businesses. That doesn't count cards and form letters sent in as part of organized campaigns by chiropractors, orthodontists, supporters of a single-payer system, holistic medicine advocates and persons pleading for coverage of long-term care, mental health and treatment for infertility.

On one day alone, the White House received an unprecedented 1 million postcards from a single health-consortium campaign, Marsha Scott, head of correspondence for the White House, said in an interview on National Public Radio.

Judge Lamberth has scheduled a hearing for 2 p.m. tomorrow on whether to order additional protections for these records.

The judge has indicated that he is considering ordering the White House to put additional documents in the reading room. Last week he asked several times whether any other official documents had been filed there, Mr. Brown said. "The answer was no, the same old stuff."

Mr. Brown contends that even task force memorandums from the working groups should be filed there.

MONDAY, JUNE 14, 1993
The Washington Times

The Washington Times
MONDAY, JUNE 14, 1993

Government probes fraternity antics as 'harassment'

By Valerie Richardson
THE WASHINGTON TIMES

SAN FRANCISCO — The U.S. Department of Education has launched an investigation into a possible case of sexual harassment at Occidental College after receiving a complaint against a fraternity that published a scatological limerick and organized a campus run that included a "mooning."

In a May 18 letter to Occidental President John B. Slaughter, the department's regional office here ordered the Los Angeles college to produce all files on sexual harassment for the past three years, including formal and informal complaints against the Alpha Tau Omega fraternity.

Sexual-harassment complaints against institutions such as universities, while less frequent than complaints against individuals, are not uncommon.

But the department's new assistant secretary for the civil rights division, Norma Cantu, is said to be bringing a greater vigor to the department's handling of sexual-harassment cases.

The investigation stems from a written complaint the department received April 15 from Deevy Holcomb, an Occidental student who accused the college of failing to implement its sexual harassment policy despite a number of complaints against the fraternity.

She also said Occidental officials had encouraged her to drop her complaint after the fraternity sued the college for violating its First Amendment rights.

The lawsuit was settled out of court in March when Occidental agreed to rewrite its sexual harassment code to exclude protected speech. In turn, fraternity members agreed to stop dropping their pants at the end of the annual run.

John Howard, an attorney for the fraternity, called the federal investigation "outrageous," saying the department should focus on teaching students to read instead of cracking down on "high-spirited college boys who sometimes cross the line of good taste."

"There is a problem with sexual harassment, but it isn't publishing a private newsletter, it isn't telling dirty jokes and it isn't mooning," said Mr. Howard, who heads the Individual Rights Project from his office in San Diego. "To politicize it into a sexual harassment charge is absurd and reprehensible."

The fraternity ran afoul of campus feminists in November when it printed an obscene limerick called "Buffalo Pete" in its privately circulated newsletter. Despite fraternity apologies, the poem prompted an outcry that included a march against ATO, banners accusing the fraternity of promoting rape, anti-ATO grafitti and a candlelight vigil outside the fraternity house.

Miss Holcomb also accused fraternity members of pulling their pants down in front of a sorority house after their annual November run and singing a song about mutilating a woman's genitalia with a chain saw. Fraternity members say Miss Holcomb did not witness such events and deny her account.

Fraternity President Jed Wockenfuss said he and other members of the football team, many of whom belong to the fraternity, finished the run about a block from the fraternity house and sang "Singin' in the Rain." During the song, they formed a circle and did a dance that included taking off their shirts and exposing their underwear.

Several team members also pulled down their underpants, thereby "mooning" onlookers from another fraternity and a sorority house three blocks away.

"It wasn't directed at any individual female and there was no abusiveness in the song," said Mr. Wockenfuss, a 21-year-old junior. "I've told my mom about it, and she thought it was hilarious. The light-hearted, good-natured person with a sense of humor would view this as entertaining and kind of funny."

Wayne Flick, an attorney for Occidental College, said the college had pursued the complaints vigorously but had to settle with the fraternity after a new California statute protecting free speech on campus took effect in January.

"Miss Holcomb knows better than to allege that the college ignored her complaint," said Mr. Flick. "The ultimate goal of any sexual harassment suit should be to end the behavior. The ATO members agreed there would be no further violations. The conduct stopped, and we believe that was the most important result."

Miss Holcomb could not be reached for comment. But John Palomino, regional director of the Education Department's San Francisco office, said the events laid out in her complaint, if true, would constitute a violation of federal sexual harassment codes, even if she herself did not witness the events.

"In any complaint, it's not what the individual sees or hears but what happened," said Mr. Palomino, who said his office receives two or three sexual harassment complaints a month. "If there are other sources, it may not be necessary for the person who filed the complaint to have witnessed the incident."

Mr. Flick said he was skeptical of such an interpretation of sexual harassment. "Miss Holcomb and others on campus apparently believe that the mere existence of offensive speech and conduct is enough to establish sexual harassment on campus," he said.

EXPLANATION

Due to an editor's mistake, the editorial-page cartoon in a few copies of today's editions of The Times was reprinted from Friday's editions. The Times regrets the error.

70

THE WHITE HOUSE
WASHINGTON

DATE: 6/21

NOTE FOR: MACK, RUBIN, GALSTON

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

Information ☑

Action ☑

GALSTON will follow up

JOHN

Thank you.

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

cc:

THE WHITE HOUSE

WASHINGTON

THE PRESIDENT HAS SEEN

6/18/93 6.21.93

MR. PRESIDENT,

Mack asked me to pass this along. I've copied Bill Galston on this.

John Podesta

Mack / Rubin / Galston

What's our answer to his assertion? We did agree with him & I should sign prompt reply

BART GORDON
6TH DISTRICT, TENNESSEE
RULES COMMITTEE
BUDGET COMMITTEE
SELECT COMMITTEE ON AGING
DEPUTY MAJORITY WHIP AT LARGE

POTUS

103 CANNON BUILDING
WASHINGTON, DC 20515-4201
(202) 225-4231
106 SOUTH MAPLE STREET
P.O. BOX 1986
MURFREESBORO, TN 37133
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THE PRESIDENT HAS SEEN
6-21-93

Congress of the United States
House of Representatives

93 JUN 18 A11:31

June 9, 1993

The Honorable Thomas F. McLarty
Chief of Staff
The White House
1600 Pennsylvania Avenue
Washington, D.C. 20500

Dear Mack,

I enjoyed talking to you last night. It was a relief to finally run into somebody who understood what a conversion to direct lending would really mean for the student loan program, and who had taken the time to read some of the newest information critical of such a proposal.

Even though I don't agree that direct lending is the best way to achieve reform in the student loan program, I have repeatedly acknowledged that President Clinton's leadership has allowed a vital debate on the flaws of the current system to take place. And no matter which way we resolve the issue, we will see over $4 billion in savings. This can be a great victory.

My concern throughout the process, one that I have raised with numerous members of the Administration, is that the President is not getting good information on this topic. I recognize that when this issue was first discussed, the savings from direct lending appeared to be about $6 billion. According to CBO's most recent pronouncement, the real savings are actually closer to $2 billion. The Congressional Research Service (CRS) made this call early on, and I have enclosed their latest paper on the subject (which I find very clear and helpful). After talking with President Clinton last night, I am not confident that he has heard any of these arguments, or seen the new CBO estimate or the CRS analysis.

Mack, I appreciate the thought you have put into this issue and your willingness to listen. I hope you will be able to pass on the enclosed information to the President. In my conversation with him last night he specifically asked for these items, and in my experience thus far, he does not seem to receive letters I send him.

Thanks again.

Sincerely,
Bart
BART GORDON
Member of Congress

Mack -
I'm glad you are in the White House!

BART GORDON
6TH DISTRICT, TENNESSEE
RULES COMMITTEE
BUDGET COMMITTEE
SELECT COMMITTEE ON AGING
DEPUTY MAJORITY WHIP AT LARGE

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Congress of the United States
House of Representatives

June 9, 1993

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

Dear Mr. President,

I appreciated the chance to talk to you last night about student loan reform. At your request, I am following up with some information which I believe is very pertinent to both the policy and political debates on this issue.

First, however, I want to emphasize that throughout this debate I have tried to be a constructive force. I am a friend, committed to the goals you have set out for the nation, and my endorsement of your candidacy came early and reflected a serious personal commitment.

* You may remember that during the toughest days of the New Hampshire primary my Washington and Tennessee offices were cleared out because my staff and all the friends we could gather were knocking on doors in Hampton and Exeter; and that last fall, our campaign took on a 120,000 Clinton-Gore GOTV mailing, half of which had to be addressed by hand because of FEC rules. I believed in you then, and I believe in you even more strongly today.

My concerns with this issue are based on both a sense of what would be best for students and taxpayers, and a strong desire to see you succeed in both the short and long run.

Your position on the need for reform in the student loan program created the current debate, and thanks to you our chances of winning on this issue have skyrocketed. Whatever the details of the final reform proposal, Americans will see billions of dollars in savings, income-contingent lending, and a national service option. This is an achievement I would not have thought possible before last November and a great victory for you.

I disagree, however, with the decision to build this reform around a conversion to direct lending or an excessively large pilot. As I have pointed out in past letters, I sincerely believe that this proposal is not in the best interest of students or taxpayers, nor is it in tune with the mood of the country.

Proponents of direct lending make two major claims: direct lending will save billions and streamline the system. As you will note from the attached Congressional Research Service (CRS) report, the evidence to back up these claims falls short.

First, in terms of savings, the most recent information from the Congressional Budget Office (CBO) shows that if the direct lending program was scored on the same basis as the guaranteed loan program, savings would fall to $2.08 billion. This is quite a ways from the original estimates you were shown which exceeded $6 billion, and I am concerned that this new information has not been brought to your attention.

Second, since all the same functions that are performed for guaranteed lending must also be performed under direct lending (ie, origination, servicing, collection), it is obvious that we must either turn to a greatly expanded government bureaucracy or rely heavily on government contractors. Neither of these options is attractive, nor are they "streamlined." Because schools are not required to originate loans under direct lending (they may opt to have alternative originators), this process will also not be simpler for the student.

Finally, I do not believe that the public is in the frame of mind to accept a new program which adds to the government bureaucracy, dismantles a successful private/public partnership, and results in over $50 billion in additional government borrowing. I also believe that the Department of Education will have its hands full cleaning up the mess left to it, and therefore may not have the capacity to exercise sufficient oversight of the program.

This issue is not as simple as industry versus students, and the contention that all alternatives represent nothing more than a front for special interests is not accurate. Financial aid administrators have come out against an immediate move to direct lending. The United Negro College Fund has expressed real concerns about the concept. Numerous thoughtful legislators, such as Senator Claiborne Pell, have voiced a preference for an alternative. None of us are tools of the special interests.

An alternative does exist. It is possible to squeeze more from the current system and achieve the necessary savings. In fact, my legislation (HR 2219) achieves $4.34 billion in savings and allows a limited pilot to run.

I am attaching a summary of my proposal, the recent letter from CBO and the new CRS paper. I hope you will have a chance to look at these yourself.

Thank you for your consideration.

Sincerely,

Bart

BART GORDON
Member of Congress

BJG/cmd
Enclosures

CONGRESSIONAL BUDGET OFFICE
U.S. Congress
Washington, DC 20515

Robert D. Reischauer
Director

June 1, 1993

Honorable Bart Gordon
U.S. House of Representatives
Washington, D.C. 20515

Dear Congressman:

Based on your request of May 28th, the Congressional Budget Office has prepared the enclosed cost comparison of the reconciliation recommendations of the Committee on Education and Labor relating to direct student loans. You requested that CBO provide estimates of the direct loan proposal using the estimating rules stated in the Credit Reform Act of 1990 that requires federal administrative expenses to be estimated on a cash basis and under an alternative technique in which all federal administrative expenses associated with each year's loans are estimated on a net present value basis.

Under the proposed direct loan program, administrative expenses will increase when students begin either to repay loans or to default on loans. When administrative expenses are estimated on a cash basis, these higher administrative expenses are not included in the estimate because they will generally occur after 1998. For this reason, when administrative costs are estimated on a net present value basis, the estimated costs of a direct student loan program increase and the resulting savings from converting the current guaranteed loan programs to direct loan programs fall.

As shown in the enclosed table, we estimate that the five-year savings of $4.27 billion from the Education and Labor Committee's proposal to convert current guaranteed loan programs to direct loans fall to $2.08 billion when federal administrative expenses are estimated on a net present value basis.

If you wish further details on these estimates, we will be pleased to provide them. The CBO staff contact is Deborah Kalcevic, who can be reached at 226-2820.

Sincerely,

Robert D. Reischauer

Enclosure

COMPARISON OF COST ESTIMATES
OF
THE HOUSE EDUCATION AND LABOR COMMITTEE
Reconciliation Recommendation for Direct Student Loans
Under a Proposed Subsidy-Basis Scoring Rule for Administrative Costs
Compared to the Current Cash-Basis Scoring Rule for Administrative Costs

(by fiscal years, in millions of dollars)

	1994	1995	1996	1997	1998	1994-1998 Total
Direct Student Loans With Administrative Costs Under Proposed Subsidy-Basis Scoring[a]						
Estimated Budget Authority	85	5	-405	-945	-1,110	-2,370
Estimated Outlays	130	40	-260	-855	-1,135	-2,080
Direct Student Loans With Administrative Costs Under Current Cash-Basis Scoring						
Estimated Budget Authority	65	-180	-930	-1,895	-2,135	-5,075
Estimated Outlays	115	-85	-650	-1,610	-2,040	-4,270
DIFFERENCE:						
Estimated Budget Authority	20	185	525	950	1,025	2,705
Estimated Outlays	15	125	390	755	905	2,190

a. Under credit reform, all the costs of federal loan programs--with the exception of federal administrative costs--are estimated on a subsidy basis. Subsidy costs are the estimated long-term cost to the government on a net present value basis associated with all the loans disbursed in any particular fiscal year. It is these costs which are used for budget scoring. However, under credit reform, federal administrative costs are estimated on a cash-basis. Annual administrative costs are measured in terms of net-cash expenditures from Treasury in the year they are made and are associated with all loans outstanding during that year. These cash costs are used for budget scoring.

Under current budget scoring rules for the current guaranteed student loan program, the costs associated with loan servicing and default collections are included in the subsidy cost calculation as one of the components of the lender's total yield. However, these same expenditures for the direct student loan program are included in the estimated costs on annual cash basis. The proposed subsidy-basis scoring would include these loan servicing and default collection costs on the same subsidy basis as those associated with the guaranteed loan programs.

CBO Analyst: Deborah Kalcevic
(226-2820)
June 1, 1993

93-552 E
June 4, 1993

CRS Report for Congress

Congressional Research Service • The Library of Congress

Guaranteed Student Loans vs. Direct Lending: Where Are the Savings?

AN ISSUE OVERVIEW[1]

Barbara L. Miles
Specialist in Housing
and
Dennis Zimmerman
Specialist in Public Finance
Economics Division

SUMMARY

The proposal to replace guaranteed student loans with a program of direct lending is predicated in part on a desire to reduce costs.[2] The argument for cost reduction comes in two parts: first, that the administrative "simplicity" of one-stop direct lending will result in lower program costs; and second, that direct lending will convert some of the current program's interest expenses into Government interest earnings and budget savings.

The first part of the argument does not address that all the functions currently handled by the private sector continue to be necessary even if the Government takes them over or contracts them back to the private sector. The second part does not address that shifting lending responsibility to the Federal Government does not change the economic costs or benefits of the student loan program, and therefore does not add to the Nation's wealth.

These observations are obscured by current "scorekeeping" which shows a 5-year $4.27 billion budget "savings" for direct lending. The savings are of two

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[1] Much of the following discussion summarizes the results of two studies: U.S. Library of Congress. Congressional Research Service. *Federal Family Education Loans: Reduced Costs, Direct Lending, and National Income*. Report No. 93-247 E, by Barbara Miles and Dennis Zimmerman, February 22, 1993. See also Dr. Rudolph G. Penner. *Direct Government Lending vs. Guarantees For Student Loans: A Comparative Analysis*. KMPG Peat Marwick. May 1993.

[2] There may be noneconomic aspects to this debate, but this report does not address them.

in distinct stages: what is necessary to receiving and monitoring the streams of income from outstanding loans, and what is necessary to process defaults. Under direct lending, the Government would perform (or contract out) these services.

The current program can be thought of as one in which all functions, except loan enhancement, are contracted to the private sector; thus reducing the Federal responsibility to its simplest and most essential role. These functions are distinct and are performed by financial specialists with economic advantages for each function. Under direct lending, all these functions would still exist, but would be "bundled" together and carried out by the Government.

Because the program would not be functionally simpler, budget savings would result only if the Government has been paying the private sector too much for these services and can perform them at lower cost.[3] The private sector has steadily reduced costs per loan over the last dozen years, a record which is consistent with the effects of competition in the loan servicing market. The debate has not featured evidence that Government can provide these services at lower cost than the private sector. Simplicity achieved by ridding the program of multiple suppliers is not, in an economic sense, necessarily consistent with administrative efficiencies that reduce costs and produce budget savings. Cost savings are more likely to be generated by a structure that maintains competition at each level of the postsecondary loan production process.

Some have suggested that, should the assumption of all these functional responsibilities by the Government prove uneconomic, the functions could be contracted back to the private sector and once again priced separately. Were this to occur, questions would arise as to what had been gained by direct lending.

Is direct lending less costly for the Nation?

Direct lending could prove less costly for the Nation if it were designed to correct several sources of inefficient targeting that increase loan volume beyond what is productive national investment in education and training. The current guarantee program is an entitlement for any student, without regard to need, course of study, or prospects for successful attainment or economic enhancement of productive skills. This encourages and enables some students to undertake education which does not enhance their own productivity. This occurs for students whose prospects for success in advanced education are poor at the outset, or who are encouraged to attend schools which teach them skills not in much demand and poorly remunerated even when available. Society is not

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[3] Alternatively, the Government could reduce budget (but not economic) costs by transferring some of the administrative costs to the private sector without compensation, particularly to schools. Penner (May 1993), p. 5, estimates that the proposed direct lending program would shift between $130 million and $179 million of costs per year to schools.

The Government dictates a fixed student loan margin above flexible Treasury borrowing rates in order to cover the private lender costs of origination, servicing, intermediary risks, and returns to lender-invested capital. It is apparent that private sector efficiencies have reduced many of these costs so that profitability has risen beyond what is necessary to maintain the volume of lending desired. In effect, the Government provides lender interest rates in excess of those required to assure an adequate supply of loans, at least under current economic conditions. There is a strong case for eliminating these excess lender returns. The direct lending program succeeds in doing this. These excess returns can also be eliminated by adjusting the current program to lower the margin allowed for lenders.[5] From this perspective, an adjusted current program is no more costly than direct lending.

The balance of budget savings attributed to direct lending is due to costs currently borne by the private sector that would be transferred to the Government but are not being counted in the cost estimates. At present, private lenders bear costs such as operational risk, some credit risk, and the risk of uncertain repayment timing from the loans. Some of the budget savings attributed to direct lending represent a failure of the cost estimates to include an allowance for Government absorption of these risks.

Another unrecorded Government cost is a direct result of budget scorekeeping rules that require non-comparable accounting for administrative costs of the guaranteed and direct student loan programs. Administrative and servicing costs are contained within the interest rate expenses of the guaranteed loan program and are fully scored on a net present value basis within the 5-year budget window. In contrast, administrative and servicing costs for direct lending are treated on a cash basis, that is, scored only when they occur. Most of these costs occur in years beyond the 5-year budget window and are completely ignored by the cost estimates.

As a result, even when administrative costs are assumed to be identical over the lifetime of the two loan delivery systems, those for direct loans are dramatically understated in the budget cost comparisons. Cost estimates from the Congressional Budget Office indicate that, were the two programs scored on the same basis, the 5-year budget savings for direct lending would be reduced by about $2.2 billion, slightly more than half of the current $4.27 billion estimate of budget "savings" from switching to direct lending. In effect, this $2.2 billion

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[5] For example H.R. 2219, introduced by Representative Bart Gordon, would implement such a restructuring. This approach requires perpetual legislative oversight to adjust the return to changing economic conditions. An alternative approach would establish a lending rights auction. This would harness lender competition and induce lenders to bid away their excess returns. In effect, the market would set the lender's rate and provide an automatic adjustment of the program to changing economic conditions.

SUMMARY OF HR 2219: THE HIGHER EDUCATION SAVINGS ACT OF 1993

Rep. Bart Gordon

Introduced May 20, 1993

1. a) Reduce guarantor administrative cost allowance from 1 percent to 0.50 percent.
   b) eliminate reinsurance fee.

2. Reduce guarantor reinsurance from 100 percent to

   a) 96 percent for first 5 percent of annual defaults, and
   b) 86 percent reinsurance for defaults between 5 percent and nine percent, and
   c) 76 percent reinsurance for defaults in excess of 9 percent.

AND

Risk sharing by Sallie Mae. Reduce insurance payments from guaranty agencies to Sallie Mae on defaulted loans to 90 percent on all loans made after the date of enactment (except for loans accepted under lender of last resort provisions, which will be reimbursed at 100 percent).

3. Reduce guaranty agencies' retention of post-default collections from 30 percent to 27 percent in FY 94 and FY 95, and 26 percent for FY 96 through FY 98

4. Adjustment in Special Allowance Payments (SAP): reduce interest rates for all subsidized Stafford FFELs from the 91-day T-bill plus 3.1 to T-bill plus 2.6 for the in-school, grace and deferment periods.

5. Require multiple disbursement of PLUS loans, the same as is done with subsidized Stafford loans. Recap the annual borrowing level on PLUS loans at $10,000.

6. Eliminate the tax-exempt floor and set the SAP for loans financed with tax-exempt financing at 85 percent of the SAP received for loans financed with taxable financings.

7. Extend the date after which loans go into default by 90 days

8. Institute a lender-paid origination fee, payable to the Department, of 1 percent of all loans (including consolidation loans), payable at the time of disbursement to the student/school.

-- for subsidized loans, fee will be deducted from federal interest payments to the lenders;

-- for unsubsidized loans, fee will be paid to the student loan insurance fund at the time of disbursement.

9. Consolidation loans:

a) remove the interest rate floor and set the interest rate at the 52 week T-Bill plus 3.1 percent, or the weighted average of the loans being consolidated, whichever is less.

b) Set an interest rate cap on consolidation loans at 9 percent.

c) require the holder of all FFELs to rebate 50 basis points per year of the average principal amount outstanding on consolidation loans to the Department of Education

Note: Consolidated loans will be available for repayment under the income contingent plan.

10. Limit the government payment of deferment interest on FFLP consolidation loans to only those loans which consolidated subsidized Stafford loans only.

11) Sallie Mae study. The Secretaries of Education and Treasury shall study the role and structure of Sallie Mae to determine that corporation's future. The study will include specific consideration of the need to maintain liquidity and the alternative of a transition to a private corporation.

12) Income contingent loan repayment

The Secretary shall establish by October 1, 1993 income sensitive repayment options based on the requirements included in the 1992 amendments to the Higher Education Act. The ten-year limit on repayment is repealed.

13) Institute a .25 percent purchase fee on all loans at the time a lender purchases the loan from another. The fee will be paid by the transferee.

14) Require Sallie Mae to act as lender of last resort. For loans accepted under these terms, insurance will be set at 100 percent.

TOTAL SAVINGS: $ 4.343 billion

THE WHITE HOUSE
WASHINGTON

DATE: 6/21

NOTE FOR: Gergen, Gearan, George

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: MACK

Gearguy/Gearay/ GS
Recall—un Mey
to others

MEMO

THE PRESIDENT HAS SEEN
6.21.93

93 JUN 18 A10:43

To: The President
Fr: David Wilhelm
Re: DNC Game Plan on Behalf of Budget Package
Dt: June 17, 1993

In the interest of keeping you fully informed, I would like to review the activities of the Democratic National Committee on behalf of the President's economic package, and to outline our plans for the coming weeks to buttress the package as it wends its way through the Senate, the conference committee, and returns to both chambers for final passage.

A Recap

Since the introduction of your economic package, the DNC has made 1.5 million calls urging voters to contact their representatives in Congress on behalf of the plan. These calls were supported by some 3 million pieces of mail, also urging messages of support to House and Senate members.

For the recent House vote, as for other key votes, constituency groups across the spectrum of our party were mobilized. Organizations representing seniors, labor, minorities, women, environmentalists, students and others were urged to lobby Congress, contact their membership and stage press events in support of the plan. Hundreds of press releases or press conferences resulted, as reflected in the two, heavy binders of material we shared with the White House recently.

These groups were supplied with a steady stream of data from the DNC research unit to support arguments, tailored to their members, on behalf of the President's plan. DNC research also produced reams of information for general use, such as a very useful expose of the funding sources behind Citizens for a Sound Economy.

Through the use of our Harriman Communications Center, we helped orchestrate numerous television and radio satellite feeds, featuring the vice president, cabinet members and others, speaking out for the plan. We mobilized elected officials, DNC members and party chairs across the country to speak out publicly, and lobby wavering House members privately, on behalf of the plan. The support of key business leaders was touted in press releases and radio actualities.

And as national chair, I've traveled to 23 states, and have done hundreds of interviews, to help sell the program.

Last week, we also produced rapid response radio when the Republican Party aired commercials aimed at targeted Democrats who backed the plan. Neither the GOP program nor ours was of much moment because relatively few dollars were spent, though special interests--and particularly the oil industry--spent more heavily during recent weeks in an effort to scrap the Btu tax.

All of this represented a great deal of activity, conducted in conjunction with the White House and the leadership. I believe it had more than a little to do with the successful outcome in the House, although I recognize, to my frustration, that many in the House didn't feel it was enough.

What did we learn from the experience?

Clearly, we need a more refined message to overcome the massive and well-funded, special interest campaigns that are being run against us.

For some, Ronald Reagan's 1981 legislative campaign was a model for us to follow. But it is not as easy to rally public support for a program that increases taxes and decreases benefits than it was to rally the public behind massive tax cuts.

What Stan's research tells us is that to see this program through, we must overcome the notion that ours is a "tax-and-spend" plan, pitching it instead as the President's battle with the special interests to challenge business-as-usual in Washington and free our economy to grow.

We also must better inform people about the fair, balanced and progressive nature of the package--as well as the disastrous nature of the alternatives.

And we must appeal to their basic desires for an economic plan and to give the president a chance to succeed.

Obviously, we alone can't generate such a message. The primary impetus must come from the President himself.

Paid Media Ready to Go

We have developed a series of radio, TV and print ads, which we are ready to deploy, defining the fight in such terms, and we plan to follow up with additional media featuring business leaders and economists describing passage of Clinton's plan as the last, best hope to put our economy on track.

Though it hurts other initiatives, we are ready to shift additional resources to beef up such a buy, and there are supportive groups--~~realtors, homebuilders~~--who are committed to helping with funds. (We cannot, however, compete with the millions deployed by the oil industry and other aggrieved special interests, and are counting on myriad free media activities and the bully pulpit of the White House to support our guerilla operation.)

Finer Tuning of Grassroots Efforts

We also are prepared to focus our grassroots campaign to a greater degree, recognizing that while we generated an enormous amount of activity in the days prior to the House vote, it could have been even more finely tuned.

~~For that reason, we are developing detailed~~ profiles of key members and their districts, to help us identify the most effective levers of public opinion in each district--the strongest, localized arguments we can make; which news organizations hold sway; who among our surrogates would have the greatest impact; who among local business, community and political leaders and organizations carry the most weight; and who among the elites would have the greatest impact on members.

In some cases, our ability to influence the debate locally will be limited because key interest groups and media oulets may be hostile. In others, we can and will do more.

We also hope to use these profiles to set up a more sophisticated, free media program over the July 4th break, when many members fear two weeks at home without sufficient air cover.

We want, in effect, to run aggressive, mini-campaigns in targeted states and districts, rather than adopting the more scatter-shot approach time allowed when we were called in late on the House vote.

Upgraded Phone Banks

As in May, we plan to take advantage of extensive volunteer phone banks to generate calls to members on behalf of the program--something that will work more or less well depending on who is helped or hurt in the final package. (The uncertainty has put many potentially supportive organizations on hold, as they wake up each morning to read if they have been cut in or out of the latest budget permutation.)

But we also have a paid phone banks on line, which will not only contact voters in as many as 150 districts, but automatically switch them to members on the Hill. We anticipate generating at least 500 calls per targeted member. This is the same approach the special interest groups have used to generate phones against the President's program during the House debate.

Greater Coordination with House and Senate

In order to facilitate greater coordination between the DNC the House and Senate, we have formed working groups with each, in which strategy is being mapped out.

Held in conjunction with the Democratic Congressional Campaign Committee and the Democratic Senatorial Campaign Committee, the working groups are meeting regularly.

We Need Timing; Details

All of the above is in place. Some elements, such as the July 4th recess strategy, are on track to go, regardless of the status of the Senate vote.

The timing of much of the rest of the program, however, is up to you and the leadership.

agree

Immediately after the House vote, we were asked, and were prepared, to launch a full-scale campaign aimed at Senate passage of the President's package. Now, as the White House has adopted a conference committee strategy and the Senate leadership is working toward an agreed bill, it seems more logical to await the outçome of the conference and bring the full elements of this campaign to bear on behalf of final passage in both chambers. (In fact, **Senator Mitchell has asked us to hold our fire** while he attempts to work out a bill with his members.)

It is our hope that out of the conference will come a bill that reflects the President's principles; that he will define the terms of the battle in a nationally-televised address; and that we can follow in the hours and days after that address with all the elements, free and paid, of our plan to influence the vote.

All of us are working hard to be helpful. I'm out there personally fighting as hard as I know how on behalf of this program each and every day. I also well understand that there are many members who are very anxiety-ridden about their exposure on this package. The DNC has borne some of the brunt of their anger, particularly in the wake of news accounts that the President had surrendered on the BTU tax for which they felt they had walked the plank. (That puts us in an awkward position, as we have not been involved in, or even kept abreast of, decisions about the package we are assigned to sell. Better communications would help.)

Strongly agree

We are prepared to do everything we can for them, for you and the program, consistent with a timetable that makes sense. As we are not negotiating the package, the White House and the leadership must help us determine the timetable to roll out paid media and the full brunt of the program. Moreover, the White House,, in conjunction with the leadership, must designate target districts and states in which to mass our limited resources, since those targets seem to shift.

The more information we have about the plan's components and the timing of key votes, the more effective we will be.

cc: Mack McLarty

THE WHITE HOUSE
WASHINGTON

DATE: 6/21

NOTE FOR: Carol Rasco

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
6-21-93

THE WHITE HOUSE

WASHINGTON

93 JUN 17 P6:53

June 16, 1993

Bruce

Good memo
Good summary
(need a couple
of meetings & governors
here — I will)
B

MEMORANDUM FOR THE PRESIDENT

FROM: Bruce Reed
Kathi Way
Mary Jo Bane
David Ellwood

THROUGH: Carol Rasco

SUBJECT: Preliminary Issues for Welfare Reform

Last week, we officially announced a welfare reform working group made up of officials from the White House and the agencies. We have met with key members of Congress in both parties, and are working with an advisory group of governors and other state officials on recommendations that they will present to you at the NGA meeting in mid-August. In the meantime, we will begin a series of public hearings and site visits to promising welfare reform programs around the country.

Our goal is to have a welfare reform plan ready by the fall, for introduction late this year or next January, as the centerpiece of your 1994 State of the Union address. If you would like to move more quickly, please let us know.

We intend to build the welfare reform plan around the themes you set forth in the campaign:

* Making Work Pay, through an expanded EITC and health reform.

* Dramatically Improving Child Support Enforcement, by increasing paternity establishment at birth, improving the collection system, requiring absent parents to take responsibility for their children, and perhaps testing some form of child support insurance.

* Better Education, Training, and Support, by building on the JOBS program to ensure that people have access to the tools they need to escape welfare, and begin to integrate welfare mothers into the larger system of education and training.

* Transitional Time-Limited Welfare and Work, by replacing the current system with one that enables and requires people who can work to go to work.

We have set up 10 working groups to address the major components of a welfare reform plan: 1) Making Work Pay; 2) Child Care; 3) Child Support; 4) Absent Parents; 5) Post-Transitional Work; 6) Transitional Support; 7) Private Sector Job Development; 8) Program Simplification; 9) Prevention/Family Formation; and 10) Modeling.

As we proceed with this project, we would like your general thoughts on how to go about ending welfare as we know it. To begin with, we would like to take up a few pivotal issues:

* How bold? Should we reform welfare or replace it?

* What should time-limited welfare look like? Who should be required to work, what should be done to sanction those who refuse to work, and how quickly should we phase in these reforms?

* What else can we do to promote work, family, and personal responsibility? How far can we go in toughening child support enforcement? Should we consider other measures to help families with children, such as child support insurance and/or a children's tax credit?

ISSUE #1: REFORMING WELFARE VERSUS REPLACING WELFARE

In the campaign, you called for an "end to welfare as we know it," and most of our work so far assumes that our goal is to find a genuine alternative to welfare. We are looking for ways to enable people to support themselves outside the AFDC system, through work instead of welfare, and we are more interested in moving people off welfare as quickly as possible than in simply encouraging them to work for their welfare. Both of these goals require much more than tinkering with the current system -- and consequently go much further than most state welfare reform efforts, either in implementation of the JOBS program or in waiver requests for state demonstrations.

State self-sufficiency-oriented welfare reforms tend to focus on improving the JOBS program and providing work incentives within the welfare system, in the form of higher earnings disregards and lower benefit reduction rates. Even the most dramatic state demonstration proposals are not oriented to getting people off welfare quickly and helping them make it outside the welfare system when they work. The Bush Administration followed a policy of welfare reform through state waivers, which many state officials would like to see as the centerpiece of this Administration's approach to welfare reform. We believe that state flexibility and experimentation are critical, but we do not believe that leaving reform entirely to the states will end welfare as we know it. The states are in no position, legally or financially, to envision genuine alternatives to the current system.

We are operating on the assumption that our goal is to genuinely transform the welfare system while preserving a high level of state flexibility. More modest reforms are possible -- expanding and enriching the JOBS program, or relying on state-generated reform approaches -- and would do a good deal to improve the current system. But we believe we have an obligation and an opportunity to be much bolder, to fashion an approach that moves people quickly off welfare and helps them stay off -- or better yet, helps keep them from going on welfare in the first place. The best kind of time-limited welfare is a system where no one stays on the rolls long enough to hit the limit.

↳ could do w. waiver for St. time limited program

ISSUE #2: STRUCTURING TIME-LIMITED WELFARE AND WORK

The principle of time-limited welfare, of ensuring that welfare does not last forever, resonates positively not only with voters but with welfare clients. If supports for work are in place, if we have dramatically improved child support, if we have improved education and training and job placement, then it seems unassailably reasonable to insist that after a time certain, traditional welfare must end and some sort of work must begin. There is real dignity in work, and much real work to be done: public libraries are closing because communities cannot afford staffs, there is an enormous shortage of child care workers, and the non-profit sector is booming, just to name a few.

But significant questions arise: How many people can reasonably be expected to work? Who should pay them, and what should they do? And how can we mount such a massive job effort without creating a make-work nightmare like CETA?

The size of the welfare population alone suggests that a time limit should only be applied to a portion of the caseload, at least at first. Up to 3 million recipients have been on welfare for 2 years or longer. Requiring even half of them to work could require the creation of 1.5 million jobs -- and if those were community service jobs, the program would be several times the projected size of national service.

Cost and capacity are critical issues. For example, we would like to see a system of 100 percent participation in work, education or training. The JOBS program currently spends about $800 million nationwide, and enrolls about 7 percent of recipients -- and even the best states only serve about 15 percent. No state now requires work of more than a small proportion of clients. Requiring people to work or even simply participate will increase costs not only for the programs themselves, but also for day care, transportation, etc.

A new system could be phased in, either by state or by cohort of welfare recipients. That would lower the initial cost and enable us to see what works. The challenge will be how to control costs while at the same time being bold enough to meet our commitment to real change.

A second important issue in designing time limits is the consequences of non-compliance. A system of required participation and work will only be seen as a genuine end to welfare as we know it if it has serious penalties for non-participation. But current practice allows strong due process concerns, penalties affecting adults only, and extremely low sanction rates of any sort.

The best way around this dilemma is to design a system that involves serious and unavoidable consequences for non-participation, but at the same time provides people enough opportunity that life is possible and desirable off welfare. The easier it is for people to support themselves through work instead of welfare, the fewer people will reach any time limit, the fewer public jobs will be created, and the less important sanctions will be. In the end, finding the right balance between opportunity and responsibility will determine whether or not a welfare reform plan can obtain the political support and the moral legitimacy to survive.

ISSUE #3: CHILD SUPPORT

If we are going to ask more of welfare mothers, we must ask more of absent fathers as well. The current child support enforcement system is so porous that less than a third of absent fathers' potential obligation is actually collected. A dramatically improved system would bring essential support to many single parents, and send a clear message that those who bring children into the world have a responsibility to raise them.

We are looking at every possible means to toughen child support enforcement and demand personal responsibility. These measures might include: universal paternity establishment in hospitals; mandatory wage withholding administered by the states; denying deadbeat parents access to universal health care; making it harder for deadbeats to obtain credit cards, driver's licenses, or professional licenses; requiring custodial parents to establish paternity or lose the right to take a personal tax exemption for their children; and various other efforts to demand responsibility and increase collection.

We will also examine other, more sweeping means of making it easier for parents to raise children. One controversial option, known as child support assurance or insurance, would seek to improve child support enforcement and provide some protection to single parents by providing a government-guaranteed minimum child support payment (say $2,000 or $3,000), even when collections from the absent father fall below the minimum. Minimum child support payments would only be provided to custodial parents with an award in place. Any insured child support benefits would be counted as income for welfare purposes, and welfare benefits would be reduced dollar for dollar. A woman on welfare would be no better off, but if she went to work, she could keep her guaranteed child support.

If you do this all guarantee child care for middle class

Proponents of this idea argue that it will make it much easier to leave welfare for work, increase incentives for mothers to get awards in place, and legitimize a genuinely time-limited welfare system. Critics fear that it will let absent fathers off the hook, encourage the formation of single-parent families, and simply provide welfare by another name, without increasing child support collection.

Another option to ease the financial burden of raising children would be to provide some kind of children's allowance or children's tax credit. To hold down costs, such a credit might be limited to young children in working families with incomes under $40,000. The tax credit could be further limited to families where paternity has been established, and capped at a maximum of two children under 6 at any time.

The advantage of a children's allowance is that it recognizes that raising children is a burden for all working families, with two parents or one. Like the EITC, it would provide an additional incentive to work, and it would also give working and middle-class families some much needed tax relief. The disadvantage is that like any tax cut, it will cost money. Joe Lieberman has proposed a credit of $1,000 per young child that would cost $9 billion a year; the more carefully targeted version described above would cost significantly less.

In any case, a major part of our effort will be to look at ways to reduce the formation of single-parent families. Over the last decade, the number of children born to unmarried mothers has grown dramatically, even though the divorce rate has leveled off. Paternity establishment is improving, but unwed births are increasing twice as fast. Keeping people off welfare in the first place is the best system of all.

THE WHITE HOUSE
WASHINGTON

DATE: 6/21

NOTE FOR: Sandy Berger

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 6/21

1 of 2

very interesting
raises Qs about
what we should do
who we should be

Rising Sons

At Stake in Japan: The Role That Nation Will Play in the World

Younger Rebels Are Urging A Bold Stance, yet Shift Could Benefit the U.S.

Miyazawa's Humbling Fall

By JACOB M. SCHLESINGER And MASAYOSHI KANABAYASHI A1
Staff Reporters of THE WALL STREET JOURNAL

TOKYO — Kunio Hatoyama epitomizes Japan's exhausted political system.

For years, Mr. Hatoyama has been a member of the Liberal Democratic Party's majority in parliament. His grandfather helped found the party in 1955 and was its first prime minister. His father and his brother were LDP Diet members, too.

But on Saturday, the 44-year-old Mr. Hatoyama told supporters he was breaking with this long legacy. The crowd cheered. Mr. Hatoyama burst into tears. "I want to set up a new regime," he proclaimed, "and make the LDP lose!"

> **Japanese Economic Growth**
>
> **Amid the political turmoil, Japan received some good economic news: Its gross national product grew at a 2.3% rate in the March 31 quarter. Analysts said growth probably has slowed since then, however. The market response to the political situation wasn't favorable: Tokyo stocks fell sharply Monday morning, and analysts said the yen's rally against the dollar may have peaked. Articles on pages A8, C13 and C11.**

This was a weekend for drama in Japan. Similar dissent on Friday brought down the government of Prime Minister Kiichi Miyazawa and appeared to cleave the LDP — a political machine that has ruled Japan for the last four decades. No one could remember a time in recent years when the government seemed in such disarray.

The spark for the revolt was ostensibly a high-minded fight over political reform. Scandals in the LDP begat calls from inside and outside the party for change, and when those demands were ignored, a no-confidence vote prompted Mr. Miyazawa to dissolve parliament.

Yet, scratch most of the "reformers," and you will find the very scions of smoked-filled rooms that everybody seems to want to throw out.

Instead, at its core, the tumult playing out in Japan today is about a much broader set of ideas: about what role Japan should have in the world, about how the nation should be led and about which generation of leaders should stand at the helm. It is a revolt, in some measure, of opportunists seizing on an issue to grab power. And it is a revolt from within the establishment. There were no noisy public demonstrations that brought this government down. Like the tearful Mr. Hatoyama, it is the rulers themselves who feel an urge to break with the past. If they are successful, they could well change many of the relations Japan has with the outside world, particularly its trade and diplomatic ties with the U.S.

"If Japan can't respond to issues of international society, it will be led down a dangerous path," warns Ichiro Ozawa, a chief power behind the reform movement. "Whether a politician took illegal money or not," he reasons, "is not really significant by comparison."

"This is part of the dissolution of the LDP, a new beginning for postwar Japanese democracy," adds Gerald Curtis, a Japan expert at Columbia University. "You will see a younger generation of people coming to power very quickly. They have much more self-confidence. There will be more of a propensity on their part to confront issues head-on."

That is, if there is any change at all. In this land of incrementalism, Japanese voters tend to prefer known evil to uncertainty: Any number of premature obituaries have been written for the LDP over the years. "I will vote for the LDP" in elections scheduled for next month, says 50-year-old Keiko Shoji. She has stopped outside a Tokyo train station to listen to a politician bellow through a loudspeaker about the ruling party's sins. "The political world is very confused now," she says. "The LDP is a stable party."

Ichiro Ozawa

People in Japan are feeling especially insecure because these are unsettling times here. The economy is in its worst slump in 20 years. Many people now worry that if drastic moves are needed to stimulate the economy — a tax cut, for example, or another spurt of emergency public spending — there won't be anyone strong enough at the top to do the necessary political brokering. One worrisome indicator: Prices on the Tokyo Stock Exchange moved sharply lower in trading Monday morning.

"I don't know if political reform is what the Japanese people want," says Shokei Arai, 45, a Diet member who is sticking with the LDP. "What they really want now is economic recovery."

Then there are the trade talks with the U.S. The two nations are in the midst of one of the most vitriolic and wide-ranging

Please Turn to Page A7, Column 1

trade spats in their history, and several deadlines are tied to the summit of the Group of Seven industrialized nations, which Japan is hosting July 7-9. In the past, difficult trade pacts have required plenty of internal political arm-twisting in Japan. Now, the U.S., and the rest of the G-7, may find Japan preoccupied with the elections Mr. Miyazawa has called for July 18 — too preoccupied to offer bold initiatives. Mr. Miyazawa will remain as a lame-duck prime minister, at least until the vote.

"Any decision that requires Miyazawa's intervention, we won't get," a Clinton administration official moaned Friday.

But, in the longer run, what might the political upheaval in Japan mean for America? The reformers say they are both conservative and pro-U.S. But change could lead to a more forceful Japan, less willing to cave in to U.S. demands. Yet the U.S. may have less need to make those demands; a real two-party system could break the paralysis that characterizes Japan's policy making, producing a nation more receptive to new ideas.

Consumer Assistance?

Until now, Japan has responded chiefly when the U.S. came banging at its door. People here even joke that America is the true opposition party in Japan, supplanting the feeble Socialists. *Gaiatsu*, or foreign pressure, has benefited not only U.S. companies seeking to sell in Japan, say these people. It has also helped the Japanese consumer, who, virtually abandoned by the pro-business LDP, reaped the rewards of additional price competition.

If a truly robust opposition forms in Japan, the nation's often disenfranchised urban consumer, sandwiched into tiny homes and forced to pay sky-high prices, might finally find an advocate. And that could benefit those abroad who hope to open Japan's markets.

"In order to make a lot of the structural

52

242.

Rising Sons: Role Japan Will Play in the World Is Put at Stake by Younger Ruling Party Members

changes that the U.S. wants of Japan, we really need more flexibility," says Yukio Okamoto, a former Foreign Ministry official. "We have to change the government party to change the course of the nation."

In the weeks approaching the G-7 meeting, outsiders will see Japan's internal struggle play out along generational lines.

In Nagatacho, Tokyo's equivalent of Capitol Hill, the young turks are storming the ramparts. Protecting the castle are the senior politicians, like the 73-year-old Mr. Miyazawa, who lived through Japan's humiliating World War II defeat and the U.S. occupation. The elder politicians are comfortable with an economically strong Japan that plays only a limited diplomatic role. "Fifty years is a short time" since the war, Mr. Miyazawa once said, urging Japan to be cautious in easing its ban on sending troops abroad. "We should not forget easily."

Charging up from below are men like Mr. Ozawa, 51, a Diet member and power broker who stirs mixed opinions in the electorate. Mr. Ozawa wants Japan to play a more active role on the world stage, and has urged Tokyo to even consider having Japanese combat troops join future United Nations forces. It is time, Mr. Ozawa says, for Japan to become "a normal nation."

Mr. Miyazawa, an erudite former Finance Ministry official, is content with traditional Japanese politics, which leaves decisions to Japan's omnipotent bureaucrats and to back-room deals; the voters are incidental. Last week, beleaguered as he was, Mr. Miyazawa made no public appeals as might have been expected. Instead, he could be seen on television news footage scurrying tight-lipped from meeting to meeting.

Kiichi Miyazawa

In contrast, Mr. Ozawa's co-conspirator, Tsutomu Hata, 57, a former finance minister in Mr. Miyazawa's cabinet, was making the rounds of talk shows, even fielding questions from a studio audience. "I want to make parliament a place where every issue is discussed deeply," he declared.

Culture Clash

Even many Japanese, however, question their ability to absorb democracy in the Western sense. Their culture defers to authority, opts for consensus over debate, and shuns individual responsibility.

It was the U.S. occupation force after World War II that imposed democratic changes. One famous Japanese cartoon shows "Democracy" parachuting from the sky like a relief package. Japan's early postwar politics were tumultuous, marked by bitter battles between left and right and fistfights in the Diet.

Then in 1960, the LDP launched its drive to "double income" for everyone in the country. That wildly successful plan gave birth to a national Tammany Hall-style of politics that has prevailed to this day. Nobody rocked the boat so long as everybody – the LDP, the opposition, bureaucrats, business and the citizenry – got their share of Japan's ever-expanding wealth. Deals were struck in the back room. Debate was taboo.

It is this Japan that the reformers say they want to transform. But the old guard dies hard.

Consider those who scurried about last week, trying to prevent the party from collapsing: Koko Sato, who was convicted in the Lockheed Corp. bribery incident of 1976; Mr. Miyazawa, who once resigned a cabinet post because of his role in a stock scandal involving Japan's Recruit Co.; former Prime Minister Yasuhiro Nakasone, also tainted in the Recruit matter; and Noboru Takeshita, a former premier implicated in a laundry-list of scandals.

The most powerful reformers, the ones who might replace these men, grew up in the system themselves. The first significant LDP defector was Morihiro Hosokawa, 55, who last year founded the Japan New Party. Mr. Hosokawa is the heir of feudal lords, and has been both a governor and a member of parliament. His party, which promises more honesty than the LDP, is soaring in the polls.

Another is Mr. Hata, who last year joined Mr. Ozawa to form a rebel LDP faction. The 35-member group is expected to establish its own party this week. The genial Mr. Hata is a former bus-tour director who took his father's seat in parliament. He was long the LDP's pointman on agriculture, a key constituency.

And then there is Mr. Ozawa, perhaps the oddest reformer of all. His mentors were three of Japan's disgraced politicians: Kakuei Tanaka, who was convicted in the Lockheed bribery scandal, Mr. Takeshita and Shin Kanemaru, once the most powerful pol in Japan. Under these men, he learned how to wield power behind the throne. In 1991, for example, Mr. Ozawa had each of the candidates for prime minister publicly visit his office to seek his blessing. Mr. Miyazawa was the successful supplicant.

Mr. Ozawa also earned a reputation with foreigners as Japan's chief fixer. "Ozawa got to the heart of the matter," says Michael B. Smith, a former U.S. trade official. In 1988, Mr. Ozawa stepped into trade talks on Japan's construction market that had dragged on for two years. "We reached an agreement in eight hours," Mr. Smith recalls.

Spurring the Movement

Then, last year, everything fell apart. Mr. Kanemaru admitted to taking millions of dollars in illegal campaign contributions and this year he was arrested for tax evasion. The alleged deeds fired the reform movement that toppled the government Friday.

For his part, Mr. Ozawa broke with the LDP establishment only after Mr. Kanemaru got into hot water – timing that left people laughing with derision. Explaining his attendance at a crucial 1987 meeting at the center of a probe into illegal campaign contributions, he told one incredulous TV interviewer: "I was just there as an attendant, so I did things like change the drinks or clean the ashtrays. . . . I wasn't directly involved in the discussion."

Though Mr. Ozawa hasn't been implicated in any crime, the company he kept isn't lost on the public. One middle-aged man asked Mr. Hata on yesterday's talk show, "What are you going to do about Ozawa's dirt?"

Mr. Ozawa adroitly argues that corruption is merely one symptom of a systemic disease. The government must change, he says, not so much because it is dirty but because it is dysfunctional. During the Cold War, "all politics was about was allocating wealth domestically," he says. "Japan didn't think about what it needed to do for international society, for things like upholding peace or liberty or democracy."

To remedy this, the reformers argue, Japan needs to engage in world affairs, and before that can happen, it must reform its electoral system to encourage a competition of ideas. The reformists want to revamp Japan's skewed system of representation, and make government more responsive to voters. They want to deregulate the economy, cut working hours and move parts of the government out of congested Tokyo.

High-minded stuff. But how does all this play with the folks back home, who are used to a very different sort of politics? In Mr. Ozawa's own district of Mizusawa, a northern village nestled in a quilt of rice fields and tree-covered mountains, Akira Sato, a supporter, isn't so certain about this talk of reform and international roles.

"Everyone wants Ozawa to become prominent on our behalf," he says. But "constituents don't care much about political reform. They wonder, 'Will he be able to retain his power?' "

—Clay Chandler contributed to this article.

53

THE WHITE HOUSE
WASHINGTON

DATE: 4/21

NOTE FOR: MACK, George, DAVID G.

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

Information ☑

Action ☐

Backing off the resignation seems completely wrong at this point, but the Congressman makes a good point about the cult hero which we should try to manage

Thank you.

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

cc: Howard, Tony

THE PRESIDENT HAS SEEN

06-21-93

THE WHITE HOUSE

WASHINGTON

JUNE 19, 1993

93 JUN 19 P12:31

Mary/Gearan

interesting source

What's your reaction? I think this man ... was

B

INFORMATION

MEMORANDUM FOR THE PRESIDENT

FROM: TIM KEATING TK

THRU: HOWARD PASTER HP

SUBJECT: REPRESENTATIVE DON EDWARDS

I. SUMMARY

Representative Don Edwards phoned Saturday to ask that you not except the resignation of General Campbell from the United States Air Force.

II. DISCUSSION

Representative Edwards feels that by refusing the General's resignation and giving him a second chance, you will gain significally with the armed forces.

Mr. Edwards said that if you choose to follow this advice the following reasons could be given to the press to explain your decision:

- The General is the recipient of a Silver Star, hence a hero with a distinguished record; and

- The General fought against bone cancer, overcoming this serious condition did leave his face partially disfigured.

He also feels that if General Campbell's resignation is accepted he will then be asked to travel this country to speak against the administration. He will become a cult hero to those who oppose you and your programs.

THE WHITE HOUSE
WASHINGTON

DATE: 6/21

TO: Bob Rubin

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

I'd like to forward
to the President.
O.K with you?

John

U.S. SMALL BUSINESS ADMINISTRATION
WASHINGTON, D.C. 20416

OFFICE OF THE ADMINISTRATOR

93 JUN 21 P9:51

MEMORANDUM

TO: The President
Mack McLarty
Bob Rubin

FROM: Erskine Bowles

DATE: June 20, 1993

SUBJECT: Small Business

These are the talking points I have used to advocate the President's plan for small business and the current status of each of them. My point is that we must fight hard for small business in reconciliation.

"In looking at the President's package and its effect on small business, you must look at it in its entirety and within the framework of shared sacrifice. This President is serious about deficit reduction and therefore all segments of the populous must share in the sacrifice to bring the deficit down. The benefits of deficit reduction are a more stable economy, lower inflation and lower interest rates, all which benefit small business."

"The President's package also includes the following factors which are quite favorable to small business:

PRESIDENT'S PACKAGE FOR SMALL BUSINESS	CURRENT STATUS
1. An ITC of 7% through December of 1994 and 5% thereafter for companies with revenues of less than $5 million.	1. Gone.
1a. Increase in the expensing provision for capital purchases from $10,000/year to $25,000/year.	1a. Reduced to $15,000/year in Senate Finance Committee.
2. A reduction in the capital gains tax rate of 50% on sale of stock of small business with capitalization of less than $50 million when held for at least five years.	2. Gone from Senate Finance Committee (McLarty says critical to President on NBC).

PRESIDENT'S PACKAGE FOR SMALL BUSINESS	CURRENT STATUS
3. Permanent extension of R&D tax credit.	3. Senate Finance Comm. extends only for a year, I think.
4. Extension to Dec. 31, 1993 of 25% reduction on health insurance premiums for self-employed.	4. Still there, I think.
5. Job tax credit for employment in enterprise zones.	5. Gone from Senate Finance Committee (McLarty spoke about it as if still there on NBC).
6. No increase in corporate tax rate for corporations with incomes of less than $10 million.	6. See Sub S discussion below.
7. President removed costly federal regulation that prevented banks from making "<u>character loans</u>". Economists believe that this could generate as much as $36 billion in capital for small business.	7. Done. Effect less than $36 billion.
8. President strongly supports supplemental appropriation of SBA General Business Loan Program (7(a)) in the amount of $181 million. This $181 million will generate $3.3 billion in loans to small business, create or maintain 330,000 jobs and produce taxable revenue of approximately $600 million."	8. Passed House and Senate. On to reconciliation.

Prior to the loss of the <u>expensing provision</u>, <u>capital gains tax reduction</u> and <u>job tax credit</u>, my argument was, "Sure, we would have liked to have gotten more for small business but taking the President's package <u>as a whole</u> and looking at it within the framework of <u>shared sacrifice</u>, I believe that small business has been treated <u>fairly</u>. Could it be better, sure; but taken as a whole, it is fair."

I believe that we must be willing to <u>fight hard for small business</u> in reconciliation. As the President has said numerous times, small business is the engine that drives the economic train of this country; however, it must have some fuel to go along with the shared sacrifice.

<u>Subchapter "S"</u>

One other point of interest for you. Tim Russert pressed Mack on the increase in taxes on small businesses that file under Subchapter "S". Bob Dole railed on about the increase in taxes on small business on *Face The Nation*. For a small business filing under Subchapter "S" and earning over $250,000, it will see its tax rate increase from approximately 31% to approximately 40%, far more than the rate that large "C" corporations pay. Suggested arguments here are as follows:

1. The IRS states that there are 7,000,000 individuals that file their taxes with their primary income coming from a trade or business, i.e. "Sub S". Of these 7,000,000, only 400,000 or 5% would be affected at all by the increase in marginal tax rates for individuals above 31%. Therefore, while it is a problem for some, it is not for the vast majority.

2. Subchapter "S" corporations currently pay no corporate income tax at all on the income distributed to their shareholders. A shareholder of a Subchapter "S" corporation pays under the new law a maximum total tax of approximately 40% on corporate earnings that accrue to him or her. Conversely, a shareholder in a "C" corporation sees $1.00 of earnings taxed at a 35% rate in the corporation and then up to a 40% rate on top of that when distributed as a dividend to the shareholder. This equates to a 61% tax on earnings distributed to a shareholder of a "C" corporation versus 40% for earnings distributed to a shareholder of an "S" corporation.

3. Perhaps it would be worth looking at not increasing the marginal tax rate of "S" corporation earnings retained or plowed back into the Sub S Company.

Erskine Bowles

THE WHITE HOUSE

WASHINGTON

'93 JUN21 P9:06

June 21, 1993

MEMORANDUM FOR THE PRESIDENT

FROM: MARCIA HALE MH

SUBJECT: CHICAGO BULLS

I have investigated inviting the Chicago Bulls to the White House before you leave for Tokyo. Billy Daley made the actual telephone call.

Apparently, the team has a large celebration on Tuesday night and then most of the players are scheduled to be on vacation for the summer. I was advised to extend the invitation for some time in the fall (October), when the season begins again. Waiting until the fall has been customary for White House invitations to the Bulls for the last two years.

cc:

The First Lady
Rahm Emanuel
Mark Gearan
David Gergen
Alexis Herman
Nancy Hernreich
Bruce Lindsey
Mack McLarty
Roy Neel
Howard Paster
John Podesta
Jack Quinn
George Stephanopoulos
Ann Stock
Maggie Williams

THE WHITE HOUSE
WASHINGTON

DATE: 6/21

NOTE FOR: George; 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:

Rea acer' has to start again since the Leon progress [illegible]. D.

In Clinton's Two-Pronged Plan for the Economy, Deficit Reduction Is Overshadowing Investment

By DAVID WESSEL
And DAVID ROGERS
Staff Reporters of THE WALL STREET JOURNAL

WASHINGTON — President Clinton used to talk a lot about doing what he said no one had ever done before: reduce the federal deficit and increase public and private investment at the same time.

Surprisingly, he seems to be having more luck with the pain of deficit reduction than the pleasure of investing. While a reworked version of his deficit-reduction plan is moving steadily through Congress, much of his investment agenda—the heart of Clintonomics—is not.

Mr. Clinton's economic-stimulus spending package, which administration officials described as "a down payment on the investment program" is dead. So is the investment tax credit that was designed to induce corporate investment. And the Senate Finance Committee last week watered down other tax breaks intended to encourage investment.

Meanwhile, administration officials are engaged in what one describes as "hand-to-hand combat" with congressional appropriations committees to save the president's proposals to increase government spending on investments, including high-technology research and worker training.

Less Than He Bargained For

Although House appropriations committees are nodding in Mr. Clinton's direction, they are approving far less than he sought. One key subcommittee has approved a $500 million increase for the popular Head Start program for preschoolers, about one-third of what the president sought. And Labor Secretary Robert Reich, doing better than some other cabinet secretaries, persuaded the panel to double the funds available to retrain dislocated workers, but the $1.1 billion allocation falls short of the $1.9 billion Clinton request.

Mr. Clinton isn't complaining, though. In fact, he isn't talking much about "investment" these days. That's a big contrast to the campaign, when he put far more emphasis on the need to increase public investment than on deficit reduction. Candidate Clinton argued that the key to improving living standards was increasing public investment and offering new incentives for private investment.

Today, both the president and Congress, looking over their shoulders at Ross Perot, sound like they've got that deficit-cutting religion. "The Congress as well as the president have, for now, decided to place the investment agenda in a secondary position to deficit reduction," says Robert Shapiro of the Progressive Policy Institute, who helped shape the investment agenda as an economic adviser to the Clinton campaign — and has watched it shrink since.

Mr. Clinton acknowledged the deficit-reduction imperative last week when a reporter suggested that the president had undone Reaganomics but hadn't implemented Clintonomics. "We had to cut back all spending in the first two years of this five-year budget period to deal with the fact that the deficit was higher than we thought it would be," Mr. Clinton explained. But he added, "Over the long run we do have to increase investment. . . . I expect a big portion of the investment program to pass, and I'll be surprised if it doesn't."

But a centerpiece of his private-investment incentives — the investment tax credit that was supposed to trigger a burst of private investment and get the economy moving — isn't even on the table anymore. Congressional worries about tinkering with the Tax Code and a lack of business enthusiasm overwhelmed economists' arguments for the credit. And Mr. Clinton will have to fight to save his proposals for several other tax incentives when the tax bill goes to a House-Senate conference. To meet its deficit-reduction goals, the Senate Finance Committee rejected Mr. Clinton's proposal to cut capital-gains tax rates on new investments in certain small companies, scaled back a House provision to allow small companies to write off equipment purchases, and trimmed tax breaks intended to stimulate big-company investment and research.

Clinton's Investment Agenda: A Partial Score Card

PROPOSAL	STATUS
Economic stimulus package	Dead
Investment tax credit	Dead
Increase small-business equipment write-off from current $10,000	$25,000 in House tax bill/$15,000 in Senate bill
Small-business capital-gains tax break	In House tax bill/not in Senate bill
Empowerment zones	In House tax bill/not in Senate bill
Head Start	House appropriators approve 30% of Clinton's requested increase
Worker training	House appropriators approve 40% of Clinton's requested increase

The Big Picture

Robert Solow, the Massachusetts Institute of Technology economist who inspired much of the investment agenda, is unhappy about the unpopularity of the tax incentives. "The object of the combined policy of deficit-reduction and stimulus was that we should end up with more investment than we have now, financed with our own savings and not from borrowing from abroad," the Nobel laureate says. "If you get the investment without the savings, you run the risk of overheating the economy. But if you get the savings without the investment, you run the risk of underheating the economy. Why the Congress and the public don't understand that — why Clinton hasn't been able to get the message across—I'm at a loss to understand."

But while the the big picture was clear to Mr. Solow, business focused on the detail. After deciding that the investment tax credit was too small and too complicated to do them much good, business concentrated its lobbying on shrinking various corporate tax increases in the Clinton plan.

And on Capitol Hill, politicians find it safer to talk about *saving* money than investing it. When the House considered spending bills for the Treasury and Postal Service Friday, a flier circulated among members focused on cuts in staff and administrative costs. Only at the bottom was there a mention of new money for law enforcement and drug interdiction. "We'll talk about investments, but we're in a position of first having to show that we've put in place the five-year savings we've promised," says Rep. Vic Fazio of California, a member of the House Democratic leadership. "We have such a credibility gap."

That's not exactly music to the ears of the nation's mayors, who gathered in New York last week and complained that Congress is blocking funds they sorely need to rebuild urban infrastructure. William Althaus, the Republican mayor of York, Pa., blasted GOP senators for an "act of partisan obstructionism" that killed Mr. Clinton's economic stimulus. And Atlanta Mayor Maynard Jackson said Japan is spending more and more on infrastructure while Congress whittles down Mr. Clinton's investment proposals. "Who are we kidding? We are in a global marketplace where our competitiveness and our productivity are scraping bottom," he said.

Although the deficit-reduction bill—with its tax increases and money-saving changes to benefit programs — has been getting all the headlines, the appropriations committees quietly have begun the annual ritual of divvying up federal spending. To get money for his investment priorities, Mr. Clinton must persuade them to cut other programs. But members often care deeply about existing programs. Rep. David Obey, a Clinton backer, for instance, sees Mr. Clinton's national-service intiative as diverting funds from higher education. "My priority will always be existing programs over that," the Wisconsin Democrat says.

Mr. Clinton didn't make it easy by submitting spending requests for fiscal 1994, which begins Oct. 1, that exceed the money available to the appropriations committees by about $7 billion — and then failing to spell out where he wanted to cut spending to allow for his initiatives.

"The administration is working with the subcommittees to make room for the investments within the obvious contraints that they are facing," a spokesman for White House Budget Director Leon Panetta says. "It has been very cooperative, and the administration is doing very well under the circumstances."

The trade-offs are clearest in the House subcommittee that divides up nearly $88 billion for space, housing, environmental and veterans programs. The panel begins with about $1.4 billion less than the president's total request. And in the aftermath of last week's White House decision to revamp the space station, lawmakers must come up with almost $400 million more than they have allotted.

Moreover, the same subcommittee has yet to budget any of the $394 million requested by the president for his national-service initiative. Pressed to come up with the dollars, lawmakers will almost certainly raid the National Science Foundation account. But the foundation — already funded below the president's request — is another one of Mr. Clinton's investment priorities.

Long before Mr. Clinton's arrival, many had invested their own political capital in favored programs. The National Institutes of Health, which have immense influence in Congress, will get nearly $269 million more under the House bill than Mr. Clinton proposed — leaving that much less for Head Start. And the committee shelved Mr. Clinton's request for initial construction funds for a new $3 billion advanced-neutron research reactor—even as members restored millions to protect other research programs slated for termination.

In the same fashion, the transportation subcommittee postponed funding for the administration's high-speed rail initiative until a separate committee authorizes the program. But that didn't stop members from then using up all their available dollars, including hundreds of millions for parochial highway projects.

But Roger Altman, deputy Treasury secretary, says the administration isn't discouraged. He counsels patience. "The investment agenda is a four-year agenda, it's not a one-year agenda," he says.

57

O.K.
JP
6.21.93

THE WHITE HOUSE

WASHINGTON

93 JUN 21 P4:47

MEMORANDUM

To: John Podesta
From: Bruce R. Lindsey
Subject: Nominations
Date: June 21, 1993

The following individuals have been approved by the President, cleared by White House Counsel and are ready to be nominated.

G. Edward DeSeve
Pennsylvania
Chief Financial Officer
Department of Housing and Urban Development

Susan Gaffney
Virginia
Inspector General
Department of Housing and Urban Development

David Laurence Aaron
New York
Representative of the U.S. to the Organization for Economic Cooperation and Development with the rank of Ambassador
Department of State

Andrew J. Winter
New York
U.S. Ambassador to the Republic of the Gambia
Department of State

Please submit these nominations to the Senate for confirmation.

File

THE WHITE HOUSE

WASHINGTON

DATE:	**Monday, June 21, 1993**
TO:	**The President** **The First Lady**
RE:	**Dinner Party**
TIME:	**7:30 p.m.**
LOCATION:	**Cocktails: Yellow Oval Room** **Dinner: Blue Room**
DRESS:	**Business**
NO. OF GUESTS:	**37**
FROM:	**Ann Stock**

<u>7:30 p.m.</u>	THE PRESIDENT and THE FIRST LADY greet guests in Yellow Oval Room for cocktails.
<u>8:15 p.m.</u>	THE PRESIDENT and THE FIRST LADY escort guests to Blue Room for dinner.
	Dinner is served.
	THE PRESIDENT and THE FIRST LADY depart.

THE WHITE HOUSE

WASHINGTON

GUEST LIST FOR
DINNER PARTY
MONDAY, JUNE 21, 1993

The President and The First Lady

Secretary and Mrs. Bentsen

Ambassador and Mrs. James Blanchard
Washington, DC

Mr. and Mrs. Allen Blinken (Melinda)
Werthein, Schroder & Co., Inc.

Mr. Lee Brown

Dr. Bettye Caldwell

Mr. Hodding Carter and Ms. Pat Derian
Alexandria, VA

Hon. William S. Cohen and Ms. Langhart

Mr. and Mrs. John Cooke, Sr. (Diane)
President, The Disney Channel

Mr. and Mrs. Ron Gault (Charlayne Hunter)
McNeil, Lehrer Hour; Partner, First Boston

Mr. David Geffen
Breslauer, Jacobson, Rutman & Sherman

Mr. and Mrs. John Hechinger, Jr.
President & CEO, Hechinger Co.
Mrs.-President of Sidwell Friends Board

Hon. and Mrs. Ernest Hollings (Rita)
United States Senate

Mr. and Mrs. Tom Johnson (Edwina)
President, CNN

Hon. and Mrs. Edward Kennedy
United States Senate

Dr. and Mrs. Thomas Langfitt (Carolyn)
President, The Pew Charitable Trusts

Ms. Mary McGrory
Columnist

Mr. and Mrs. Robert Meyerhoff (Jane)
Baltimore Art Collectors

The Honorable Donna Shalala
Secretary of Health & Human Services

Dr. P. Roy and Mrs. Vagelos
Merck & Co., Inc.

Mr. Mort Zuckerman and Ms. Bosvelt
US News and World Report

THE WHITE HOUSE
WASHINGTON

DATE: 06/21/93

TO: GEORGE STEPHANOPOULOS

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

The attached has been forwarded
to the President.

THE WHITE HOUSE

WASHINGTON

'93 JUN 21 P2:27

June 21, 1993

MEMORANDUM FOR THE PRESIDENT

FROM: Howard Paster HP

SUBJECT: Brady bill and crime legislation

Mindful of your desire to move more quickly on the Brady bill, I have spoken with a number of people about this. Word got to Chairman Brooks that I was exploring this possibility and he called me last week to make clear he has not changed his position that Brady must be done within the context of an overall crime bill.

I indicated to the Chairman that we might not agree on this, and asked to see him for a more thorough discussion. Our meeting was quite pointed -- he said we could have Brady now and no crime bill, or we could have a crime bill with Brady. The Chairman placed the responsibility for the delay in moving a crime bill, including Brady, on the Administration and indicated his willingness to move promptly on a crime bill. (I should add he still harbors the hope of making "minor" changes in Brady and this could require some further discussion since I do not believe we can accept changes from last year's compromise unless they are negotiated with the police groups.)

There have been meetings on crime legislation involving Bruce Reed, the Department of Justice and staff for Chairmen Brooks and Biden. It is my sense it may require your personal direction to expedite the process because of Justice Department interest in making substantial changes in controversial portions of last year's crime bill.

In any event, I felt it necessary to advise you that while I prefer a different course it probably is not practical to move independently on Brady at this time.

cc George

THE PRESIDENT HAS SEEN 6/21

Julie Rovner

Winners and Losers in Health Care Reform

President Clinton hasn't even unveiled his reform plan, and already everyone's sick to death (no pun intended) of hearing how this will be the most important social debate in a generation. But much of what has been passing for daily journalism on the subject over the past few months is relatively superfluous. In our zeal for the daily piece of "news," health reporters (myself included) are threatening to do a disservice to what will be a profoundly important national discussion about our economy, our values, and, indeed, how we run our society.

Herewith, for those who are still interested, is a guide to following the upcoming health reform debate.

The debate is not about: The total price tag for reform. How much health reform will ultimately cost, and how much it will ultimately cost the federal government are two quite different questions. They are also totally beside the point. Princeton health economist Uwe Reinhardt is fond of reminding anyone who will listen that in the end all of the nation's health costs are paid by individual households, not only through federal, state and local taxes but through higher prices for products and services from companies that provide health insurance to their workers, as well through wages forgone in exchange for their own employer-subsidized insurance plans. The debate is less about how much we'll all pay than through what conduit we'll pay it. If you don't trust the government to spend the money wisely that's one thing, but don't think that if the government doesn't fund it we won't all pay anyway.

The debate is about: Winners and losers. At its core, health reform is a debate about redistributing one-seventh of the economy. Some people will come out ahead and others behind. In typical journalistic fashion, we have separated the players into such monolithic factions as "employers," "providers," "insurance companies" and "organized labor." But there will be those who win and lose in each group, which may result in some strange looking political alliances. For example, small businesses that already provide workers with insurance will benefit from acquiring better purchasing power through new pools. Similarly, big businesses that insure spouses of workers who who also work but whose own companies don't provide health insurance could also reap large rewards.

The debate is not about: When Congress will pass a health reform bill. Except for the endless speculation about when Clinton will actually deliver the plan, this is one of the biggest non-stories of the spring. The 'this-year,' 'no, next-year' back and forth is impossible to prove either way and just plain silly. Of course, it will take Congress a minimum of several months to churn through something as big as health reform, just as it took a year or more to do major tax reform, welfare reform, clean-air and energy bills over the past decade. In all likelihood, Congress will start work in 1993 and finish in 1994.

The debate is not about: Choosing among different plans. Choice is one of the biggest buzzwords in health reform circles. But it means different things to different people. The architects of "managed competition" envision every person having a choice of different health plans. The big improvement they call for would create standardized packages that would make it easier to compare plans.

The debate is about: Choosing your own doctor. You don't need to be a pollster to know that people want to be able to stay with doctors with whom they've built up a relationship. Kaiser Family Foundation President Drew Altman, who has been watching public opinion on health reform for the last few years, calls choice of doctors "health reform's version of busing," the issue on which the whole plan could ultimately founder.

The debate is not about: What services will be covered. Current speculation centers on whether the plan will include such expensive or controversial services as abortion, long-term care, prescription drugs and treatment for substance abuse. But we already know the answer has to be yes, at least to the extent that most people have such coverage now, or the plan becomes a no-sell.

The debate is about: What services will not be covered. Some of the most intense lobbying is from practitioners who are "on the bubble." Will the plan include chiropractic care or other "alternative modalities?" What about long-term rehabilitation for serious injuries? Or experimental treatments? Who will decide? Will Medicare be expanded to cover outpatient prescription drugs, a benefit it currently lacks? If not, the politically powerful elderly will receive a considerably less generous package than will be mandated for the rest of the population. But if so, it drives the price of the package up substantially.

The "how generous to make Medicare" question is just one of the fundamental conundrums of the debate; the longstanding, seemingly insoluble problems that have prevented action for so many years. Here are a two of the biggest.

■ Establishing appropriate incentives. Almost everybody agrees that traditional fee-for-service medicine, under which doctors get paid for each service or procedure they perform, is inherently inflationary in that it gives doctors the incentive to do more than is necessary. What fewer people talk about is that the converse of fee-for-service medicine—so-called capitated systems, in which insurers receive a flat fee to provide all care to each covered individual—provides an equal incentive to do less than is necessary. The system that provides precisely the right incentives remains the Holy Grail of health reform.

■ Controlling costs without overt rationing. Politicians have shied away from the health issue for years for one key reasons—unrealistic expectations from the public. Until recently, the majority of the population with insurance has been spoiled by the miracles of modern medicine and insulated from the costs. We want everything medical science can provide, we want it now, and we want someone else to pay for it. Unfortunately, as the populations ages and expensive technology is developed, we're less and less able to have it all. Even if we could squeeze out of the system all the waste and fraud and inappropriate use and defensive medicine, the relentless march of a statistically sicker population and the development of more things we can do about sickness mean that sooner rather than later we're going to have to pay more or wait longer, or, more likely, both. And woe to the messenger who gets to deliver that happy news.

The coming debate is sure to be full of overstatements, oversimplifications and charges both true and false by those would further or block (or somehow alter) reform. But at its core there are really only two questions to keep in mind. How much medical care do we want and are willing to pay for, and who should decide? Filtering the debate through those prisms should go a long way toward giving the nation the health care system it wants and deserves.

The writer has covered health policy since 1986.

THE WASHINGTON POST MONDAY, JUNE 21, 1993

HRC

interesting piece
this is worth keeping
~~[illegible]~~ in close [illegible]

B

Terry please review my decisions with Marsha & if she has concerns bring them to my attention before proceeding.

June 21, 1993

93 JUN 21 P12:16

MEMORANDUM FOR JOHN D. PODESTA

FROM: TERRY W. GOOD TWG

RE: DISPOSITION OF CERTAIN CATEGORIES OF PUBLIC MAIL

cc. Marsha Scott
Steve Neuwirth

Since our conversation of last Monday, the Office of Records Management has not transferred any public mail to be macerated. Everything is on hold. However, everything is now building up. We do not have storage space for the material currently waiting to be transferred to us from the various offices within the Correspondence Office. The weekly average of boxes being transferred to ORM for disposal had been 150.

Up to this point, 2,891 cartons have been reviewed by the National Archives. Approximately 2,500 have been disposed of. Approximately 400 boxes approved for disposal remain in our NEOB store room.

May we recommence disposal of any of the following categories of public mail:

Yes ✓ No____ Childrens' mail

Unacknowledged mail

Yes ✓ No____ 1) illegible, unsigned, profane, unintelligible

Yes ✓ No____ 2) organizied mass mailings from interest groups; segregate health oriented mail, if any + pursue options below

Form or card acknowledged mail from the:

Yes ✓ No____ 1) Comment Office for birthdays, anniversarys, graduations and condolences.

Yes ✓ No____ 2) Correspondence Office for issues.
Hold for 30 days

If any of the above categories are to be retained pending a decision to recommence the disposal process, our storage options include transferring the boxes to:
the Navy Yard or
the National Archives

May I pursue these two options?

Yes ✓ Let's talk________________

cc: Marsha Scott

THE WHITE HOUSE
WASHINGTON

June 21, 1993

MR. PRESIDENT:

The enclosed memorandum is background for your 2 pm meeting with the Mexican cabinet. It discusses General Motors' transfer of 1,000 jobs from Mexico to the United States. The suggested response was drafted by the US Trade Representative's Office, and has been cleared by the NEC and the NSC.

RPR

R. Paul Richard

[redacted]

[redacted]

VP
Mack
Tony
George
Gergen
Begala

Andrew
Nancy

THE UNITED STATES TRADE REPRESENTATIVE
Executive Office of the President
Washington, D.C. 20506

June 21, 1993

93 JUN 21 P1:20

MEMORANDUM FOR THE PRESIDENT

FROM: MICHAEL KANTOR

RE: GM Transfer of 1000 Jobs from Mexico to the United States

General Motors CEO Jack Smith, UAW VP Steve Yokich, Congressman Bob Carr, and Michigan Governor Jim Engler will announce **today at 3:00 p.m.** an agreement to move 1,000 manufacturing jobs related to the Chevrolet Cavalier from Mexico to Lansing, Michigan. Negotiations between GM and the UAW began in October. The UAW views this as winning back jobs they lost to Mexico in 1990.

Because of the presence of the Mexican Cabinet, I recommend discussing this issue only if asked.

SUGGESTED RESPONSE TO QUESTION:

"Obviously, this is good news for U.S. workers. As we prepare to enter into the NAFTA with Mexico, expanded trade between the U.S. and Mexico will create greater prosperity in both countries. Clearly, this shows that U.S. workers can compete with anyone in the world."

BACKGROUND:

Mexico is **the fastest growing major auto market** in the world. The Big Three, Volkswagen, and Nissan produce in Mexico. All but Nissan export some Mexican production to the United States. Currently, the Big Three export very limited numbers of stateside-produced vehicles to Mexico but expect to increase exports rapidly after NAFTA's implementation. Exports of U.S. parts, on the other hand, are growing rapidly and increased from $1.8 billion to $5.7 billion over the last five years. Exports will continue to grow with the NAFTA. Mexican parts producers are major opponents of NAFTA in Mexico.

With NAFTA, Mexico will eliminate its automotive decree which has forced U.S. manufacturers to invest in Mexico in order to sell in Mexico. The NAFTA over time will allow the other Big Three to streamline operations and be more competitive in production. Currently Mexico has stringent performance requirements on autos and auto parts that require two dollar of autos to be exported for every dollar that is imported. NAFTA eliminates this over 10 years.

Jenny FYI - (This is the 6.18
copy for the manila folder
to your Right)
6/21
If this comes Back from P,
Do Not Stamp the P has
________ seen. S

Estimate No.______________
103rd Congress, 1st Session

023993

THE WHITE HOUSE

WASHINGTON

The President

The White House

Submitted for your consideration are amendments to the FY 1994 appropriations request for the National Aeronautics and Space Administration (NASA). These amendments would allocate the $2.3 billion in budget authority requested in the FY 1994 Budget for research and development as follows: (1) $2.1 billion for the Space Station; (2) $181 million for New Technology Investments; and (3) $19 million for other needed programs.

This proposal is the result of an extensive design review that was conducted by NASA to reduce the budget requirements for the Space Station significantly and to improve its program management. In order to provide funding stability to the program, a funding level of $2.1 billion is being requested for each of the next five years. The funds would enable NASA to execute the program in accordance with your directions.

The creation of the New Technology Investments package would set a new direction for NASA's technology and applications programs and would strengthen our national capabilities in space and aeronautics. Prompt implementation would also help retain and create technology-related jobs that are important to our nation's future economic growth. The overall objectives of this initiative are to create programs, led and defined by industry, that can lower the cost of space activities, achieve near-term results, and benefit the economy directly.

I have carefully reviewed these requests and am satisfied that they are appropriate. Therefore, I join the Administrator of NASA in recommending that these proposals be transmitted to the Congress.

Sincerely,

Leon E. Panetta
Director

Enclosure

THE WHITE HOUSE

WASHINGTON

The Speaker of the

House of Representatives

Sir:

I ask Congress to consider amendments to the FY 1994 appropriations request for the National Aeronautics and Space Administration. This proposal would allocate the $2.3 billion requested in the FY 1994 Budget for research and development among the Space Station, New Technology Investments, and other needed programs.

The details of these requests are set forth in the enclosed letter from the Director of the Office of Management and Budget. I concur with his comments and observations.

Sincerely,

Enclosure

NATIONAL AERONAUTICS AND SPACE ADMINISTRATION

1994 Budget Appendix Page	Heading	1994 Budget Request Pending	1994 Proposed Amendment	1994 Revised Request
A-1003	Research and development	$7,638,300,000*	-$21,900,000	$7,616,400,000
	(In the appropriations language under the above heading, delete the period at the end of the first paragraph and substitute <u>, of which $2,095,000,000 is for the Space Station, $163,900,000 is for the New Technology Investments, and $19,200,000 is for other needed programs. And in addition, for the Space Station, $2,075,000,000, to be available for obligation on October 1, 1994 and to remain available until September 30, 1996; and $2,085,000,000, to be available for obligation on October 1, 1995 and to remain available until September 30, 1997; and $2,100,000,000, to be available for obligation on October 1, 1996 and to remain available until September 30, 1998; and $2,100,000,000, to be available for obligation on October 1, 1997 and to remain available until September 30, 1999.</u>)			
	*Excludes separate pending investment proposal.			

NATIONAL AERONAUTICS AND SPACE ADMINISTRATION

1994 Budget Appendix Page	Heading	1994 Budget Request Pending	1994 Proposed Amendment	1994 Revised Request
A-1004	Space flight, control and data communications	$5,316,900,000	$16,900,000	$5,333,800,000
	(In the appropriations language under the above heading, delete the period at the end of the first paragraph and substitute , of which $16,900,000 is for the New Technology Investments.)			
A-1004	Construction of facilities	$545,300,000	$5,000,000	$550,300,000
	(In the appropriations language under the above heading, delete the colon after "1996" and substitute , of which $5,000,000 is for the Space Station. And in addition, for the Space Station, $25,000,000, to be available for obligation on October 1, 1994 and to remain available until September 30, 1998; and $15,000,000, to be available for obligation on October 1, 1995 and to remain available until September 30, 1999.)			

1994 Budget Appendix Page	Heading	1994 Budget Request Pending	1994 Proposed Amendment	1994 Revised Request

These requests would allocate the $2.3 billion in funds originally requested in the Research and development account for Space Station and New Technology Investments as follows: (1) $2.1 billion for the Space Station; (2) $180.8 million for the New Technology Investments; and (3) $19.2 million for other needed programs (i.e., the Consortium for International Earth Science Information Network and AdaNet). These proposals would not affect FY 1994 outlays.

Many of the milestones and cost savings in the redesign are predicated on sustaining a stable funding environment. Therefore, this request also includes advance appropriations for the Space Station of $2.1 billion annually for the next five years. This annual funding level includes all Space Station costs, including development, operations, reserves, user support, institutional costs, science payloads, early flight research, shuttle integration and modification, facilities, and the assured crew rescue vehicle.

In addition, significant budget management reforms are required within NASA to ensure that the Space Station is completed in a timely and cost-effective manner. The Administration intends to work closely with the Congress to achieve the personnel savings and management restructuring as described by the Vest Committee Report. This should include a limit on Federal employees associated with Space Station activities.

THE PRESIDENT HAS SEEN 6/21

U.S. IS CRITICIZED ON BURMESE POLICY

Rights Groups Assert Clinton Keeps Curbs on Refugees Fleeing Military Rule

By STEVEN A. HOLMES
Special to The New York Times

WASHINGTON, June 20 — The Clinton Administration is coming under growing criticism from human rights groups for its policy toward the military junta in Myanmar, formerly Burma, which they say is one of the most repressive governments in the world.

The groups say they are concerned that the Administration, out of deference to several of Myanmar's neighbors, mainly Thailand, is continuing restrictive policies toward Burmese refugees that were adopted in the Bush Administration. Some of the groups are also concerned over the Administration's support for an $18 million grant that was approved by a United Nations Development Program on Friday.

Last week, several human rights organizations and Burmese expatriate groups met with State Department representatives. Participants said they had expressed dissatisfaction with the current policy, likening it to the Administration's approach toward Haiti.

"As with Haiti, the Burmese military has been successfully defying the international community," said Michael Jendrzejczk, director of the Washington office of Asia Watch, a division of Human Rights Watch in New York. "We would hope that the Clinton Administration would be much more effective in its policy toward Burma than they have been toward Haiti."

Fine Line Is Seen

Administration officials say they must walk a fine line between applying pressure on Myanmar's leaders and providing sufficient incentives to induce changes in the Government's behavior. They must also balance their human rights efforts against the needs of Myanmar's neighbors like Thailand and Bangladesh, which have been inundated with refugees.

The State Department has told relief agencies to stop distributing aid to refugees living in camps on the Burmese side of the border with Thailand. The department has also continued tight requirements for dissident Burmese who have fled to Thailand and seek asylum in the United States.

Department officials say Administration support for the $18 million grant resulted from a compromise that reduced the grant from $40 million.

"We believe that was the best we could have done without forcing the matter for a vote, which we would have lost," said a State Department official involved in the discussions.

THE NEW YORK TIMES INTERNATIONAL MONDAY, JUNE 21, 1993

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Military's Zeal Decried in Sodomy Case

By ERIC SCHMITT
Special to The New York Times

FAYETTEVILLE, N.C., June 16 — In a case that has drawn little public notice but has sent ripples through the Air Force hierarchy, an officer has been convicted of sodomy and another faces similar charges based solely on a gay civilian man's claim that they had sex with him.

The two officers, members of an elite transportation unit here, deny that they are homosexual and that they ever had sex with the man. The officers, Capt. Troy Carlyle and Capt. Luther Turner, say they are victims of a spurned friend.

Air Force investigators have aggressively pursued the cases since the accuser, Richard D. Bullock, made his accusations in June 1992. But they acknowledge that they have made only scant efforts to check the credibility of Mr. Bullock, a 26-year-old paramedic.

More than 20 character witnesses spoke on Captain Carlyle's behalf at his trial in April; among them were his former girlfriends and a former commander, who called the captain one of his best officers.

Nonetheless, with Mr. Bullock as the prosecution's only witness, a jury of six Air Force officers convicted Captain Carlyle of sodomy, a violation of the Uniform Code of Military Justice, the lawbook of the armed services, and expelled him from the service. His ouster is on hold while he appeals the verdict.

Captain Turner's trial is likely to begin in the next few weeks.

For the officers' supporters, and for some senior Air Force officials here and in Washington, the case is a counterpoint to the nationwide debate over what the military's policy on homosexuality should be. Even supporters of the current ban on homosexuals in the military, like Senator Sam Nunn of Georgia, have called for an end to witch hunts by military "sodomy squads." But here at Pope Air Force Base, the two officers and their supporters say, these sodomy cases are being prosecuted with vigor.

'Guilt by Association'

That a military jury would convict anyone on such questionable evidence illustrates that the mere accusation of homosexuality can doom an officer.

"I feel my court-martial was one of guilt by association," said Captain Carlyle, a 31-year-old graduate of the Air Force Academy, in an interview in his lawyer's office.

In a compromise announced by President Clinton in January, military discharges for homosexuality have been halted while the issue is studied. But questions of conduct, like sodomy, continue to be prosecuted.

The accusations and verdict have puzzled some senior Air Force officials. In addition to sodomy, Captain Carlyle was charged with frequenting an off-limits bar here and with smoking marijuana. The same jury that convicted him of sodomy and the bar violation acquitted him on the marijuana charge. Mr. Bullock was the source for all the charges.

Captain Carlyle and Captain Turner, also 31, acknowledged going to the bar a couple of times but said they had stopped after finding out it was off-limits. In their defense, they show an official Air Force list of off-limits businesses that does not include the bar.

> The treatment of 2 officers raises fears of a witch hunt.

Tanya Jackson, an owner of the bar, Oz, which is primarily a gay bar but also draws heterosexuals, said many military personnel in this conservative town ignored the restriction because the club was one of the few in the area that plays alternative music, like grunge. In the three years that Oz has been off-limits, Captain Carlyle's punishment marks the first time the Air Force has enforced its rule against the bar.

Mr. Bullock could not be reached for comment on the case. Relatives said he had moved to Wilmington, N.C., but he is not listed in telephone directories there.

In a deposition taken March 22 by the officers' lawyer, Mark L. Waple, Mr. Bullock said he had made his accusations when he had been in "a state of depression."

Air Force investigators and prosecutors involved in the case declined to comment because of the pending appeal and coming second trial. Privately, though, many Air Force officers familiar with the case express shock and embarrassment at how the Air Force has treated the officers.

The cases are unusual if for no other reason than because the Air Force rarely presses sodomy charges. Last year, the service prosecuted 17 such cases, three of which ended in acquittals. In contrast, the Army last year prosecuted 129 cases; the Navy, 89 cases, and the Marine Corps, 41 cases.

Captain Carlyle, a C-130 cargo plane navigator, and Captain Turner, a C-130 pilot, belonged to the Special Activities Division of the 317th Tactical Airlift Wing, nicknamed Credible Cat, a 20-member unit here that flies top-secret missions. The unit received a special commendation from President George Bush after the Persian Gulf war.

According to fitness reports prepared by a former commander, Lieut. Col. Gregory M. Chase, the officers were commendable. "One of our best officers, Captain Carlyle pursues the goals of excellence in every aspect of his Air Force career," Colonel Chase said in a 1991 report. In a 1992 report about Captain Turner, Colonel Chase said the officer "got the job done in outstanding manner."

Friendship Turns Sour

Interviews with Captain Carlyle and Captain Turner and reports by investigators give the officers' account of their relationship with Mr. Bullock. It was through a community film club that Captain Carlyle founded here in 1991 that the officers met Mr. Bullock, a Fayetteville native who was an ambulance driver and paramedic.

The three men became friendly, often going to movies or eating at the house that Captain Turner and Captain Carlyle shared. But beginning in April 1992, the officers said, they became alarmed when Mr. Bullock began spending more time at their house, demanding to be included in activities. They said Mr. Bullock had never made homosexual overtures toward them.

In May, the officers said, they told Mr. Bullock to stop visiting and calling. On June 2, someone vandalized Captain Turner's sports car.

That same night, Mr. Bullock telephoned the officers' commander, Lieut. Col. Victor Powers, and told him that Captain Turner was his lover and that Captain Carlyle had seduced him. In court testimony later, Colonel Powers said, "I had no reason to believe anything he said."

Later that day, though, Mr. Bullock called Special Agent T. Kevin Bolick of the Air Force Office of Special Investigations at Pope, and repeated the accusations. On June 4, Mr. Bolick and another investigator escorted Captain Carlyle from his office, questioned him and demanded that he confess, Captain Carlyle said.

Also on June 4, the same agents confronted Captain Turner, minutes after he climbed out of his C-130 after an 11-hour mission. "They said Troy had confessed to being homosexual," Captain Turner said. "They said if I confessed right then, I could go home." He said he had strongly denied the accusations.

Captain Carlyle and Captain Turner are now in a legal limbo, one not officially discharged and the other awaiting trial.

"I feel saddened and betrayed," Captain Carlyle said in the interview. "It makes me wonder what kind of a country I live in."

THE PRESIDENT HAS SEEN 6/21

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