Somalia, Through a Glass Darkly

THE PRESIDENT HAS SEEN

By George F. Kennan

PRINCETON, N.J.

The following is an item, dated Dec. 9, 1992, in my personal diary, which I have kept intermittently for most of my life. I have left it unedited, exactly as then written.

When I woke up this morning, I found the television screen showing live pictures of the Marines going ashore, in the grey dawn of another African day, in Somalia. It is clear that with a very large part of the American public, but particularly with that part of the public that speak or writes on public affairs, and — not last — with the political establishment, there is general support for this venture.

There was no proper public discussion, not even a Congressional discussion, of this undertaking before the President, only a few days ago, announced his intention to launch it. It would be idle for me or for anyone else to come out publicly at this point with a questioning of the wisdom of this intervention. The action is already in progress.

Anything that might be said in criticism of its rationale would have no practical effect in any case, and, to the extent that it attracted any public attention, would be received as something tending to demoralize the forces now in action by sowing doubt as to the worthiness of the effort in which they are now involved. I see, therefore, no advantage to be gained by trying to say anything publicly about what is going on.

On the other hand, I regard this move as a dreadful error of American policy; and I think that in justice to myself I should set down at this point, if only for the diary, my reasons for this view.

The purpose of this exercise is, we are told, to take charge of the channels of transportation and to assure the movement of food to certain aggregations of starving people. The reasons why we must do this are, in the official and widely accepted view, that the people *are* starving; that this is outrageous and intolerable; but that food cannot be brought to them in adequate amounts because the supply lines by which it would have to be delivered are subject to harassment on the part of armed bands and individuals along the way, as a result of which much of the food is plundered and lost before it can reach its destination. How many of these congregations of starving people there are, and where they are situated, seems not to have been clearly explained; perhaps our people do not even know.

Why, then, is our action undesirable? First, because it treats only a limited and short-term aspect of what is really a much wider and deeper problem. The idea seems to be that when we have made possible the original delivery to the collection points of the food that has already been shipped or is being shipped to Somalia, our forces will be withdrawn, and the United Nations, using other forces, will assure the further supplying of these people.

This last seems to me highly uncertain, and even doubtful. The situation we are trying to correct has its roots in the fact that the people of Somalia are wholly unable to govern themselves and that the entire territory is simply without a government. The starvation that we are seeing on television is partly the result of drought (or so we are told), partly of overpopulation, and partly of the chaotic conditions flowing from the absence of any governmental authority.

What we are doing holds out no hope of coming to terms with any of those situations. If we are to withdraw at any early date (and the President has spoken about the possibility of withdrawal before the end of January), these determining conditions will remain exactly as they were before. The marauding bands and individuals will resume their activity, and in the absence of any strong foreign military force there will be no stopping them.

Beyond that, the problem of starvation is one that reaches much farther than the aggregations of people we have seen on television. As one of the nurses pointed out, these wretched people are among the more fortunate, as is shown by the fact that they were able to walk to the places where they are collected. There are presumably, further afield, even greater numbers of people who never showed up there because they were too weak to walk at all. They, of course, are not touched by our actions.

A 1992 diary entry anticipates a quagmire.

The fact is that this dreadful situation cannot possibly be put to rights other than by the establishment of a governing power for the entire territory, and a very ruthless, determined one at that. It could not be a democratic one, because the very prerequisites for a democratic political system do not exist among the people in question. Our action holds no promise of correcting this situation.

The upshot of all this is that what we are undertaking will assure at best a temporary relief for those people who are gathered together in the camps, and probably a relief that will not be completed before our own departure, unless we propose to keep our forces there for many months, if not years, in the future.

Secondly, this is an immensely expensive effort. What we are pouring into it must run, in the monetary sense, into hundreds of millions, if not billions, of dollars. This comes at a time when our country is very deeply indebted and where it is not even able to meet its own budget without further borrowing. This entire costly venture is then, like so many other things we are doing, to be paid for by our children — the coming generation. Meanwhile, there are many needs at home, particularly in the condition of our cities and of the physical infrastructure of our society, which are not being met, ostensibly for lack of money.

All this being the case, one is moved to inquire into the inspiration and rationale of this enterprise.

On Mr. Bush's part, one must assume that the reasons lay largely in his memories of the political success of the move into the Persian Gulf, and in the hope that another venture of this nature would arouse a similar public enthusiasm, permitting him to leave his Presidential office with a certain halo of glory as a military leader using our forces to correct deplorable situations outside our country. The action, taking during the interregnum between two administrations, obviously saddles his successor with the task of completing it, albeit without responsibility for its origin.

The dispatch of American armed forces to a seat of operations in a place far from our own shores, and this for what is actually a major police action in another country and in a situation where no defensive American interest is involved — this, obviously, is something that the Founding Fathers of this country never envisaged or would ever have approved. If this is in the American tradition, then it is a very recent tradition, and one quite out accord with the general assumptions that have governed American public life for most of the last 200 years.

I have already pointed to the absence of any prior discussion in Congress of this undertaking. This raises the question, Why, then, so suddenly and without any preparation in public or political opinion? If the President thought it wise to use our armed forces for this purpose, why did he not say so weeks or months ago and lay the question squarely before Congress and public opinion? The answer is obvious: the paralysis of government that has existed for the last six months — before and after the election. This is in itself significant.

But an even more significant question is that of the reason for the general acceptance by Congress and the public about what is being done. There can be no question that the reason for this acceptance lies primarily with the exposure of the Somalia situation by the American media, above all, television. The reaction would have been unthinkable without this exposure. The reaction was an emotional one, occasioned by the sight of the suffering of the starving people in question.

That this should be felt as adequate reason for our military action does credit, no doubt, to the idealism of the American people and to their ready sympathy for people suffering in another part of the world. But this is an emotional reaction, not a thoughtful or deliberate one. It is one which was not under any deliberate and thoughtful control — one that was not really under our control at all.

But if American policy from here on out, particularly policy involving the uses of our armed forces abroad, is to be controlled by popular emotional impulses, and particularly ones provoked by the commercial television industry, then there is no place — not only for myself, but for what have traditionally been regarded as the responsible deliberative organs of our government, in both executive and legislative branches. □

George F. Kennan is author most recently "Around the Cragged Hill."

THE NEW YORK TIMES, THURSDAY, SEPTEMBER 30, 1993

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THE PRESIDENT HAS SEEN 10/12

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Votes senators
None –
B.

THE WASHINGTON POST
FRIDAY, OCTOBER 8, 1993

GI Wives A1 Speak Out In Anger

Activist Women On Army Base

By Tamara Jones
Washington Post Staff Writer

FORT DRUM, N.Y., Oct. 7—Maria DeGrace dissolves in tears when she glimpses the crayon drawing taped to the living room wall. It is her 6-year-old daughter's crude picture of two Somalis dancing over daddy's body.

But daddy is not dead, and DeGrace, 27, constantly reassures her four children that their soldier father is just fine, that Operation Restore Hope will end soon, that he will return home and that everyone can be happy again.

But as American losses mount in Somalia, DeGrace has become one of the uncounted casualties of the faraway conflict.

"We restored their hope," she said angrily today. "Now who's going to restore ours?"

Drawn together by fear, frustration and pure, raw rage, DeGrace and several other military wives at this Army post near the Canadian border no longer are willing to play the role of the good soldier's wife.

Terri Galloway, 24, of Mannsville, N.Y., whose husband, Andy, went to Somalia July 28, expressed disgust with "bowling parties and bake sales," traditional activities of military families.

Instead, the women are lobbying Washington, distrib-

See FORT DRUM, A19, Col. 1

FORT DRUM, From A1

uting bracelets at malls and taking a very public stance against the U.S. role in Somalia.

"Women are more willing to speak out now than during Vietnam because the role of the wife, whether civilian or military wife, is a lot different now," Galloway said.

Sophisticated technology and telecommunications also mean that the military wife has become far more informed about her husband's mission and political issues surrounding it. Besides watching C-SPAN to follow legislative debates on Somalia, the wives can use electronic mail to stay in more immediate touch with their husbands.

Questions these women ask go far beyond, "When can my husband come home?"

Today, they demanded to know who is funding Somali warlords, why Defense Secretary Les Aspin refused a general's request for more armored support there and why President Clinton, in DeGrace's view, "cared more about his health plan than about his soldiers in Somalia."

"The thing that bothers me is that we cut the military budget, and now we're paying with soldiers' lives," said Eileen Lynch, 31, whose husband just returned from Mogadishu. "There's no excuse for these men to be pinned down 16 hours. Where was our armor?"

The wives also charged that military cutbacks have forced families to dip into personal savings to supply soldiers with such basics as aspirin, antifungal cream and even sneakers.

"They go through tennis shoes like crazy over there," said DeGrace, who said she has had to fend off bill collectors because of expenses incurred supplying her husband.

Lynch recalled a long shopping list that her husband's unit distributed before its deployment last December. "I spent over $200 on supplies the Army was supposed to supply," she said. The Army will not reimburse them, she said.

"If President Clinton is going to keep them there, then, by God, he should give them everything they need—from Q-tips to ammunition," Lynch said.

After taxes, according to DeGrace, her husband's combat pay amounted to "$7-a-month extra. To the military, it's like, 'You got your $7. Now shut up.'"

The seeming futility of Operation Restore Hope has persuaded Lynch's husband, a career soldier, to quit after 10 happy years in the service, she said. Although the family is returning to civilian life in her native Emmetsburg, Iowa, in December, Lynch said she would continue protesting U.S. involvement in Somalia.

"I may be leaving here," she said, "but I'm taking a yellow ribbon with me and dipping the ends in red for the blood of soldiers who have been killed there. When we pull out, we should destroy every building we've built for these people. We should destroy every water hole we dug for them. Leave them nothing. Let them go back to starving."

Tonight, about 70 Fort Drum wives gathered at a base chapel for a briefing about the Somalia mission. R.D. Murphy, the base's civilian public affairs director, ordered a reporter to leave the family support meeting, saying:

"These females" had come, in part, "to vent their anger." He said the commanding general did not want the media to hear those concerns.

Today, in the DeGrace's tidy living room, the women seemed surprised at their anger. They told proud stories of relatives who died in Vietnam, an uncle still listed as missing in action there, a father-in-law who survived the Battle of the Bulge.

They expressed concern that their new-found activism might tarnish their husbands' careers. But, DeGrace said, "We're doing this for them because we love them, we're proud of them and we want them home."

DeGrace has drafted an open letter seeking public support, and the wives plan to distribute copies in parking lots, grocery stores and malls in nearby Watertown.

"Why should we feel pity for these people when they rejoice over our dead?" the leaflet asks.

"The mission they went there to do is humanitarian," Galloway said, "not to go over and set up a government and patrol the streets as police, like in Vietnam."

When DeGrace wore a T-shirt on base with a slogan comparing Somalia to Vietnam, she said, a man scolded her for endangering morale. Undaunted, she plans to paint signs and plant them in front yards with the simple message: "Bring our soldiers home."

Galloway said she will be there too with the 5-month-old daughter who she fears may never know her father. She considers herself a patriot but she finds that being tested. "If anything happens to my husband in Somalia," she said, "I'll tell you what: I'd be the first to burn the American flag."

THE PRESIDENT HAS SEEN 10/12

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Can't we do something

about this —

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THE PRESIDENT HAS SEEN

THE WASHINGTON POST
FRIDAY, OCTOBER 8, 1993

Bradley Pushes Economic Security Plan for Workers

New Jersey Senator Also Says NAFTA Is Vital to U.S. in Context of Changing Global Scene

By Dan Balz
Washington Post Staff Writer

Warning of the inevitability of global economic and political change, Sen. Bill Bradley (D-N.J.) yesterday offered the Clinton administration the blueprints for an "economic security platform" to protect American workers without bankrupting the federal treasury.

In broad strokes, Bradley sketched out a country caught in the confluence of four fundamental transformations occurring simultaneously: the end of the Cold War; an explosion in world markets; the knowledge revolution; and the drain of the mushrooming national debt.

These changes, he said, have produced substantial economic dislocation in this country even as they offer the possibility of dramatic economic growth in the future.

Bradley said the country would be foolish to resist the changes, adding that he would assign "absolute priority" to approval of the pending North American Free Trade Agreement (NAFTA) with Mexico and Canada.

"To pass NAFTA is to take the challenge head on," he said in a speech before the Center for National Policy, a Democratic think tank.

"I cannot help but see NAFTA as the test case of whether we hold on and lose or transform and win," Bradley said. "To pass NAFTA will improve the chances for more jobs in American and a stronger economy to deal with the real threats to American jobs coming from Europe, Japan and China."

NAFTA's defeat, he said, would doom any hope for a GATT agreement later and said the loss of both treaties would cost the country its best hopes for creating jobs in the next few years.

But Bradley said the government must help alleviate the economic anxieties of American workers trapped in the currents of global change.

To ease the transition, Bradley called for the creation of an "economic security platform" that would provide all Americans with guaranteed health care coverage, lifetime education and training and guaranteed pension benefits upon retirement.

The economic security platform, he said, calls for a limited government role: "It is not a slippery slope back to expanded government entitlements. It does not attempt to avoid all risks. It does not guarantee income or prevent failure or oversee how people live."

He said the scope of benefits were "strictly and intentionally limited" because of the size of the national debt and his fear that too much government would dampen the dynamism of the marketplace.

The "narcotic of debt" Bradley said, requires that government must spend less money and with new priorities: less to income transfers unrelated to need and more to investment, infrastructure and education.

Bradley, a senior member of the Finance Committee, said he would begin hearings later this year on the pension issue, but refrained from offering specific plans for health care or education.

He said his purpose of his speech was to provide a larger context for a number of policy debates already underway and to help the administration sharpen the focus of its agenda to stress that economic security was a goal it could accomplish during President Clinton's first term.

Airport Study Still On

■ The House yesterday defeated an attempt by Rep. James P. Moran Jr. (D-Va.) to block a Clinton administration study of the airline slot system at National Airport.

National is one of four U.S. airports in densely populated areas at which takeoffs and landings are controlled by reservations, or slots. The slot system, in effect since 1969, distributes aircraft among the region's three airports, reduces jet noise in residential areas and controls traffic congestion.

The Clinton administration is reviewing the slot system to determine, among other things, whether additional slots would stimulate competition in the airline industry. The other airports with slots are La Guardia and Kennedy in New York and O'Hare in Chicago.

Airport anti-noise activists, many of whom live in Moran's congressional district, say additional slots at National Airport would lead to more noise.

Union Official Indicted

■ The president of the union that represents uniformed Secret Service employees has been indicted on federal charges of illegally working at a second job while on sick leave from the agency, authorities said.

Peter W. England, 48, president of the 400-member Uniformed Officers Association, is due to stand trial Dec. 8 in U.S. District Court in Alexandria. His lawyer, Steven A. Allen, contended yesterday that England is being prosecuted in retaliation for union activities, a statement disputed by investigators.

England is accused of making at least $2,500 in the second job while on sick leave from October 1989 until his retirement in December 1991, despite Secret Service rules barring such work. Another former officer, Theodore T. Rybicki, 43, was indicted on similar charges involving outside work allegedly done while he was on a 23-month sick leave that began in October 1990.

Authorities said England and Rybicki worked on construction jobs and had pay checks issued to Rybicki's wife, Karen, 43, who also was indicted. England and the Rybickis pleaded not guilty to the charges on Monday.

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THE WASHINGTON POST
FRIDAY, OCTOBER 8, 1993

Gingrich Claims He Has Votes to Be House Minority Leader

By Kenneth J. Cooper
Washington Post Staff Writer

The second-ranking Republican in the House, Rep. Newt Gingrich (Ga.), yesterday announced his candidacy to move up a notch and promptly declared the four-day race to succeed retiring Minority Leader Robert H. Michel (R-Ill.) all but over.

Gingrich, a House member since 1979 and Republican whip since 1989, said that 106 of 175 GOP lawmakers have pledged to vote for him in December 1994. All that stands in the way of Gingrich's ascent, according to this accounting, are voters who will decide whether to reelect him and his supporters to serve in the next Congress.

If elected Republican leader, Gingrich dispelled any doubt that he would continue his confrontational style when he directly questioned the military competence of President Clinton and Defense Secretary Les Aspin because of their handling of Somalia.

Gingrich specifically questioned whether Clinton controlled the chain of command and criticized Aspin's rejection of a field commander's request for additional armored vehicles. He called for the Democratic-controlled Congress to hold public hearings to determine "whether or not American field commanders are being given the support they need in a timely manner by civilians who frankly don't know what they're doing."

"This is not partisanship. The commander in chief has an obligation to be militarily competent," Gingrich said at an outdoor news conference where he was surrounded by 74 applauding supporters.

As an avid student of military history, Gingrich, 50, has been a frequent commentator on defense matters. But, like Clinton, he also did not serve in the military and took a student deferment during the Vietnam War. His father was a noncommissioned Army officer and once at yesterday's news conference Gingrich described his criticisms as those of "an Army brat."

Joining Gingrich was a cross-section of House Republicans that leaned toward newer members. There were second-term Reps. John A. Boehner (Ohio), Jim Nussle (Iowa), Rick Santorum (Pa.) and John T. Doolittle (Calif.), surviving members of the "Gang of 7" backbenchers. Rep. John Linder (Ga.) said 40 of 48 freshmen Republicans endorsed Gingrich.

"We standing here today see Newt as the next generation of Republican leaderhsip in the House," Boehner said in one of several speeches given by supporters. He predicted that Gingrich would "build an action-oriented team."

More senior supporters included Reps. Nancy L. Johnson (Conn.), Robert S. Walker (Pa.), John R. Kasich (Ohio) and Tom DeLay (Tex.), secretary of the Republican Conference.

Several women, a Hispanic, an Asian and an African American Republican stood front and center around Gingrich in an overwhelmingly white male crowd.

Later, DeLay announced his candidacy for Gingrich's job as whip. Walker, Gingrich's chief deputy, also is considering running for the post. Gingrich said he would not endorse candidates in contested leadership races.

Much of Gingrich's announcement speech resembled what has become familiar campaign rhetoric from the conservative Georgia Republican, including his declaration that the welfare state had failed and had to be replaced with "an opportunity society."

Gingrich denied his reputation as a partisan bomb thrower meant he was destructive, and he defended his aggressive criticism of House scandals, noting that the two officials who were responsible for the House Post Office and the now defunct House Bank recently pleaded guilty in federal court. He also cited the resignations of former speaker Jim Wright (D-Tex.) and former Democratic whip Tony Coelho (D-Calif.) following reports about questionable financial dealings.

"I was a truth thrower and in this town, the truth is a bomb," Gingrich said.

RTC Nominee Intervened in Ethics Panel's Review of Louisiana Law Firm

By Jerry Knight
Washington Post Staff Writer

A Florida real estate executive, after being nominated by President Clinton to run the savings and loan cleanup, intervened on behalf of a New Orleans law firm that has previously sought political help in getting government contracts with the cleanup agency, according to officials involved in the case.

The executive, Stanley Tate, has yet to be confirmed as head of the Resolution Trust Corp. and has no authority to make decisions for the S&L cleanup agency. But he showed up uninvited last month at a meeting of a special RTC committee that deals with conflicts of interest and ethical matters, according to members of that committee, who spoke on condition that they remain unidentified.

No top official of the agency had previously attended meetings of the panel, called the Outside Counsel Conflicts Committee, the committee members said. The committee makes decisions, which are supposed to be nonpolitical, about whether law firms and other contractors are eligible to do business with the RTC.

At the meeting, Tate criticized the procedures the committee had followed in deciding to prohibit the New Orleans law firm of Bryan, Jupiter, Lewis and Blanson from handling RTC legal work. The committee last summer ruled the firm should be prohibited from doing such work because it had allegedly violated the agency's ethics standards.

Tate's participation prompted several career officials of the RTC to complain to news organizations about what they contended was a second attempt to use political influence to benefit Bryan, Jupiter.

"This is supposed to be an independent process. This kind of thing is absolutely unprecedented," the Associated Press quoted a member of the conflicts committee as saying.

The AP said Tate confirmed that he had participated in the meeting but declined to discuss his role.

Tate was not at his temporary office late yesterday and RTC officials said they did not have his phone number since he has not yet been confirmed. Supporters of Tate's nomination said he had been advised not to discuss matters that might affect his upcoming confirmation hearing.

The RTC staff complaints about Tate are expected to add to his difficulty in winning confirmation by the Senate Banking Committee, a congressional source said. Tate already was under fire for asking to see RTC records involving a friend of his who has been sued by the agency.

Earlier this year, three top officials in the Treasury Department met with representatives of Bryan, Jupiter to discuss the firm's complaint that it was unfairly being cut off from government contracts.

The meeting with Treasury officials was arranged by Rep. William J. Jefferson (D-La.) who was previously a partner in the law firm. Jefferson received more than $100,000 last year from his former partners, who have agreed to buy out his interest in the practice over several years.

Treasury officials said the meeting was a routine session, like those set up by many members of Congress whose constituents have a problem dealing with the government. But career RTC employees said no other contractor seeking work with the agency has been able to take a case to such a high level in the administration.

Jefferson said he did nothing improper in offering to help his former law firm.

Jefferson also has tried to help Tate get a job at the RTC, sources at the agency said. In June, Jefferson was one of 25 members of the Congressional Black Caucus who signed a letter urging the appointment of Tate to be president of the RTC. Tate's support by minority members has weakened since then, however, as the result of an attack on his nomination led by the Rev. Jesse Jackson.

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Whats the deal on this REIT issue

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THE PRESIDENT HAS SEEN

NAFTA and Trade Are Tiny Parts of a Job Revolution

By James K. Glassman
Special to The Washington Post

Behind the bitter debate over whether NAFTA will cost jobs for American workers lies a jobs revolution that already is raging across the country, helping many workers and hurting some others. NAFTA is getting caught in the cross-fire.

Over the past decade, the nature of the American work force has

COMMENTARY

changed drastically. In the United States today, there are far more accountants and auditors than auto workers. There are more social workers than metalworkers, more data processing equipment repairers than miners and oil workers.

Overall, the employment news is good. Between 1982 and 1991, jobs in the United States increased by 16 million, or 16 percent. Even this year, with a sluggish economy, employment is up by a million.

But judging from news media reports of layoffs and shutdowns, you would hardly know it. The problem is that the net gain is not spread evenly across the economy. While the number of computer analysts and programmers almost doubled between 1982 and 1991, sectors like textiles and logging suffered serious declines.

A single company—Wal-Mart—now has 490,000 employees, up from just 64,000 in 1984, but the Big Three automakers employ just 436,000 production workers, down a third in a decade.

Examine the Labor Department's almost absurdly

See BIG MONEY, G2, Col. 3

BIG WINNERS, BIG LOSERS

CHANGE IN EMPLOYMENT BY SECTOR, IN THOUSANDS

OCCUPATION	1982	1991	PERCENT CHANGE
Computer analysts, programmers	719	1,321	84%
Data processing equipment repairers	98	152	55
Social workers	407	603	48
Airplane pilots	69	101	46
Veterinarians	36	51	42
Police and detectives	645	870	35
Designers	393	527	34
Accountants and auditors	1,105	1,446	31
College, university teachers	606	773	28
Registered nurses	1,372	1,712	25
Food counter workers, short-order cooks	419	411	-2
Textile sewing machine operators	806	676	-16
Timbercutting and logging workers	96	80	-17
Private household cleaners, servants	512	403	-22
Farm workers	1,149	883	-23
Garage and service station workers	293	207	-29
Garbage collectors	63	43	-32
Typists	906	591	-35

SOURCE: Bureau of Labor Statistics

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BIG MONEY, From G1

detailed list of occupations, including such categories as "Hunters and trappers" (1,000, as of 1991) and "Elevator operators" (just 7,000 left). You'll find that winners vastly outnumber losers, and that, despite the conventional wisdom, we're not simply replacing good jobs with bad.

Take "hamburger flippers." That condescending term, which I found in a Nexis search was used in at least 158 news stories in the past year, denotes the dead-end jobs that are supposed to be sweeping the nation. But, in fact, between 1982 and 1991, employees in the Labor Department category "Short-order cooks" fell from 93,000 to 82,000, while "Food counter, fountain, and related occupations" rose just 1 percent, from 326,000 to 329,000.

Among the big gainers were electrical engineers (up 25 percent), airplane pilots (up 46 percent), college teachers (up 28 percent), a highly desirable category called "Writers, artists, entertainers and athletes (up 27 percent to a remarkable total of 2 million), and practically any job that involves protection or health.

Still, the plight of losers in this dramatic job shift is genuinely heart-wrenching; many don't have the skills or education to move to one of the new, better jobs.

Between 1987 and 1991, about 5.6 million American workers were "displaced," meaning that they lost their jobs because their plant or company moved, shut down or reduced its work force.

When they were interviewed by the Labor Department in 1992, one-third of these displaced workers said they were still either unemployed or had left the labor force, and only 27 percent had full-time jobs that were the same or better than the ones they lost.

What's significant to critics of the North American Free Trade Agreement is that 35 percent of the displaced workers in the 1987-1991 period were in manufacturing.

Manufacturing is clearly important, but in the minds of NAFTA critics—and particularly in Ross Perot's influential book, "Save Your Job, Save Our Country"—it acquires an almost holy aura. (Someone should remind Perot that he made his $2 billion fortune in the quintessential non-manufacturing business: selling computer *services* to governments and large corporations.)

We do have fewer manufacturing workers than we had in 1965—about 18 million—but they produce far more. During the 1980s alone, in constant-dollar terms, total manufacturing output rose 38 percent.

Some lower-wage jobs indeed have moved to foreign countries, but that shift has contributed to the productivity that has kept American manufacturing alive and profitable. The profits get invested in expansion—or they finance pensions or go to shareholders who put them into new ventures, which hire new workers.

In fact, manufacturing, like agriculture, is one of the great miracles of the U.S. economy, and for the same reason—its ability to produce more goods with fewer people. In 1900, more than one-third of American workers were employed on farms. Today, the figure is about 2 percent, but because of brains, machines and fertilizer, that 2 percent feeds this nation and sells $39 billion in exports to the rest of the world.

Much the same phenomenon is happening in manufacturing, and, despite the often-grubby nature of both endeavors, we are just as sentimental about the vanishing production-line worker as we are about the vanished family farmer.

Sentimentality has its place, but not when it affects important public policy decisions—like a free trade agreement with Mexico and Canada that will lower tariff barriers and help the United States sell more goods.

NAFTA has become the target of frustration and anger over lost manufacturing jobs, but trade has played only a small role in the recent upheaval, just as trade played only a small role in cutting the number of farmers.

The "culprits" are technology and brainpower. Manufacturers—spurred by foreign and domestic competition, as well as by their shareholders' healthy lust for profits—have learned to make things more cheaply. Frequently, that means making things with fewer workers, since workers—especially in an age of rising benefit costs—are an expensive part of the production process.

Look at industries that the United States has tended to protect from foreign competition, and you'll see that the trend toward stagnation in manufacturing employment has little to do with trade. The work force in the steel industry, for example, fell 30 percent between 1982 and 1990, yet U.S. steel production rose 45 percent over the same period while imports stayed the same.

The main reason for this restructuring was the growth of more efficient domestic mini-mills, which employ fewer workers and use less energy and capital.

Similar changes are occurring, almost unnoticed, across the spectrum of American industry. Take an example closer to home: the gas station. The clever idea that drivers could pump their own gas allowed stations to cut back on employment in a highly competitive business. The result: Between 1982 and 1991, the number of garage and gas station workers fell by 29 percent, a loss of 86,000 jobs.

Not even Ross Perot can blame the loss of those jobs on foreigners. How many Americans go to Mexico to buy their gas?

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good advice

THE PRESIDENT HAS SEEN

Far From Fighting In Mogadishu, Hope Is Being Restored

A1

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In Town of Belet Weyne, Chaos Has Given Way to School, Well Babies and Dr. Tahlil

By GERALDINE BROOKS
Staff Reporter of THE WALL STREET JOURNAL

BELET WEYNE, Somalia – Sitting at a tidy desk in his freshly painted office, Dr. Tahlil Farah puts the final touches to a report on the network of health clinics he manages.

His report begins: "Now that the emergency is over and security improved, we need to move to preventive care. . . ."

Outside, in a makeshift market beneath a row of eucalyptus trees, a teenage cigarette seller bops to the beat of Somali pop music coming from a battered, much-repaired Walkman. A United Nations contingent of Italian soldiers in armored personnel carriers still guards the bridge in this town, about 200 miles north of Mogadishu, but there are Somali police on the streets as well. Their presence, in navy berets and well-tended uniforms, adds to the air of normalcy here.

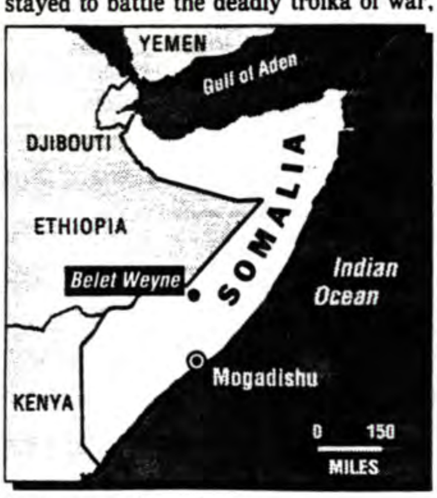
Clinton Seeks Support

President Clinton appealed for support for an increase in U.S. military force in Somalia before a withdrawal within six months, but he still faces pressure to exit earlier. Defense Secretary Les Aspin has emerged as the lightning rod for criticism over the U.S. military mission. **Articles on pages A3 and A16.**

This place, too, is Somalia: a place where primary-school children attend classes reopened by Somali volunteers, where well-baby clinics are actually full of well babies, a place where hope has been restored.

It is, to be sure, a small corner of the country, but it is perhaps no more nor less typical of the whole than that other small corner, the southern suburbs of Mogadishu, from which the U.S. has absorbed the message that all hope in Somalia is now lost in vicious killing and despair.

If anything, it is 35-year-old Dr. Tahlil who represents the character and mood of Somalia – not the grotesque youths glorying in dismembered corpses. Dr. Tahlil could have left his country as did many others with his qualifications. Instead, he stayed to battle the deadly troika of war, famine and disease.



In 1990, just two years out of medical school, Dr. Tahlil became a flight surgeon in the forces opposed to Siad Barre, Somalia's former dictator. "It was enough experience of war. Guns can't solve anything," he says.

He supports the U.N. presence, if not all U.N. soldiers' actions. "Now we are a free people. If something is wrong, we can say [to the U.N. soldiers] we can't accept it. Before, you couldn't talk to the gunmen."

He believes the U.S. Army's pursuit of

Please Turn to Page A8, Column 1

Continued From First Page

warlord Gen. Mohamed Farrah Aidid is misguided. "When you came here you saved a lot of life. Now in this fighting, people are dying that you saved before," says Dr. Tahlil. "It's better to seek a political solution so that you can collect the fruits that you already planted."

While the U.N. says it is de-emphasizing the manhunt for Gen. Aidid, there is little evidence of that in the southern suburbs of Mogadishu.

This week, 14 U.S. soldiers were killed in the bloodiest fighting since U.S. forces arrived in December. In response, President Clinton yesterday ordered reinforcements sent to Somalia. The U.S. forces would be withdrawn in six months, he said.

From the air over the northern suburbs – where rocket-propelled grenades are rare – Mogadishu looks like a well-laid-out town of neat red-roofed bungalows. But as the plane heads toward the south and banks and lowers in evasive landing maneuvers, the terrible, gnawed truth of the place is disclosed.

Here, everything salable has been stripped and sold. Looters have chipped away tiles, pulled out copper wire – and chopped down urban shade trees to make charcoal. At night, the constant clatter of helicopters and bursts of gunfire make sleep difficult.

Gloomy Mood

In the U.N. compound, rubble from mortar rounds that have hit their marks mingles with dusty, new building material as the U.N. struggles to move its huge population out of matchstick-frail prefabricated dwellings to those under concrete roofs.

The mood inside is gloomy as nonessential personnel depart for Nairobi, Kenya. Those left behind resign themselves to a bunker-like existence in a security situation that makes it extremely difficult to meet any of the Somalis they are ostensibly trying to help.

Adm. Jonathan Howe, the once-ebullient representative of the U.N. secretary-general has become paler and subdued. "It's been a terrible week," says Andrew Maner, the retired U.S. admiral's assistant. "The last three mornings have been spent at funerals."

On Wednesday night, nerves in the compound were so frayed that rumors of an infiltrator sparked a firefight between the Americans and the various other national armies camped in the compound. Nervous U.S. soldiers burst into the rooms of African U.N. personnel, shoving guns in the faces of senior staffers they thought might be the intruder.

Although the U.N. officially states that the emphasis has shifted from the search for Gen. Aidid, a section of the southern suburbs was thrown into turmoil yesterday by an apparent exercise of U.S. psychological warfare.

Causing Confusion

Residents say they found leaflets printed on one side with a warning that anyone who didn't vacate a large area of southern Mogadishu would be deemed a militia member and an enemy of the U.N. command. The leaflets caused confusion in a population – about one million of Somalia's 7.1 million people live in the capital – where less than half is literate and few can read a Western-style map.

Aid workers say women and children could be seen leaving the area heading out of the city to destinations where food and shelter would be uncertain.

It is for the few remaining foreign-aid workers that the balance between where they have succeeded and failed in Somalia is hardest to draw.

Late at night, after the electric generator has shuddered into silence, aid workers sit in the dark of their U.N.-guarded compound here and argue over the meaning of the word "success."

The accents are different: German, Scottish and French. And, so are the opinions. "If I dig a well and three people are using it, that is a success," says Klaus Peters from the German charity Caritas. But a water engineer has a different definition: "Success will be when one subclan will agree with another about where to put the well and whose camels can drink from it. There's no success in Somalia."

But for Somalis like Dr. Tahlil the calculus is far less difficult. He looks up from examining a five-year-old boy, stunted from the famine he survived. "He is small a little, but he will be OK," the doctor says.

"The child will survive because the Americans came, and only if they do not leave."

THE WALL STREET JOURNAL FRIDAY, OCTOBER 8, 1993

THE PRESIDENT HAS SEEN 10/12

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1. Need more [illegible]

[illegible]

2. [illegible]

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J

THE PRESIDENT HAS SEEN

Clinton Abroad Resembles Bush At Home

Amid testimony about Bosnia by Assistant Secretary of State Stephen Oxman this week, a Senate aide slipped his boss a note: "Do you get the feeling you're throwing pitches at a plate with no batter?"

Similar questions are being asked all around Washington, in a week that reminded Bill Clinton that there's more to the presidency than Medicare. On the same day that Mr. Clinton was giving every answer on health care in California, Mr. Oxman was giving his non-answers on Bosnia, and Secretary of Defense Les Aspin was showing he had absolutely no answer on Somalia. Speaking to 200 edgy members of Congress, Mr. Aspin asked for ideas, which is like asking the Pamplona bulls for tourist directions.

"An unmitigated disaster," says Richard Lugar, the usually mild-mannered Indiana Republican, describing that Aspin session. "They had no plan, so they had no advocacy."

In fact, he and Secretary of State Warren Christopher had no clue. "There is a sense of almost incompetence," Mr. Lugar says. "It's pretty clear that this crew is just not up to the job. They ignore problems and kind of hope they will go away."

Mr. Lugar isn't just another bull in the cut-and-run stampede. He wants America to be engaged in the world. He's a Republican who would be happy to support a Clinton Somalia policy, if he could find one. His worry now, shared privately by Congress's cooler heads, goes beyond the Somalia fiasco to a general incompetence that could ignite the very isolationism that our president claims to want to resist.

Such worry is justified, because the causes of Desert Two (Desert One was Jimmy Carter's Iranian failure) spring from the character of this presidency. Mr. Clinton has a George Bush problem, only in reverse. If Mr. Bush was bored by domestic issues, Mr. Clinton's interest flags at the water's edge. He may pay less attention to foreign policy than any president since Coolidge.

Potomac Watch

By Paul A. Gigot

While Mr. Clinton personally chose even sub-cabinet officials on the domestic side, at State and Defense he delegated the job. So Messrs. Christopher and Aspin, two men Mr. Clinton had only just gotten to know, picked their own friends for the key posts.

Somalia, I am reliably told, was barely on Mr. Clinton's calendar. Anthony Lake, his national security adviser, still has to fight to get Mr. Clinton to pay attention to foreign matters that aren't yet crises. His advisers even had to coax him into attending the G-7 Tokyo summit, which no president has ever missed.

President Clinton

This instinct is only reinforced by the fact that this White House is even more poll-driven than George Bush's. Pollster Stan Greenberg has the run of the West Wing for a reason. His polling on Mexican trade, which showed voters cared more about health care, is the real reason Mr. Clinton stayed out of the Nafta fray for so many weeks.

But such results measure opinion *before* any public education or debate. So while Mr. Clinton dodges hard foreign issues because of the polls, he gives himself little chance to influence the polls. Much as Mr. Bush ceded the domestic debate to his adversaries, Mr. Clinton has done the same on Somalia to the likes of Sen. Robert Byrd.

The other root cause of the Somalia failure is Mr. Clinton's woolly-mindedness about the United Nations. Indeed, we now know Sunday's deadly firefight might never have happened if Mr. Clinton hadn't put U.S. forces in the service of the U.N. The U.N.'s American liaison on Somalia, former Admiral Jonathan Howe, quietly won a fight inside the Clinton administration this summer to dispatch elite Army Rangers to pursue warlord Aidid. He had to overcome then-Gen. Colin Powell to do it.

Yet those Rangers were cut up last weekend because they had no armor backup; would an American have committed troops in such a situation? As Lewis Libby, a defense planner under George Bush, says, "International bureaucrats will tend to spend blood the way other bureaucrats spend money—much too freely."

Mr. Lake, the Clinton security adviser, said recently that U.S. military support for U.N. humanitarian "peacekeeping" around the world can "nurture the American public's support for our engagement abroad." Somalia shows otherwise. Interventions that are mishandled, especially when no national interest is at stake, only make it more difficult for a president to rally support when such interests are on the line.

Yesterday Mr. Clinton tried to regain control of his Somalia policy, but it's clear he is now in Congress's hands. He will win a vote in Congress next week, if only because Congress never likes to take responsibility. But his Somalia policy, and indeed his policy on "peacekeeping" in general, will only go as far as the senior members of the Senate allow.

Mr. Clinton's foreign disengagement has damaged his own credibility, not just at home but abroad. The Europeans, for example, will now understand that Mr. Clinton will never be able to deliver one of the promised 25,000 American troops to enforce a "peace" in Bosnia. On the other hand, judging from events in Somalia, this may be the one silver lining to come from Mr. Clinton's first hard education in global politics.

THE WALL STREET JOURNAL FRIDAY, OCTOBER 8, 1993

THE PRESIDENT HAS SEEN 10/12

Gergen / CG

This BS & beyond
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Can we do anything
about it? — Need a
strategy to Rebut this crap once
allegations at Bcey — Soon, Hait

Lets

B.

THE PRESIDENT HAS SEEN 10/2

THE WHITE HOUSE

WASHINGTON

93 OCT 2 P12:17

Did leave call
didn't hear
night —

October 2, 1993

RECOMMENDED TELEPHONE CALL

TO: Senator Daniel Patrick Moynihan

DATE: Saturday, October 2, or Sunday, October 3

RECOMMENDED BY: Paul R. Carey PC

PURPOSE: To give the Senator advance notification that the "B" Factory will be awarded to Stanford rather than Cornell and that you will be announcing the decision on Monday in California. He has already been informed of this by his staff, but I feel a call from you will help to ease the blow considerably.

BACKGROUND: The "B" Factory is a high energy physics project that will be funded by the Department of Energy. Both Stanford and Cornell had proposals and Stanford was selected as the best site. This decision was made by the Secretary of Energy with the concurrence of Dr. Gibbons and OMB.

Senator Moynihan feels that the decision was based on politics rather than science, particularly in light of the fact that Cornell's proposal was more than $100 million less than Stanford's. DOE and Dr. Gibbons have both briefed Senator Moynihan's staff and emphasized that cost was only one factor in the decision. Dr. Gibbons, who is a physicist, feels that Stanford is a better choice based on a combination of scientific and technical factors.

TOPICS OF DISCUSSION:

1. That you are aware of the Senator's interest in this decision and wanted to call personally before making the announcement.

2. That you recognize that upstate New York lost two Military Bases.

3. That you understand that it is important to Senator Moynihan that Rome Labs remain open, now that Rome Air Force Base is being closed and that someone on your staff is looking into it.

CONTACT PERSON AND
TELEPHONE NUMBER(S): White House Operator

DATE OF SUBMISSION: October 2, 1993

ACTION: ____________________

GS- Can we do better, B.

THE PRESIDENT HAS SEEN 10/1?

Secrets and More Secrets

By Steven Aftergood and Tom Blanton

WASHINGTON

Historians and journalists cheered last April when President Clinton ordered a sweeping review of the cold war rules for Government secrecy. Headlines predicted the imminent release of millions of classified documents, some dating back to World War I. But in crucial respects, the first draft of that review, which leaked out in Washington this week, does not even meet the formal standards of openness set by President Richard M. Nixon at the height of the cold war.

The draft proposal — the work of a task force of career secrecy bureaucrats — is full of rhetorical lip service to the idea of openness. For example, it claims credit for setting a "maximum life span" for classified information — what the archival world calls a drop-dead date. But the proposed implementing language sets that date at 40 years — with exceptions for even longer withholding.

By contrast, in his 1972 executive order President Nixon set a drop-dead date at 30 years, and in 1978 President Jimmy Carter chose 20 years. And this summer former Secretary of State Lawrence Eagleburger told a group of historians that most secret documents could be released within 10 years without damaging the national security.

What happened to Clinton's promise of openness?

Presidents Nixon and Carter also formulated better "sunset" standards — setting a date at the time of classification for the automatic release of the document. The draft proposal says new top-secret documents would have sunsets of 15 years (unless they were granted extensions for additional decades).

The draft proposal would make some valuable improvements. It would eliminate the presumption that any national security information is classified; establish a Government-wide database of declassified documents; and penalize abuse of classification, whether negligent or willful.

But the contradictions overwhelm the reforms. The draft order would allow — but it would not require — Government officials to consider the public's need to know when they decide whether to classify documents. And the order would perpetuate an unrealistic aspect of the old system: all agencies would be required to conduct systematic review of classified documents older than 25 years — something that has never worked in the past and will not work today.

It is impractical, perhaps even impossible, to review all of the countless documents that are over 25 years old. Without real change, taxpayers will wind up spending millions of dollars for page-by-page reviews and still suffer an enormous bottleneck of dusty secrets. And without real change in this draft proposal, secrecy reform will never fulfill even this draft report's promise: to balance "the need to protect critically sensitive information with the public's need to know." □

Steven Aftergood heads the secrecy and government project of the Federation of American Scientists. Tom Blanton is executive director of the National Security Archive, a non-governmental research institute.

23

[redacted]

THE PRESIDENT HAS SEEN 10/2

THE NEW YORK TIMES, THURSDAY, SEPTEMBER 30, 1993

Tony - This is what I thought we had made clear Good argument

Somalia: Learn from Cambodia

Finally, the Clinton Administration has gotten the message: Reports of U.S. and civilian casualties are threatening to sink public support for U.N. peacekeeping in Somalia — and in general. Humanitarian relief has degenerated into a turf war against one holdout warlord, Mohammed Farah Aidid.

Now Washington is demanding that U.S. forces no longer be used on patrol missions in the Aidid stronghold of south Mogadishu, and is seeking a redirection of the mission toward diplomatic and political reconstruction of a Somali government.

With those goals in mind, useful lessons can be drawn from the just-completed operation in Cambodia, where, against long odds, the U.N. achieved its main goals on schedule and is now withdrawing.

The two biggest challenges for Yasushi Akashi, who headed that U.N. mission, came from the Khmer Rouge, which abruptly withdrew from the peace agreement, and hard-line elements of the Vietnamese-installed Cambodian Government, which intimidated and murdered political opponents virtually under the eyes of U.N. peacekeepers.

Mr. Akashi understood the difference between peacekeeping and partisan engagement. The U.N. did not try to disarm the Khmer Rouge forcibly. And it relied mainly on diplomatic pressure to curb human rights abuses.

Like the Khmer Rouge, General Aidid reneged on his commitments to cooperate with the U.N. And since June he has orchestrated attacks on peacekeepers within his south Mogadishu stronghold. But there's one critical difference between Cambodia and Somalia. Successive U.N. Security Council resolutions this year have called explicitly for disarming warlords in Somalia and prosecuting people responsible for attacks on peacekeepers — good ideas in principle, but a prescription for military confrontation in the country's present confusion.

That overambitious mandate has effectively denied Adm. Jonathan Howe, who heads the U.N. Somalia mission, the kind of diplomatic flexibility that proved so crucial to Mr. Akashi's success.

A restless Congress has set a Nov. 15 deadline for deciding the future of U.S. military participation in Somalia. That may be enough time to shift toward the more successful Cambodian model, perhaps by relocating U.N. units outside south Mogadishu. As Mr. Akashi has demonstrated, knowing how to evade destructive confrontations may be the surest path to peacemaking success.

[redacted]

THE PRESIDENT HAS SEEN
10/12

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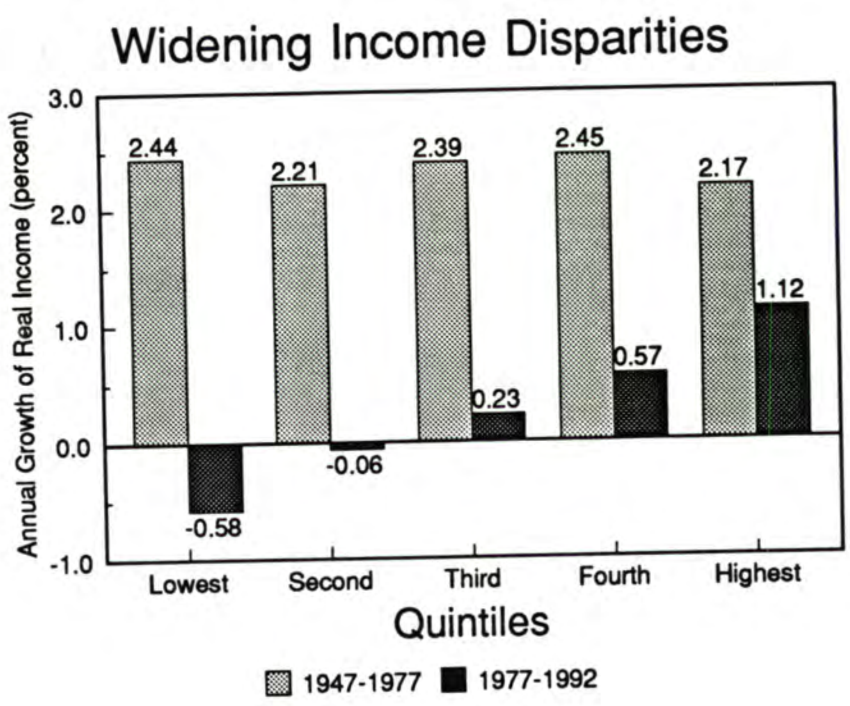
Rubin → see 3 pgs marked
etc
show Bush Greenspan to GS | Gergen - may want to let this out | →

WEEKLY ECONOMIC BRIEFING OF THE PRESIDENT OF THE UNITED STATES

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

October 8, 1993

CHART OF THE WEEK



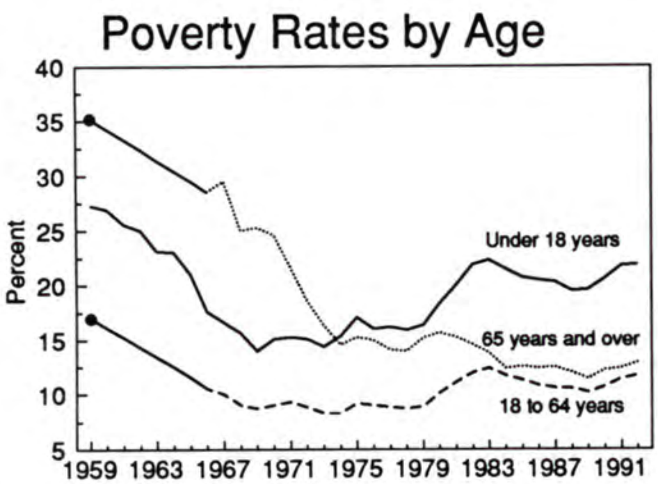
For about three decades, real incomes of rich and poor American families grew at roughly equal rates (the light-shaded bars). In the last 15 years, however, this pattern changed dramatically (dark-shaded bars). Real incomes of middle-income families have stagnated while low-income families have experienced real income declines.

CURRENT DEVELOPMENT

Poverty Rate Increases to 14.5 Percent

During 1992, 14.5 percent of Americans lived in poverty, up from 14.2 percent in 1991. Real median household income fell 0.8 percent. The chart shows how the poverty rate for children has increased substantially since the early 1970s, while the rate for the elderly has fallen since the 1960s. The poverty rate for female-headed families was 34.9 percent in 1992; the rate for black female-headed families was 49.8 percent.

Analysis. The poverty rate both moves with the business cycle and has long-term trends.



- During recessions poverty increases. The chart shows small upticks in poverty at or following troughs of the recessions in 1970, 1975, 1982, and 1991. The poverty rate should fall somewhat during the current recovery, but not by enough to reverse the upward shift since the late 1970s.

- The decline in wages of the lowest paid workers over the last decade is the largest factor contributing to increased poverty and decreased income of the poor (see "Chart of the Week"). Increased supply and decreased demand for low-skilled workers are the main reasons for the decline of wages of low-income workers.

- The decreased poverty rate for the elderly is accounted for by improving Social Security and Medicare benefits. The increased poverty rate of children arises from both the declining wages of parents and the increase in households headed by single individuals.

When figure this year's [illegible] we will look [illegible] tax to wages [illegible] EITC lowering poverty.

THE PRESIDENT HAS SEEN 10/12

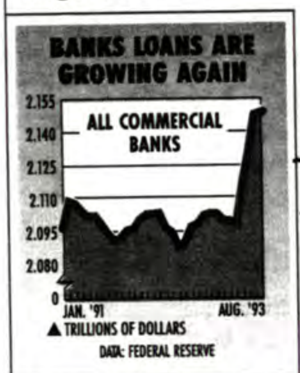
OCTOBER 11, 1993

BY JAMES C. COOPER AND KATHLEEN MADIGAN

Rubin - (Long Term is right - B

THAT OOMPH YOU HEAR IS INTEREST RATES KICKING IN

It's hard to be optimistic about an economy that has disappointed so many for so long. Even two years into the recovery, growth in the first half of 1993 slipped back into the doldrums, and layoff announcements are unrelenting. But if there's any reason to be upbeat about the next few quarters, it has to be the recent signs that lower interest rates are finally working their magic across a broad swath of the U. S. economy.



It shouldn't be too surprising that much of the good news of late is coming from the economy's interest-sensitive sectors, including homebuilding, autos, and durable-goods manufacturing. The rate declines in recent weeks will continue to lift demand well into next year and will allow further reparation of the balance sheets of businesses, consumers, and even the federal government (page 30).

The big downshift in long-term rates is the key. Despite the Federal Reserve's massive cut in short-term rates over the past four years, from 10% to 3%, stubbornly high long rates largely thwarted the stimulative power of the Fed's actions because most borrowing is long-term. Now, a lot of that liquidity is finally working its way into the economy.

The powerful bond-market rally that took the rate on 30-year Treasury issues below 6% still seems to be going strong. After backing up a bit, to above 6% in mid-September, the rate fell through that mark once again on Sept. 27 on news that the Fed had voted on Aug. 17 to rescind its policy bias toward tightening. The new neutral bias implies that the Fed no longer is worried about an imminent flare-up in inflation.

CASH IS FLOWING FREER THESE DAYS The best sign that lower long rates are finally having an impact: Bank lending is picking up. After two years of no growth, loans at commercial banks have jumped by $50 billion since April (chart). Personal borrowing and real estate loans account for much of that rise.

Business borrowing remains down, but many companies are tapping the equity market for funds as they continue to swap debt for equity. Corporations raised $8 billion through new stock issues in the second quarter, up from $6.7 billion in the first quarter, which was up substantially from the quarter before that.

Lower rates also are lifting corporate cash flow and profits. Through the second quarter, corporate interest costs already were down by $16 billion over the past three years, and the decline will continue in the second half. Two years ago, interest soaked up nearly 32% of corporate cash flow. That's now down to under 24%—the lowest in seven years.

Moreover, the Commerce Dept. said second-quarter profits were stronger than originally reported. Commerce revised the quarter's growth in real gross domestic product up slightly, to 1.9% from 1.8%, and it also said the quarterly gain in corporate operating profits was more than twice as large as first reported, up 6% instead of 2.6%. Operating earnings were up 11.3% from a year ago.

AUTO DEALERS NEED INVENTORY Lower debt, new equity capital, and better cash flow are the reasons why Corporate America has been able to increase its investment in new equipment at such a rapid pace—fast enough to account for one-third of the economy's growth during the past year. And that thrust seems likely to continue right into 1994.

New orders for capital goods, excluding military hardware, jumped 6.3% in August, to $32 billion. Such bookings have been volatile in recent months because of large swings in new orders for aircraft, but the three-month average remains in a solid uptrend (chart).

Capital goods have been a mainstay of manufacturing output in recent months, even as demand elsewhere provided little support. But because of lower rates, that may be changing. Overall orders for durable goods rose a healthy 2% in August. Again, aircraft have muddied the trend, but excluding the transportation sector, bookings for durable goods through August are well above their level in the second quarter.

The growing suggestion of an autumn pickup in manufacturing is echoed in a new index. The Business Outlook Index, compiled by the American Production & Inventory Control Society and Evans Economics Inc., says conditions in the factory sector improved in September after deteriorating in July and August.

The APICS survey, which reports actual inventory levels, concluded that September stockpiles had fallen below the desired level. That suggests production increases in the

ERIC HOFFMANN/BW

Mack | Alexis | Joan B

Example of what I've been saying — a lot of these who ~~elect~~ campaign haven't been asked here — Should I invite such groups, [illegible] 9/17/93

B

THE PRESIDENT HAS SEEN 10/2

Mr President —

Bishop Talbot of the AME church has expressed concern to me that ~~the~~ the Bishops who were active in the campaign have not been invited to the White House.

cover)

They remember the meeting in Little Rock before the election.

Can you help?

A meeting would be warmly received.

Jim Guy

[redacted]

THE PRESIDENT HAS SEEN 10/12 Howard Reply cc Sched

not bad next
time in Conn

State of Connecticut
HOUSE OF REPRESENTATIVES
STATE CAPITOL
HARTFORD, CONN. 06106-1591
REPRESENTATIVE EDWIN E. GARCIA
FOURTH DISTRICT

66 VAN BLOCK AVENUE 9F
HARTFORD, CONNECTICUT 06106

The Honorable William Jefferson Clinton
President
United States of America
White House
1600 Pennsylvania Ave.
Washington, D.C.

[redacted]

[redacted]

THE PRESIDENT HAS SEEN
10/12

State of Connecticut
HOUSE OF REPRESENTATIVES
STATE CAPITOL
HARTFORD, CONN. 06106-1591

REPRESENTATIVE EDWIN E. GARCIA
FOURTH DISTRICT

66 VAN BLOCK AVENUE 9F
HARTFORD, CONNECTICUT 06106
TELEPHONE
HOME: (203) 525-2883
CAPITOL: 240-8585
TOLL FREE: 1-800-842-8267

MEMBER
PUBLIC HEALTH COMMITTEE
FINANCE, REVENUE AND BONDING COMMITTEE
SELECT COMMITTEE ON CHILDREN
SUB-COMMITTEE ON BONDING

October 9, 1993

The Honorable William Jefferson Clinton
President
United States of America
White House
1600 Pennsylvania Avenue
Washington, D.C.

Dear Mr. President:

On behalf of my constituents in the Fourth General Assembly District, I hereby extend an invitation for Mrs. Clinton and you to tour two important community projects.

Your continued efforts in health care reform and community empowerment are at the heart of these projects. The first is the site of the proposed South Green Community Health Clinic, Inc. which is modeled along the lines of primary and preventive care as stressed by Hillary. Second is a tour of the Latino-American small business area located on Park Street where I previously hosted you during the Connecticut Primary.

In conclusion, I hope that you accept our invitation to visit the first and only political subdivision of the City of Hartford which endorsed your candidacy and worked toward an upset victory. We are still awaiting your invitation to the White House which you extended to our members during your visit to the El Mercado Rally.

Sincerely,

Edwin E. Garcia

Edwin E. Garcia
State Representative

THE PRESIDENT HAS SEEN 10/12

GS
— What does this mean
— Does she want another interview —
— Issue do a nice reply

October 11, 1993

Dear Mr. President

In the Hebrew language, each letter of the alphabet has a numerical value. The two letters, CHES and YUD, which add up to 18, also add up to the word CHAI— which means LIFE.

May your 18th wedding anniversary today signify for you a long, a healthful and a happy life together.

And may God bless you and the First Lady with many, many more joyous and successful days and years.

Respectfully

Trude

Trude B. Feldman

P.S. Enclosed are two versions of last October 11th article, based on your September 1992 interview, and an update after your election, including your responses on California issues.

I respectfully hope that you will NOW take the time to read and digest your positive replies. With the past year of experience, I also trust you will NOW comprehend WHY these questions were a major issue, and uppermost on my mind one year ago. They were then designed to PREVENT AND DETER your current problems-- which are festering.

Your mother--in last Sunday's paper--said, of her condition: "I joked with my doctor that I would be here until they found a cure for this....It is such a prevalent disease."

So I told my doctors (who urged me to write this long ago) that I would be here until YOU, Doctor Clinton, find a cure for the "disease" that I mention herein and about which I wrote in 1985 and 1987--enclosed.

Your speech on Friday at the DNC was excellent--and touched, ironically, on this vital distraction to your goals—begging the question, "What about a CHANGE in 'mentality' ?

Because you often mention the Brady Bill, you may want to read my eye-witness account when Jim Brady was wounded, and his and President Reagan's reactions--ten years later.

Feldman
2020 F Street N.W.
Washington DC 20006

Phones: 202 638-3048
659 9841

SPJ

SOCIETY OF
PROFESSIONAL
JOURNALISTS

FOUNDED
IN 1909
AS SIGMA DELTA CHI

Copy Mark
DeeDee
George

93 OCT 9 AM 11:44

October 5, 1993

Mr. John Podesta
Assistant to the President and Staff Secretary
The White House
Ground Floor, West Wing
Washington, D.C. 20500

Dear John:

Yesterday was clearly the best day I've had since becoming national FOI chairwoman for the Society of Professional Journalists a year ago. For the first time in more than a decade, a president clearly understands that government information belongs to the people. I hope you were able to celebrate also.

Those of us close to FOIA issues understand and appreciate the effort you made conveying our thoughts and ideas to the administration. Thank you.

Enclosed are copies of letters to the president and attorney general, along with a press release issued yesterday afternoon. I look forward to meeting with you again soon on one of my periodic trips to Washington.

Best regards,

Lucy

Lucy Dalglish
Chairwoman
Freedom of Information Committee

P. O. Box 77
Greencastle,
Indiana 46135-0077
317-653-3333
Fax: 317-653-4631

Direct address: First Amendment Center, 1222 16th Ave. S., Nashville, TN 37212. Phone: (615) 321-9588.

SPJ®
SOCIETY OF PROFESSIONAL JOURNALISTS

October 5, 1993

Mr. William J. Clinton
President of the United States
The White House
1600 Pennsylvania Avenue
Washington, D.C. 20500

FOUNDED IN 1909 AS SIGMA DELTA CHI

Dear Mr. President:

On behalf of the Society of Professional Journalists, thank you for making it clear to your agency and department heads that you value open government. Your memorandum issued yesterday regarding the Freedom of Information Act made it clear that government operates on behalf of its customers -- the people.

The Society, the nation's oldest and largest journalism organization, has long crusaded for access to government information. As you know, the previous two administrations were not friends of FOIA. Thus, the American people frequently did not have the information they needed to be participants in our democracy. Let us hope your action signifies a new era in citizen participation in our government.

We realize complying with FOIA often is a burden on government agencies. Society members are pleased to provide assistance to all agencies and departments as they implement your order.

Best regards,

Lucy Dalglish

Lucy Dalglish
Chairwoman
Freedom of Information Committee

P. O. Box 77
Greencastle,
Indiana 46135-0077
317-653-3333
Fax: 317-653-4631

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October 5, 1993

Ms. Janet Reno
Attorney General of the United States
Department of Justice
Constitution Avenue and 10th Street Northwest
Washington, D.C. 20530

Dear Ms. Reno:

On behalf of the Society of Professional Journalists, thank you for your memorandum issued yesterday directing all agency and department heads to adopt new standards for openness in government. Your directive makes it clear the Clinton Administration is committed to the principles espoused in the Freedom of Information Act.

The Society, the nation's oldest and largest journalism organization, has long crusaded for access to government information, a necessity for an informed electorate. The previous two administrations were not friends of FOIA. Thus, the American people frequently did not have the information they needed to participate in our democracy.

As your memorandum acknowledges, compliance with FOIA often is not easy. For this reason, Society members are pleased to provide assistance to all agencies and departments as they implement the president's order.

Best regards,

Lucy Dalglish

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--PRESS RELEASE--

October 4, 1993
For more information contact:
Lucy Dalglish, Chairwoman
National FOI Committee
(615) 321-9588 or (615) 662-9057

GREENCASTLE, Ind. --- The Society of Professional Journalists praised actions taken today by President Bill Clinton and Attorney General Janet Reno to increase the amount of government information that is made available to the public.

"We are thrilled that President Clinton is continuing his plans to revitalize American democracy by requiring the federal government to provide information to the public so that free and informed debate can occur," said SPJ President Georgiana Vines. Vines is assistant managing editor of the News-Sentinel in Knoxville, Tenn.

Clinton and Reno rescinded a 1981 ruled that encouraged federal agencies to withhold information whenever there was a "substantial legal basis" for doing so. In its place, Reno said in a memo to federal agencies that a "presumption of disclosure" should be applied.

In January, a coalition of journalism groups, including SPJ, published a position paper, "Maintaining an Informed Democracy," that asked the president and attorney general to call for just such a presumption. In addition, a group of Society leaders visited White House officials in February and asked that the president write a simple memo to his agency and department heads putting them on notice that the Freedom of Information Act was important and that he expected them to comply with it.

"After more than a decade of having administrations that went out of their way to thwart FOIA, the Clinton Administration's actions today are refreshing and very welcome," said Lucy Dalglish, national FOI chairwoman for SPJ. "The Society is eager to provide assistance to all agencies and departments as they try to comply with the administration's orders."

The Society is the nation's oldest and largest journalism organization. Its members include professional and student journalists and journalism educators from across the country. For a copy of the position paper, "Maintaining an Informed Democracy," call Lucy Dalglish at (615) 321-9588.

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THE PRESIDENT HAS SEEN 10/11

Report clears FBI in cult raid

By Robert Davis
USA TODAY

A new report says the FBI used "great professionalism" in handling a deadly siege on Texas cult members last spring. But critics Sunday called for a tougher, more independent review.

The 600-page Justice Department report out Friday blames cult leader David Koresh for his death and the deaths of at least 85 followers April 19.

But Koresh's lawyer, Dick DeGuerin, says having former Justice official Edward S.G. Dennis Jr. compile the report is like "the fox guarding the hen house."

Says Dennis: "All in all I felt the report was as balanced and as objective as I could make it. It doesn't attempt to be exhaustive regarding every individual detail of the standoff or the tear gas assault."

A foiled Bureau of Alcohol, Tobacco and Firearms raid Feb. 28 sparked a 51-day standoff with the cult.

A blistering Treasury Department report last month said ATF officials covered up their mistakes and lied to the public about what happened.

The siege ended when FBI agents — who took over on the first day — rammed the compound with tanks spewing tear gas, and Branch Davidians started fires in the compound.

The Justice Department report recommends changes in law enforcement procedures, including expanding the FBI's role in similar incidents.

But critics complain the report stops short of answering nagging questions like:

▶ Why wasn't military firefighting equipment, which can withstand gunfire, standing by?

"They knew of plans to burn the building," says Jack Zimmermann, lawyer for Steve Schneider, a Koresh aide who also died. Autopsies show some cult members died in the fire, but the report says "it is unlikely that the lack of more accessible firefighting equipment impacted the outcome."

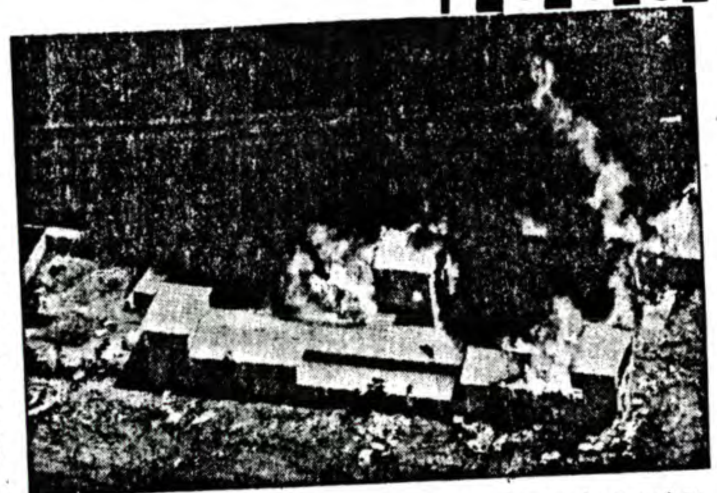
▶ Why did agents use tanks to knock walls and other remains into the fire? "It looked like they were burning the evidence," says Zimmermann.

While Friday's report doesn't cite wrongdoing by any FBI or Justice official, it does criticize poor communication in the FBI command center.

One example: deciding to blast the compound with loud noise over the objections of negotiators who were trying to gain the trust of cult members.

"Some negotiators believe that as a result of these actions, the Davidians concluded that the negotiators had no influence over the decision-makers, and that the FBI was not trustworthy," the report says.

DeGuerin says: "I think this was a terrible mistake made by men with good intentions."



BURNING COMPOUND: Critics seek an independent review, saying the official report doesn't answer nagging questions.

THE PRESIDENT HAS SEEN 10/11

Noted

See me on this

BS

UNITED STATES DEPARTMENT OF LABOR
OFFICE OF THE SECRETARY

10/11

THE PRESIDENT HAS SEEN

September 24, 1993

OCT 5 P1:26

To: The President

From: Secretary of Labor Robert B. Reich

I thought you should see this.

Rubin / Steel / Sperling

Economic Policy Institute

Briefing Paper

1730 Rhode Island Ave., NW • #200 • Washington, DC 20036 • 202/775-8810

STILL NEGLECTING PUBLIC INVESTMENT

THE FY94 BUDGET OUTLOOK

by Todd Schafer

Introduction

There is broad agreement that the relative low level of public investment has had a major impact on U.S. productivity and competitiveness. President Clinton made raising the level of federal domestic investment a central theme of his campaign, even to the point of insisting that our investment deficit is as important as our fiscal deficit. In his first budget, however, investment has been sacrificed for the goal of deficit reduction. As a result, the share of the economy devoted to federal investment programs will be lower in FY94 than in FY93.

This decrease follows four consecutive annual increases; since FY89, the share of the gross domestic product (GDP) earmarked for federal investment has grown by about 18 percent. By contrast, the investment share of GDP in FY94 will decline from that of FY93 by roughly 2-3 percent. The pattern of investment stagnation is roughly similar when investment is measured in real dollar terms or as a share of total federal outlays.

This decline will be concentrated in the human capital area, with the share of GDP devoted to education and training programs falling by about 6 percent. In addition, the share of the economy channeled into civilian research and development (R&D) will decline roughly 3 percent, and that spent on physical capital will be more or less unchanged.

The stagnant/falling level of domestic investment spending in FY94 has three primary causes: the modest amount of new investment proposed in the original

Clinton budget, the failure of the stimulus package and the investment outlays it contained, and investment cuts now being made during the appropriations process as Congress brings spending levels into line with the requirements of the Budget Enforcement Act (BEA) of 1990.

This paper tracks the fate of public investment as the administration shifted its focus toward deficit reduction during the debate over its first (FY94) budget.

Defining Investment

Investment outlays, defined by the Office of Management and Budget (OMB) as "those that yield long-term benefits," include expenditures for physical capital, research and development, and education and training. They may be financed by grants to state and local governments or direct expenditures at the federal level. Since the passage of the Federal Capital Investment Program Information Act of 1984, these expenditures have been tracked in a special presentation section included in each annual budget.

As in past EPI budget analyses, we have modified the OMB investment categories slightly by excluding investment expenditures for military purposes and those identified by OMB as "generally unrelated to improving government operations or enhancing economic activity."[1] Therefore, unless otherwise noted, the definition utilized throughout this paper includes non-defense expenditures for physical capital, education and training, and research and development *only*.

Also, as in past analyses,[2] we consider an alternative definition of investment that includes selected children's programs -- including immunizations, Head Start, and child nutrition programs -- that are known to provide long-term benefits. As many of these programs have enjoyed relatively favorable treatment in the budget process, their inclusion in the definition of investment renders a slightly less pessimistic result. However, by no measure does the application of this broader

[1] These include outlays related to agricultural and petroleum commodity inventories and miscellaneous physical investments for conservation programs and assets acquired and sold as collateral on defaulted loans.

[2] See Faux and Schafer, 1991, for an earlier examination of projected investment trends under George Bush.

definition alter the overall conclusion of stagnant/declining investment in FY94. Nevertheless, wherever the application of this broader definition offers a different FY94 outlook, it will be so noted. Appendix tables A and B present public investment trends over FY93-94 using both definitions.

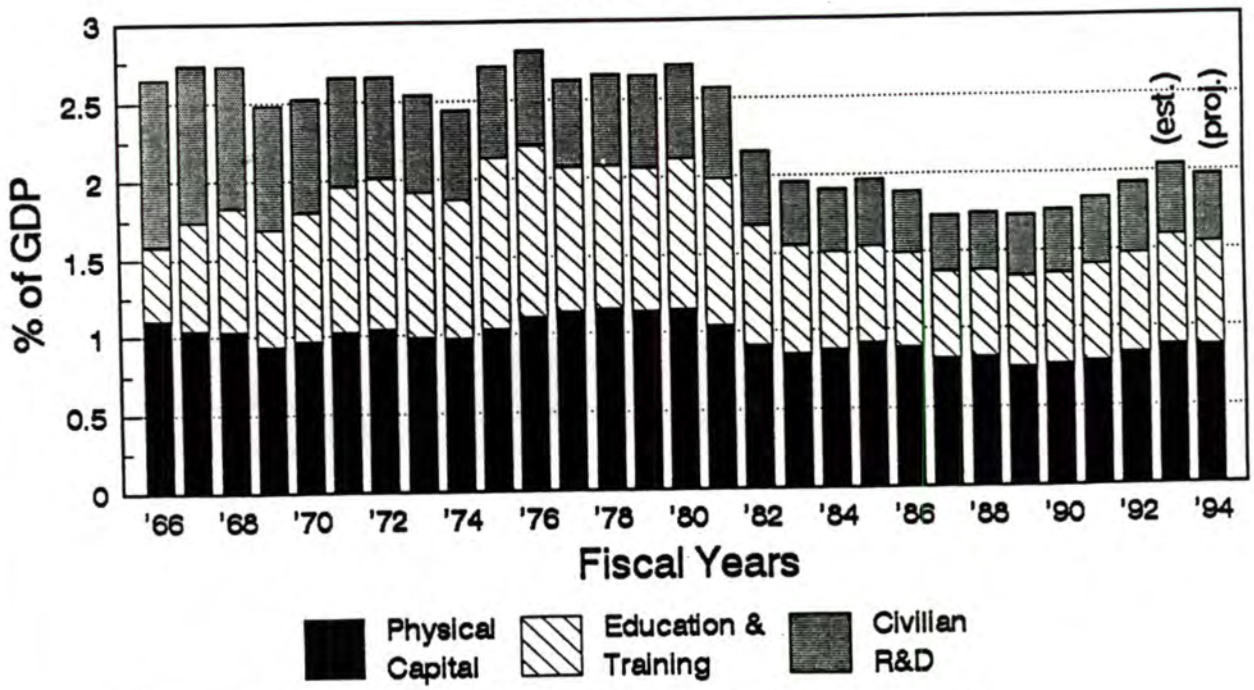
Historical Context: 1966-89

As a share of GDP, federal investment outlays have varied markedly over the last 30 years -- from a high of over 2.8 percent in FY76 to a low of 1.7 percent in the late 1980s. While this variation features several peaks and valleys, a definite downward shift occurred in the 1980s. The same trend holds true for investment as a share of federal expenditures, indicating a shift in budget priorities *away* from investment. In fact, the FY82 break from earlier investment trends was so dramatic that, by either measure, the worst year prior to FY82 is better than the best year since (see Figure I).

Figure I

FEDERAL INVESTMENT SPENDING

1966 - 1994



Source: Author's calculations using OMB and House Appropriations Committee data.

As shown in Table 1, the late 1960s and early 1970s was a period of strong public investment -- roughly 2.6 percent of GDP annually and about 13 percent of each year's federal budget. Spending focused on the federal highway system, space R&D, and the launch of various education and training programs. The second half of the 1970s built on this foundation but replaced some highway outlays with funding for sewage treatment plants and shifted the focus of R&D expenditures away from NASA and toward energy, transportation, and health. Combining increases in education and training expenditures, investment outlays grew to about 2.7 percent of GDP annually in the late 1970s.

Table 1
Federal Investment Outlays, 1966-89

	As % of GDP	As % of Total Federal Outlays
1966-1974	2.6%	13.2%
1975-1981	2.7%	12.3%
1982-1989	1.9%	8.1%

Source: Author's calculations using OMB data, 1993.

Beginning with the FY82 budget (Ronald Reagan's first), however, a major downward shift began in public investment. With cuts occurring in every category (and especially in education and training), the share of GDP devoted to investment fell to 1.7 percent by the end of the decade. This decline occurred at a time of growing federal expenditures for defense and entitlements, resulting in a major shift in the budget's priorities. By the late 1980s, less than 8 percent of the budget was earmarked for investment.

This shift away from investment caused the U.S. to fall increasingly behind its international competitors. For example, in the 1960s, the U.S. public sector (federal, state, and local) invested 2.9 percent of the nation's economic output in physical capital. By comparison, Germany and Japan invested 5.8 percent and 4.8 percent, respectively. By the 1980s, the disparity had worsened substantially: U.S. 1.6 percent, Germany 4.4 percent, and Japan 6.3 percent. Comparisons of net investment levels -- that is, accounting for depreciation of each country's capital stock -- reveal an even larger investment gap. Table 2 offers a decade-by-decade comparison in both gross and net terms.

Table 2
PUBLIC INVESTMENT GAP -- INTERNATIONAL BASIS
(Investment in Physical Infrastructure as a Percentage of GNP)

	Gross	Net
United States		
1960-69	2.9	1.6
1970-79	2.0	0.6
1980-89	1.6	0.3
Japan		
1960-69	4.8	4.3
1970-79	6.2	5.7
1980-89	6.3	5.7
Germany		
1960-69	5.8	5.4
1970-79	6.0	5.5
1980-89	4.4	3.7
G-7 Average		
1960-69	3.7	2.7
1970-79	3.9	2.8
1980-89	3.6	2.6

Source: Bank for International Settlements, 1991.

Current Trends: 1990-94

Partly because of pressure from the Democratic Congress, the budgets during the Bush years reversed the downward trend. From fiscal years 1990 through 1993, investment *increased* substantially each year, although investment in FY93 will still fail to reach the levels achieved prior to the Reagan cuts.

The FY94 investment level will halt this positive trend. While, by most measures, the FY94 level will represent only a small decrease from FY93, the absence of a substantial increase is a disappointment. The hopes raised during the campaign for closing the investment gap between the U.S. and its international competitors will be entirely unsatisfied.

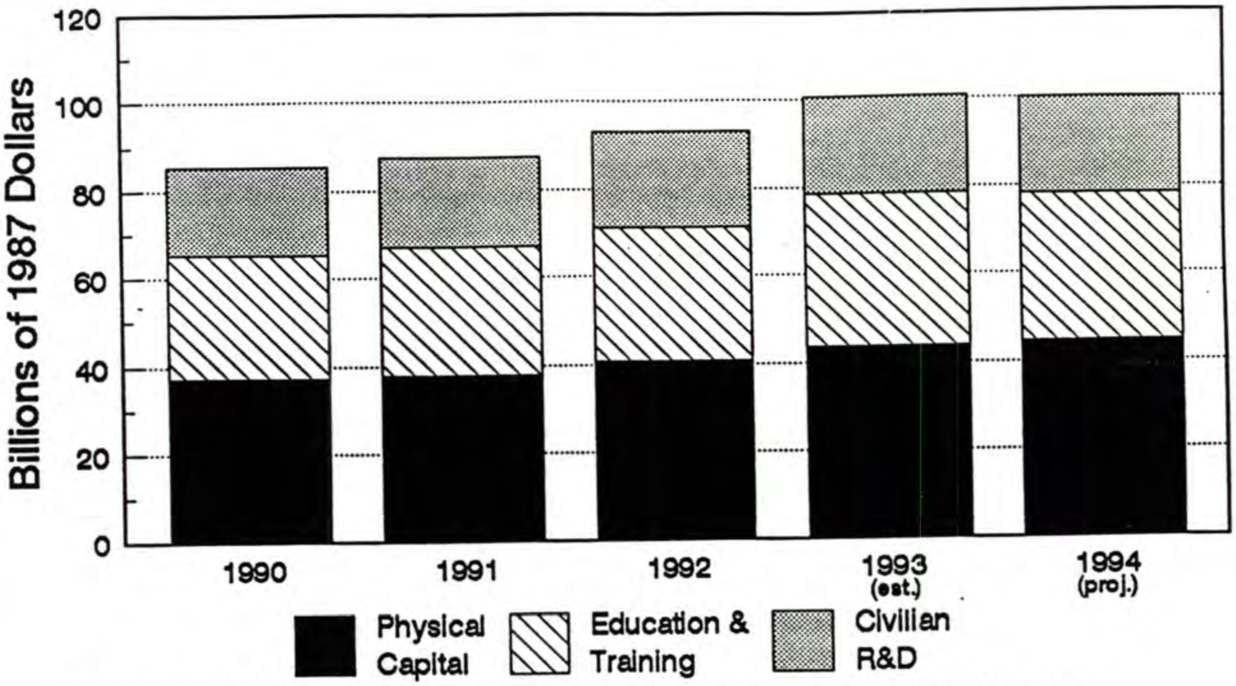
Investment in Real Dollars

Following eight years of stagnation in real dollar investment levels, the budgets of FY90 to FY93 included substantial investment gains. Real dollar investment levels grew roughly 4 percent per year for the first three years of the Bush presidency and jumped more than 8 percent in FY93. Over this four-year period, annual physical-capital investment outlays grew by nearly $8 billion, annual education and training expenditures grew by $7 billion, and annual outlays for R&D grew by over $3 billion. Children's programs also grew by about $3 billion.

In FY94, real dollar investment levels will stagnate once again. Due largely to a $1.4 billion decline in real outlays for education and training programs, real dollar investment levels will fall by nearly 1 percent (see Figure II). Including outlays for children's programs, which will grow by about $1.3 billion in FY94, real outlays for investment will rise by about the same percentage.

Where is decline [illegible]

Figure II
INVESTMENT IN REAL DOLLARS
1990 - 1994



Source: Author's calculations using OMB and House Appropriations Committee data.

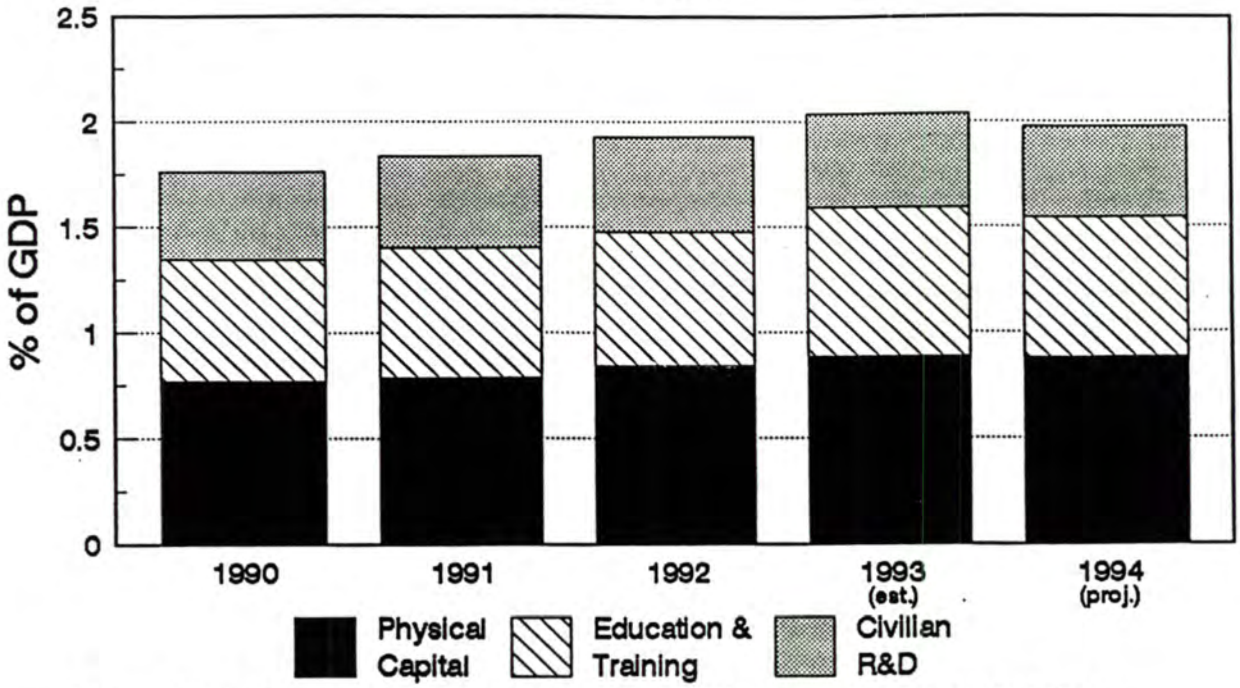
Investment as a Percentage of GDP

Investment increased relative to the size of the economy in each of the four budgets negotiated between the Congress and the Bush administration (see Figure III). These increases closed nearly 40 percent of the Reagan-era investment gap and resulted in over 2 percent of GDP devoted to investment in FY93. These improvements occurred in every investment category, with the physical capital and education and training areas benefitting most. Including children's programs, expenditures for which increased markedly under Bush, the investment level grew from 1.9 percent of GDP in FY89 to 2.3 percent in FY93.

Figure III

INVESTMENT AS A PERCENT OF GDP

1990 - 1994



Source: Author's calculations using OMB and House Appropriations Committee data.

The share of the economy devoted to investment in FY94, however, will fall by about 3 percent (2 percent including children's programs). This decline primarily will be concentrated on education and training expenditures, while outlays for physical capital and R&D will remain relatively stable. Overall, roughly $4 billion more in investment outlays would be needed to maintain the FY93 level of investment as a share of GDP. More strikingly, roughly $40 billion more would be needed to reach the pre-Reagan investment level.

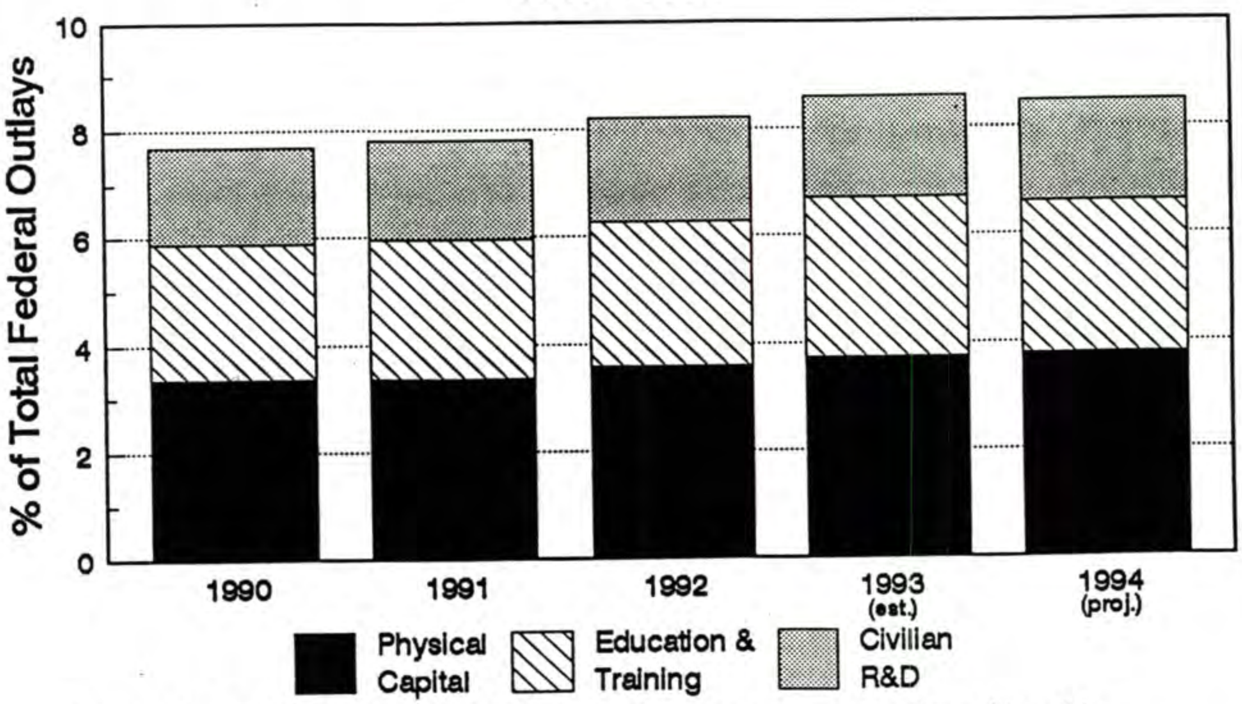
Investment as a Percentage of the Federal Budget

As a share of total federal outlays, investment increased in each of the final three Bush years, rising from 7.7 percent in FY90 to nearly 8.6 percent in FY93. Given the substantial growth in overall federal expenditures over this period (due almost exclusively to growing Social Security outlays, health care outlays, and interest payments), this increase represented a notable shift toward investment. Because of the lack of an increase in investment in FY94, the share of the budget devoted to investment will decline slightly, to 8.5 percent (see Figure IV). Including children's programs, the investment share of the budget will remain unchanged, at 9.7 percent.

Figure IV

INVESTMENT AS A % OF FEDERAL OUTLAYS

1990 - 1994



Source: Author's calculations using OMB and House Appropriations Committee data.

Measured against discretionary spending -- that portion of the budget over which restraint is more easily exercised -- the shift toward investment under Bush was more pronounced. Due to declining military outlays and the investment increases described above, investment grew from 19.2 percent of the discretionary budget in FY90 to 23.0 percent in FY93. Because of the shrinkage of defense spending in the FY94 budget, the share of discretionary outlays devoted to investment will increase by default -- to about 23.8 percent.

The FY94 Investment Budget: Why It Stopped Growing

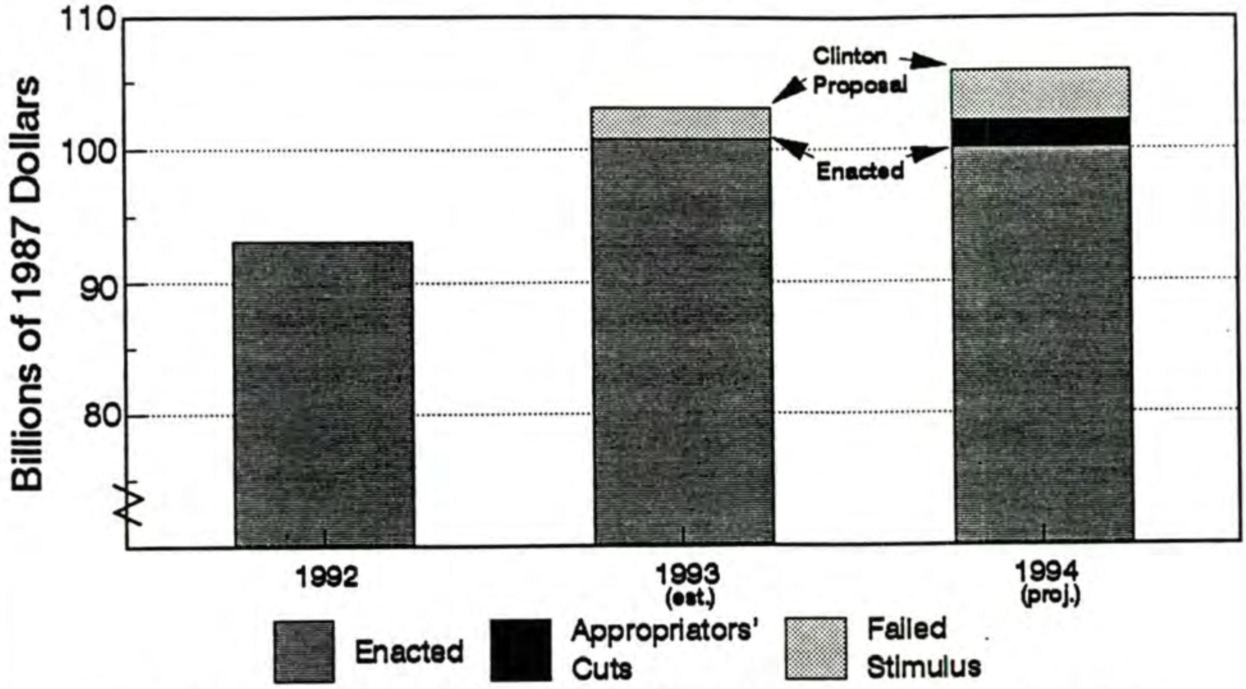
The outlines of the FY94 budget were released in February with the publication of *A Vision of Change for America*, and were followed by the release of the detailed budget in April. Both documents, as well as President Clinton's State of the Union address, described a budget with three broad components: (1) a long-term investment package to increase long-term productivity; (2) a stimulus package to create jobs immediately; and (3) a balanced deficit reduction plan.

The fate of these three components closely followed the three iterations of the FY94 investment budget: (1) as it was originally proposed by Clinton; (2) as it stood following the failure of the stimulus package; and (3) where it will likely end up after the appropriations process. Figure V depicts the FY94 investment level at each of these stages.

Figure V

INVESTMENT: PROPOSED VS. ENACTED

1992 - 1994



Source: Author's calculations using OMB and House Appropriations Committee data.

The Investment Budget as Proposed

The FY94 investment budget as proposed by the Clinton administration would have resulted in investment outlays reaching $136 billion. This level of investment would have represented a real dollar increase of about 5 percent over the FY93 level[3] and a very slight increase in the share of GDP devoted to investment. As we will see, however, this proposed increase was premised on an overall discretionary spending level in violation of the BEA spending caps. Since

[3] Relative to the 1993 level that Clinton inherited; that is, comparing the 1994 proposed level (including stimulus) to the inherited 1993 level (not including stimulus).

the administration chose not to break with the BEA, this investment level was, in practical terms, unachievable.

In its original budget submission, the administration appeared to propose an even more ambitious investment plan, totalling roughly $220 billion in new investment expenditures over the next five years (not counting investments included in the stimulus package). However, this total reflects a loose definition of investment that includes about $75 billion in tax breaks and another $35 billion or so in outlays for programs like food stamps and unemployment compensation that are not typically characterized as investment. In addition, the $220 billion figure reflects nominal increases only, ignoring inflation and a number of little-publicized *cuts* in investment programs, such as real reductions in expenditures for wastewater treatment grants and "low-priority" water and transportation projects. Accounting for the cuts, the proposed five-year real increase -- by the definitions used here -- *would have* amounted to more like $100 billion. In FY94 alone, after adding in the investment outlays spilling over from the proposed FY93 stimulus, the nominal investment increase would have amounted to about $10 billion.

The Investment Budget Post-Stimulus

With the springtime defeat of the administration's $16 billion stimulus package by the Republican-led Senate filibuster, roughly $3 billion in FY93 investment and $5 billion in FY94 investment was lost. Among the casualties were nearly $6 billion in infrastructure spending and nearly $2 billion in education and training spending for FY93 and FY94. As a result, the projected investment increase for FY94 dropped to about $5 billion.

The Investment Budget Post-Appropriations

In President Clinton's budget submission in April, the discretionary spending levels exceeded the spending "caps" laid out in the Budget Enforcement Act of 1990. Since the White House did not propose changing the BEA, additional cuts in domestic discretionary programs -- including investment programs -- had to be made. This task fell to the congressional appropriators and is still underway. (As of the August congressional recess, the House had completed all of the appropriations bills containing domestic investment spending; the Senate had just begun.) Taking the House Appropriations' levels as a proxy for the final outcome, another $3 billion in investment cuts is likely to occur. While it is possible that the Senate's appropriators will resurrect portions of the investment budget, large increases are virtually inconceivable. Further, given the president's eleventh-hour pledge to support additional spending cuts in the appropriations process -- made to wavering senators during the recent budget reconciliation vote -- it is safe to assume that the House investment levels for FY94 are, if anything, optimistic. Accounting for these adjustments, nominal investment outlays in FY94 will increase by only about $3 billion when compared with FY93 -- nearly a 1 percent decline in real terms.

Examples of the initiatives being trimmed from the earlier proposals are: (1) education reform -- to be funded at about 20 percent of its proposed level; (2) the National Institute for Standards and Technology (technology R&D) -- to receive only about one third of its proposed increase; (3) student financial assistance -- to receive less than 30 percent of its proposed increase; (4) the Job Training Partnership Act -- to receive only a third of its proposed increase; and (5) Head Start -- to receive only about a third of its proposed increase.

In addition, by limiting spending from the various transportation trust funds, the House appropriators have scaled back the FY94 levels of physical investment. These adjustments will reduce highway outlays by $1.2 billion, airport outlays by nearly $400 million, and high-speed ground transportation outlays by more than $100 million. In the process, the president's major high-tech initiative -- magnetic levitation trains -- will be all but zeroed out.

In the end, while real outlays for total investment will be stagnant, the fortunes of the various categories will vary. Children's programs, despite the watered-down increase for Head Start, will fare best of all, increasing by about 10 percent in real terms. Physical capital investments will also improve, increasing by about 2 percent. Research and development outlays will be virtually unchanged, falling by less than 1 percent. Finally, education and training investments will decline by about 4 percent.

FY95 and Beyond

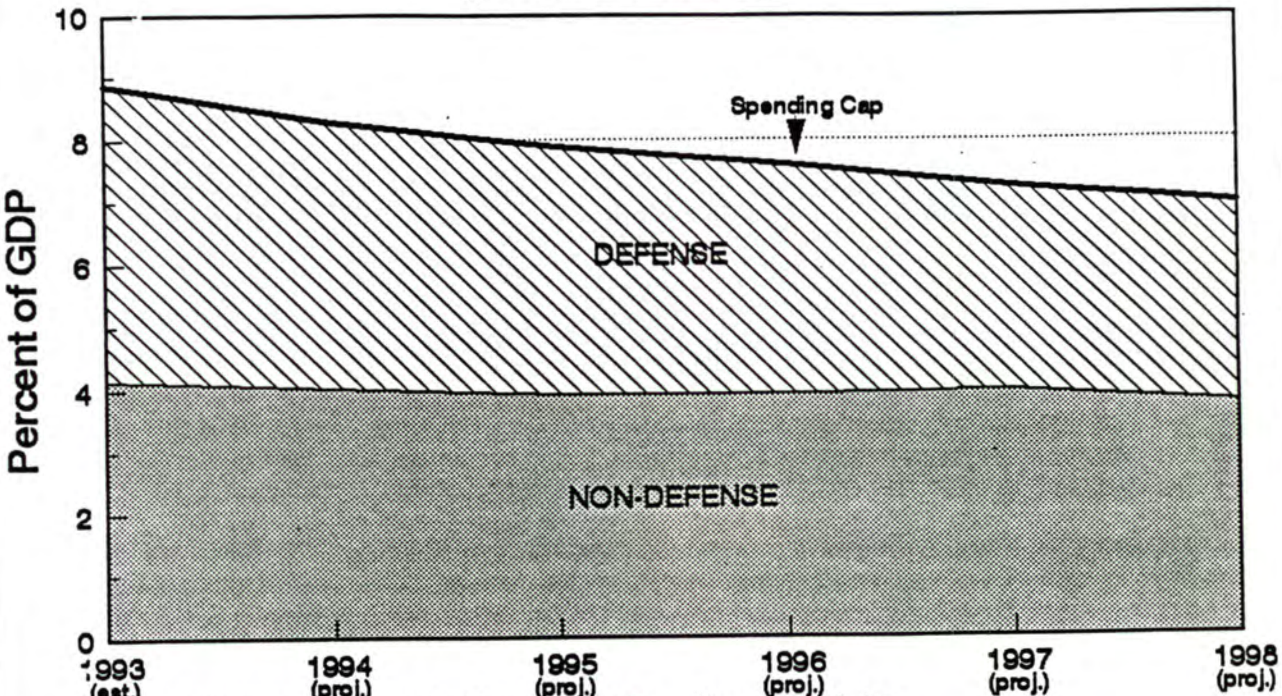
Only the expenditures for FY94 are locked in, but this budget promises further austerity in future years. With the passage of the budget reconciliation package, Congress and the president have agreed to freeze nominal discretionary spending -- national defense, international affairs, and domestic programs including investment -- at its FY93 level through FY98. In fact, according to the House Budget Committee, outlays will fall *below* the estimated FY93 level in each of the following five years. Once one accounts for inflation, these caps will result in discretionary spending in FY98 at levels 10-15 percent lower than today.

Since defense outlays are projected to decline markedly over the next five years, there is, in theory, potential room under the spending caps to increase domestic discretionary programs. However, as shown in Figure VI, the caps are sufficiently tight that, despite the decline in defense outlays, non-defense outlays will also have to shrink over the period, falling from over 4.1 percent of GDP in FY93 to under 3.8 percent in FY98. Given the recent Pentagon rumblings about restoring $20 billion of its cuts, even this level of FY98 domestic spending -- and, by implication, investment spending -- may be overly optimistic.

Figure VI

Discretionary Spending in the 1990s

(As a % of GDP)



Source: Author's calculations using House Budget Committee and OMB data.

Conclusion

Despite the election of a new Democratic president who campaigned on a domestic investment platform, federal investment spending -- by whatever measure and by whatever definition -- will stagnate or decline in FY94 and likely worsen in subsequent years. This is part of the price the American people will pay for the decision to make deficit reduction a priority over the nation's need to invest in the future. This investment decline occurs on the heels of more than a decade of underinvestment, adding to the growing backlog of unmet needs. Unfortunately, as we work to reduce the burden of budget deficits on future generations, we are neglecting the human, physical, and technological infrastructure upon which their economic future depends.

September 1993

Appendix A

FEDERAL INVESTMENT OUTLAYS - BY CATEGORY
(Billions of Current Dollars)

	FY93	FY94
PROPOSED LEVELS		
Physical Capital	56.37	61.60
Education & Training	44.70	45.57
Research & Development	27.86	28.80
Children	16.68	18.61
STIMULUS CUTS[4]		
Physical Capital	-1.76	-4.06
Education & Training	-1.08	-0.66
Research & Development	-0.16	-0.12
Children	-0.78	-0.15
APPROPRIATIONS CUTS		
Physical Capital		-0.28
Education & Training		-1.91
Research & Development		-0.44
Children		-0.45
ACTUAL LEVELS		
Physical Capital	54.61	57.26
Education & Training	43.62	43.00
Research & Development	27.70	28.24
Children	15.90	18.01

Note: Proposed levels reflect the projections included in the Historical Tables of the FY94 Budget. Stimulus cuts reflect the outlays implied by the proposed stimulus as detailed in a computer printout provided by OMB. Appropriations cuts reflect the outlays implied by the House Appropriations Committee cuts as detailed in a computer printout provided by CBO.

[4] Net of the increases passed in the $1 billion version of the stimulus.

Appendix B

FEDERAL INVESTMENT OUTLAY TOTALS

	FY93	FY94	% Change
CURRENT DOLLARS			
OMB Definition	125.93	128.50	+2.0
Broad Definition	141.83	146.51	+3.3
REAL (1987) DOLLARS			
OMB Definition	100.76	100.13	-0.6
Broad Definition	113.48	114.17	+0.6
AS A % OF GDP			
OMB Definition	2.040	1.975	-3.2
Broad Definition	2.297	2.252	-2.0
AS A % OF FEDERAL OUTLAYS			
OMB Definition	8.579	8.471	-1.3
Broad Definition	9.662	9.657	-0.1

Note: Real dollar values were calculated using the Composite Deflator provided in Table 1.3 of the Historical Tables of the FY94 Budget. Projections for GDP utilized are those provided in Table 1.2 of the Historical Tables. Projections for federal outlays were provided by the House Budget Committee following the passage of the Budget Reconciliation package.

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THE PRESIDENT HAS SEEN 10/11

THE WHITE HOUSE

WASHINGTON

October 7, 1993 93 OCT 7 P7:07

MEMORANDUM FOR THE PRESIDENT

FROM: ROBERT E. RUBIN smat for REB

SUBJECT: **Secretary Reich Memo on Dislocated Workers**

The attached memorandum from Bob Reich reflects a lengthy discussion among the core members of the NEC and your internal political advisers, e.g., Howard Paster and George Stephanopoulos (I think David Gergen was there, although I am not absolutely certain).

All who participated in that discussion agreed with Bob's recommendation regarding a NAFTA-specific dislocated worker provision. Some, including me, agreed with his recommendation with regard to how and when to deal with the comprehensive dislocated worker initiative. Some felt, however, that the general discussion should be delayed until after a NAFTA vote in Congress, their reasoning being that the more comprehensive initiative might adversely impact NAFTA with regard to some Republican votes. My view, having listened to the discussion, was to agree with the recommendation contained in the attached memorandum from Bob.

I agree w/ Bob
Q: should we allow
people to reach in their benefits
(NAFTA affected) to stay in school
longer

Attachment

U.S. DEPARTMENT OF LABOR

SECRETARY OF LABOR
WASHINGTON, D.C.

MEMORANDUM TO THE PRESIDENT

7 P3:07

From: Labor Secretary Robert B. Reich BR

Date: October 7, 1993

RE: The Workforce Security Act

Attached is the summary of a comprehensive approach to helping workers find new jobs. For now we're calling it the Workforce Security Act -- implying that in order to embrace change, American workers need employment security rather than job security; they need help in moving easily to new work rather than being wedded to old work. Employment security goes hand in hand with health security.

As you know, this legislation can't be introduced until after the NAFTA vote. A NAFTA-specific dislocated worker provision within the NAFTA bill will sunset upon enactment of this comprehensive legislation.

Your advisors are of two minds about how specific you should be in discussing this comprehensive approach to employment security prior to the passage of NAFTA. One side argues that by outlining the program even before NAFTA introduced (perhaps in a speech in October or early November) you can put NAFTA into the broader context of helping all American workers gain better jobs. This would help NAFTA, and also lay groundwork for the comprehensive dislocated-worker legislation to follow. The other side argues that doing so could complicate passage of NAFTA by eliciting criticism from conservatives who don't want to pay for any such broader program, and might even jeopardize the comprehensive program itself by revealing it prematurely without first establishing its necessity.

My recommendation would be a middle ground: Give a speech prior to NAFTA about why Americans need the kind of security that enables us to embrace the new global economy without fear. Security <u>for</u> change, not security <u>against</u> change: (a) ensuring jobs that pay a living wage (the EITC), (b) providing health security regardless of employment, and (c) helping all workers prepare for and find the next job. Don't get too specific about the third leg but express your commitment to comprehensive legislation that identifies permanently displaced workers early, gives them counseling, helps match them with available jobs, and, where needed, places them in community colleges or other forms of long-term education and training -- all at one stop, and regardless of the cause of job loss. Say you're working on it right now and aim to introduce it early next year.

This way you can help NAFTA and lay the groundwork for this legislation without attracting criticism on the specifics.

THE WORKFORCE SECURITY ACT:
BUILDING AN AMERICAN RE-EMPLOYMENT SYSTEM

I. The Growing Problem of Structural Unemployment

In recent years, intensifying global competition and rapidly-evolving technologies have altered the nature and expanded the scale of job loss. More and more Americans are losing their old jobs and forced to find new work. Many are having difficulty matching the wages and benefits of the jobs they lost. This underlying trend of structural unemployment will in all likelihood persist. As America opens foreign markets, shifts from military to civilian employment, and reforms health care, even more of us will need to change jobs.

Some pertinent evidence of the trend:

* Last year, over 75 percent of unemployed job losers were on permanent layoff -- the highest rate of permanent job loss since tracking began in 1967.

* The length of unemployment spells continues to grow. Regular unemployment benefits extend up to 6 months. In the 1970s, an average of 11 percent of the unemployed were out of work for six months or longer; in the 1980s, 15 percent; thus far in the 1990s, 16 percent. Last year, 21 percent of the unemployed hadn't worked for six months or longer -- the second highest annual level since the end of World War II.

* Between 1984 and 1989, an average of 1.8 million full-time workers were displaced annually due to plant closings, production cutbacks, or layoffs. In 1990, the total reached 2.2 million. This year's total is expected to be the same, although the economy is rebounding.

* More than half of all displaced workers are still unemployed a year later, or employed in jobs paying less than 80 percent of their former wages.

The costs to society are mounting:

* Regular unemployment insurance benefits, paid for by payroll taxes, have averaged $22 billion annually (adjusted for inflation) over the past 5 years. (Administrative costs add another $2 billion.)

* The federal extended benefit program for those who have used up their regular benefits commenced in November 1991 and has been renewed four times since then (not including the pending renewal). The cost to date has been $25 billion.

* Lost wages, lost productivity, lost tax revenues.

II. Proposed Solution: The Workforce Security Act

The proposed response is a "re-employment" system to help workers prepare for and find new jobs.

* In contrast to the unemployment insurance system, which assumes that workers mostly need income assistance during cyclical downturns until their old jobs return, the new system recognizes that most old jobs won't return and that the central problem facing American workers is the transition to new employment. Re-employment services -- early job counseling, job-search assistance, and information on where new jobs can be found -- are critical.

* In contrast to the old training system, comprising a large number of tiny categorical programs for small groups of workers who have lost their jobs for particular reasons, and which assumes that job retraining is needed for exceptional circumstances, the new system recognizes that large numbers of workers need to be prepared for new work. Job-retraining should be available quickly and efficiently, regardless of the cause of job loss. And research shows that often the most valuable job-retraining lasts 18 months or longer.

* In contrast to the old information system, which relies primarily on help-wanted advertisements, the proposal creates a new national labor market information system to help workers make informed decisions about jobs, careers, education, and training.

1. How many workers need help? Of the roughly 2.2 million Americans who will permanently lose their job this year, an estimated 60 percent (1.3 million) would benefit from re-employment services. Of these, about one-third (400,000) also would benefit from long-term job retraining.

2. Who should be eligible? Under the proposed legislation, all workers who lose their job would be eligible, regardless of the cause of job loss.

3. What's the cost? Fully funded by 1997, these services would cost $2.07 billion ~~annually~~. (The current 1994 appropriation under the old EDWAA act is $1.1 billion.)

4. Should workers who need long-term job retraining receive income support beyond their regular unemployment benefits? Under the proposal, workers who need long term job-retraining and who have been employed for at least one year prior to losing their job could receive up to one year of extended benefits.

5. What's the cost of these extended unemployment benefits? Fully funded, income support would cost $1.4 billion annually.

6. What about income support for workers who don't qualify for unemployment insurance but need job retraining? If they have not been employed long enough to qualify for unemployment insurance, they should be made eligible for income-contingent student loans and Pell grants.

7. How can these services be linked to all other state and federal unemployment, re-employment, and training services?

* States would be required to identify unemployed workers who are unlikely to get their old jobs back, as early as possible after the workers file for unemployment benefits, and refer them to all state and federal re-employment services. (This mandatory provision is contained in the pending federal extended benefit legislation.)

* Every community receiving federal funds for these services would be required to offer them, along with any state re-employment services and with unemployment insurance, at "one-stop career centers." Such centers also would determine which unemployed workers could benefit from job-retraining with extended income support, and would provide them with information about retraining programs.

inst of "career" reemployment centers for state services,

* An additional amount of "venture capital" would be available, on a competitive basis, to a small number of states and communities wishing to charter one-stop centers offering re-employment services to all workers, even those who had not lost their present jobs. These vanguard one-stop centers would be subject to competition or they would be accountable to local coalitions of business leaders, educators, workers, and community groups.

8. How can unemployed workers who are not in need of retraining be encouraged to get new jobs as soon as possible?

* Unemployed workers who find new jobs quickly, before their regular benefits run out, ~~would receive bonuses.~~ This provision is expected to cost about $40 billion annually. (Research shows that it reduces the duration of unemployment.)

(?) million

* Unemployed workers who to seek to establish their own businesses could receive their regular unemployment benefits at longer intervals, in lump-sum payments. (This also reduces the duration of unemployment.)

* States would be permitted to pay pro-rated unemployment benefits to workers who had lost full-time jobs and were working part-time. (This helps maintain an attachment to work even while the worker is seeking a new full-time job.)

Financing

Your February 1994 budget included $2.2 billion in assistance to dislocated workers for FY 1994, increasing to $2.8 billion in FY 1998 and beyond. The five-year cost (FY 1995-1999) would have been $13,789.

Congress has appropriated $1.1 billion for FY 1994 (under existing program authority).

Under this proposal, discretionary services (job-search assistance, job counseling, a data bank on new jobs and job-retraining, and job-retraining) would cost $2.07 billion when fully funded in 1997. The five-year (1995-1999) total would be $9.372 billion.

Income support (extended benefits for workers receiving long-term retraining who have run out of regular UI benefits) would cost $1.368 when fully funded in 1998. The five-year (1995-1999) total would be $4.367 billion.

Reforms of UI designed to hasten re-employment would cost $42 million when fully funded in 1998, for a five-year total of $180 million.

The total five-year cost of the entire program would be $13,919, of which $9.372 billion would be discretionary, and $4.547 billion mandatory.

THE PRESIDENT HAS SEEN

THE WHITE HOUSE

WASHINGTON

October 8, 1993

Very good
I'm ready to review
Decision after
w/ G's Decide ASAP

MEMORANDUM FOR THE PRESIDENT

FROM: ROBERT E. RUBIN

SUBJECT: **Treasury's Bank Policy Memo**

The attached memorandum is in response to the conversation you, George and I had with respect to the effectiveness of your credit crunch policy, the possibility of changing the Basle agreement on reserve requirements, and an FDIC appointment.

As the memorandum states, Treasury needs your guidance on several important banking issues for Congressional testimony over the next couple of months. Certain of the issues on which Treasury provides recommendations are quite controversial, and I would suggest that this memo be used as the basis for a well-organized discussion with you of the pros and cons relating to those issues.

Please let us know if you agree.

Attachment

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C.

SECRETARY OF THE TREASURY

October 7, 1993

P5:22

MEMORANDUM FOR THE PRESIDENT

FROM: LLOYD BENTSEN

SUBJECT: Banking Policy

Attached is a memo prepared by Frank Newman and Gene Ludwig in response to your expression of interest in a range of banking issues. I believe the memo provides excellent background on a number of important matters that bear on the overall economy, as well as the banking system. I have worked with Frank, Gene, and Roger Altman on these issues, and support the recommendations. Frank and Gene have also worked closely with others in the Administration, particularly NEC and OMB, and the memo reflects a largely shared view of policy direction.

I believe it is important for our Administration to have such a comprehensive approach to banking system issues, and to state it publicly and carefully. The U.S. banking system is facing secular decline, with enormous potential implications for the economy. We have the opportunity to take actions to strengthen the system while simultaneously delivering benefits to a broad range of consumers and businesses. The approach described in the memo should expand productive lending, help distressed communities, increase U.S. competitiveness internationally, and improve the financial condition of the industry.

The memo also provides background and an opportunity to settle on an appropriate nominee for Chairperson of the FDIC, the last especially important financial system appointment remaining to be filled.

I understand that Bob Rubin will be arranging a time soon for Frank, Gene, Bob, Roger and me to meet with you on these issues, and we all look forward to discussing them with you.

Attachment

cc: Bob Rubin

M E M O R A N D U M

To: **The President**

From: **Frank Newman, Gene Ludwig**

Re: **Credit Availability and Other Banking Policy Matters**

CC: **Vice President Gore, Lloyd Bentsen, Bob Rubin, Roger Altman, Chris Edley, Ellen Seidman, Joe Stiglitz, Howard Paster**

Date: **October 6, 1993**

This memorandum responds to Bob Rubin's request that we briefly outline for you (1) broadly, what we propose as the architecture of Clinton Administration depository institutions policy; (2) the progress of the Administration's credit availability program to date along with further actions that could stimulate bank lending; (3) our views on several pending legislative issues; and, finally, (4) our current thoughts on selection of an FDIC Chair.

INTRODUCTION

The banking and thrift industries in this country find themselves in the midst of a long term secular decline that worsened markedly in the last decade. Assets under management of banks and thrifts fell a full 10% in the last decade from 58% to 48% of total assets. This trend continues, but is temporarily overshadowed in the press by a cyclical upturn in profitability that in part reflects the interest rate environment but also reflects improvements to balance sheets as we have moved away from the depths of the last recession.

This secular decline results in part from anachronistic, inconsistent and frequently excessive legislative and regulatory restrictions on banks and thrifts. A perpetuation of such an environment will produce continued pressure for contraction of these industries. If the contraction results from regulatory inertia or excess, rather than economically sound rationalization, it could have a serious adverse impact on the overall economy. Banks and thrifts remain major sources of financing for consumers and businesses, and banks are critical elements of both monetary policy and the payment system. A disorderly, non-economically based contraction of the system would harm businesses, consumers and communities, both directly and indirectly.

The Clinton Administration has an opportunity to reduce the layers of inconsistent and excessively restrictive legislation and regulation that shackle the economic potential of these industries. To accomplish this requires a principled policy that is very carefully executed. Careful execution is particularly necessary here because of the complex politics of the relevant committees in Congress, the 4 federal bank and thrift regulatory agencies, and the powerful special interest lobbies.

In our view, Administration policy with respect to insured depository institutions should emphasize two overarching themes:

- Access to credit and other financial services for all financially capable businesses and individuals through the elimination of non-economic barriers, including in particular those raised by regulation and discrimination; and

- Steady and prudent regulation in the interests of solid, long-term economic growth and the prevention of further deposit insurance crises.

Main Treasury and the OCC, in cooperation with the other federal bank regulatory agencies (FDIC, OTS, Federal Reserve), have launched several initiatives that reflect these themes, promoting credit availability through the removal and reform of regulations that irrationally impede lending to various kinds of borrowers. We believe these measures are having a positive effect on bank lending and will have an increasingly positive effect in the months ahead. We will pursue several additional steps in the weeks and months ahead.

We have also launched initiatives to end illegal lending discrimination and to otherwise encourage the availability of credit to low and moderate income individuals and small and medium sized companies and farms.

However, there remain several critically important matters that must be dealt with by Congress. Several of these matters will be taken up by Congress within the next few months. Options on how to deal with these issues and our preferred legislative approaches are outlined below. We seek your guidance on whether to proceed with our approach or to follow another path.

In carrying out the policies we have outlined above, it will be necessary to have an FDIC chairperson who, in addition to being competent on the issues, is loyal to your

Administration and its vision in this area, is a team player and does not detract from the Administration's ability to deal with Congress and the key Congressional committees. We have recommended Ricki Tigert for this position. However, as will be discussed in greater detail below, we believe that Bill Brandon would also be a fine candidate for this position, though his confirmation, and, if confirmed, his chairmanship, are likely to present some serious challenges resulting from his presidency of the ABA. (Further considerations on this important selection are discussed in section IV below.)

In developing our views in this policy area as well as our policy initiatives to date we have had a very cooperative relationship with a variety of people in the White House and in other Departments and agencies. In particular, we have worked closely with both Chris Edley at OMB and Ellen Seidman at the NEC, both of whom share the overall thrust of this memorandum. We would expect to work closely with Chris and Ellen in elaborating upon the approaches suggested by this memorandum, should these approaches meet with your approval.

DISCUSSION

I. The Architecture of Clinton Administration Depository Institutions Policy

(1) Elimination of unnecessary barriers to the provision of credit and other products and services by banks and thrifts. Such barriers can take a wide variety of forms, including:

- outmoded statutes, regulations, and supervisory practices;
- duplicative or conflicting regulatory requirements that consume financial and personnel resources that might better be expended in service to the economy; and
- illegal discrimination against classes of prospective borrowers and customers and other forms of prejudice that blind some lenders to the existence of sound business opportunities.

From the very start of this Administration, we have focused our attention -- and that of the institutions we regulate -- on this theme. It is the basis of the Credit Availability Program, and the Community Reinvestment Act reform effort you have asked us to implement, as well as the Community Development Financial Institutions Initiative moving through Congress. Emphasis on broadened credit availability is not only the right thing to do both philosophically and economically, but additionally, the Administration's vigorous pursuit of this goal has given the Administration political credibility with community groups and others whose support will be important as we move to rationalize the regulatory system.

(2) ***Steady, prudent regulation in the interests of solid, long-term economic growth and the prevention of further deposit insurance crises.*** America's economy remains to some degree in a state of shock, partly induced by the serial collapses of the savings and loan industry and the savings and loan insurance fund as well as by the troubled bank environment of the 1987-92 period. Rebuilding confidence in America's depository institutions as well as the federal regulatory agencies that supervise and insure them is a critical step along the path of economic recovery. This combination of confidence and participation in the economic recovery depends on establishing a new balance between encouraging the risk-taking that is the role of financial intermediaries and regulating the system so risk is prudent, well managed, and properly capitalized.

We believe that, as your Administration proceeds, this theme will resonate in the day-to-day actions of your regulators, and in steady improvement in the condition and lending capacity of America's depository institutions. We also believe that in contrast to the last five years, numerous members of Congress and much of the press (as well as the vast majority of America's bankers) will be looking for actions in support of this theme (and will be hostile toward actions in derogation of it). However, we see no need for affirmative steps to highlight it at the Presidential level in the absence of a crisis.

Both main Treasury and the OCC are engaged, separately and jointly, in a variety of initiatives in this area, including new supervisory approaches, approaches to better protect the deposit insurance funds and approaches to avoid the insolvency of one or several depository institutions becoming a systemic problem. On the issues of further protection for the funds and systemic risk, we have been working closely with the Governors of the Federal Reserve Board.

II. Regulatory Activities

A. The Credit Availability Program

The Administration initiative in the depository institutions sphere that has received greatest attention is the Credit Availability Program ("CAP") announced at the White House on March 10.

First Phase: The federal bank regulatory agencies, coordinated by the OCC, completed the first phase of the CAP in June. With one exception where threatened litigation by the appraisal lobby has made regulatory change a longer process, all of the reforms designed in that phase have now been implemented.

Second Phase: As part of the second phase of the CAP, the OCC is now undertaking and encouraging the other bank regulatory agencies to undertake a number of initiatives:

- Rewriting rules, regulations, and policies to reduce compliance costs and paperwork burden to the industry. The OCC has already targeted over twenty policy areas for reform and will soon release major rule changes for public comment. In addition, bank examiners across the country are reviewing OCC's examiner guidance to identify dispensable procedures and requirements.

- Upon a motion of the OCC, the FDIC Board recently adopted a program to significantly reduce the number and burden of duplicate examinations of the same institution.

- The OCC, and at its behest the FDIC, have used guidelines and performance objectives, rather than command-and-control regulations to implement the most unnecessarily intensive requirements of recent banking legislation.

- The OCC has initiated a program to foster industry self-regulation as an adjunct to federal regulatory efforts. The OCC is working actively and successfully to encourage industry efforts in the areas of equal credit opportunity and mutual fund sales.

- At your initiative, the OCC is working with other bank regulatory agencies to combat discrimination in the banking industry and reform administration of the Community Reinvestment Act. Success with these efforts will significantly broaden credit availability for minority and low-income individuals and households.

- In conjunction with the NEC (Ellen Seidman) and OMB, (Chris Edley), we are working with the SBA (Erskine Bowles) to develop programs to spur small business lending. **From our discussions to date, including discussions with dozens of business leaders and bankers, we believe the most effective additional step the Administration can take to further spur small business lending is to expand the SBA small business guarantee program.** In addition, we are exploring potential improvement and expansion of the Small Business Investment Corp. (SBIC) program, through which banks can provide equity capital for small businesses.

Tone: As with virtually every other economic matter, achieving greater availability of credit and other banking services is heavily dependent upon the psychology of the participants. Accordingly, we have worked hard to set a tone which we believe resonates well with lenders, consumers and examiners.

More particularly, we have attempted to make certain: (i) that industry members understand that the Clinton Administration appreciates and is tackling the problems they face from excessive and inconsistent regulation; (ii) that consumer groups and the general public know that the Clinton Administration is working to ensure fair access to credit for all Americans; and (iii) finally that examiners understand that the Administration believes we can and must combine safety and soundness with fair and efficient access to credit, and examiners working to this end will be supported, not dangled as bait before Congress should there be another crisis.

We have actively gotten this message out through meetings held by the OCC with its examiners around the country, as well as through speeches and press interviews.

Results: Because the CAP initiatives are only beginning to take effect, available data is just beginning to demonstrate results. Nevertheless, we believe the CAP is having a positive effect on bank lending. We expect increasingly positive results as the initiatives taken under the program are adopted by banks and thrifts in the coming months.

Available data do not conflict with this surmise. After 11 quarters of decline, bank lending was up in the second quarter of this year. Lending was up in New England, which is just beginning to recover economically. However, lending was still flat in the far West which is not surprising given the economic slowdown in the region.

Given the lag time between the date rules are changed and the date they finally impact credit decisions, we would not expect the full effect of the rule changes to be apparent for several more quarters. However, while it is doubtful that the CAP reforms themselves had a great deal to do with the second quarter's increases, the positive psychology created by the announcement of the program and the aggressive way it has been carried out did, we believe, have a considerable impact on this increase. Informal surveys of bank executives confirm this indirect effect. We expect that as the CAP reforms themselves impact lending decisions, the effect of the program on loan growth will be increasingly positive.

B. Bank Investments in Government Securities

In recent months, various parties have advanced a number of proposals to stimulate bank lending by making it more costly for banks to hold government securities. Proponents of this change argue that, by making investments in government securities more costly, we will make other investment activities, especially loans, more attractive.

Although this step is permissible under the Basle accords, no other nation has placed a credit risk-weighting on its own sovereign securities. Moreover, we believe that the impact of such a move would be unlikely to be positive in the aggregate. Indeed, it would probably have adverse macroeconomic consequences that vastly outweigh any conceivable benefit. (These views are shared by the Federal Reserve Board.)

Over the last several months, we have had many contacts with banks from all over the country, and we have seen no indication that increasing the capital charge on government securities would increase lending. In addition, we have seen no indication that providing greater flexibility in the area of securitization of small business loans would increase lending to small businesses, at least in the near term.

For the industry as a whole, increasing the capital charge assigned to government securities would have two clear effects:

(1) To the extent banks choose to retain those securities, they would have to hold greater capital reserves, thus reducing their lending capacity; and

(2) To the extent banks choose to divest government securities, the sell-off would increase the amount of federal government debt in the market, decreasing demand for that debt, increasing interest rates, and thereby undermining efforts to spark an economic recovery.

Accordingly, we (and the Federal Reserve) urge rejection of the proposals to artificially impose capital charges on government securities

C. Securities Underwriting

One of the important financial services areas from which banking organizations have largely been restricted since the 1930s has been underwriting securities. Although this is an area that has been portrayed as "too risky" for banks, in point of fact the area has proved materially less risky than making loans over the years. In part this stems from a variety of underwriting techniques that limit the extent to which, and the time during which, the underwriter is at risk.

The underwriting of securities is a natural business for banks as it is another facet of the credit extension business. It is an area that has experienced steady growth over the last few decades. Moreover, the securities underwriting business is currently quite concentrated with relatively few participants. The competitive pressures that would be generated by allowing banks to engage in more of this activity would probably benefit both businesses and the economy more generally.

The Federal Reserve Board, under currently applicable law, has permitted certain subsidiaries of bank holding companies to underwrite a limited amount of securities. The Fed has the power to expand this window considerably. However, the Fed has failed to take action in this area out of concern that political forces will either seek to reverse the Fed's action or take other adverse actions.

Accordingly, the Fed is reluctant to take action on its own at this time. However, we have discussed this subject at considerable length with Alan Greenspan who tells us that the Fed would take some modest action to expand the underwriting opportunities for banking organizations if the Clinton Administration would publicly support it as appropriate. This action would still limit banking companies to conducting such activities as a small percentage of separate subsidiaries, funded entirely without insured deposits.

We recommend that we tell the Fed that we would support a technical regulatory change that would modestly expand the opportunities for banking organizations to engage in underwriting activities under existing law, provided that after consultation with the Administration's legislative affairs office it is clear that the timing is appropriate, and that Congressional reaction is not likely to present significant problems. Any further steps in this area would be held for careful consideration next year.

In addition, we propose a serious examination of potential legislation that would permit banking organizations to underwrite securities offerings for, and invest in small and medium sized companies. This is a market that is under served and that needs equity and debt capital. It is a market that the banks often tend to know best.

III. Legislative Issues

Congressional actions are rapidly moving the Administration toward the point at which it must take definitive positions on a number of legislative issues. In particular, Senate Banking Committee and the Financial Institutions Subcommittee of the House Banking Committee (Neal) have announced fall legislative agendas that focus on four issues with significant policy implications: (1) reduction of regulatory burden; (2) interstate branching; (3) consolidation of the bank regulatory agencies; and (4) bank sales of insurance.

This portion of the memorandum provides recommendations and brief overviews of each of these issues.

We believe any decision in these areas should be based on the broad architecture (or basic themes) of a Clinton era depository institutions policy, as outlined above. That architecture can be applied to the issues set out below and other major issues if we assess them on the basis of two tests.

- Does the proposal on balance benefit the economy and the consumer (including business and individual consumers); and

- Does the proposal on balance materially decrease or increase the safety and soundness of depository institutions?

A. ***Reduction of Regulatory Burden:*** Although much is being done now to reduce needless regulatory burdens on banks through administrative actions, some steps require legislative change. Bills have been introduced in both the House and Senate, based on a "laundry list" from the bank trade associations to provide "regulatory relief." While many of the provisions of these bills are sound and appropriate, many others are overdone and would be highly controversial in Congress if actually brought to mark-up.

Members of both Houses have initiated efforts to add these bills to the Community Development Financial Institutions Bill ("CDFI"). Although we believe that there is merit in supporting the constructive elements of these regulatory relief bills, we have had a great concern that, if laden down with the full laundry list, the CDFI bill would get mired in long and vehement Congressional disputes. Fortunately, working with others in the Administration and in the Senate, we have been able to get a more focused version of the regulatory relief legislation incorporated into the Senate version of the CDFI bill, and to reach an agreement with the American Bankers Association that this focused approach is wise. The CDFI bill, incorporating this focused regulatory relief approach, recently passed the Senate Banking Committee with a strong bipartisan vote of 18-1. We will be working towards a similar approach in the House.

B. ***Interstate Branching:*** The Douglas amendment to the Bank Holding Company Act permits banking organizations to own banks in any state where the host state permits such ownership. Currently, virtually every state in the United States allows some out-of-state banking organizations to own a bank in the state. Accordingly, interstate banking, though something of a patchwork, already exists. The current structure is extremely clumsy, however, for customers as well as for the banks. For example, even though several banking companies operate subsidiary banks in Virginia, Maryland and the District of Columbia, they are legally separate -- so a customer of NationsBank who has an account at a Virginia branch cannot make a deposit at a NationsBank branch near his or her office in D.C.

The current patchwork can be altered in a variety of ways to make it more rational. At the furthest extreme, so-called "full interstate branch banking," a bank could be permitted to branch anywhere in the country it wished. At the other extreme, so-called "branch consolidation," a banking organization would merely be allowed to convert its existing multi-bank, multi-state system into a one bank multiple-branch organization.

This latter option, branch consolidation, would leave it entirely to the states to determine which banks they let into their states and where in their states an entrant could branch. Given the complex politics on this issue in Congress, we favor pursuing the branch consolidation route at this time.

If we analyze branch consolidation on the basis of the two criteria we have proposed, it is highly desirable: first, allowing branch consolidation would make existing organizations much more efficient. These efficiencies will, in part at least, translate into increased lending or more competitive service to the benefit of the consumer, and will provide more rational, convenient service for bank customers. Moreover, branch consolidation raises virtually none of the states rights issues or the community service issues raised by full interstate branch banking. This approach would apply only to those states that already permit out-of-state bank holding companies to own banks in the state, and would honor each state's laws governing branch locations.

Concurrently, branch consolidation translates into more rationally organized and run banking organizations that are easier to examine. The increased efficiency should aid in capital formation. Hence, permitting branch consolidation increases the safety and soundness of the system.

This does not mean this proposal is non-controversial. On the contrary, community bankers will fight any move that makes multi-state banking better, and some community groups are concerned that any move toward larger banks will reduce commitment to and service in local, particularly small and rural, communities. By adopting the branch consolidation version of interstate branching, we believe those objections can be overcome on the merits. We believe that after voicing some concern the community groups will accept branch consolidation legislation, if they get something in return. And, while the community bankers, as a trade association, are unlikely ever to support any form of interstate branching, we think they might be inclined not to fight too much -- again if they get something in return. The key, in our opinion, is CRA reform. If the community groups believe our CRA effort will indeed force all banks -- but particularly regional and national banks, to serve all communities in which they are located, and the small bankers are able to be relieved of some regulatory burden in this area, opposition to branch consolidation could dissipate. The key is attention to the varied interests, and careful timing of the CRA proposals.

We recommend that the Administration support legislation to permit branch consolidation. (Such legislation has already been introduced in Congress in various forms.)

As a timing matter, Chairman Riegle has decided to hold hearings on interstate branching this fall, and has asked both of us to address this issue in testimony before the Senate Banking Committee. A similar request has been made by Congressman Neal for testimony before the House Banking Committee's Financial Institutions Subcommittee.

C. ***Regulatory Consolidation:*** Both Chairman Riegle and Chairman Gonzalez strongly support legislation to consolidate the existing bank regulatory agencies into a single regulator. Senator Riegle has asked Frank Newman to present the Administration's views on this issue at a November hearing.

We believe that carefully structured and implemented regulatory consolidation is good public policy. The existing multiplicity of bank regulatory agencies is highly inefficient and a significant source of regulatory burden to the banking industry. Having a single regulator (or at least fewer than today's <u>four</u>) would significantly simplify both the formulation of policy and the conduct of supervision. The current system is complex, confused, and provides at best a barely workable mechanism for setting and implementing policy. It should be rationalized now, when the banking industry is healthy and rationalization enjoys substantial congressional support. **We therefore recommend that the Administration support regulatory consolidation in an appropriate form.**

The approach we have been taking in discussing this issue with the Fed emphasizes three legs to the safety and soundness stool -- balanced and effective supervision, management of systemic risk and deposit insurance. In this structure we see the OCC taking the lead on supervision, the Fed on systemic risk (and its use of the discount window and other tools to deal with this problem), and the FDIC on deposit insurance and liquidation. By focusing these agencies on their historic missions, we will be working towards improvements in the environment for safety and soundness, efficiencies in the federal government's operations, and reductions in unnecessary burdens on the regulated entities.

Alan Greenspan is largely in agreement with the thrust of this approach, although he has a not surprising inclination towards protecting some of the activities of the Fed. We have been having discussions with Alan Greenspan, as well as Fed Governors Mullins and LaWare to explore those activities in which the Fed feels strongly about maintaining a continuing role.

A potential stumbling block for consolidation is the question whether the consolidated regulator should be part of the Treasury or independent of the Executive Branch. In 1991, a Bush Administration consolidation proposal died partly over this issue, with House and Senate leadership both insisting on independence. We believe compromise solutions are possible (for example, the principal regulator could be governed by a board including significant Treasury and majority Administrative representation), and have received expressions of interest from the Hill in negotiating a compromise. In the end, although the new entity need not be housed in Treasury, it is extremely important that Treasury have significant influence over the entity, and thus over banking policy, in order to maintain this aspect of the Administration's ability to influence the economy.

Although more work is needed to develop the specific structures, we recommend that the Administration support an approach along these policy lines that would reduce the number of regulators from four to one or two. Such consolidation would also be in concert with the directions espoused in the National Performance Review.

***D. Bank Insurance Sales*:** Recent court decisions have established the authority of national banks to use branches in small towns as platforms for nationwide insurance sales. The Senate and House Banking Committees have invited the two of us to testify for the Administration on this issue in October or November. We expect that insurance-agent lobbies will press for legislation to cut back this existing authority.

We know of no legitimate public policy reasons for denying banks the ability to sell insurance. However, there is a strong, self-interested lobbying effort underway against this on the part of the insurance industry and agents, and there will be an active political battle over this issue in Congress, regardless of the position of the Administration.

Keep this

One possible compromise that we have raised publicly and that seems to have received a positive response from both community groups and banks is to allow banks to establish insurance sales operations in poor inner city areas and from there perhaps to sell insurance to a broader market, perhaps statewide or throughout a metropolitan area. This would allow banks to provide a much needed service in the inner cities as well as to encourage them to increase employment in the inner cities by establishing their insurance sales headquarters there.

There are valid public policy reasons for permitting banks to offer insurance services, benefitting both consumers and banking industry soundness and capacity. At the same time, the inter-industry fight could prove hard to win and distracting to other Administration priorities. **Accordingly, we recommend that the Administration support on public-interest grounds the notion that banks ought to be allowed to continue to sell**

insurance as current law permits and work to develop further the idea of insurance sales by banks in and from inner cities. Because of the political complexities of the issue, however, we further recommend that the Administration avoid significant investments of political capital in this position. This process would be coordinated closely with Howard Paster as well as Michael Levy, who heads legislative affairs for Treasury.

IV. FDIC Chairmanship

Criteria:

In order for you to have a strong financial services policy that supports economic growth and expansion you must have an FDIC Chair who shares your agenda, can work collegially with the other regulators and has an understanding of, and an intellectual ability to deal with, complex bank regulatory matters. There are several reasons for this:

- Once appointed, the FDIC chairman is independent and cannot be removed. In the Bush Administration, FDIC Chairman Bill Seidman pursued an agenda sharply conflicting with that of the Administration. This possibility is heightened by Congressional pressures and the peculiarities of the FDIC staff.

- In order for the Clinton Administration to achieve its credit availability goals, it is essential that the FDIC concentrate on its historic core mission of supervising the deposit insurance fund and liquidating failed institutions. This vision of the FDIC as solely the insurer and liquidator engaging only in very special circumstances in special examinations of the weaker institutions and enforcement to protect the fund, is critical to keep the FDIC from duplicating or triplicating bank and thrift examinations, as well as pursuing excessive and burdensome regulatory initiatives.

  Some part of this effort to focus the mission of the FDIC and keep it from chilling bank lending, through burdensome duplication of examination and excessive regulatory initiatives, was accomplished in a joint agency agreement pursuant to the Administration's credit availability initiative, and several FDIC Board actions, culminating recently in a decision to sharply limit duplicative examinations.

- The willingness of the Federal Reserve Board to be helpful in pursuing Administrative objectives is affected not only by the Fed's relationship with the White House and Treasury, but also by how the Fed feels vis a vis the FDIC. Currently, the Fed and the Clinton Administration working group have an excellent relationship. The wrong FDIC chairman could harm this constructive program.

- The FDIC chairperson should be someone who is analytically strong. Much of what the FDIC has to deal with involves a massive amount of rules, regulations and statistics that greatly impact banks and thrifts.

- With all this said, an FDIC chairman cannot be perceived as too strongly influenced by the industry or insensitive to safety and soundness concerns. Any such perception would render Senate confirmation problematic, if not impossible, and damage the new Chairman's ability to support a credit expansion agenda.

Ricki Tigert

Having reviewed dozens of candidates for Chairperson of the FDIC, we are convinced that Ricki Tigert is an excellent candidate and have recommended that the White House should move on her nomination immediately. We have come to this conclusion for several reasons.

- Ricki clearly shares the view that the FDIC should focus its resources and attention on its core mission of insuring and liquidating, and not on regulation of healthy banks. And, Ms. Tigert is a strong supporter of your Administration.

- Ricki is very strong substantively. She has exceptionally fine academic and substantive credentials and as a former Treasury Official and as Fed Deputy General Counsel, Ms. Tigert has considerable experience in this area.

- Ricki is respected by Fed Chairman Greenspan and other Fed Governors. We are confident that she would be able to work well with the Fed and its staff, as well as with the Administration.

- Having come from a small town in Tennessee, and having done a considerable amount of work professionally with smaller institutions, including minority institutions, Ricki is clearly sensitive to the important role of community banks in this country.

- Ricki would make a major contribution to the President's goal of making Washington's senior officials more diverse. There has never been a senior bank regulator in the history of the country who has not been a white male.

- Ricki is confirmable.

Bill Brandon

Another key candidate is Bill Brandon. Bill approached us about the FDIC chairmanship and informed us that he believes that whatever competition there might have been in the past between Bill Bowen and himself was now resolved as Mr. Bowen has taken a new position in hospital administration in Arkansas. While neither of us know Bill very well, we have both had occasion to work with him over the last several months and we have talked with him at some length about the FDIC job and his vision of that organization's role and your Administration. We have come away from these meetings with the belief that Bill is a very fine person who, not surprisingly as a senior bank officer and American Bankers Association President, is quite knowledgeable about banking issues.

Bill appears to share a vision of the FDIC that would be consistent with your credit availability initiatives. Moreover, Bill almost certainly has the forcefulness for the job.

However, we have reservations about nominating Bill for this position because of his current position as President of the ABA. Although it may well be the case that if the Administration put on a campaign, Bill would be confirmable, Bill is quite likely to be viewed by some in Congress and a variety of important consumer groups as the fox guarding the hen house. This perception would be almost certain to limit his ability to pursue the regulatory agenda needed to support the credit availability initiative, and his nomination would almost certainly be damaging to the credibility of your Administration with these groups.

Can Cy do [illegible]

With all this said, we both like Bill and would be pleased to explore further the viability of his candidacy for the FDIC job, if you would like us to.

* * *

Pursuing an appropriate bank and thrift regulatory policy can prove to be a material support to the economy. In the past, policy and regulation in this area has been badly handled. Without significant changes, this support will be almost impossible to realize. Moreover, the banking and thrift sector, without significant changes, could well prove over time to be a drag on the economy. We believe that the program described in this memo provides the initial steps to make needed changes, as well as a framework for additional initiatives to implement over time. We look forward to the opportunity to discuss the specifics with you.

IN THE LOOP

Filling the FEC: Who Will Choose?

By Al Kamen
Washington Post Staff Writer

A battle is brewing over who will fill two vacancies on the six-member Federal Election Commission, the panel that oversees federal election laws.

On one side is the good-government crowd—the Center for Responsive Politics and Common Cause—insisting that members of Congress should not decide who will monitor their election activities any more than the Mob should pick federal judges.

On the other side is Congress, having prevailed on administrations going back to **Gerald R. Ford**'s to let it pick the six-member board, which is divided equally between Republicans and Democrats. Total presidential control, Congress's backers argue, would give an unfair advantage to whichever party runs the White House.

The latest fight involves **President Clinton**'s new best friend, Senate Minority Leader **Robert J. Dole** (R-Kan.), who last week backed the administration on Somalia. Dole has written White House personnel boss **Bruce Lindsey** that "it is my sincere hope that this tradition [of congressional picks] will be upheld."

The administration, which has yet to respond to three letters from the Center for Responsive Politics urging nonpartisan White House selections, apparently has responded to Dole's inquiries, leading some to wonder whether Dole and his Democratic counterparts on the Hill will prevail again.

The Supreme Court has said that Congress had no constitutional authority to make the appointments, but a constitutional fig leaf may be taking root.

Lindsey asked Dole, who strongly favors reappointing Commissioner **Lee Ann Elliott** to another term, to suggest a second name for the slot. That would put an advisory gloss on congressional actions.

Dole wrote Lindsey that "in the interest of fair play," he would recommend **William B. "Rusty" DePass**, who sits on the South Carolina election commission.

Don't pack your bags yet, Rusty.

Galloping to the Rescue?

■ A press release announcing a legal defense fund for former Bush administration aides **Margaret Tutwiler** and **Janet Mullins**—under investigation by a special prosecutor in the Clinton passport caper—identifies the PR firm issuing the release as "The K Group" in Somerville, Mass., headed by **Julie T. Kelleher**, who runs the operation out of her home.

The announcement reads: "As reported in a recent Wall Street Journal editorial, legal fees running into the hundreds of thousands of dollars have been incurred by these and other former government aides as a result of the onslaught of yet another Special Prosecutor." And just what is the K Group?

The announcement explains. "The K Group is a free-lance information/consulting organization committed to the dissemination of factual information and the exposing of injustice wherever it is found."

Not since the Lone Ranger rode off into the sunset. . . .

Bound for Brazil Again

■ State Department career officer **Melvyn Levitsky**, said by some to be a drop-dead look-alike of former Fox Television chairman **Barry Diller**, is in line to be named ambassador to Brazil. Levitsky, now assistant secretary of state for international narcotics matters—also known as Drugs'n Thugs—had been looking at some Eastern European posts, but Poland and Hungary became political plums, and Levitsky jumped at the Brazil offer.

The Portuguese-speaking Levitsky has been there before, serving three years in Belém and Brasilia in the late 1960s.

Breaking Business Ties

■ Changing hats, cutting ties.

One day last August former Ohio governor **Richard F. Celeste** was earning some pretty decent change as a consultant for Mountain State [West Virginia] Blue Cross and Blue Shield and from the board of a sports medicine operation.

Then he was named chairman of the Democratic National Committee's National Health Care Campaign, working to pass the Clinton administration's health care initiative. Four days later he dropped Mountain State, from which he had made $150,000 for his political work to help ease relations between the health insurer and West Virginia officials.

According to the Cleveland Plain Dealer, Celeste cashed in stock options with the sports medicine company worth $268,000 between November 1991 and December 1992.

"I don't think there should be any question about divided loyalties in work of this sort," Celeste said.

Lawyer Talk at the White House

■ There's talk at the White House that Washington lawyer **Victoria L. Radd**, who worked in the Clinton campaign war room for James Carville and advised Clinton on the debates, is a possible replacement for **Ricki Seidman** as "ConCosPotus," or counselor to chief of staff **Thomas F. "Mack" McLarty**.

It's Official. . . .

■ Clinton said Friday he will nominate **Frederick G. Slabach**, associate dean at Mississippi College School of Law and before that legislative aide to former Mississippi senator **John Stennis**, to be assistant secretary of agriculture for congressional relations.

Also, **Wally B. Beyer**, longtime general manager of an electric cooperative in North Dakota, has been named administrator of the Rural Electrification Administration.

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THE PRESIDENT HAS SEEN 10/11

Mac/65
What should we do
on this —
B.

THE FEDERAL DIARY

Retiring Without Buyouts

By Mike Causey
Washington Post Staff Writer

Many of the Washington area's 100,000 federal retirees are steamed about the government's plans to offer early retirements and buyouts to current employees. Some retirees ask where the perk was when they needed it, while others wonder if their delayed cost-of-living raises are financing the buyouts.

Another Monday Morning Quarterback (this one works at the White House) hopes the president will remember that charity begins at home when the buyouts roll. This is what other people are saying:

■ "The president has asked Congress to approve $25,000 buyouts to persuade federal employees to retire. At the same time, federal retirees are having pension cost-of-living adjustments delayed from January until April for the next three years, which in effect will help pay for these buyouts. Apparently the president wants more federal employees to retire so that he can reduce their pensions too. What a Catch-22 situation!

"However, federal employees are now delaying retirement in expectaton of getting these buyouts. A proposal by the president for a future increase in the retirement age and/or the number of years used to compute the pension amount would persuade more federal employees to retire without the need for buyouts."

William J. Ziegler, Ellicott City

■ "The White House could clear the decks, fast, of the 252,000 civil servants it wants to get rid of, very simply. And without costing the taxpayers a nickle. It is this:

"Raise the minimum federal retirement age from 55 to 60, or 62, or 65 if you really want to see a mass exodus—and without buyouts! Or propose increasing the pension reduction from 2 percent to 5 percent for people who retire early. Most private firms sock it to early retirees, trimming their pensions 4 to 5 percent for each year they are under age 65. And I don't know of any company that gives retirees cost-of-living adjustments after they retire.

"If a Democratic president proposed raising the retirement age, the Democratic Congress would pass it fast. Just the threat of raising the retirement age would push thousands of people into retirement, and without the added cost of buyouts."

No Name, I Live in Federally Infested Takoma Park

Many federal workers are convinced that the Clinton administration *will* go after the retirement program next year. In the meantime, Rep. **Robert H. Michel** (R-Ill.) has 100 cosponsors for an alternative health care bill that would be financed, in part, by raising the federal retirement age to 62.

The bipartisan Concord Coalition, headed by former senators **Paul E. Tsongas**, a Massachusetts Democrat, and **Warren Rudman**, a New Hampshire Republican, has proposed other changes, including basing retiree pensions on the highest four-year average salary (the Civil Service Retirement System now uses a high-three formula), denying cost-of-living adjustments to retirees until they are 62 and cutting government contributions to the 401(k) thrift savings plan accounts of employees. Michel's bill could scare some people into retiring, while the Tsongas-Rudman plan could make them afraid to retire until they are at least 62.

■ "Buyouts! Buyouts! Buyouts! Is that all your column ever talks about? By and large, most of these self-centered bureaucrats have been drinking at the public trough long enough. How about granting more time and space to those workers earning less than $30,000 who are struggling to survive? Those are the people who deserve compassion and support."

Nolan Dalla, Crystal City

THE PRESIDENT HAS SEEN 10/11

TOUR

THE WALL STREET JOURNAL MONDAY, OCTOBER 11, 1993

A Pediatrician's Fears

By Amity Shlaes

If any doctor ought to love the Clintons' health care plan, it is Laura Popper. A baby boomer who voted for the president, Dr. Popper shares the first couple's '60s nostalgia and their taste for social activism. An urban pediatrician, Dr. Popper is one of the prized plan "gatekeepers" who stand to face few of the hurdles the administration would place before medical specialists.

But sitting in a red-painted office suite lined with lab kits and plastic Ninja turtles, Dr. Popper looks close to despair. "Every night I lie down in bed and am just so sad. This change is the end for my business and my profession."

Dr. Popper is my own children's pediatrician, but when I looked around I found that she isn't the only fearful doctor. Although "choice" for patients and physicians is a cornerstone of the Clinton proposal, doctors worry that that choice is a mirage that conceals a future of lower quality health care.

A Rush to Join

Two weeks ago the American Medical Association spent more than half a million dollars on a mailing announcing that "government and corporate intrusion into the relationship between the physician and patient could transform doctors from advocates for their patients to simple dispensers of services." That same week, Dr. Popper was already rushing to join a local managed care network, the Oxford Health Plan, before a Sept. 30 deadline.

Laura Popper

"I still have patients with other insurance. But now [with the Clinton program] I don't have a choice about joining. It's that or face the possibility of being locked out of where the patients are."

To understand Dr. Popper's panic I spent a few mornings surveying the patients and equipment at her Manhattan practice. On a Friday, a three-year-old with a blood-clotting problem plays quietly with her doll amid miniature dumpsters on the gray-carpeted waiting room floor.

Lindsay and her nanny are waiting for the results of a blood analysis—one of three in a week performed by Dr. Popper's assistant Kathy right in her office. Ten minutes later Dr. Popper knows that Lindsay's platelet count has improved enough for her to go home, but not yet reached normal levels. She kneels to go eyeball to eyeball with the child. "No jumping off the bed, right? It's going to be a quiet, watch-Aladdin type of weekend."

This snappy outcome may not be available long. The $10,000 machine and printer that performed the platelet count are the kind of luxuries many managed-care physicians aren't reimbursed for and so can't afford. An Oxford spokesman says that the health plan would allow such an in-office test as an emergency but might ask that the follow-up tests be sent to a lab at Dr. Popper's own hospital, New York's Mount Sinai.

"Right now," says Dr. Popper, "Lindsay doesn't have to wait [for lab reports from outside of the office]. I don't have to charge her for all of these visits—in fact, I don't. I decide. Under a plan, I won't."

Another tool of Dr. Popper's, a box called a pulse oximeter, poses similar problems. The instrument measures the oxygen level in asthma and pneumonia patients' blood, a figure that tells doctors whether patients need emergency treatment at hospitals. The pulse oximeter spares a wheezy five-year-old named Max an expensive morning in the emergency room—he spends it lying on Dr. Popper's father's old blanket beside the machine while she performs a series of painless tests on his blood.

But the device cost her some $2,500 (used) and Dr. Popper fears she won't be able to afford a new one with the heavier patient burden doctors usually face after they join managed care plans. The result? She'll have to send future cases to the emergency room.

Strep tests, a third staple in the Popper world, are also likely to fall under the regulating eye of government and managed care. To check sneezing preschoolers for strep, Dr. Popper likes to do two tests in her office—an instant one from a kit backed up by a more reliable throat culture she grows overnight in her own incubator. When the instant tests are positive, she prescribes antibiotics right away. Oxford physicians report they are allowed to do one test in office—but not both. So they are forced to send the traditional culture out to a lab, which frequently takes 24 additional hours to return the results.

Dr. Popper is angry about this. "It means at least a day's extra wait before the child can go back to day care or school. So it means one day more Mom or Dad has to skip work to sit with a sick kid." Asks Dr. Popper, "Is that economy?"

Munching a veggie sandwich in her office, Dr. Popper elaborates on such intrusions. Oxford's plan allows six well-baby visits during the first year of life. She herself likes to see such children nine times—$225 in added revenue for Dr. Popper and staff—but also "a potentially healthier kid." Oxford replies that six well-baby visits is the number recommended by the American Academy of Pediatrics, whose guidelines it follows. Dr. Popper, though, says a few extra visits enable her to avert crises by "supporting the family"—an end the family-oriented Clintons also seek.

"Dr. Popper looks close to despair about the Clinton plan. 'Every night I lie down in bed and am just so sad. This is the end for my business and my profession.'"

Oxford member pediatricians report too—and Oxford confirms—that they receive $49 per well-baby visit from the plan, or $26 less than Dr. Popper's regular $75 rate. Washing her hands in an examining room decorated with a photo of her younger self beside folk star Mary Travers at a 1968 Vietnam War protest, Dr. Popper reflects on such bottom-line issues. "I work at least 50 to 90 hours a week. I meet my patients in the emergency room at night; I'm on call for them at home. My fixed expenses will stay the same. But I stand to earn 20% to 30% less," she says.

Dilemmas like hers reflect the unnecessary side of the Clinton program. Pediatric practices aren't usually associated with the $100,000 bills generally generated by comatose octogenarians. They are lollipop-and-immunization shops whose savings won't provide much toward financing the rescue of America's 37 million uninsured. And yet pediatricians will be roped into the system with the rest.

"We are worried about the quality of care," says Louis Montt, a pediatrician who heads the Mount Sinai Independent Practice Association, an 800-doctor group with admitting privileges at Mount Sinai. As rates go down, he says, the number of patients who physicians see will have to go up.

Friends of managed care would argue that these doctors' fears are exaggerated. For now, they may be. Oxford, the plan she is joining, is a wildly successful group with a reputation so good it is known as the Cadillac among networks. It boasts a special "Freedom Plan" designed to give HMO members the option of choosing their own doctor when they want to. Its spokesmen insist, with some justification, that it has a "partnership relationship with physicians, as opposed to a punitive one." So far, says Ramon Murphy, a pediatrician who has been with Oxford several years, "it has been an HMO that has worked."

But physicians fear that as such plans widen to include patients more expensive than Dr. Popper's average, they will move from their current fee-for-service option to capitation, under which physicians are paid a flat fee per patient. Says Dr. Murphy, "Many of the pediatricians at Mount Sinai would withdraw from any arrangement with health care plans that go to capitation." Oxford for its part wrote in a fax to this newspaper that its strategy "is in stark contrast to capitation."

Eroded Assets

Efficiency efforts such as capitation may well curtail the medical establishment's fabled profiteering. But they will also erode assets like intuition and autonomy that make American health care the world's best. Dr. Popper's own departure would end the career of a professional so dedicated she reapplied to medical schools after 1960s quotas for women students locked her out of their halls on her first application.

Dr. Popper recalls how her own childhood pediatrician drew her toward medicine. "I remember his office, the mystery of all his instruments. I wanted to be like him, to have the goal of helping people. But managed care cuts at the heart and soul of that by focusing on economics alone." As she talks, her eyes move across a wall decorated with infant snapshots and kiddie artwork. Among the items is a childishly punctuated note from a little girl named Megan. It reads: "Dear Dr. Popper, You are the best Dr.; P.S., I want to be a Dr. when I grow up."

THE PRESIDENT HAS SEEN 10/11

Zbig
What's the
deal here? We need
to run this down—
This can hurt—

THE WHITE HOUSE
WASHINGTON

DATE: Oct. 10,1993

TO: The Vice President, Mack, David G., George S., Howard, Laura Tyson

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

The attached has been forwarded to the President.

039443

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C.

SECRETARY OF THE TREASURY

October 7, 1993

MEMORANDUM FOR THE PRESIDENT

FROM: LLOYD BENTSEN

Lloyd Bentsen

SUBJECT: Banking Policy

Attached is a memo prepared by Frank Newman and Gene Ludwig in response to your expression of interest in a range of banking issues. I believe the memo provides excellent background on a number of important matters that bear on the overall economy, as well as the banking system. I have worked with Frank, Gene, and Roger Altman on these issues, and support the recommendations. Frank and Gene have also worked closely with others in the Administration, particularly NEC and OMB, and the memo reflects a largely shared view of policy direction.

I believe it is important for our Administration to have such a comprehensive approach to banking system issues, and to state it publicly and carefully. The U.S. banking system is facing secular decline, with enormous potential implications for the economy. We have the opportunity to take actions to strengthen the system while simultaneously delivering benefits to a broad range of consumers and businesses. The approach described in the memo should expand productive lending, help distressed communities, increase U.S. competitiveness internationally, and improve the financial condition of the industry.

The memo also provides background and an opportunity to settle on an appropriate nominee for Chairperson of the FDIC, the last especially important financial system appointment remaining to be filled.

I understand that Bob Rubin will be arranging a time soon for Frank, Gene, Bob, Roger and me to meet with you on these issues, and we all look forward to discussing them with you.

Attachment

cc: Bob Rubin

MEMORANDUM

To: The President

From: Frank Newman, Gene Ludwig

Re: Credit Availability and Other Banking Policy Matters

CC: Vice President Gore, Lloyd Bentsen, Bob Rubin, Roger Altman, Chris Edley, Ellen Seidman, Joe Stiglitz, Howard Paster

Date: October 6, 1993

This memorandum responds to Bob Rubin's request that we briefly outline for you (1) broadly, what we propose as the architecture of Clinton Administration depository institutions policy; (2) the progress of the Administration's credit availability program to date along with further actions that could stimulate bank lending; (3) our views on several pending legislative issues; and, finally, (4) our current thoughts on selection of an FDIC Chair.

INTRODUCTION

The banking and thrift industries in this country find themselves in the midst of a long term secular decline that worsened markedly in the last decade. Assets under management of banks and thrifts fell a full 10% in the last decade from 58% to 48% of total assets. This trend continues, but is temporarily overshadowed in the press by a cyclical upturn in profitability that in part reflects the interest rate environment but also reflects improvements to balance sheets as we have moved away from the depths of the last recession.

This secular decline results in part from anachronistic, inconsistent and frequently excessive legislative and regulatory restrictions on banks and thrifts. A perpetuation of such an environment will produce continued pressure for contraction of these industries. If the contraction results from regulatory inertia or excess, rather than economically sound rationalization, it could have a serious adverse impact on the overall economy. Banks and thrifts remain major sources of financing for consumers and businesses, and banks are critical elements of both monetary policy and the payment system. A disorderly, non-economically based contraction of the system would harm businesses, consumers and communities, both directly and indirectly.

The Clinton Administration has an opportunity to reduce the layers of inconsistent and excessively restrictive legislation and regulation that shackle the economic potential of these industries. To accomplish this requires a principled policy that is very carefully executed. Careful execution is particularly necessary here because of the complex politics of the relevant committees in Congress, the 4 federal bank and thrift regulatory agencies, and the powerful special interest lobbies.

In our view, Administration policy with respect to insured depository institutions should emphasize two overarching themes:

- Access to credit and other financial services for all financially capable businesses and individuals through the elimination of non-economic barriers, including in particular those raised by regulation and discrimination; and

- Steady and prudent regulation in the interests of solid, long-term economic growth and the prevention of further deposit insurance crises.

Main Treasury and the OCC, in cooperation with the other federal bank regulatory agencies (FDIC, OTS, Federal Reserve), have launched several initiatives that reflect these themes, promoting credit availability through the removal and reform of regulations that irrationally impede lending to various kinds of borrowers. We believe these measures are having a positive effect on bank lending and will have an increasingly positive effect in the months ahead. We will pursue several additional steps in the weeks and months ahead.

We have also launched initiatives to end illegal lending discrimination and to otherwise encourage the availability of credit to low and moderate income individuals and small and medium sized companies and farms.

However, there remain several critically important matters that must be dealt with by Congress. Several of these matters will be taken up by Congress within the next few months. Options on how to deal with these issues and our preferred legislative approaches are outlined below. We seek your guidance on whether to proceed with our approach or to follow another path.

In carrying out the policies we have outlined above, it will be necessary to have an FDIC chairperson who, in addition to being competent on the issues, is loyal to your

Administration and its vision in this area, is a team player and does not detract from the Administration's ability to deal with Congress and the key Congressional committees. We have recommended Ricki Tigert for this position. However, as will be discussed in greater detail below, we believe that Bill Brandon would also be a fine candidate for this position, though his confirmation, and, if confirmed, his chairmanship, are likely to present some serious challenges resulting from his presidency of the ABA. (Further considerations on this important selection are discussed in section IV below.)

In developing our views in this policy area as well as our policy initiatives to date we have had a very cooperative relationship with a variety of people in the White House and in other Departments and agencies. In particular, we have worked closely with both Chris Edley at OMB and Ellen Seidman at the NEC, both of whom share the overall thrust of this memorandum. We would expect to work closely with Chris and Ellen in elaborating upon the approaches suggested by this memorandum, should these approaches meet with your approval.

DISCUSSION

I. The Architecture of Clinton Administration Depository Institutions Policy

(1) Elimination of unnecessary barriers to the provision of credit and other products and services by banks and thrifts. Such barriers can take a wide variety of forms, including:

- outmoded statutes, regulations, and supervisory practices;
- duplicative or conflicting regulatory requirements that consume financial and personnel resources that might better be expended in service to the economy; and
- illegal discrimination against classes of prospective borrowers and customers and other forms of prejudice that blind some lenders to the existence of sound business opportunities.

From the very start of this Administration, we have focused our attention -- and that of the institutions we regulate -- on this theme. It is the basis of the Credit Availability Program, and the Community Reinvestment Act reform effort you have asked us to implement, as well as the Community Development Financial Institutions Initiative moving through Congress. Emphasis on broadened credit availability is not only the right thing to do both philosophically and economically, but additionally, the Administration's vigorous pursuit of this goal has given the Administration political credibility with community groups and others whose support will be important as we move to rationalize the regulatory system.

(2) ***Steady, prudent regulation in the interests of solid, long-term economic growth and the prevention of further deposit insurance crises.*** America's economy remains to some degree in a state of shock, partly induced by the serial collapses of the savings and loan industry and the savings and loan insurance fund as well as by the troubled bank environment of the 1987-92 period. Rebuilding confidence in America's depository institutions as well as the federal regulatory agencies that supervise and insure them is a critical step along the path of economic recovery. This combination of confidence and participation in the economic recovery depends on establishing a new balance between encouraging the risk-taking that is the role of financial intermediaries and regulating the system so risk is prudent, well managed, and properly capitalized.

We believe that, as your Administration proceeds, this theme will resonate in the day-to-day actions of your regulators, and in steady improvement in the condition and lending capacity of America's depository institutions. We also believe that in contrast to the last five years, numerous members of Congress and much of the press (as well as the vast majority of America's bankers) will be looking for actions in support of this theme (and will be hostile toward actions in derogation of it). However, we see no need for affirmative steps to highlight it at the Presidential level in the absence of a crisis.

Both main Treasury and the OCC are engaged, separately and jointly, in a variety of initiatives in this area, including new supervisory approaches, approaches to better protect the deposit insurance funds and approaches to avoid the insolvency of one or several depository institutions becoming a systemic problem. On the issues of further protection for the funds and systemic risk, we have been working closely with the Governors of the Federal Reserve Board.

II. Regulatory Activities

A. The Credit Availability Program

The Administration initiative in the depository institutions sphere that has received greatest attention is the Credit Availability Program ("CAP") announced at the White House on March 10.

First Phase: The federal bank regulatory agencies, coordinated by the OCC, completed the first phase of the CAP in June. With one exception where threatened litigation by the appraisal lobby has made regulatory change a longer process, all of the reforms designed in that phase have now been implemented.

Second Phase: As part of the second phase of the CAP, the OCC is now undertaking and encouraging the other bank regulatory agencies to undertake a number of initiatives:

- Rewriting rules, regulations, and policies to reduce compliance costs and paperwork burden to the industry. The OCC has already targeted over twenty policy areas for reform and will soon release major rule changes for public comment. In addition, bank examiners across the country are reviewing OCC's examiner guidance to identify dispensable procedures and requirements.

- Upon a motion of the OCC, the FDIC Board recently adopted a program to significantly reduce the number and burden of duplicate examinations of the same institution.

- The OCC, and at its behest the FDIC, have used guidelines and performance objectives, rather than command-and-control regulations to implement the most unnecessarily intensive requirements of recent banking legislation.

- The OCC has initiated a program to foster industry self-regulation as an adjunct to federal regulatory efforts. The OCC is working actively and successfully to encourage industry efforts in the areas of equal credit opportunity and mutual fund sales.

- At your initiative, the OCC is working with other bank regulatory agencies to combat discrimination in the banking industry and reform administration of the Community Reinvestment Act. Success with these efforts will significantly broaden credit availability for minority and low-income individuals and households.

- In conjunction with the NEC (Ellen Seidman) and OMB, (Chris Edley), we are working with the SBA (Erskine Bowles) to develop programs to spur small business lending. **From our discussions to date, including discussions with dozens of business leaders and bankers, we believe the most effective additional step the Administration can take to further spur small business lending is to expand the SBA small business guarantee program.** In addition, we are exploring potential improvement and expansion of the Small Business Investment Corp. (SBIC) program, through which banks can provide equity capital for small businesses.

Tone: As with virtually every other economic matter, achieving greater availability of credit and other banking services is heavily dependent upon the psychology of the participants. Accordingly, we have worked hard to set a tone which we believe resonates well with lenders, consumers and examiners.

More particularly, we have attempted to make certain: (i) that industry members understand that the Clinton Administration appreciates and is tackling the problems they face from excessive and inconsistent regulation; (ii) that consumer groups and the general public know that the Clinton Administration is working to ensure fair access to credit for all Americans; and (iii) finally that examiners understand that the Administration believes we can and must combine safety and soundness with fair and efficient access to credit, and examiners working to this end will be supported, not dangled as bait before Congress should there be another crisis.

We have actively gotten this message out through meetings held by the OCC with its examiners around the country, as well as through speeches and press interviews.

Results: Because the CAP initiatives are only beginning to take effect, available data is just beginning to demonstrate results. Nevertheless, we believe the CAP is having a positive effect on bank lending. We expect increasingly positive results as the initiatives taken under the program are adopted by banks and thrifts in the coming months.

Available data do not conflict with this surmise. After 11 quarters of decline, bank lending was up in the second quarter of this year. Lending was up in New England, which is just beginning to recover economically. However, lending was still flat in the far West which is not surprising given the economic slowdown in the region.

Given the lag time between the date rules are changed and the date they finally impact credit decisions, we would not expect the full effect of the rule changes to be apparent for several more quarters. However, while it is doubtful that the CAP reforms themselves had a great deal to do with the second quarter's increases, the positive psychology created by the announcement of the program and the aggressive way it has been carried out did, we believe, have a considerable impact on this increase. Informal surveys of bank executives confirm this indirect effect. We expect that as the CAP reforms themselves impact lending decisions, the effect of the program on loan growth will be increasingly positive.

B. Bank Investments in Government Securities

In recent months, various parties have advanced a number of proposals to stimulate bank lending by making it more costly for banks to hold government securities. Proponents of this change argue that, by making investments in government securities more costly, we will make other investment activities, especially loans, more attractive.

Although this step is permissible under the Basle accords, no other nation has placed a credit risk-weighting on its own sovereign securities. Moreover, we believe that the impact of such a move would be unlikely to be positive in the aggregate. Indeed, it would probably have adverse macroeconomic consequences that vastly outweigh any conceivable benefit. (These views are shared by the Federal Reserve Board.)

Over the last several months, we have had many contacts with banks from all over the country, and we have seen no indication that increasing the capital charge on government securities would increase lending. In addition, we have seen no indication that providing greater flexibility in the area of securitization of small business loans would increase lending to small businesses, at least in the near term.

For the industry as a whole, increasing the capital charge assigned to government securities would have two clear effects:

(1) To the extent banks choose to retain those securities, they would have to hold greater capital reserves, thus reducing their lending capacity; and

(2) To the extent banks choose to divest government securities, the sell-off would increase the amount of federal government debt in the market, decreasing demand for that debt, increasing interest rates, and thereby undermining efforts to spark an economic recovery.

Accordingly, we (and the Federal Reserve) urge rejection of the proposals to artificially impose capital charges on government securities

C. Securities Underwriting

One of the important financial services areas from which banking organizations have largely been restricted since the 1930s has been underwriting securities. Although this is an area that has been portrayed as "too risky" for banks, in point of fact the area has proved materially less risky than making loans over the years. In part this stems from a variety of underwriting techniques that limit the extent to which, and the time during which, the underwriter is at risk.

The underwriting of securities is a natural business for banks as it is another facet of the credit extension business. It is an area that has experienced steady growth over the last few decades. Moreover, the securities underwriting business is currently quite concentrated with relatively few participants. The competitive pressures that would be generated by allowing banks to engage in more of this activity would probably benefit both businesses and the economy more generally.

The Federal Reserve Board, under currently applicable law, has permitted certain subsidiaries of bank holding companies to underwrite a limited amount of securities. The Fed has the power to expand this window considerably. However, the Fed has failed to take action in this area out of concern that political forces will either seek to reverse the Fed's action or take other adverse actions.

Accordingly, the Fed is reluctant to take action on its own at this time. However, we have discussed this subject at considerable length with Alan Greenspan who tells us that the Fed would take some modest action to expand the underwriting opportunities for banking organizations if the Clinton Administration would publicly support it as appropriate. This action would still limit banking companies to conducting such activities as a small percentage of separate subsidiaries, funded entirely without insured deposits.

We recommend that we tell the Fed that we would support a technical regulatory change that would modestly expand the opportunities for banking organizations to engage in underwriting activities under existing law, provided that after consultation with the Administration's legislative affairs office it is clear that the timing is appropriate, and that Congressional reaction is not likely to present significant problems. Any further steps in this area would be held for careful consideration next year.

In addition, we propose a serious examination of potential legislation that would permit banking organizations to underwrite securities offerings for, and invest in small and medium sized companies. This is a market that is under served and that needs equity and debt capital. It is a market that the banks often tend to know best.

III. Legislative Issues

Congressional actions are rapidly moving the Administration toward the point at which it must take definitive positions on a number of legislative issues. In particular, Senate Banking Committee and the Financial Institutions Subcommittee of the House Banking Committee (Neal) have announced fall legislative agendas that focus on four issues with significant policy implications: (1) reduction of regulatory burden; (2) interstate branching; (3) consolidation of the bank regulatory agencies; and (4) bank sales of insurance.

This portion of the memorandum provides recommendations and brief overviews of each of these issues.

We believe any decision in these areas should be based on the broad architecture (or basic themes) of a Clinton era depository institutions policy, as outlined above. That architecture can be applied to the issues set out below and other major issues if we assess them on the basis of two tests.

- Does the proposal on balance benefit the economy and the consumer (including business and individual consumers); and

- Does the proposal on balance materially decrease or increase the safety and soundness of depository institutions?

A. Reduction of Regulatory Burden: Although much is being done now to reduce needless regulatory burdens on banks through administrative actions, some steps require legislative change. Bills have been introduced in both the House and Senate, based on a "laundry list" from the bank trade associations to provide "regulatory relief." While many of the provisions of these bills are sound and appropriate, many others are overdone and would be highly controversial in Congress if actually brought to mark-up.

Members of both Houses have initiated efforts to add these bills to the Community Development Financial Institutions Bill ("CDFI"). Although we believe that there is merit in supporting the constructive elements of these regulatory relief bills, we have had a great concern that, if laden down with the full laundry list, the CDFI bill would get mired in long and vehement Congressional disputes. Fortunately, working with others in the Administration and in the Senate, we have been able to get a more focused version of the regulatory relief legislation incorporated into the Senate version of the CDFI bill, and to reach an agreement with the American Bankers Association that this focused approach is wise. The CDFI bill, incorporating this focused regulatory relief approach, recently passed the Senate Banking Committee with a strong bipartisan vote of 18-1. We will be working towards a similar approach in the House.

B. Interstate Branching: The Douglas amendment to the Bank Holding Company Act permits banking organizations to own banks in any state where the host state permits such ownership. Currently, virtually every state in the United States allows some out-of-state banking organizations to own a bank in the state. Accordingly, interstate banking, though something of a patchwork, already exists. The current structure is extremely clumsy, however, for customers as well as for the banks. For example, even though several banking companies operate subsidiary banks in Virginia, Maryland and the District of Columbia, they are legally separate -- so a customer of NationsBank who has an account at a Virginia branch cannot make a deposit at a NationsBank branch near his or her office in D.C.

The current patchwork can be altered in a variety of ways to make it more rational. At the furthest extreme, so-called "full interstate branch banking," a bank could be permitted to branch anywhere in the country it wished. At the other extreme, so-called "branch consolidation," a banking organization would merely be allowed to convert its existing multi-bank, multi-state system into a one bank multiple-branch organization.

This latter option, branch consolidation, would leave it entirely to the states to determine which banks they let into their states and where in their states an entrant could branch. Given the complex politics on this issue in Congress, we favor pursuing the branch consolidation route at this time.

If we analyze branch consolidation on the basis of the two criteria we have proposed, it is highly desirable: first, allowing branch consolidation would make existing organizations much more efficient. These efficiencies will, in part at least, translate into increased lending or more competitive service to the benefit of the consumer, and will provide more rational, convenient service for bank customers. Moreover, branch consolidation raises virtually none of the states rights issues or the community service issues raised by full interstate branch banking. This approach would apply only to those states that already permit out-of-state bank holding companies to own banks in the state, and would honor each state's laws governing branch locations.

Concurrently, branch consolidation translates into more rationally organized and run banking organizations that are easier to examine. The increased efficiency should aid in capital formation. Hence, permitting branch consolidation increases the safety and soundness of the system.

This does not mean this proposal is non-controversial. On the contrary, community bankers will fight any move that makes multi-state banking better, and some community groups are concerned that any move toward larger banks will reduce commitment to and service in local, particularly small and rural, communities. By adopting the branch consolidation version of interstate branching, we believe those objections can be overcome on the merits. We believe that after voicing some concern the community groups will accept branch consolidation legislation, if they get something in return. And, while the community bankers, as a trade association, are unlikely ever to support any form of interstate branching, we think they might be inclined not to fight too much -- again if they get something in return. The key, in our opinion, is CRA reform. If the community groups believe our CRA effort will indeed force all banks -- but particularly regional and national banks, to serve all communities in which they are located, and the small bankers are able to be relieved of some regulatory burden in this area, opposition to branch consolidation could dissipate. The key is attention to the varied interests, and careful timing of the CRA proposals.

We recommend that the Administration support legislation to permit branch consolidation. (Such legislation has already been introduced in Congress in various forms.)

As a timing matter, Chairman Riegle has decided to hold hearings on interstate branching this fall, and has asked both of us to address this issue in testimony before the Senate Banking Committee. A similar request has been made by Congressman Neal for testimony before the House Banking Committee's Financial Institutions Subcommittee.

C. ***Regulatory Consolidation:*** Both Chairman Riegle and Chairman Gonzalez strongly support legislation to consolidate the existing bank regulatory agencies into a single regulator. Senator Riegle has asked Frank Newman to present the Administration's views on this issue at a November hearing.

We believe that carefully structured and implemented regulatory consolidation is good public policy. The existing multiplicity of bank regulatory agencies is highly inefficient and a significant source of regulatory burden to the banking industry. Having a single regulator (or at least fewer than today's four) would significantly simplify both the formulation of policy and the conduct of supervision. The current system is complex, confused, and provides at best a barely workable mechanism for setting and implementing policy. It should be rationalized now, when the banking industry is healthy and rationalization enjoys substantial congressional support. **We therefore recommend that the Administration support regulatory consolidation in an appropriate form.**

The approach we have been taking in discussing this issue with the Fed emphasizes three legs to the safety and soundness stool -- balanced and effective supervision, management of systemic risk and deposit insurance. In this structure we see the OCC taking the lead on supervision, the Fed on systemic risk (and its use of the discount window and other tools to deal with this problem), and the FDIC on deposit insurance and liquidation. By focusing these agencies on their historic missions, we will be working towards improvements in the environment for safety and soundness, efficiencies in the federal government's operations, and reductions in unnecessary burdens on the regulated entities.

Alan Greenspan is largely in agreement with the thrust of this approach, although he has a not surprising inclination towards protecting some of the activities of the Fed. We have been having discussions with Alan Greenspan, as well as Fed Governors Mullins and LaWare to explore those activities in which the Fed feels strongly about maintaining a continuing role.

A potential stumbling block for consolidation is the question whether the consolidated regulator should be part of the Treasury or independent of the Executive Branch. In 1991, a Bush Administration consolidation proposal died partly over this issue, with House and Senate leadership both insisting on independence. We believe compromise solutions are possible (for example, the principal regulator could be governed by a board including significant Treasury and majority Administrative representation), and have received expressions of interest from the Hill in negotiating a compromise. In the end, although the new entity need not be housed in Treasury, it is extremely important that Treasury have significant influence over the entity, and thus over banking policy, in order to maintain this aspect of the Administration's ability to influence the economy.

Although more work is needed to develop the specific structures, we recommend that the Administration support an approach along these policy lines that would reduce the number of regulators from four to one or two. Such consolidation would also be in concert with the directions espoused in the National Performance Review.

***D. Bank Insurance Sales*:** Recent court decisions have established the authority of national banks to use branches in small towns as platforms for nationwide insurance sales. The Senate and House Banking Committees have invited the two of us to testify for the Administration on this issue in October or November. We expect that insurance-agent lobbies will press for legislation to cut back this existing authority.

We know of no legitimate public policy reasons for denying banks the ability to sell insurance. However, there is a strong, self-interested lobbying effort underway against this on the part of the insurance industry and agents, and there will be an active political battle over this issue in Congress, regardless of the position of the Administration.

One possible compromise that we have raised publicly and that seems to have received a positive response from both community groups and banks is to allow banks to establish insurance sales operations in poor inner city areas and from there perhaps to sell insurance to a broader market, perhaps statewide or throughout a metropolitan area. This would allow banks to provide a much needed service in the inner cities as well as to encourage them to increase employment in the inner cities by establishing their insurance sales headquarters there.

There are valid public policy reasons for permitting banks to offer insurance services, benefitting both consumers and banking industry soundness and capacity. At the same time, the inter-industry fight could prove hard to win and distracting to other Administration priorities. **Accordingly, we recommend that the Administration support on public-interest grounds the notion that banks ought to be allowed to continue to sell**

insurance as current law permits and work to develop further the idea of insurance sales by banks in and from inner cities. Because of the political complexities of the issue, however, we further recommend that the Administration avoid significant investments of political capital in this position. This process would be coordinated closely with Howard Paster as well as Michael Levy, who heads legislative affairs for Treasury.

IV. FDIC Chairmanship

Criteria:

In order for you to have a strong financial services policy that supports economic growth and expansion you must have an FDIC Chair who shares your agenda, can work collegially with the other regulators and has an understanding of, and an intellectual ability to deal with, complex bank regulatory matters. There are several reasons for this:

- Once appointed, the FDIC chairman is independent and cannot be removed. In the Bush Administration, FDIC Chairman Bill Seidman pursued an agenda sharply conflicting with that of the Administration. This possibility is heightened by Congressional pressures and the peculiarities of the FDIC staff.

- In order for the Clinton Administration to achieve its credit availability goals, it is essential that the FDIC concentrate on its historic core mission of supervising the deposit insurance fund and liquidating failed institutions. This vision of the FDIC as solely the insurer and liquidator engaging only in very special circumstances in special examinations of the weaker institutions and enforcement to protect the fund, is critical to keep the FDIC from duplicating or triplicating bank and thrift examinations, as well as pursuing excessive and burdensome regulatory initiatives.

  Some part of this effort to focus the mission of the FDIC and keep it from chilling bank lending, through burdensome duplication of examination and excessive regulatory initiatives, was accomplished in a joint agency agreement pursuant to the Administration's credit availability initiative, and several FDIC Board actions, culminating recently in a decision to sharply limit duplicative examinations.

- The willingness of the Federal Reserve Board to be helpful in pursuing Administrative objectives is affected not only by the Fed's relationship with the White House and Treasury, but also by how the Fed feels vis a vis the FDIC. Currently, the Fed and the Clinton Administration working group have an excellent relationship. The wrong FDIC chairman could harm this constructive program.

- The FDIC chairperson should be someone who is analytically strong. Much of what the FDIC has to deal with involves a massive amount of rules, regulations and statistics that greatly impact banks and thrifts.

- With all this said, an FDIC chairman cannot be perceived as too strongly influenced by the industry or insensitive to safety and soundness concerns. Any such perception would render Senate confirmation problematic, if not impossible, and damage the new Chairman's ability to support a credit expansion agenda.

Ricki Tigert

Having reviewed dozens of candidates for Chairperson of the FDIC, we are convinced that Ricki Tigert is an excellent candidate and have recommended that the White House should move on her nomination immediately. We have come to this conclusion for several reasons.

- Ricki clearly shares the view that the FDIC should focus its resources and attention on its core mission of insuring and liquidating, and not on regulation of healthy banks. And, Ms. Tigert is a strong supporter of your Administration.

- Ricki is very strong substantively. She has exceptionally fine academic and substantive credentials and as a former Treasury Official and as Fed Deputy General Counsel, Ms. Tigert has considerable experience in this area.

- Ricki is respected by Fed Chairman Greenspan and other Fed Governors. We are confident that she would be able to work well with the Fed and its staff, as well as with the Administration.

- Having come from a small town in Tennessee, and having done a considerable amount of work professionally with smaller institutions, including minority institutions, Ricki is clearly sensitive to the important role of community banks in this country.

- Ricki would make a major contribution to the President's goal of making Washington's senior officials more diverse. There has never been a senior bank regulator in the history of the country who has not been a white male.

- Ricki is confirmable.

Bill Brandon

Another key candidate is Bill Brandon. Bill approached us about the FDIC chairmanship and informed us that he believes that whatever competition there might have been in the past between Bill Bowen and himself was now resolved as Mr. Bowen has taken a new position in hospital administration in Arkansas. While neither of us know Bill very well, we have both had occasion to work with him over the last several months and we have talked with him at some length about the FDIC job and his vision of that organization's role and your Administration. We have come away from these meetings with the belief that Bill is a very fine person who, not surprisingly as a senior bank officer and American Bankers Association President, is quite knowledgeable about banking issues.

Bill appears to share a vision of the FDIC that would be consistent with your credit availability initiatives. Moreover, Bill almost certainly has the forcefulness for the job.

However, we have reservations about nominating Bill for this position because of his current position as President of the ABA. Although it may well be the case that if the Administration put on a campaign, Bill would be confirmable, Bill is quite likely to be viewed by some in Congress and a variety of important consumer groups as the fox guarding the hen house. This perception would be almost certain to limit his ability to pursue the regulatory agenda needed to support the credit availability initiative, and his nomination would almost certainly be damaging to the credibility of your Administration with these groups.

With all this said, we both like Bill and would be pleased to explore further the viability of his candidacy for the FDIC job, if you would like us to.

* * *

Pursuing an appropriate bank and thrift regulatory policy can prove to be a material support to the economy. In the past, policy and regulation in this area has been badly handled. Without significant changes, this support will be almost impossible to realize. Moreover, the banking and thrift sector, without significant changes, could well prove over time to be a drag on the economy. We believe that the program described in this memo provides the initial steps to make needed changes, as well as a framework for additional initiatives to implement over time. We look forward to the opportunity to discuss the specifics with you.

O39459

THE WHITE HOUSE

WASHINGTON

October 7, 1993 93 OCT 7 P7:07

MEMORANDUM FOR THE PRESIDENT

FROM: ROBERT E. RUBIN smat for REP

SUBJECT: **Secretary Reich Memo on Dislocated Workers**

The attached memorandum from Bob Reich reflects a lengthy discussion among the core members of the NEC and your internal political advisers, e.g., Howard Paster and George Stephanopoulos (I think David Gergen was there, although I am not absolutely certain).

All who participated in that discussion agreed with Bob's recommendation regarding a NAFTA-specific dislocated worker provision. Some, including me, agreed with his recommendation with regard to how and when to deal with the comprehensive dislocated worker initiative. Some felt, however, that the general discussion should be delayed until after a NAFTA vote in Congress, their reasoning being that the more comprehensive initiative might adversely impact NAFTA with regard to some Republican votes. My view, having listened to the discussion, was to agree with the recommendation contained in the attached memorandum from Bob.

Attachment

029422

U.S. DEPARTMENT OF LABOR

SECRETARY OF LABOR
WASHINGTON, D.C.

MEMORANDUM TO THE PRESIDENT

7 P3:07

From: Labor Secretary Robert B. Reich BB

Date: October 7, 1993

RE: The Workforce Security Act

Attached is the summary of a comprehensive approach to helping workers find new jobs. For now we're calling it the Workforce Security Act -- implying that in order to embrace change, American workers need employment security rather than job security; they need help in moving easily to new work rather than being wedded to old work. Employment security goes hand in hand with health security.

As you know, this legislation can't be introduced until after the NAFTA vote. A NAFTA-specific dislocated worker provision within the NAFTA bill will sunset upon enactment of this comprehensive legislation.

Your advisors are of two minds about how specific you should be in discussing this comprehensive approach to employment security prior to the passage of NAFTA. One side argues that by outlining the program even before NAFTA introduced (perhaps in a speech in October or early November) you can put NAFTA into the broader context of helping all American workers gain better jobs. This would help NAFTA, and also lay groundwork for the comprehensive dislocated-worker legislation to follow. The other side argues that doing so could complicate passage of NAFTA by eliciting criticism from conservatives who don't want to pay for any such broader program, and might even jeopardize the comprehensive program itself by revealing it prematurely without first establishing its necessity.

My recommendation would be a middle ground: Give a speech prior to NAFTA about why Americans need the kind of security that enables us to embrace the new global economy without fear. Security <u>for</u> change, not security <u>against</u> change: (a) ensuring jobs that pay a living wage (the EITC), (b) providing health security regardless of employment, and (c) helping all workers prepare for and find the next job. Don't get too specific about the third leg but express your commitment to comprehensive legislation that identifies permanently displaced workers early, gives them counseling, helps match them with available jobs, and, where needed, places them in community colleges or other forms of long-term education and training -- all at one stop, and regardless of the cause of job loss. Say you're working on it right now and aim to introduce it early next year.

This way you can help NAFTA and lay the groundwork for this legislation without attracting criticism on the specifics.

THE WORKFORCE SECURITY ACT:
BUILDING AN AMERICAN RE-EMPLOYMENT SYSTEM

I. The Growing Problem of Structural Unemployment

In recent years, intensifying global competition and rapidly-evolving technologies have altered the nature and expanded the scale of job loss. More and more Americans are losing their old jobs and forced to find new work. Many are having difficulty matching the wages and benefits of the jobs they lost. This underlying trend of structural unemployment will in all likelihood persist. As America opens foreign markets, shifts from military to civilian employment, and reforms health care, even more of us will need to change jobs.

Some pertinent evidence of the trend:

* Last year, over 75 percent of unemployed job losers were on permanent layoff -- the highest rate of permanent job loss since tracking began in 1967.

* The length of unemployment spells continues to grow. Regular unemployment benefits extend up to 6 months. In the 1970s, an average of 11 percent of the unemployed were out of work for six months or longer; in the 1980s, 15 percent; thus far in the 1990s, 16 percent. Last year, 21 percent of the unemployed hadn't worked for six months or longer -- the second highest annual level since the end of World War II.

* Between 1984 and 1989, an average of 1.8 million full-time workers were displaced annually due to plant closings, production cutbacks, or layoffs. In 1990, the total reached 2.2 million. This year's total is expected to be the same, although the economy is rebounding.

* More than half of all displaced workers are still unemployed a year later, or employed in jobs paying less than 80 percent of their former wages.

The costs to society are mounting:

* Regular unemployment insurance benefits, paid for by payroll taxes, have averaged $22 billion annually (adjusted for inflation) over the past 5 years. (Administrative costs add another $2 billion.)

* The federal extended benefit program for those who have used up their regular benefits commenced in November 1991 and has been renewed four times since then (not including the pending renewal). The cost to date has been $25 billion.

* Lost wages, lost productivity, lost tax revenues.

II. Proposed Solution: The Workforce Security Act

The proposed response is a "re-employment" system to help workers prepare for and find new jobs.

* In contrast to the unemployment insurance system, which assumes that workers mostly need income assistance during cyclical downturns until their old jobs return, the new system recognizes that most old jobs won't return and that the central problem facing American workers is the transition to new employment. Re-employment services -- early job counseling, job-search assistance, and information on where new jobs can be found -- are critical.

* In contrast to the old training system, comprising a large number of tiny categorical programs for small groups of workers who have lost their jobs for particular reasons, and which assumes that job retraining is needed for exceptional circumstances, the new system recognizes that large numbers of workers need to be prepared for new work. Job-retraining should be available quickly and efficiently, regardless of the cause of job loss. And research shows that often the most valuable job-retraining lasts 18 months or longer.

* In contrast to the old information system, which relies primarily on help-wanted advertisements, the proposal creates a new national labor market information system to help workers make informed decisions about jobs, careers, education, and training.

1. How many workers need help? Of the roughly 2.2 million Americans who will permanently lose their job this year, an estimated 60 percent (1.3 million) would benefit from re-employment services. Of these, about one-third (400,000) also would benefit from long-term job retraining.

2. Who should be eligible? Under the proposed legislation, all workers who lose their job would be eligible, regardless of the cause of job loss.

3. What's the cost? Fully funded by 1997, these services would cost $2.07 billion annually. (The current 1994 appropriation under the old EDWAA act is $1.1 billion.)

4. Should workers who need long-term job retraining receive income support beyond their regular unemployment benefits? Under the proposal, workers who need long term job-retraining and who have been employed for at least one year prior to losing their job could receive up to one year of extended benefits.

5. What's the cost of these extended unemployment benefits? Fully funded, income support would cost $1.4 billion annually.

6. What about income support for workers who don't qualify for unemployment insurance but need job retraining? If they have not been employed long enough to qualify for unemployment insurance, they should be made eligible for income-contingent student loans and Pell grants.

7. How can these services be linked to all other state and federal unemployment, re-employment, and training services?

* States would be required to identify unemployed workers who are unlikely to get their old jobs back, as early as possible after the workers file for unemployment benefits, and refer them to all state and federal re-employment services. (This mandatory provision is contained in the pending federal extended benefit legislation.)

* Every community receiving federal funds for these services would be required to offer them, along with any state re-employment services and with unemployment insurance, at "one-stop career centers." Such centers also would determine which unemployed workers could benefit from job-retraining with extended income support, and would provide them with information about retraining programs.

* An additional amount of "venture capital" would be available, on a competitive basis, to a small number of states and communities wishing to charter one-stop centers offering re-employment services to all workers, even those who had not lost their present jobs. These vanguard one-stop centers would be subject to competition or they would be accountable to local coalitions of business leaders, educators, workers, and community groups.

8. How can unemployed workers who are not in need of retraining be encouraged to get new jobs as soon as possible?

* Unemployed workers who find new jobs quickly, before their regular benefits run out, would receive bonuses. This provision is expected to cost about $40 billion annually. (Research shows that it reduces the duration of unemployment.)

* Unemployed workers who to seek to establish their own businesses could receive their regular unemployment benefits at longer intervals, in lump-sum payments. (This also reduces the duration of unemployment.)

* States would be permitted to pay pro-rated unemployment benefits to workers who had lost full-time jobs and were working part-time. (This helps maintain an attachment to work even while the worker is seeking a new full-time job.)

Financing

Your February 1994 budget included $2.2 billion in assistance to dislocated workers for FY 1994, increasing to $2.8 billion in FY 1998 and beyond. The five-year cost (FY 1995-1999) would have been $13,789.

Congress has appropriated $1.1 billion for FY 1994 (under existing program authority).

Under this proposal, discretionary services (job-search assistance, job counseling, a data bank on new jobs and job-retraining, and job-retraining) would cost $2.07 billion when fully funded in 1997. The five-year (1995-1999) total would be $9.372 billion.

Income support (extended benefits for workers receiving long-term retraining who have run out of regular UI benefits) would cost $1.368 when fully funded in 1998. The five-year (1995-1999) total would be $4.367 billion.

Reforms of UI designed to hasten re-employment would cost $42 million when fully funded in 1998, for a five-year total of $180 million.

The total five-year cost of the entire program would be $13,919, of which $9.372 billion would be discretionary, and $4.547 billion mandatory.