THE PRESIDENT HAS SEEN
1-21-94

White House Gift Record

Presented:
Arrival : 01/18/94
Entered : 01/18/94

Gift ID: 353100/jjr

Donor Information

Miss Caroline Unknown
MACASA
Stephanie Square
Chaussww De Charleroi, 2
B-1060 Brussels,

Acknowledged By: Pending Bill Clinton draft letter

Comments:

Presented to President on the occasion of his visit to Brussels.

Gift Information

Intended: President

Disposition: President to Retain

Description:
A silk Chrsitian Dior brand necktie.

Location of Gift:
Sent to Residence - 1/18/94.

Total Gift Value: $25

THE PRESIDENT HAS SEEN

1-21-94

White House Gift Record

Presented: 01/14/94
Arrival : 01/18/94
Entered : 01/18/94

Gift ID: 353101/jjr

Donor Information

U.S. Mission Geneva
American Government Employees Association
Department of State
Washington, DC 20521

Acknowledged By: Pending Bill Clinton draft letter

Comments:

Presented to the First Family during visit to Geneva.

Gift Information

Intended: Family

Disposition: President and First Lady (or First Family) to Retain

Description:
Three t-shirts in green, blue and white with "Clinton - Assad, Geneva, January 15 - 16, 1994" logo.

Location of Gift:
Sent to the Residecne - 1/18/94.

Total Gift Value: $45

Public Affairs and Government Relations
Gannett Co., Inc.

GANNETT

January 18, 1994

TO: JOHN PODESTA

TO: Lisa Caputo
Patti Solis
This crowd is thorough
if nothing else
John 1-21-94

John:

Because you know our Gannett crowd and John Curley, I wanted you to see Curley's recent invitation to Mrs. Clinton...to be the special guest and speaker at Gannett's Gridiron lunch on Saturday, March 19.

Last year Vice President Gore joined us and stayed a couple of hours.

It's really a stellar group...the top folks of the crowd who come into town for the Gridiron dinner that night...and I think it would be a great showcase for the First Lady's push on health reform, etc.

My note to Lisa Caputo gives more details. Lisa told our editor of USA TODAY, Peter Prichard, that she would like her boss to do this one.

I'm looking for all the help, kind words in our behalf, that I can get from folks .. like you who know us and can see the benefits in such an event.

Gergen has a copy, as do Maggie Williams and Ann Stock. Lisa's is the only feedback I've heard of so far.

Enclosed are some USAT clips re health reform, FYI.

I'm sorry to bother you with this, but it's truly important to my chairman ...he really hopes Mrs. Clinton will do this and I guarantee he'll make it work for her. We get a diverse group of CEO's, media execs, Congress, ambassadors, governors.

Thanks, John, for any help you're able to give us.

Cheers, as always.

Mimi

The President attended the event when he was Governor.

P.S. Mimi
is a good person
if you don't know
her.

1100 Wilson Blvd., Arlington VA 22234 703-284-6038 Fax: 703-276-5548

GANNETT

JOHN J. CURLEY
Chairman, CEO
and President

November 22, 1993

Hillary Rodham Clinton
The First Lady
The White House
Washington, DC 20500

Dear Mrs. Clinton:

On the Saturday of Gridiron weekend, March 19, 1994, Gannett will host a luncheon for 125-150 opinion leaders who will be in town for the annual Gridiron dinner that evening. We would be honored if you would be our special guest and speaker at the luncheon.

With your leadership in health reform, I hope that the audience might hold some appeal. The group will include the CEO's of major newspaper and other media companies, Congressional leaders, editors, on-air personalities, governors, representatives of the diplomatic corps, other Fortune 500 CEO's and, of course, some of our Gannett/USA TODAY executives. It's always a good, informal gathering, and I think you would enjoy it.

The event would go from noon - 2 p.m., with the reception taking the first thirty minutes, at Gannett's headquarters in Rosslyn. We hope you could do informal remarks, on subjects of your choosing, and take a few questions. I would work with your staff on any needed time adjustment to meet your schedule.

The nation-wide crowd would be thrilled if you could join us.

I'll be happy to give you any further information you might need and look forward to hearing from you.

Sincerely,

John J. Curley

1100 Wilson Blvd., Arlington, VA 22234 (703) 284-6015

Mimi A. Feller
Senior Vice President/Public Affairs and Government Relations

GANNETT

November 23, 1993

Ms. Lisa Caputo
Deputy Assistant to the President and
Press Secretary to the First Lady
The White House
1600 Pennsylvania Avenue
Washington, D.C. 20500

Dear Lisa:

John Curley and I wanted you to know about the invitation (attached) that he just sent to the First Lady to be our honored guest and speaker at Gannett's Gridiron lunch on Saturday, March 19, 1994.

It will be quite an audience and hopefully would be a good opportunity for Mrs. Clinton to talk about health reform or whatever other issues she chooses. It would be her show and we would make it an enjoyable event.

Let me give you some idea of the audience, in light of past guests over the last few years:

-- Major Media CEO's:

CNN:	Tom Johnson	US News:	Mort Zuckerman
Hearst:	Frank Bennack	Media General:	Stewart Bryan
Times Mirror:	Bob Erburu	W. Post	Kay/Don Graham
Knight Ridder	Tony Ridder	Cowles Media:	David Cox
AP:	Lou Boccardi	Belo:	Robert Decherd

-- Working Press/Editors such as Shelby Coffey, editor of LA Times

-- Governors from various states, depending on who's coming to the Gridiron dinner ...such as Roy Romer, Colo., etc.

-- Fortune 500 CEO's, such as General Motors

-- Ambassadors such as those from France, Canada, Eastern European countries. Also, Pamela Harriman joined us last year.

-- Congressional leadership and individual Members, such as Tom Foley, Fritz Hollings

-- Some Cabinet and agency heads

-- FYI, the President has come to the lunch when he was Governor of Arkansas. And Mrs. Virginia Clinton Kelley joined us last year.

1100 Wilson Blvd., Arlington, VA 22234 703/284-6046 Fax: 703/276-5548

-- We've also had various attendees from the entertainment industry in general, such as Ken Burns, producer of Civil War documentary.

Lisa, I hope we can make this work for Mrs. Clinton. In the past our speakers have included White House chiefs of staff, Cabinet officials and last year, Vice President Gore. Anything I can do to work with her schedule I will do...such as starting a bit earlier or later, having her speak before lunch starts, etc. Obviously, we would love for her and you to join us for the whole time, but that's up to you.

The First Lady would be the highlight of out Gridiron lunches over the past several years. I've attached some clips from USA TODAY covering her health reform work. Gannett has 82 other dailies and ten TV stations, including WUSA-TV here in Washington. In fact, when Mrs. Clinton was in Huntington, W. VA. recently, she held up a copy of our Herald Dispatch there, to point out the health coverage.

Well, this may be more than you want to know...but I thought you should have some background on the event. It will be held on the top floor of our Gannett building at 1100 Wilson Boulevard in Rosslyn.

Please let me know if I can provide any further details.

Best,

Mimi Feller

Mimi Feller

First lady coming to terms on health care

Sees room for compromise with liberal and GOP plans

By Judi Hasson
USA TODAY

Hillary Rodham Clinton said Monday there's room for compromise on health reform, but not with fellow Democrat Rep. Jim Cooper.

The administration's plan, the first lady said, has more in common with two others:

▶ A Republican plan, to be introduced by Sen. John Chafee of Rhode Island, that would require individuals to buy health insurance. It's backed by 23 other GOP senators.

▶ Another plan, offered by a group of 89 liberal House members, pushing a "single-payer" system like Canada's — in which the government collects all the premiums and pays all the medical bills.

The White House plan would require employers to cover their workers. The unemployed would get coverage through a federal pool.

Clinton said there's room for a middle ground among the three proposals because "they are the only ones that recognize the importance of achieving universal coverage."

She said the administration is "open to discussion" on everything in its package except the bottom line: coverage of every American with a comprehensive package of benefits.

The first lady voiced concern Chafee's bill might prompt employers to shed the coverage they now offer, or to keep wages down to qualify for subsidies for low-wage firms.

But she pointedly dismissed Cooper's proposal, which doesn't require employers to buy insurance and would limit tax deductions to the value of the lowest-priced plan.

Cooper, a Tennessee conservative, would bar insurance practices such as refusing to insure sick people. His plan would let the marketplace adjust health costs by setting up purchasing pools to negotiate the best fees — much like Clinton's proposal.

"I don't know anyone who has looked at his plan who ... believes it achieves universal coverage," the first lady said during a briefing on health-care reform.

She said Cooper's plan, which has 49 co-sponsors from both parties, would leave it to a national board to define a benefits package. Insurers could alter benefits in the package as long as the cost didn't change, she said.

"We don't see any way to accomplish the cost savings that have to be achieved for reform" unless there is universal coverage and a specific package of benefits, Clinton said.

But Cooper said her description of the role of insurers in his plan "is completely inaccurate." He said his plan would not give insurers the right to change the benefits package.

"We would have a national benefits commission of presidential appointees draw up basic benefits package," he said. "Congress would vote 'yes' or 'no.' Our intention is to keep politicians out of the process of proscribing basic benefits because hardly anyone in Congress is qualified to read one clinical study."

Cooper said the first lady's criticism of his proposal "is the highest compliment you can be paid in politics. I think they are worried Chafee will get together with us and we'll have a majority in Congress."

And despite differences on health-care reform, Cooper is scheduled to take an early morning jog with President Clinton today.

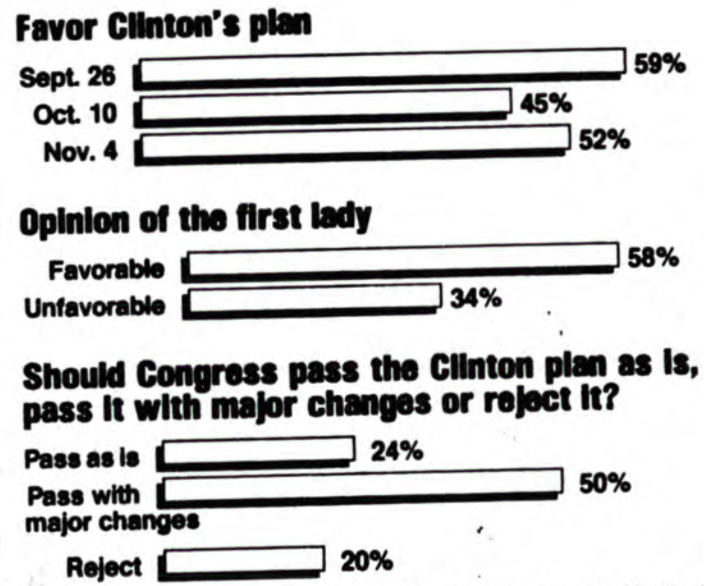
The first lady also said the administration is considering the idea of Sen. Daniel Patrick Moynihan, D-N.Y., to increase the tax on handgun ammunition. But she said the Clinton plan doesn't need any more money to finance health reform beyond a 75-cent increase in the cigarette tax and savings spelled out in the plan.

Majority back Clinton health-care plan

A USA TODAY/CNN/Gallup Poll shows a majority of people approve of President Clinton's health-care reform proposal and how Hillary Rodham Clinton is handling her role:

By Bill Sikes, AP

SPREADING THE WORD: First Lady Hillary Rodham Clinton displays a copy of the president's health report.



Source: USA TODAY/CNN/Gallup Poll of 1,003 adults taken Nov. 2-4. Margin of error: +/- 3 percentage points.

Desperately seeking Hillary

Someone working for Hillary Rodham Clinton has a sense of humor.

On the walls of a conference room in the first lady's offices are a politician's usual decorations.

There are photos of her with young people and old people; visiting hospitals and pushing health reform.

There are also pictures taken on Inauguration Day.

Then there's a framed blowup of a classified personals ad. It reads:

"Hillary Rodham Clinton-type sought by single Jewish attorney, 31, who is bright, witty, sincere and cute.

"There's nothing sexier than an intelligent, powerful and successful female who knows what she wants."

USA TODAY

NO. 1 IN THE USA . . . FIRST IN DAILY READERS

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► A primer on how the plan would affect you, your business and the economy, 1,4-6B

Goal: 'Health security'

THURSDAY, SEPTEMBER 23, 1993

Barge is suspected in deadly train crash

By Carol Castaneda and Gary Fields
USA TODAY

MOBILE, Ala. — Investigators seeking the cause of Wednesday's deadly train crash are focusing on a barge that earlier may have hit and weakened the bridge over which the train was to pass.

At least 43 people died when engines and several passenger cars from Amtrak's Sunset Limited fell into a murky bayou outside Mobile, Ala., at [illegible] CT.

The train was carrying [illegible] passengers and 17 crew from Los Angeles to Miami.

At least 10 were missing and presumed dead in a car submerged in 25 feet of water.

FBI agent Charles Archer says a group of six barges may have hit the bridge.

"One of the barges has a big dent in it," Archer says, and it is "obvious" something hit the bridge piling. FBI metallurgists today will inspect the barge and the concrete base of the bridge, he says.

"There really couldn't have been a worse combination of events," says Amtrak spokesman Clifford Black.

"You have derailment, immersion in water, fire. This is without a doubt the worst tragedy Amtrak has suffered in its 22-year history."

Black says the 84-year-old bridge, owned by CSX, is inspected once a year; the track is inspected twice a week.

► Rail safety, 3A

CONTINUING ORDEAL: Two survivors of the crash of Amtrak's Sunset Limited [illegible] being rescued from a bayou outside Mobile, Ala., Wednesday.

By Marcy E. Mullins, USA TODAY

FATALITIES: Victims of train wreck on the deck of a barge.

But Clinton says system 'is not free'

By Judi Hasson and Judy Keen
USA TODAY

President Clinton proposed an overhaul of the nation's health-care system Wednesday to guarantee every American cradle-to-grave coverage that can "never be taken away."

Moving to fulfill a campaign vow, he unveiled the American Health Security Act — his long-delayed, sweeping plan intended to provide security, savings and a simple system for all.

"Let us pledge tonight: Before this Congress adjourns next year, you will pass and I will sign a new law to create health security for every American," Clinton said.

Clinton also paid special tribute to his wife, first lady Hillary Rodham Clinton, calling her a "talented navigator" who led an eight-month search for ways to fix the system.

Mrs. Clinton told CBS after the speech, "We can't afford to wait any longer."

A USA TODAY/CNN/Gallup Poll of 540 adults found they support Clinton's plan by a two-to-one margin, and 60% said some sacrifice is fair.

About 45% said they expect their medical costs to rise.

The poll, taken after the speech, has a 5-point error margin.

Clinton said that under his plan, some Americans would pay more but the vast majority "will pay the same or less."

He set out six principles essential for his plan: security, simplicity, quality, affordability, choice and responsibility.

Clinton held up a "health security card," like a credit card, he said "guarantees you a comprehensive package of benefits that can never be taken away," as it reads on the back.

Clinton pledged to enact the plan without new broad-based taxes. He called for a new tax on tobacco and a modest surcharge on companies that run their own plans.

Clinton said all agree the system needs to be fixed. But he acknowledged his $700 billion, 5-year plan will be a tough sell.

"There can't be any something for nothing. . . . This is not a free system," he said.

South Carolina Gov. Carroll Campbell, in the GOP response, asked, "Do you really want the federal government to control your health care?"

COVER STORY

People were yelling, 'I can't get out'

Diver reports:

By Robert Davis,

Spirited Yeltsin mingles in calm Moscow streets

By Carole Landry
Special for USA TODAY

MOSCOW — A buoyant Boris Yeltsin strolled the streets of Moscow Wednesday after winning support from Russia's army and its citizens for dis-

A poll of 880 people in Moscow showed 51% backed Yeltsin and 25% opposed him.

The rest hadn't heard about Yeltsin's move against parliament or had no opinion.

► Military's role, 4A

THE

"USA TODAY hopes to serve as a forum for better understanding and unity to help make the USA truly one nation."
—Allen H. Neuharth
Founder, Sept. 15, 1982

THE NATION'S NEWSPAPER
USA TODAY
PUBLISHED BY GANNETT

Peter S. Prichard
Editor
Karen Jurgensen
Editor of the Editorial Page
Thomas Curley
President and Publisher

Health care: Good start, many questions ahead

After eight months of tedious wonking, the Clinton administration has produced a strong start toward reforming the nation's health-care system.

As presented to Congress last night and leaked to the public days earlier, the White House plan would protect consumer choice, provide universal coverage, contain health-care costs and sustain quality of care.

It does so by creating regional health "alliances" that will license a variety of insurance plans. Washington will dictate the basic health-care package and pay the premiums for the poor and unemployed.

Of course, Clinton's passionate sales pitch glossed over important flaws. He says savings in Medicare and Medicaid, combined with a variety of small taxes and broad efficiencies, will produce the $700 billion his plan will require over five years. Many analysts say differently

Beyond that, though, the president's plan is the benchmark of the moment. No other proposal occupies so much of the ground between complete government control and total market anarchy.

For instance, the "single-payer" Canadian-style health system provides universal coverage. But the price is more regulation, less choice, higher taxes and health-care rationing. Market-based reforms limit regulation but don't guarantee universal care or cost containment.

The Clinton plan isn't perfect, either. Yet across the nation, there's widespread support for reform, and the Clinton plan covers the middle ground of possible responses thoroughly enough to reliably guide the first efforts of others.

And so, finally, what of the moment? What about the "challenge of our time" that Clinton outlined last night? Do we truly stand at an some historical confluence of political will? Indeed we do, and if Congress now fails to reform health care, history will note that a great opportunity was tragically missed.

First lady sells health-care plan

Clinton sees a net gain for seniors

By Judi Hasson and Judy Keen
USA TODAY

Hillary Rodham Clinton barnstormed Capitol Hill on Thursday to quell complaints about the president's plan to extract huge savings in health programs for the elderly and poor to pay for reforms.

Scaling back future Medicare and Medicaid increases erupted into controversy this week, even before President Clinton outlines his health plan to Congress on Sept. 22.

In private meetings with powerbrokers of both parties, the first lady said the plan to save $238 billion over five years in the growth of Medicare and Medicaid would be a net gain for seniors, a powerful voting bloc:

▶ It's part of a comprehensive design to rein in costs.

▶ Seniors would get two new benefits, government-paid prescription drugs and long-term care outside nursing homes.

Senate Majority Leader George Mitchell, D-Maine, emphasized her point: "If I take $8 out of your left pocket and put $10 in your right pocket, are you better or worse off?"

Even Rep. Henry Waxman, D-Calif., who Tuesday criticized Medicare scalebacks, was softening: "I am reassured of the fact that we're going to have further discussions."

Others were skeptical:

▶ Rep. Pete Stark, D-Calif.: "I am unwilling to risk the destruction of Medicare just so the president can claim a Pyrrhic victory."

▶ Sen. Orrin Hatch, R-Utah: "You'll never get enough out of Medicare to finance reform. And it will be unfair to seniors."

The Associated Press quoted a White House document as saying Clinton will seek to cut the annual increase in private health-care spending from 7.4% in 1994 to 3.5% by the year 2000. Medicare spending, projected to rise 11.6% next year, would be held to 4.1% by 2000; Medicaid's growth would drop from 16.5% to 4.1%.

Diverting savings from Medicare and Medicaid growth is one of two main obstacles Clinton has encountered. The other is a requirement that employers provide insurance for all workers. Some business groups are opposed, despite a promise of subsidies for the most needy.

Congressional leaders begin hearings on the plan Sept. 28.

The plan also would:

▶ Require half the medical school residencies be for primary-care doctors, key practitioners in a system that will rely on them to supervise care.

▶ Cover retirees between 55 and 64 through their regional health networks. They'd pay 20% of the premium. The government would pay the rest.

▶ Use arbitration to try to resolve patient complaints. But malpractice suits would still be possible. In some areas, test projects could require suits be filed against the health plan, not the individual doctor.

Also Thursday, White House health adviser Judith Feder told the American Psychiatric Association mental-health and substance-abuse benefits will be phased in and fully covered by 2000. Tipper Gore, the vice president's wife, had pushed for covering mental ills just as physical ailments are covered.

When some in the audience accused the administration of "discrimination" against the mentally ill, Feder responded, "There are some things, at the outset, we are not able to do."

By John Duricka, AP

MEETING: First lady Hillary Rodham Clinton and Health and Human Services Secretary Donna Shalala share a laugh Thursday.

HEALTH-CARE REFORM

First lady takes on critics in last day on the Hill

By Judi Hasson
USA TODAY

First lady Hillary Rodham Clinton wound up a marathon week on Capitol Hill Thursday, insisting to some of her toughest critics that the president's health-reform plan can work.

Testifying before the Senate Finance Committee, she told Chairman Daniel Patrick Moynihan, D-N.Y., the president's plan is realistic and will slow the growth of health costs and provide coverage for all.

She conceded it's still being fine-tuned: "We are taking in all the advice and suggestions the members are giving us and are revising the plan as we speak."

Last week, Moynihan called the proposal to save $238 billion in Medicare and Medicaid over five years "fantasy." After the hearing, he signaled he's not so skeptical but stopped short of endorsement.

"I feel very comfortable about the administration's position" on financing, Moynihan said. "She was straight with us on everything."

By John Duricka, AP

SALES JOB: First lady Hillary Rodham Clinton talks to Daniel Patrick Moynihan, chairman of the Senate Finance Committee, after testifying Thursday.

The first lady maintained there is as much as $200 billion in waste to squeeze out of the nation's $1 trillion in annual health spending.

Clinton told panel members at her fifth session in three days they had "raised tough and important questions about how fast we can finance health-care reform." She also:

▶ Said a decision to spend $4.5 billion a year to pick up 80% of the health-care costs for retirees between 55 and 65 would help companies become more competitive. The provision is likely to appeal to big firms now carrying hefty insurance costs for early retirees.

▶ Endorsed a call by Sen. Bill Bradley, D-N.J., for a 25% sales tax on guns and a $2,500 license fee for gun dealers. President Clinton says violent crime is helping drive the health-cost crisis.

▶ Said the administration didn't want to hit the middle class with a tax increase by taxing health benefits that exceed the basic benefits. Benefits exceeding the basic package would be taxed only after the plan is fully phased in by the year 2000, but the administration expects that by then most plans would cover everything workers have now — particularly union workers who have forgone wage increases in exchange for a rich health-benefits plan.

Senate Minority Leader Robert Dole, R-Kan., said GOP senators were ready to work on reform.

"We must talk honestly with the American people," Dole said. "There can be no rosy scenarios. There can be no smoke and mirrors. There can be no juggling of the books. Whatever plan is adopted will require some Americans to sacrifice. These sacrifices must be explained clearly and on the record."

Also Thursday, Sen. Jay Rockefeller, D-W.Va., discounted concerns of the American Medical Association, which has promised to lobby against parts of Clinton's plan, including national health-spending limits.

"Their membership wants health-care reform probably more than

WEDNESDAY, SEPTEMBER 29, 1993

THE NATION'S NEWSPAPER

USA TODAY

NO. 1 IN THE USA . . . FIRST IN DAILY READERS

'Concerned' first lady pushes health plan

By H. Darr Beiser, USA TODAY
CLINTON: Testifying at Capitol

By Judi Hasson
USA TODAY

'I'm here as a mother, a wife, a daughter, a sister, a woman'

First lady Hillary Rodham Clinton took her health-reform expertise and personal experience to two friendly congressional committees Tuesday.

"I'm here as a mother, a wife, a daughter, a sister, a woman," she told the House Ways and Means panel. "I'm here as an American citizen concerned about the health of her family and . . . nation."

The first lady is the architect of her husband's health reform plan and only the third first lady to testify before Congress.

Clinton, whose father died this year after a stroke, said, "I know what it's like to be overwhelmed with forms and regulations and confusing medical choices when a family member is dying."

She said she knows how anguish makes it impossible to understand "government regulations or insurance fine print."

She later spoke to the House Energy and Commerce Committee, and addresses two panels today and one Thursday.

Her reception was warm — she even got applause — but she heard concerns that will continue to dog the proposal.

Rep. Pete Stark, D-Calif., said his mother fears she'll lose out under the plan and sought the first lady's assurances.

"I have a mother, too," she replied. "So if we can't pass the mother test, we're not going to be able to succeed, are we?"

Also Tuesday, the American Medical Association, in a letter to 710,000 doctors and medical students, expressed "serious reservations" about the plan.

The letter warned the plan could "limit choices . . . undermine the quality of medical services and lead to federal control of medical education and the physician workforce."

THE NATION'S NEWSPAPER

USA TODAY

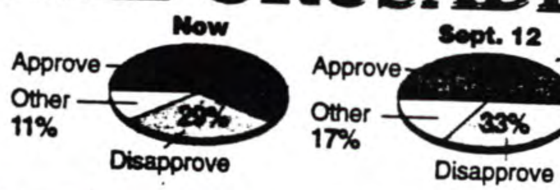
NO. 1 IN THE USA . . . FIRST IN DAILY READERS

HILLARY RODHAM CLINTON

LEADING THE CRUSADE

USA TODAY CNN GALLUP POLL

How do you think Hillary Clinton is handling health care policy?



Source: Poll of 1,003 adults, Sept. 24-26.
Margin of error: +/- 3 percentage points.

Photo by Tim Dillon, USA TODAY; poll graphic by Marcia Staimer, USA TODAY

HEALTH-CARE ARCHITECT: Hillary Rodham Clinton will be the star witness at five health-reform hearings this week. She starts at House Ways and Mea...

Clinton's recent ... ber her first real policy role in Arkansas — where she also was met, at first, by criticism that she was not elected.

In 1983, then-Gov. Bill Clinton chose his wife to spearhead his education reform movement. It was seen as his administration's most difficult test.

USA TODAY

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USA TODAY / CNN / GALLUP POLL

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▶ Rail safety, 3A

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Clinton said that under his plan, some Americans would pay more but the vast majority "will pay the same or less."

He set out six principles essential for his plan: security, simplicity, quality, affordability, choice and responsibility.

Clinton held up a "health security card," like a credit card, he said "guarantees you a comprehensive package of benefits that can never be taken away," as it reads on the back.

Clinton pledged to enact the plan without new broad-based taxes. He called for a new tax on tobacco and a modest surcharge on companies that run their own plans.

Clinton said all agree the system needs to be fixed. But he acknowledged his $700 billion, 5-year plan will be a tough sell.

"There can't be any something for nothing. . . . This is not a free system," he said.

South Carolina Gov. Carroll Campbell, in the GOP response, asked, "Do you really want the federal government to control your health care?"

COVER STORY

People were yelling, 'I can't get out'

Diver reports:

By Robert Davis, Carol J. Castaneda

Spirited Yeltsin mingles in calm Moscow streets

By Carole Landry
Special for USA TODAY

MOSCOW — A buoyant Boris Yeltsin strolled the streets of Moscow Wednesday after winning support from Russia's army and its citizens for dis-

A poll of 880 people in Moscow showed 51% backed Yeltsin and 25% opposed him.

The rest hadn't heard about Yeltsin's move against parliament or had no opinion.

▶ Military's role, 4A

THE

"USA TODAY hopes to serve as a forum for better understanding and unity to help make the USA truly one nation."
—Allen H. Neuharth
Founder, Sept. 15, 1982

THE NATION'S NEWSPAPER
USA TODAY
PUBLISHED BY GANNETT

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Editor of the Editorial Page
Thomas Curley
President and Publisher

Health care: Good start, many questions ahead

After eight months of tedious wonking, the Clinton administration has produced a strong start toward reforming the nation's health-care system.

As presented to Congress last night and leaked to the public days earlier, the White House plan would protect consumer choice, provide universal coverage, contain health-care costs and sustain quality of care.

It does so by creating regional health "alliances" that will license a variety of insurance plans. Washington will dictate the basic health-care package and pay the premiums for the poor and unemployed.

Of course, Clinton's passionate sales pitch glossed over important flaws. He says savings in Medicare and Medicaid, combined with a variety of small taxes and broad efficiencies, will produce the $700 billion his plan will require over

Beyond that, though, the president's plan is the benchmark of the moment. No other proposal occupies so much of the ground between complete government control and total market anarchy.

For instance, the "single-payer" Canadian-style health system provides universal coverage. But the price is more regulation, less choice, higher taxes and health-care rationing. Market-based reforms limit regulation but don't guarantee universal care or cost containment.

The Clinton plan isn't perfect, either. Yet across the nation, there's widespread support for reform, and the Clinton plan covers the middle ground of possible responses thoroughly enough to reliably guide the first efforts of others.

And so, finally, what of the moment? What about the "challenge of our time" that Clinton outlined last night? Do we truly stand at an some historical confluence of political will? Indeed we do, and if Congress now fails to reform health care, history will note that a great opportunity was tragically missed.

First lady sells health-care plan

Clinton sees a net gain for seniors

By Judi Hasson and Judy Keen
USA TODAY

Hillary Rodham Clinton barnstormed Capitol Hill on Thursday to quell complaints about the president's plan to extract huge savings in health programs for the elderly and poor to pay for reforms.

Scaling back future Medicare and Medicaid increases erupted into controversy this week, even before President Clinton outlines his health plan to Congress on Sept. 22.

In private meetings with powerbrokers of both parties, the first lady said the plan to save $238 billion over five years in the growth of Medicare and Medicaid would be a net gain for seniors, a powerful voting bloc:

▶ It's part of a comprehensive design to rein in costs.

▶ Seniors would get two new benefits, government-paid prescription drugs and long-term care outside nursing homes.

Senate Majority Leader George Mitchell, D-Maine, emphasized her point: "If I take $8 out of your left pocket and put $10 in your right pocket, are you better or worse off?"

Even Rep. Henry Waxman, D-Calif., who Tuesday criticized Medicare scalebacks, was softening: "I am reassured of the fact that we're going to have further discussions."

Others were skeptical:

▶ Rep. Pete Stark, D-Calif.: "I am unwilling to risk the destruction of Medicare just so the president can claim a Pyrrhic victory."

▶ Sen. Orrin Hatch, R-Utah: "You'll never get enough out of Medicare to finance reform. And it will be unfair to seniors."

The Associated Press quoted a White House document as saying Clinton will seek to cut the annual increase in private health-care spending from 7.4% in 1994 to 3.5% by the year 2000. Medicare spending, projected to rise 11.6% next year, would be held to 4.1% by 2000; Medicaid's growth would drop from 16.5% to 4.1%.

Diverting savings from Medicare and Medicaid growth is one of two main obstacles Clinton has encountered. The other is a requirement that employers provide insurance for all workers. Some business groups are opposed, despite a promise of subsidies for the most needy.

Congressional leaders begin hearings on the plan Sept. 28.

The plan also would:

▶ Require half the medical school residencies be for primary-care doctors, key practitioners in a system that will rely on them to supervise care.

▶ Cover retirees between 55 and 64 through their regional health networks. They'd pay 20% of the premium. The government would pay the rest.

▶ Use arbitration to try to resolve patient complaints. But malpractice suits would still be possible. In some areas, test projects could require suits be filed against the health plan, not the individual doctor.

Also Thursday, White House health adviser Judith Feder told the American Psychiatric Association mental-health and substance-abuse benefits will be phased in and fully covered by 2000. Tipper Gore, the vice president's wife, had pushed for covering mental ills just as physical ailments are covered.

When some in the audience accused the administration of "discrimination" against the mentally ill, Feder responded, "There are some things, at the outset, we are not able to do."

By John Duricka, AP

MEETING: First lady Hillary Rodham Clinton and Health and Human Services Secretary Donna Shalala share a laugh Thursday.

HEALTH-CARE REFORM

First lady swaying the skeptics

Health plan's still out, but she's winning rave reviews

By Judy Keen and Judi Hasson
USA TODAY

Rep. Jim Cooper doesn't think much of the way the White House's tardy health-care reforms are shaping up.

Cooper, a Tennessee Democrat, thought President Clinton was gambling when he asked Hillary Rodham Clinton to lead the high-stakes effort to reinvent American health care.

But now, ask Cooper about Hillary Clinton's political skills and he disgorges a stream of compliments: "extraordinarily able, almost visionary, a fantastic negotiator, sharp as a tack."

When she took on the administration's most formidable task, there was as much skepticism as applause. There were questions about a first lady's appropriate policy role and acceptable clout quotient.

The toughest part — pushing the unfinished plan through Congress — is still to come, and her popularity has plunged with her husband's. But she has, at least so far, outdone him in maneuvering the capital's political minefields.

An ABC News/*Washington Post* poll this week showed only 34% of Americans approve of the way the president is handling health care — but 51% have confidence the first lady will produce a good plan.

While he has struggled to find his equilibrium, she has:

▶ Consulted often with Congress, including Republicans.

"She's made herself accessible and she comes out among us," says Sen. Alan Simpson, R-Wyo. "When you do that in this town, you succeed. It's when you play big shot and cloister yourself away and pretend you're going to be coming down off the mountain with sacred tablets that you do not."

▶ Fulfilled the public's demand for villains in the health cost mess by hammering doctors and drug manufacturers.

▶ Managed to praise those same groups in a bid to win their support.

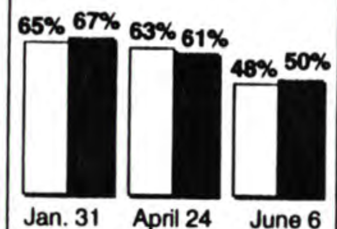
▶ Won public support with her own star power in dozens of appearances. Today she's at a Washington think tank.

She's confounded some who doubted that her experience as a corporate lawyer qualified her for the job — and she's neatly avoided being saddled with much blame for delays.

Hillary more liked than Bill

Percentage of adults who say they have a 'favorable' opinion of the Clintons:

Bill Clinton
Hillary Rodham Clinton



Source: USA TODAY/CNN/Gallup Polls

By Elys A. McLean, USA TODAY

Harriett Woods, president of the National Women's Political Caucus, says the view of Hillary Clinton has evolved "dramatically and positively from 'How could she possibly take this on?' to 'How did she manage to do so much?' "

Deborah Steelman, a Republican health-care specialist, says Hillary Clinton has deftly created a "win-win situation: If it's a good proposal, she gets the credit. If it's bad, she's battled the special interests and they got the best of her — what can one woman do?"

But the first lady still has opportunities to fail:

▶ She'll have to employ more caginess than she's needed so far to get enough support in Congress to pass reforms. Members charmed by her salesmanship may balk at voting for new taxes.

Today she gets a preview of the coming battle when she meets with House Democrats who advocate a Canadian-style, government-run health system. They're threatening to abandon the White House plan.

▶ If the oft-delayed plan fails to emerge this year or runs into legislative trouble, she may yet be blamed.

Budget director Leon Panetta reiterated Tuesday that a health plan will wait until budget battles are over — which could delay the plan until fall.

▶ The public may like her personally, but if they reject reforms' price tag and likely limits on their health-care options, they'll hold her responsible.

In truth, although broad outlines are in place, it is President Clinton who will make the key, politically risky decisions:

What kind of taxes will be levied to cover 37 million uninsured and guarantee everyone a minimum package of benefits? How quickly will small businesses have to begin offering health coverage? Will abortions be covered?

There have been missteps. The first lady's about-face on blaming doctors for health-care costs reminded some of her husband's penchant for telling everybody what they want to hear. Some were startled by the secrecy of her task force's deliberations.

But early criticism that she's been given too much power has waned. Instead, some political analysts have lately lamented that she's been so preoccupied with health care that she's had no time to advise the president on other issues.

"All the same people who criticized Hillary three months ago are now saying, 'Why hasn't she done more?' " says Susan Estrich, a Democratic political commentator.

Those who know Hillary Clinton say questions about how much power she should wield are of little concern to her. Lisa Caputo, her spokeswoman, says the first lady views herself merely as "a citizen representative."

White House allies say the first lady has earned a shot at welfare reform and other policy tasks.

"There are a thousand lobbyists with a thousand reasons why (health care) can't change," says James Carville, a Clinton political adviser. "And there's Hillary saying we can. That makes it about even."

But those who objected to her assignment still wonder if she has too much authority — and even if she's being used by the president.

"The reason she was there was because the White House felt it would be a shield against criticism," says conservative Phyllis Schlafly. "I think people resent that, too."

Lewis Gould, who teaches a course on first ladies at the University of Texas, says Hillary Clinton has already "stretched the possibilities. ... The next two or three will occupy the ground that a pathfinder like her lays out."

▶ Democrats' revolt, 1A

By Ted Mathias, AP

TOUGH TASK: Hillary Rodham Clinton has been called 'a fantastic negotiator, sharp as a tack' for her health-care reform work.

THE PRESIDENT HAS SEEN
1-21-94

Rubin/Tyson/Stephanopoulos

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OCCIDENTAL COLLEGE
LOS ANGELES, CALIFORNIA 90041-3392

Jan. 21, 1994

To: President Clinton
From: Derek Shearer

Dear Bill,

(1) The attached op-ed column from today's LA Times might suggest a few sentences for the State of the Union message--something along the lines of: "As a nation, we should not have to wait for great disasters, either manmade or natural, to compel us to act in rebuilding the economic foundations--the very sinews of our national strength......"

(2) Local coverage of your LA visit was overwhelmingly positive. It was an important visit, although you did look a bit tired.

(3) Our house survived relatively unscathed. We were lucky. As our Mayor Judy Abdo told you in Burbank, Santa Monica was very hard hit. Downtown is a mess. Yesterday, they evacuated an entire damaged hospital. Thousands have lost their apartments. Almost all of the banks and department stores lost windows. Most of the brick buildings in the downtown will have to be demolished.

(4) As requested, I gave Nancy my suggestions for your WH Mystery writers dinner. It's good to have a few light events to look forward to, along with all of the serious stuff that you have to do.

I'll be in town for a few days at the end of next week, staying at Brooke and Strobe's.

Good luck on the State of the Union.

Regards,

Derek

Derek

I hope that the town thaws out over the weekend.

LOS ANGELES TIMES

FYI - Derek

COLUMN LEFT/

PETER DREIER
RICHARD ROTHSTEIN

Man-Made Disasters' Double Punch

■ Why is it sound public policy to assist quake victims but not those hurt by defense cutbacks?

Last April, Congress killed President Clinton's "stimulus" program to create a million public-works jobs restoring highways, bridges, sewer systems, schools and parks. Opponents shouted "pork barrel" politics, "tax-and-spend liberalism" and "budget buster." Unable to overcome a filibuster, Clinton withdrew his proposal.

Within hours of the Northridge earthquake, Clinton pledged $1 billion to rebuild and provide emergency assistance, along with low-interest loan guarantees for homeowners and small businesses. He promised to ask Congress for more as damage estimates increased. Los Angeles will receive more federal tax dollars for investment in infrastructure than we would have obtained from our share of the stimulus package.

After Hurricane Andrew, Midwest floods or California earthquakes, officials recognize government's responsibility. Congress will exempt these appropriations from requirements for offsetting budget cuts without a peep of protest from Sen. Bob Dole or fellow filibusters.

Why does it take natural disaster to justify public works? We aid the homeless or jobless in natural disasters but hear endless objections to expenditures when many more suffer man-made disasters of cyclical downturns or changing priorities.

Why isn't 6.5% unemployment—9 million jobless, 8 million more too discouraged for active job-hunting or forced to work part time—considered a sufficient emergency to warrant federal action? Why is it sound policy to assist earthquake victims but not families devastated by defense cutbacks? Aren't 150,000 California aerospace layoffs ample reason to invest in civilian projects to employ idle engineers, technicians and production workers? Why do we expect Washington to help people

DRAWINGBOARD /LUCKOVICH

"Honey, I went to the sperm bank for
implanted in a 60-

PERSPECTIVE ON THE NORTHRID

Shaking Up

Innovation, compass
employee empowerm
will help businesses
survive an emotional
fraught disaster.

By BARRY J. GIBBONS

I have a bit of fraternal advice to share with all the business owners and managers, big or small, who were devastated by the earthquake. I was chief executive for Burger King Corp. when Hurricane Andrew followed a 17-foot flood tide and ripped apart our world headquarters in south Florida in August, 1992. It then proceeded to devastate several zip codes, leaving half made homeless by a flood but not those

'Aren't 150,000 California aerospace layoffs reason to invest in civilian projects?'

made homeless when employers relocate to Third World countries?

Despite lagging productivity, America now spends less than half of what we spent 30 years ago on public infrastructure. By 2005, road deterioration will cost 3.9 billion hours of vehicle delay annually, even without earthquakes. Why can we rebuild bridges collapsed in earthquakes, but not invest in transportation so people can get to work in normal times? Santa Monica Freeway reinforcement had been delayed from lack of funds. If Congress had enacted Clinton's stimulus package, Caltrans might have completed the project before Monday's calamity.

For 1.5 million unemployed Californians, it's a bitter irony that only natural disaster provokes government-sponsored stimulus. Jobs created by earthquake relief will be in private firms. Reemployed construction workers will purchase food, clothing, haircuts and furniture, putting others back to work. Ripple effects of $1 billion in federal spending could create at least 65,000 new jobs and generate new tax revenues to offset costs of emergency aid—as a stimulus program could have done months ago.

Peter Dreier is professor of public policy at Occidental College. Richard Rothstein is a research associate of the Economic Policy Institute.

of our employees homeless and everybody facing a period of personal, community and business trauma that still isn't behind us 18 months later.

We had to virtually start over, and so will many of you.

Although we had prepared crisis plans, the extent of the disaster meant that we had to invent most of our solutions as we went along.

I haven't written this stuff down before because the scar tissue is still pink and sensitive for a lot of us, but it occurred to me that it may help you avoid having to reinvent everything we had to. I'll keep it short; here are just 10 things to think about:

You're facing a million decisions—including some real chunky ones. If you can make those big ones fast—today—it's a real help. A lot of your people will have had some of their fundamental support structures shattered, and if you can say that you are going to stay and rebuild, and that they will have jobs, say it fast. And say it loud. At about the same decibel level as in a Guns 'N Roses concert.

Make professional counseling available for your affected employees. Fast. Tell the macho guys who say they don't need it that it's not for them, it's for their families. We had an astonishing take-up and an astonishing level of people who did not then need sustained counseling, compared with other disasters of this magnitude.

You will have to give concessions and help your people, and some people will seem to take too much, just as others take too little. It's like a breakfast buffet in a restaurant—some people heap their

Tony
I need a reply
to him
B

THE PRESIDENT HAS SEEN
1-21-94

TOWARD A NEW WORLD ORDER:
THE FUTURE OF NATO

by

GEORGE SOROS

29 November 1993

29 November 1993

In preparation for the NATO summit at the beginning of January 1994, the U.S. Administration has launched a new initiative called Partnership For Peace. I propose a radically different kind of Partnership For Peace and my argument is laid out in this paper. It was prepared for the November 12 - 13 conference on "Democracy, Peace and Security in the New Europe" sponsored jointly by the Council on Foreign Relations and the Central European University. It was subsequently revised in light of that conversation. It represents my personal views, not a consensus of the participants.

I realize that time is short, but I hope my proposal will receive serious consideration prior to the NATO summit and President Clinton's visit to Russia.

— *George Soros*

TOWARD A NEW WORLD ORDER: THE FUTURE OF NATO

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TOWARD A NEW WORLD ORDER: THE FUTURE OF NATO

THE COMING WORLD DISORDER

It is clear that the world order that prevailed since the end of the Second World War has come to an end. It had been based on two superpowers vying for world domination. They stood for diametrically opposed principles of social organization and they considered each other mortal enemies. The global conflict between them governed all the local conflicts. Occasionally it came to actual fighting, but both sides avoided an all-out confrontation because each side had the capacity to annihilate the other. It was possible to score local victories but they had to fall short of threatening the survival of the other side, because it might have endangered one's own survival. The prevailing order was called the Cold War. The name was apt because both sides were mobilized for war, battle lines were drawn throughout the world, and internal conflicts within each camp were kept frozen by the external threat.

The collapse of the Soviet empire was an internal development. Undoubtedly external pressure played a role but was not directly responsible for the collapse; otherwise, it would have been resisted. But that internally-generated revolutionary event has also changed the prevailing world order.

All this is clear now, but it was far from clear at the time it occurred. It caught most of the participants unaware. This is true of the leadership within the Soviet Union, but even more true of the leadership in the West. Gorbachev and his team were conscious that their internal reforms would change the world order; indeed, they were looking to a fundamental change in the relationship between the superpowers as the key to making the internal transformation successful. It should be remembered that the Foreign Ministry was the only part of the Soviet bureaucracy that was squarely behind perestroika, and foreign policy was the only part of the so-called "new thinking" that was properly elaborated.

Gorbachev's concept was to forge an alliance between the two superpowers which would dominate the United Nations and make it a workable institution. It will be recalled that one of the first acts of the new regime was to pay up its arrears to the United Nations. Behind this concept lurked the hope that Western aid, and Western investment, would help to reform the Soviet economy. But there was no plan, indeed no conception, how to accomplish it.

I know this from personal experience because I set up an international task force for creating an open sector in the Soviet economy under the authority of Prime Minister Ryzhkhov in 1988, and I was appalled by the lack of clarity and the inability to implement anything that characterized the proceedings.

Even so, events could have taken a different course if the Western leadership had any comprehension of what was going on in the Soviet Union. It would not have been so difficult to assist Gorbachev to produce some positive results so as to show that perestroika could work. But the idea that Gorbachev was genuinely seeking both assistance and alliance simply did not penetrate into the minds of a leadership that was bent on waging the Cold War; by the time it did, it was too late -- or at least it could be argued that it was too late.

Even today, the collapse of the Soviet empire is not properly understood. This is not just the normal delay in registering change. There is a fundamental lack of understanding which comes from working with false premises. The State Department is concerned with the relationship between states. That was appropriate during the Cold War, when the world map was well defined and kept in place by the rivalry between the two superpowers. But it is not appropriate today, when existing states and empires are breaking down and new states are brought into existence, many of which do not really qualify as states. We need a totally different conceptual framework for dealing with this situation, because it involves not only relationships between states but also relationships within states, or what used to be states.

It is the characteristic of revolutions that people do not fully understand what is going on; that is why events spin out of control and the prevailing order breaks down. There is no doubt that the collapse of the Soviet system amounts to a revolution, and this fact is now generally recognized. But the collapse of the Soviet empire has also brought about a revolutionary change in the prevailing world order and this fact is not properly recognized. Indeed, it is widely ignored. People in the former Soviet empire cannot help being aware of the revolution, but people in the Western world have not been so directly affected. The Foreign Ministry of the former Soviet Union did produce some new thinking, even if it was rendered irrelevant by subsequent events; but our State Department has done practically no new thinking at all. Unless we develop a new frame of reference, the world order that prevailed since the Second World War is likely to be followed by world disorder.

A Conceptual Framework

I should like to put before you a conceptual framework in terms of which the present situation can be understood. It has two major components: one is a theory of history, with particular reference to revolutionary change, and the other is a distinction between open and closed societies. The two elements are interconnected -- they share the same philosophical foundations -- but the connection is not very strong. It is possible to distinguish between open and closed societies, as Karl Popper did, without any insight into the process of revolutionary change; and it is possible to use my theory of history without introducing the concepts of open and closed societies as I myself have done in my dealings in financial markets. But, at the present moment in history, I find the combination of the two elements particularly revealing.

I put forward my conceptual framework with some trepidation. For one thing, it is not fully developed. For another, it would take more than a few minutes to propound it properly. But I must make the attempt because I have used it and it works -- and I have been repeatedly surprised at how different it is from the way most people think.

A Theory of Revolutionary Change

My theory of history is based on the recognition that our understanding of the world in which we live is inherently imperfect. We have to act without full knowledge of the facts because the facts are created by our decisions. There can be no correspondence between our view of the world and the actual state of affairs, because the actual state of affairs is not independently given and our view of the world has nothing definite to correspond to. Therefore, there must always be a discrepancy between the participants' thinking and the actual state of affairs and that discrepancy provides the key to understanding the course of history.

There are times when the discrepancy is relatively minor, and there is a tendency towards convergence between people's views and the actual state of affairs. That is the case when prevailing institutions are flexible enough, so that they can be adjusted to meet people's desires, and there are critical processes at work which bring people's thinking in line with practical possibilities. In these near-equilibrium conditions, the discrepancy does not influence the course of events to any great extent and it can be safely neglected. It is in these conditions that the timelessly valid generalizations of economic theory, perfect competition, efficient markets, the discounting of future expectations, are relevant.

But there are times when the discrepancy between perception and reality is very wide and shows no tendency towards convergence. On these occasions, the course of events follows a totally different pattern and the normal rules do not apply. These far-from-equilibrium conditions arise at the two extremes of changelessness or rigidity on the one hand, and changeability or instability on the other.

The Soviet system under Stalin was a good example of the first kind of extreme, where the Bolshevik dogma was extremely rigid and incapable of modification. Society itself was highly regulated and frozen into inactivity. Yet there was an enormous gap between the prevailing dogma and reality, with absolutely no tendency for the two of them to come closer together. If anything, they drifted further apart as the outside world continued to evolve.

The progressive collapse of the Soviet system after 1987 is a very good example of the second kind of extreme, where the participants' thinking failed to keep up with the changes that were occurring in the real world and, because of the large divergence at a time of rapid change, events spun out of control. There was a catastrophic acceleration in the pace of events and a breakdown and disintegration which has perhaps not yet reached its climax. It is impossible to foretell how far it may go. I have been speaking of a "black hole" and there can be little doubt that we came close to it on Sunday night, October 3rd. Indeed, it was only the prospect of that "black hole" that finally convinced the army to intervene at 2:00 a.m. Monday morning. It is possible that, in retrospect, this may have proved to be the turning point in the process of disintegration; but it is also possible that it was only a temporary resistance point in a trend that has not yet run its course.

I have made a special study of these conditions of dynamic disequilibrium, both in the financial markets and in other settings. I find the boom/bust pattern that is common in financial markets also very helpful in understanding the rise and fall of the Soviet system. But, of course, one must not apply the pattern uncritically.

I shall not go into the details of my theory. The most important point I want to make about the boom/bust pattern is that it is a time-bound, one-directional process but it is open-ended and also characterized by discontinuities. That is to say, a prevailing trend can be reversed at any time; indeed, an eventual trend reversal is an integral part of the boom/bust pattern and the point at which the trend is reversed is not determined in advance. Indeed, in the financial markets, for every boom/bust pattern that becomes fully developed, a great many are aborted in the early stages.

Another important feature of the boom/bust pattern is that it is asymmetrical. The boom is drawn out, the bust is condensed. It is the lack of time that makes the bust so violent. Events happen so fast that it is very difficult to adjust one's thinking and behavior to changing circumstances. Policies which would have been appropriate in the early stages are ineffective or counterproductive at another. This can be very disorienting, especially when people do not recognize a distinction between near-equilibrium and far-from-equilibrium conditions.

Open and Closed Societies

This brings me to the second part of my conceptual framework. To understand the current situation, I contend that it is very useful to draw a distinction between open and closed societies. The distinction is based on the same philosophical foundations as my theory of history, namely, that participants act on the basis of imperfect understanding. Open society is based on the recognition of this principle and closed society on its denial. In a closed society, there is an authority which is the dispenser of the ultimate truth; open society does not recognize such authority even if it recognizes the rule of law and the sovereignty of the state. The state is not based on a dogma and society is not dominated by the state. The government is elected by the people and it can be changed. Above all, there is respect for minorities and minority opinions.

I think the distinction between open and closed societies is more revealing in the present situation than the Cold War distinction between communism and the free world, because it allows us to see the Soviet system as just one particular form of closed society. The important thing to recognize is that an open society is a more advanced, more sophisticated form of social organization than a closed society. In a closed society, one particular point of view prevails; but in an open society, every citizen is both allowed and required to have his own point of view. This means that an open society is both more desirable and more vulnerable. While a closed society may expend practically all its energies on maintaining the existing order, an open society takes a state of law for granted and builds a complex structure of institutions on top of it capable of producing wealth, prosperity and progress. The structure cannot evolve if the proper foundations are missing, and it can collapse if the foundations are disturbed.

A Diagnosis of the Present Situation

The Soviet system was a universal closed society because communism was a universal dogma. But the system has broken down and communism as a dogma is well and truly dead. There was a chance, at the early stages of the breakdown, to make the transition to a universal open society; but that would have required a major effort on the part of the free world and the effort was not forthcoming. Therefore, that option is no longer open. The universal closed society held together by communist dogma has broken down into its territorial components. Some parts, like Poland and Hungary, are making progress towards a more open society; but even these countries tend to fall back on what prevailed before the communist regime. Other parts are reconstituting themselves as more or less closed societies, or they just continue to disintegrate.

To constitute a closed society, you need to mobilize society behind the state. Since communism is dead and universal ideologies are generally discredited, a closed society needs to be based on a national or ethnic principle. To establish such a principle, you need an enemy; if you don't have one, you need to invent it. In the post-communist world, you don't need to go very far to find an enemy because communism generally neglected or oppressed national aspirations.

Milosevic has provided the new paradigm: as head of the Communist Party in Serbia, he decided to change horses, and he discovered that nationalism is a much more vigorous animal than communism. He became popular when he asserted Serbian supremacy over Kosovo in a speech he delivered April 24, 1987 at Kosovo Polje. Events might have taken a different course if the economic reforms introduced by the Federal Prime Minister, Ante Markovic, on January 1, 1990 (the same date as the "big bang" in Poland), had born fruit. At first, the stabilization program was even more successful than in Poland, but in the course of the Serbian elections, Milosevic raided the Federal treasury and destroyed the stability of the currency. From then on, he set the agenda. The Western powers and the international community committed a number of egregious errors in dealing with the Yugoslav situation but, in retrospect, it is clear that the disintegration of Yugoslavia would have been difficult to prevent even if the Western powers had done everything right. The ease with which

Milosevic destroyed the economic reforms instituted by Markovic proves the point: open society is a delicate construct which it is easier to destroy than to develop.

This conceptual framework seems to provide a fairly accurate diagnosis of the situation. The trend is set in the direction of nationalist dictatorships and/or economic collapse, with the rise of nationalism hastening the economic breakdown and the breakdown eventually leading to the rise of a military strongman espousing nationalist principles. This sequence of events is not inevitable but it would require resolute action to avoid it.

Milosevic, on his own, does not constitute a security threat to Europe or to the rest of the world; but nationalist dictatorships do. That is the point that European statesmen who are set on appeasing Milosevic fail to understand. Already Serbia has a worthy counterpart in Croatia. Croatian forces recently committed a massacre in a Bosnian village, provoking retaliation by Bosnian Moslem forces; the effect is to force Bosnian Croats to flee from areas where they are in a minority to areas held by Croat forces, thereby constituting a majority there.

It is very tempting to appeal to nationalist emotions in order to divert attention from economic failure. Meciar is doing it right now in Slovakia. Iliescu in Romania relies on extreme nationalists for his parliamentary majority, and Antall in Hungary flirted with doing so. But, paradoxically, when economic disintegration is too advanced, it may be too late to mobilize society behind a national cause. That was certainly the case in Ukraine, where Kravchuk tried to play the nationalist card in connection with the Black Sea Fleet but failed, and it may also be true of Russia. If that is so, the danger of a nationalist dictatorship emerging in Russia -- which is, after all, the most important country from a security point of view -- will be the greatest after the economy has stabilized.

It is still possible to avert the danger, but who is going to make the effort? That is where my conceptual framework fails to provide an answer. The so-called free world failed to rise to the challenge when it would have been possible to set in motion a trend towards an open society. Why should it do anything now, when events are clearly going in the wrong direction and the free world has increasing problems of its own?

THE NEED FOR COLLECTIVE SECURITY

We did not oppose the Soviet Union because it was a closed society, but because it posed a threat to our existence. That threat has now disappeared and it is difficult to justify any kind of intervention -- whether it is political, economic or military -- on the grounds of national self-interest. It is true that the danger of some kind of nuclear disaster remains, but it concerns the rest of the world at least as much as it concerns us. Therefore, the only basis for action is collective security. And that is where the problem lies. The collapse of the Soviet empire has created a collective security problem of the utmost gravity. Without a new world order, there will be disorder; that much is clear. But who will act as the world's policeman? That is the question that needs to be answered.

The United States, as the remaining superpower, is weighed down by domestic difficulties which derive, at least partially, from the burdens of being a superpower. We are not like England in the nineteenth century which, as the main beneficiary of the world trading system, could afford to maintain a fleet in being that could be sent to distant trouble spots. There is a discrepancy between the needs of the world for a new world order and the national self-interest of the United States. The United States cannot be expected to act on its own. Can it act in concert with others?

Let us take a look at Europe. Europe has responded to the Soviet collapse and the reunification of Germany by accelerating the integration of the European Community. But the reunification of Germany created a dynamic disequilibrium in the European Monetary System and the attempt to establish a common European foreign policy came a cropper in Yugoslavia. As I have explained on a different occasion*, the Maastricht Treaty turned into a boom/bust sequence which is now self-reinforcing in the negative direction. How far the process of disintegration will go is impossible to say, but it may go much further than currently anticipated unless resolute action is taken to reverse it.

The United Nations might have become an effective organization if it were under the leadership of two superpowers cooperating with each other. As it is, the United Nations has already failed as an institution which could be put in charge of U.S. troops. This leaves NATO as the only institution of collective security that has not failed, because it has not been tried. NATO has the potential of serving as the basis of a new world order in that part of the world which is most in need of order and stability. But it can do so only if its mission is redefined. There is an urgent need for some profound new thinking with regard to NATO.

THE FUTURE OF NATO

The original mission was to defend the free world against the Soviet empire. That mission is obsolete; but the collapse of the Soviet empire has left a security vacuum which has the potential of turning into a "black hole." This presents a different kind of threat than the Soviet empire did. There is no direct threat from the region to the NATO countries; the danger is within the region, and it concerns conditions within states as much as relationships between states. Therefore, if NATO has any mission at all, it is to

* *George Soros,* PROSPECT FOR EUROPEAN DISINTEGRATION, *The Soros Foundations, New York, 29 September 1993.*

project its power and influence into the region, and the mission is best defined in terms of open and closed societies.

Closed societies based on nationalist principles constitute a threat to security because they need an enemy, either outside or within. But the threat is very different in character from the one NATO was constructed to confront, and a very different approach is required to combat this threat. It involves the building of democratic states and open societies and embedding them in a structure which precludes certain kinds of behavior. Only in case of failure does the prospect of military intervention arise. The constructive, open society building part of the mission is all the more important because the prospect of NATO members intervening militarily in this troubled part of the world is very remote. Bosnia is ample proof.

PARTNERSHIP FOR PEACE — AS PROPOSED

Unfortunately, the American proposal for the forthcoming NATO summit, the so-called Partnership For Peace, does not deal with this issue at all. It is a very narrow, technical proposal for holding common exercises and otherwise preparing for possible future cooperation with member countries of the former Warsaw Pact. The scope of possible future cooperation is described as peace-keeping, crisis management, search-and-rescue missions, and disaster relief. While useful as far as it goes, it fails to address the conflicting security needs of the countries concerned.

The countries of Central Europe are clamoring for full membership of NATO as soon as possible, preferably before Russia recovers. Russia objects, not because it harbors any designs on its former empire but because it sees no advantage in consenting. Its national pride has been hurt and it is sick and tired of making concessions without corresponding benefits.

The Partnership For Peace, far from being the product of profound new thinking, is a rather superficial attempt to paper over the differences by making an overture to all the former members of the Warsaw Pact indiscriminately, while leaving the prospect of some countries joining NATO deliberately vague. It may end up engendering more conflicts than it resolves.

This is a great pity because the conflicts could be easily avoided if the real needs of the region were addressed. The primary need is for constructive engagement in the transition to democratic, market-oriented, open societies. This requires an association or alliance which goes far beyond military matters and contains a significant element of economic assistance. Both the military and the economic aspects of the alliance have to relate to internal political developments within states as much as to relationships between states, because peace and security in the region depend first and foremost on a successful transition to open society.

A Real Partnership For Peace

The mission of this new kind of alliance is so radically different from the original mission of NATO that it cannot be entrusted to NATO itself. If it were, it would change NATO out of all recognition. A different kind of organization is needed, and the proposed Partnership For Peace could be that organization.

The Partnership For Peace would not contain any of the automatic guarantees which have given NATO its clout. In the current unstable conditions, that would be unthinkable. Its main task would be to help with the process of transformation into open societies. For that purpose it must lay the emphasis on the political and economic aspects of the transformation.

FACSIMILE COVER SHEET
FROM THE OFFICE OF GEORGE SOROS
SOROS FUND MANAGEMENT
888 SEVENTH AVENUE, SUITE 3300
NEW YORK, NEW YORK 10106
TELEPHONE: (212) 397-5550
FACSIMILE: (212) 245-5154
TELEX: 428289 SOROSFD

PLEASE DELIVER THE FOLLOWING PAGES TO:

NAME: Mark E. Middleton

ORGANIZATION: Office of Thomas F. McLarty

FAX NO.: (202) 456-2464

FROM: George Soros

DATE: Dec. 3, 1993

NUMBER OF PAGES (INCLUDING COVER SHEET) 24 PLEASE CONTACT US AS SOON AS POSSIBLE IF YOU DO NOT RECEIVE ALL PAGES CLEARLY.

SENDER'S INSTRUCTIONS/MESSAGE:

In order to have any clout at all, the Partnership for Peace must have a structure and a budget. That is what NATO could bring to the table.

NATO has a unified command structure which brings together the United States and Western Europe. There are great advantages in having such a strong Western pillar: it leads to a lopsided structure firmly rooted in the West. This is as it should be since the goal is to reinforce and gratify the desire of the region for joining the open society of the West.

It would be an express condition of membership in the Partnership for Peace that NATO is free to invite any member country to join NATO. This would avoid any conflict that could arise either from the enlargement of NATO against the wishes of Russia or from giving Russia veto over NATO membership. The specter of the past looms large: one must avoid the suspicion of either a new "cordon sanitaire" or a new Yalta. A Partnership For Peace along the lines outlined here would avoid both suspicions. It must be attractive enough to induce Russia to subscribe. It if does, there is nothing to prevent countries like Poland, the Czech Republic and Hungary from being admitted to some form of membership in NATO, the character of which would depend on their internal development.

The budget of the Partnership for Peace must come out of the NATO budget. There may be some elements in the military-industrial complex that may object to such a re-allocation of resources, and they have a strong argument in their favor: if nothing is done on the economic and political front, defense budgets will soon have to be increased rather than reduced; but if the Partnership For Peace is successful, a more than proportional reduction in defense budgets could be sustained. It is on this issue that political leadership must be brought to bear.

There is a clear and present danger to our collective security. The Yugoslav experience has shown that military intervention is not a viable option. Therefore the only way to deal with it is by constructive engagement, including economic aid. But economic aid does cost money and the money can only be found in the defense budgets. It should still produce a net reduction in defense expenditures.

The countries of Europe must bear a larger share of the cost and have a correspondingly larger say in NATO. Economic aid to Eastern Europe would provide a much needed stimulus to the depressed European economies. The fact that the present command structure of NATO is too lopsided in favor of the United States is well recognized by all parties; making NATO the pillar of the Partnership For Peace would hasten the process of adjustment. Specifically, it should induce France to re-enter as a full member. That would serve as the test of the success of its internal reorganization.

There is only one deficiency in this design: it leaves Japan out of account. Japan should be asked to join NATO. Then we would have the beginnings of an architecture for a new world order. It is based on the United States as the remaining superpower and on open society as the organizing principle. It consists of a series of alliances, the most important of which is NATO and, through NATO, the Partnership For Peace which girds the Northern Hemisphere. The United States would not be called upon to act as the policeman of the world. When it acts, it would act in conjunction with others. Incidentally, the combination of manpower from Eastern Europe with the technical capabilities of NATO would greatly enhance the military potential of the Partnership because it would reduce the risk of bodybags for NATO countries, which is the main constraint on their willingness to act. This is a viable alternative to the looming world disorder.

Problems of Economic Assistance

It should be recognized that providing economic assistance to the former Soviet Union has been an unmitigated failure. I like to divide the history of Western assistance into three phases: first, when Western assistance should have been promised but was not; second, when it was promised but it was not delivered; and third, when it is delivered but it does not work. We are now entering the third phase.

One of the reasons for the failure is that each donor country is acting on its own and is guided by its own interests and not that of the recipients. In my foundation, we describe Western assistance to the formerly communist countries as the "last bastion of the command economy." That may be unavoidable, but at least there ought to be a unified command. In this respect, NATO offers a better culture than the European Commission which has been put in charge of coordinating economic assistance. The G-7 ought to have developed a command structure for dealing with economic aid to the former Soviet Union, but did not. There is much to be gained from giving the task to the Partnership For Peace. For one thing, it would put the emphasis on conflict prevention rather than intervention; for another, it would put the economic cost in the context of the gain in security. Incidentally, it would focus attention on the constituency in the former Soviet Union which is the most important from a security point of view, namely the military. In current economic conditions, even very small expenditures benefitting the military would have a major effect in their attitude and behavior.

A strong case can be made that economic assistance to Russia and the other newly independent states is justified only in the context of a Partnership For Peace. If my earlier analysis is correct, the danger of nationalist dictatorships arising is the greatest after the economy has stabilized. It is imperative to create a structure that obviates the danger.

ECONOMIC COOPERATION

The multilateral structure of the Partnership would be particularly useful in reestablishing economic ties among the member countries of the former Soviet Union. There is an urgent need for some kind of economic union because the Soviet economy was totally centralized with very little redundancy built into the system and if the lifelines are cut, individual countries bleed to death, as the example of Ukraine demonstrates. But the newly independent states justly fear the prospect of renewed domination by Moscow and Western participation could allay their fears.

Perhaps the greatest accomplishment of the Marshall Plan was that it fostered European cooperation. The need for cooperation among the formerly communist countries is even greater than it was in post-war Europe and it is in this field that the Partnership For Peace could make its greatest contribution to security. But the reform and reconstruction of economic ties among the formerly communist countries should not be pursued at the expense of their integration into the European economy. Countries like Hungary have almost completely broken their dependence on the Soviet market; they need better access to European markets more than any other form of economic assistance. By allowing differentiated treatment, including membership in the European Union and NATO, the Partnership For Peace should help fulfill their aspirations.

CONCLUSION

I realize that the mood in the NATO member countries is not favorable for the kind of radical new departure I advocate. But at least the need for it is recognized; otherwise, the paltry measures offered by the U.S. administration would not have been named "Partnership For Peace."

I am convinced that the kind of Partnership For Peace I outlined here is feasible. It would be welcomed by both Russia and the other newly independent states, as well as the countries of Central Europe. It would be far cheaper than allowing the incipient world disorder to develop unhindered. It would change the course of history for the better.

There is little time left before the January NATO summit and President Clinton's visit to Moscow. Nevertheless, I hope that my proposal will receive serious consideration.

GEORGE SOROS
29 November 1993

THE PRESIDENT HAS SEEN
1-21-94

THE WHITE HOUSE

WASHINGTON

January 19, 1993 94 JAN 20 P6:08

MEMORANDUM FOR THE PRESIDENT

FROM: **BERNARD W. NUSSBAUM**
COUNSEL TO THE PRESIDENT

CLIFFORD M. SLOAN CS
ASSOCIATE COUNSEL TO THE PRESIDENT

SUBJECT: **Judicial Decision Regarding Asylum Claims Based on China's Family Planning Policies**

A federal court in Virginia has ruled against the Justice Department's position in a Chinese asylum case. The context is described in the attached memo of December 16, 1993. The court found that the applicant has established a credible fear of sterilization, and that he is entitled to asylum under asylum statute. The court noted that the Executive Branch's position on this issue **since 1988** has been "an administrative cacophony undeserving of judicial deference."

NSC and the Domestic Policy Council are overseeing the preparation of an options memo. Both DOJ and State have strongly stated they have concerns regarding this matter and want to make policy recommendations. Both Departments have stated that their analyses and recommendations will be ready shortly. NSC and DPC anticipate that the options memo can be presented to you soon.

In the meantime, the press will be advised that the Justice Department litigating position is based on legal considerations, that the overall policy is under review, and that nobody with a credible fear of abortion or sterilization will actually be deported while the policy is under review.

cc: Tony Lake
Carol Rasco

I agree that no one w/ a [redacted] credible fear should be deported

THE WHITE HOUSE

WASHINGTON

December 16, 1993

93 DEC 16 P2:45

need policy reversal — need program w/a credible fear of forced sterilization or abortion given these cases ... Reno

MEMORANDUM FOR THE PRESIDENT

FROM: BERNARD W. NUSSBAUM BN
CAROL RASCO CHR by RRS
ANTHONY LAKE

SUBJECT: Asylum Claims Based on China's Family Planning Policies

A District Court in Virginia could issue a decision as early as 4PM today which may draw attention to developments regarding the return of illegal aliens to China. The alien is asserting a right to asylum based on China's coercive family planning policies; the Justice Department has opposed this position.

Pursuant to our policy to stem illegal immigration to the United States, the Justice Department has moved expeditiously to return the Chinese aliens aboard the Golden Venture, the vessel which ran aground off Long Island this past summer.

Those cases are now working their way through U.S. courts. Many of the Chinese are asserting a right to asylum, based on Chinese coercive family planning policies. In that context, the aliens are seeking to rely on a Bush Executive Order, and implementing regulations, which purported to make eligible for asylum any individual who feared being subjected to such family practices on return to China.

The Board of Immigration Appeals has found since 1989 that the regulations implementing the Bush E.O. were procedurally defective, and that China's family planning practices, which are generally applied, do not constitute persecution based on race, religion or political opinion, as required under our asylum law. The Justice Department is defending these views. This could lead to judicial decisions finding deportable certain aliens who have a credible fear of forced sterilization or abortion.

We have under review what policy to recommend concerning the protection of illegal Chinese immigrants, in light of China's family planning policies. Our approach must take into account our human rights concerns, and also our need to be able to deport undeserving illegal aliens in order to avoid attracting further immigration. It must also take into account our overall China policy, and Congressional considerations. (Congressional sentiments are likely to be torn between human rights and antiillegal immigration concerns.) We expect to have a recommendation to you within two weeks.

In the meantime, the Justice Department position could attract criticism, based on human rights concerns and perceived weakness toward China. **We are using the attached press guidance to indicate that the Justice Department litigating position is based on legal considerations, and that we have the overall policy under review.**

THE WHITE HOUSE

WASHINGTON

January 14, 1994 94 JAN 14 P4:57

TO: JOHN PODESTA

FROM: DAN BURKHARDT

THROUGH: MARSHA SCOTT

SUBJECT: HONORARY CHAIR AND EVENT ATTENDANCE REQUEST

Please review the attached request, make your recommendations, and return to me in rm. 94 EOB by Friday, January 21, 1994.

Thank you.

SPECIAL SCHEDULING REQUESTS
HONORARY CHAIR, HONORARY PATRON, HONORARY MEMBERSHIP

Today's Date: January 13, 1994 94 JAN 14 P4:57

Date of Request: 8/19/1993

Request for: POTUS/FLOTUS

Type of Request: Honorary Chairmen

Requestor Name: Mr. and Mrs. Alan I. Kay

Title: Chairmen

Organization: Second Genesis, Inc.
7910 Woodmont Avenue, Suite 500
Bethesda, Maryland 20814-3048

Contact Tel. #: 301/656-1545

Event Date: 4/19/1994

Event Description: The Second Genesis Benefit will take place on April 19, 1994 at the JW Marriot Hotel in Washington, D.C. The benefit is part of the commemoration of their 25th anniversary.

Notes: This organization operates several drug and alcohol abuse treatment communities in the Washington area. The correspondent requests that POTUS and FLOTUS serve as Honorary Chairmen of this event. Donna McLarty has advised that Second Genesis is a good organization and that this request should be given serious consideration.

Recommendations:

MW _______ PL _______ JP _______ NO unless its important to Donna

JP

1 19 94

THE WHITE HOUSE
WASHINGTON

DATE: 01/21/94

NOTE FOR: LEEANN INADOMI

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

Information ☐

Action ☒xx

Please dispatch to Congressman Brewster (only send the copy of the page from magazine which the President has signed).

Thank you.

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

cc: Nancy Hernreich
Bill Burton

THE PRESIDENT HAS SEEN 1/21

THE WHITE HOUSE

WASHINGTON

94 JAN 14 P12:14

January 13, 1994

MEMORANDUM FOR THE PRESIDENT

FROM: BILL BURTON

SUBJECT: They're on to us!

I thought you'd get a kick out of the attached cartoon from the new issue of The New Yorker. It looks like Brewster might be talking!

cc: The Hon. Bill Brewster
The Hon. John Dingell

Send to Brewster as autographed —

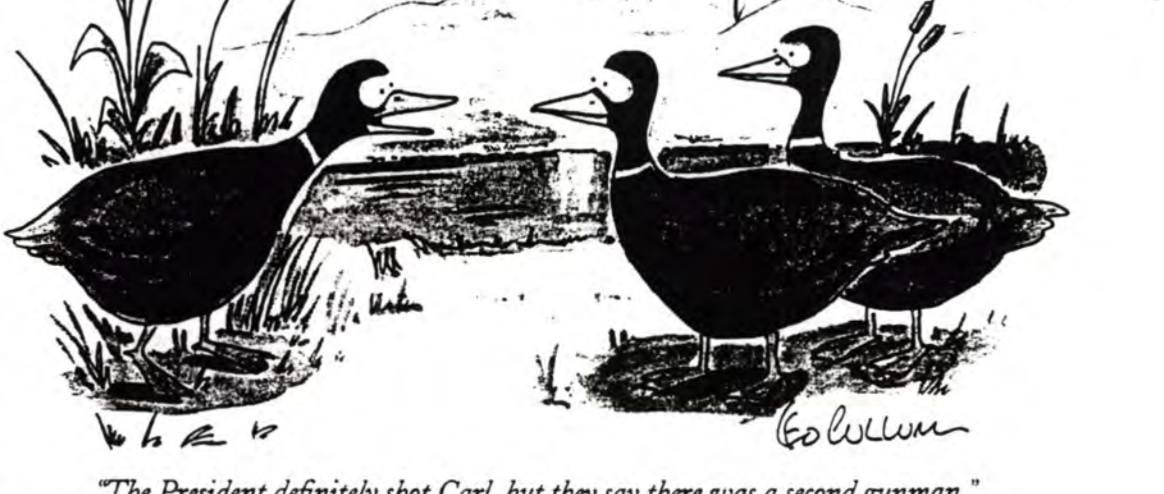
ated with—the Atlantic alliance. This includes Russia itself, though in recent months—even before the strong showing of the nationalist right in December's parliamentary elections—President Yeltsin had begun to make it clear that his government would view the admission of the Visegrad countries to NATO in an unfriendly light.

The Visegrad countries did not seriously think they would be given full membership in NATO right away. But they did hope that the alliance would establish explicit criteria and definite procedures by which they (and any other countries able to meet the first and follow the second) might gain admission. That was, and is, a perfectly reasonable wish. Unfortunately, neither the Clinton Administration nor its counterparts in London, Paris, and Bonn are inclined to grant it. Instead, the Administration is proposing a "Partnership for Peace," the very name of which has an aroma of cant and equivocation. Countries affiliated with the "Partnership" would be allowed to participate with NATO members in joint military exercises and in disaster-relief and peacekeeping missions. And they would pledge to meet what Secretary of Defense Les Aspin, in outlining the idea recently, called "the two key political goals of the program: achieving civilian control of the military, and making defense budgets and policies transparent"—that is, making them public and describing them honestly. But even if a "Partner" should carry out its tasks faithfully and meet its obligations fully—even if, for that matter, it should pass much more stringent political tests, such as treating minorities fairly and consolidating a stable form of democratic government—it would still have no assurance of being allowed through NATO's golden door. And it still would not qualify for the security guarantee that NATO's members pledge to each other: that, in the words of the alliance's founding treaty, "an armed attack against one or more of them in Europe or North America shall be considered an attack against them all."

In taking the "Partnership" route, instead of pressing for a policy that would welcome Europe's new democracies into NATO one by one as they became ready to join, the Clinton Administration lends credence to the notion that an expanding NATO would be a threat, or could reasonably be seen as a threat, to Russia. But even when Moscow was the capital of a millennialist totalitarian empire and NATO was a frankly anti-Soviet alliance, NATO's behavior toward Russia was never aggressive. And now that NATO's members are redirecting funds from their military budgets to their aid-to-Russia accounts, Russia's fears are simply irrational. It makes no sense for the West to humor those fears and the hatreds behind them, let alone allow itself to be ruled by them. One need not go back to Munich to doubt the historical wisdom of accommodating Europe's worst nationalist impulses: the Serbian example is close at hand.

The Administration's policy is based, ultimately, on a calculation about Russian politics: that expanding NATO would strengthen the political position of Yeltsin's nationalist and Communist opponents. This calculation may be just wrong, and it is certainly incomplete. The Russian voters who opted for Vladimir Zhirinovsky and his ilk were mostly protesting economic conditions, and what the West does in the economic sphere will have far more impact on the fate of Russian democracy than will the order in which ex-Communist countries are admitted to the ex-anti-Communist alliance.

As President Clinton travels through Central Europe this week, he will be offering the leaders of Poland, Hungary, and the Czech Republic quiet assurances that if things really do get nasty in Russia NATO will quickly welcome their countries to its bosom. They won't have much choice but to smile and say thank you and hope that the President is as good as his word. But they will surely wonder whether, given our reluctance to extend our protection to them now, when it is easy, we would be eager to do so later, when it might be hard. NATO pledged last summer to bomb Serb militias in Bosnia-Herzegovina if they kept on shelling Sarajevo, blocking U.N. relief convoys, or harassing U.N. peacekeepers. They have kept on doing all three, and NATO has done nothing. The market in Mr. Clinton's promises, and NATO's, is a little depressed just now. ♦



"The President definitely shot Carl, but they say there was a second gunman."

THE PRESIDENT HAS SEEN
1-21-94

To H/ches
Fyi
B

108

Stakes Will Be Huge in the House Elections

At an oft delayed White House meeting right before Christmas, the House Democratic leaders were direct with President Clinton: Working control of Congress may well disappear with this year's elections.

They cited more than a half-dozen major votes during 1993, including critical budget and spending tallies as well as other key measures such as overhauling the campaign finance laws. A switch of less than 10 votes would have changed the outcome in each. They then tossed in a few more bills, and a switch of 18 votes would have wiped out most of the president's legislative achievements.

Bill Clinton, who took copious notes, was impressed. At the end he agreed to raise $2 million for House Democratic candidates this year. This is almost four times as much as the Clinton-Gore team raised for these candidates in 1992.

Politics & People

By Albert R. Hunt

In 1994, the stakes in the House elections are huge. An even average showing by Republicans could revive the dominance of the old GOP-conservative Democratic coalition. More important, if the Republicans add two-dozen seats it will make actual GOP control of the House a distinct possibility either two or four years later.

Many of the 34 Senate races and 36 gubernatorial elections, as usual, will capture most of the political attention. But the clash for the House is the most critical battlefield in 1994. The difference between a mediocre and a spectacular showing may rest, in part, on how the current House Republicans present themselves in this sure-to-be turbulent political year.

Accordingly, the most pivotal Republican in the land today is not Bob Dole or any GOP presidential hopeful; it is the House whip and next House GOP leader, Newt Gingrich. "Newt is the most important Republican in the country for the next 18 months," says former House Republican Vin Weber.

"We'll pick up somewhere between 10 and 50 seats," Rep. Gingrich predicts. That will depend, he believes, on how Bill Clinton does this year and whether the economy stays in good shape—factors beyond his control—and how the congressional Republicans perform, which decidedly is in his control. The Georgia Republican makes no secret that he'll be a no-holds-barred foe. Tomorrow he plans to challenge the president to convene a special 60-day congressional session to deal seriously with crime before even considering health care and other legislation.

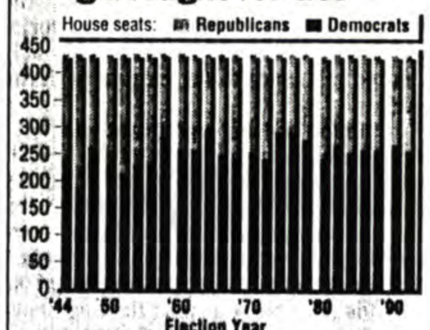
Mr. Gingrich and his colleagues have a way to go with the public; voters in this week's Wall Street Journal/NBC News Poll, by 34% to 29%, say they're more likely to vote for Democratic congressional candidates. But the poll also shows opportunities; by 56% to 33% the public now thinks it's better if Congress and the presidency are controlled by different parties.

Traditionally the party controlling the White House suffers setbacks in midterm elections. Dating back to Harry Truman, in the first off-year elections of a president's term the opposition party has gained an average of more than two-dozen seats. The Democrats currently enjoy a 259-to-176 margin. So if the GOP gains two-dozen seats, that would bring them to 200—or more seats than anytime since 1956.

The Republicans seemingly have two other advantages. The huge 114-member freshman class, about 60% Democratic, has had less time to solidify the advantages of incumbency. Thirty-one of those Democratic newcomers won by 55% or less in 1992, indicating those districts are very competitive. Moreover, already 31 House members have retired this year, and there may be a dozen or two more, also giving the GOP disproportionate opportunities in these open seats.

Rep. Gingrich and other Republicans also believe some key issues will cut their way. Some leading party strategists think that while health care may end up a political plus for the president, it's more likely to help Republican congressional candidates this year as voters angry about any changes will turn out but any benefits won't be apparent until later.

Long Drought for GOP



Source: Congressional Quarterly

But major Republican strides won't be easy. GOP pollster Robert Teeter remembers how tough it was to defeat freshman Democrats from the huge Watergate class of 1974: "Sometimes first-termers are actually safer because they work harder." And dreams that the divisive fight over the North American Free Trade Agreement would cause sizable problems with unions are fading. Labor has told Democratic politicians privately that while it will probably oppose a couple of pro-Nafta Democrats, it wants to normalize its close ties to most of the party.

Further, the single most important issue in most nonpresidential elections is, not surprisingly, the economy—and today that looks like a winner for the Democrats. "This is one of the few times that an off-year election will be held in a recovering economy," notes Democratic pollster Peter Hart.

The politically astute Newt Gingrich realizes this and knows he must position Republicans artfully this year. "If it's Republicans opposing, we will only gain the minimum seats," he acknowledges. "If it's Republican alternatives, we'll double or triple that."

He therefore has little use for assertions by some prominent Republicans that the GOP line on health care should be that there is no crisis: "I wish people who say that would go talk, at random, to any 10 small-business people in America." That doesn't mean, however, that Mr. Gingrich will help the president get a health care overhaul passed. The only question is how best to frame alternatives that will kill—or, even better, embarrass—the Clinton initiative.

Almost everyone who spends any time with Mr. Gingrich appreciates his brilliant mind and political dexterity. Even some friends, however, worry about personal flaws. Character assassination—linking Democrats to Woody Allen in 1992 for instance—has been a too-frequent Gingrich tactic, and his plans to target House Speaker Tom Foley's opposition to term limits are disingenuous; the eight-term Georgia Republican has no interest in term limits for himself. It's really a reach when he suggests that the Clintons' ethics are "Nixonish."

But the Georgia Republican can taste the prospects of exercising real power in the House, and he doesn't plan to blow it. And he has a catchy campaign theme that should give the Democrats fits: "Do you think 40 years is long enough?"

This is great
cc HRC, Harold Ickes,
Ira
(MAGAZINER)

To: President Clinton
Fr: George S.

The speech gives good insight into Chairman Rostenkowski's current thinking on health care.

Let me know if you want any follow-up.

GS 1.21.94

COMMITTEE ON WAYS AND MEANS
U.S. HOUSE OF REPRESENTATIVES PRESS RELEASE

1102 Longworth House Office Building • Washington, DC 20515 • (202) 225-8933

DAN ROSTENKOWSKI, Chairman

THE PRESIDENT HAS SEEN
1. 21 94

For release on delivery
January 19, 1994

Rostenkowski Asks Health Plan Cooperation

Following is a text of remarks prepared for delivery by Ways and Means Committee Chairman Dan Rostenkowski before a meeting sponsored by the Health Insurance Association of America in Chicago:

There is a natural human tendency to predict the future by using the standards of the past and to search for precedents that will provide guidance on how to achieve current goals. That's often a helpful technique, but there are situations where it proves irrelevant, leaving us more confused than when we began..

The current debate about reforming America's health-care system is one of those situations where there are no easy or helpful precedents. We are entering new territory – like the test pilots in **The Right Stuff** who broke the sound barrier for the first time without knowing whether they would survive. None of us have ever done anything of this magnitude before. At minimum, that suggests that we should move very carefully and be very cautious in predicting what will happen next.

But the situation we currently find ourselves in is a bit more interesting and paradoxical than that because while we can't answer all of the small, incremental questions involved, we can speak with confidence about the big ones. So let me start there.

If this group meets a year from now you will be talking about a comprehensive and basic revision of our health insurance laws that was passed by this Congress and signed by President Clinton. Proponents will claim that this legislation will ultimately provide universal access to health insurance while containing costs.

The legislation will be complex and imperfect. It will display the strains and stresses of compromise rather than the pristine lines of ideological purity. It will be revised in the years ahead as we discover unanticipated flaws.

But, in the short run, it will be seen as a tremendous victory for President Clinton, regardless of how far it strays from his original concept. And it will be a victory for the Congress because it will prove that an institution that was seen as frozen in gridlock just a very few years ago has learned how to tackle the toughest problem our nation faces and come up with a constructive solution.

Now all we have to do is decide on the details that plan will include. Its often said that the devil is in the details. That may be a bit of an understatement in this instance because the details will answer the question of whether many of America's health insurance companies will survive into the next century. Let me make my prejudice on that issue clear – I hope they do.

As we begin to focus on the details, the format of the debate shifts from an outside game to an inside game. The time for heavy public relations campaigns designed to intimidate reformers by scaring the public is over. It is time to stop shouting at one another and start listening to one another. There's a need to shift the focus from our differences to the areas of common ground.

That means that all the interested parties have to decide whether they want to quietly make a deal or launch a noisy mortar attack. It is a time to choose. The legislative boat is about to pull away from the pier. So it is time for you to decide whether you want to book passage and help us chart our course, acknowledging that you won't win a hundred percent of what you want. Or do you want to stand on the shore and fire cannogood yearns at us as we make our own way through the political and legislative minefields ahead?

My presence here today is designed to send you a message. Let me spell it out. I want you to participate in the process with us. We need your expertise. It is time to make a deal. But making a deal implies a willingness to compromise and support the product that ultimately emerges. It requires you to abandon the high-profile outside game you've become so good at and instead embrace an intense, but private inside game.

There are several logical reasons for my stance. The first is that we could use your help – both politically and substantively. You know more about your industry than we do. You can teach us how to make surgical changes that will achieve our goals with a minimum of bloodshed. And, obviously, your participation will add momentum to the political process and make change that much more inevitable.

I hope that is a compelling argument. But if it isn't adequate to close the sale, let me make one further point that won't require explanation. If you oppose the process, you will lose.

I think I understand many of your concerns about the President's plan. You are fighting like a tiger because you fear that your future survival is in question. I understand the point your are making. You justifiably fear that the geographic health alliances will favor large insurance companies with a big market share over smaller firms whose business isn't concentrated within a particular area. So you bombard the public with scary messages about a bureaucracy that will deprive them of freedom of choice.

I would be less than candid if I didn't mention that your messages are becoming the Willie Horton commercials of the health care campaign – they're increasing the heat of the debate without adding any light. I don't think they are making a constructive contribution.

While I am a proud and enthusiastic backer of the President and his plan to reform our health-care system, I am not in cement on any the specifics. More importantly, he isn't either. We are both more concerned with ends than means. Structures are merely tools to achieve our goals. If you don't like Ira Magaziner's architecture, help us create something more attractive.

That doesn't mean you have carte blanche. We need a structure that will help us achieve some goals that we're not about to compromise on in our quest for universal access. There are four of them.

The first is portability. Job-lock, where people stay in positions they don't like for the sole purpose of hanging on to their health insurance, is a totally bad idea that must be eliminated. Not only is it bad for the individuals involved, but it is at least equally bad for the efficiency of our economy. People should be able to change jobs without jeopardizing their health insurance coverage. They shouldn't even have to consider it when they're considering employment options.

The second is community rating. Charging people more because they are sick and weak is a bad habit that must be eliminated.

Next is a similar issue, open enrollment. Insurance coverage must be available to all.

Finally, we require guaranteed renewal. No one should risk losing their insurance because they've had the temerity to use it.

My focus on these four questions reflects the serious distortions of insurance principles that have become the basis of today's problem. You didn't create these problems, but you must help us come up with a solution. In the beginning, insurance was nothing more than a clever device that allowed people to pool their risks so they could buy protection against large risks at an affordable price. But we've created a system in recent years that aggressively sells health insurance to the healthy while relentlessly working to exclude the sick who are most likely to use the benefits offered. That system doesn't serve anyone well. Meanwhile, costs have gone through the roof.

So we must also address the issue of cost containment. We need a structure that allows us to constrain costs. We've made significant progress in the medicare program with diagnosis-related group payments to hospitals and the newer RBRVS system for physician payment.

Supporters of a single-payor system make a compelling logical argument when they say that extending these mechanisms to pay for all services provided to everyone would provide a control mechanism that we could rely on. You and I both know that such a move would probably create other problems – including some very serious ones for the insurance industry – but there's reason to believe that it would successfully control spending.

The new inflation figures suggest that 1993 was a very good year for increases in health spending. But one swallow doesn't make a summer and those of us who participated in the battle over hospital cost containment during the Carter years know that there's plenty of precedent for such restraint when an industry is under direct attack. So while I welcome the modest figures for last year, I am not ready to see them as part of a new pattern and do not believe that they relieve us of our cost-containment responsibilities.

As we try to work out these difficult details, I think it is important that we maintain a sense of perspective about what we are doing. President Clinton is attempting to complete a process begun by President Truman nearly a half century ago – provide health insurance to all Americans. We have been debating this issue for decades and have taken some important incremental steps along like the creation of medicare and medicaid during the 1960s.

But we have repeatedly failed to achieve the larger goal for a number of reasons. Critics credit tough lobbying by those who benefit from the status quo and are willing to make substantial political contributions in order to preserve it. There may be some truth to that. But I find it interesting to note that a recent *Washington Post* list on where the money goes showed that it is directed at the most enthusiastic backers of change – people like me and Pete Stark and Harris Wofford – and relatively less goes to opponents of change.

It is equally clear to me that opponents on the other side have been effective, if accidental defenders of the status quo. I'm talking about liberals within my own

Democratic Party who opposed incremental change in their quest for perfection. There's a growing realization that we could have won this war during the Nixon years if we had concentrated more on the policy proposal and less on partisanship and the President's lagging popularity.

President Clinton has courageously upped the ante by literally betting his Presidency on the creation of a national health plan. That means he's not about to accept defeat on this issue because he can't afford to. For him, good politics and good policy are linked.

And he has used his leadership to commit the Democratic Party to this goal as well. Don't be misled by reports of dissension within the Democratic Party. We wouldn't be Democrats if we weren't fighting with one another. But all Democrats are committed to the broad goal of making access universal while containing costs. And all Democrats will pay a political price if we fail to deliver on this promise.

Personally, I suspect that the voters will take revenge on incumbents generally if this issue isn't resolved. Some Republicans who have become adept at just saying no in other instances realize that response is inappropriate in this case. They face the same choice you do -- whether to attack the plan on the table or to try to perfect it. I have issued the same invitation to them that I am extending to you today.

All of us like the *idea* of change, but most of us are reluctant to embrace the reality. We've come to a point on this issue, though, where we no longer have the option of rejecting change. It is coming. The only question is whether we will master it or it will master us -- whether we will be the beneficiaries or the victims of the new health insurance system.

I hope that we can work together to create a product that we will all be proud of.

# # #

Heather Beckel

94 JAN 21 P12 : 15

w/ Geo. S.

kept original

FW

To: President Clinton

Fr: George S.

Lars-Erik Nelson really came to your defense last week. It would be nice if you jotted a quick note to him on the article itself.

I'll get it to him.

GS

1.17.94

AP Photo

Sen. Bob Dole talks to reporters yesterday about the Whitewater investigation

The Itch to Lynch

Senators unbothered by lack of evidence

Washington — The worst cowards in a lynch mob are the guys who know their victim is really innocent, but they still go along with the hanging.

You would expect Sen. Bob Dole (R-Kan.) to lead the mob against President Bill Clinton. Dole wants to run against Clinton in 1996, and on current performance, Dole is a no-hoper. If you can't defeat a popular, successful president, try to destroy him.

This is a lesson Dole no doubt learned from Democrats in the Nixon and Reagan years. When he called yesterday for a Select Senate Committee to investigate the Whitewater real estate mess, he was elevating it, ludicrously, to the level of the Watergate and Iran-contra scandals that destroyed one president and crippled another.

Lars-Erik Nelson

And on the basis of what evidence? "I'm not making any judgment about the veracity of the allegations," Dole said. "I'm not accusing the president and Mrs. Clinton of anything." This is wonderful: Dole wants a select Senate investigation — an extraordinary enterprise previously reserved for major abuses of presidential power — to examine allegations that he has not even taken the trouble to verify.

At the other end of the Washington Mall, the statue of Abraham Lincoln heard this, stood up and laughed. Forgive Dole. He is what he is.

You can even forgive the two leading media hangmen: columnists Pat Buchanan and William Safire. Both were members of the disgraced Nixon administration, and both have devoted their journalistic careers to fruitless attempts to minimize Watergate. "Whitewatergate" is irresistible to their thirst for revenge. They, too, are what they are — professional political hatchetmen currently disguised as journalists.

But what are we to make of the nine Democratic senators, led by our own Daniel Patrick Moynihan and joined by our neighbors Bill Bradley of New Jersey and Joe Lieberman of Connecticut, who have called for a special prosecutor to investigate their own president?

The Democrats give a truly bizarre explanation: The president is innocent. He has done nothing wrong. He has nothing to hide. So let's appoint a prosecutor to find him innocent. Even the Red Queen in "Alice in Wonderland" would gag at this logic.

Under the law, a special prosecutor is to be appointed when the Justice Department receives credible evidence that a specific person may have committed a specific federal crime — not when gossip fills the news media and the talk shows.

Stop for a second and consider this Whitewater business. Clinton was a real estate partner with James McDougal who owned a savings and loan that went bust after making insider loans. McDougal's bank was regulated by a Clinton appointee at the same time it was represented by his wife, Hillary Rodham Clinton.

Even putting the worst possible interpretation on the most seemingly damaging events — possible diversion of bank funds to Clinton's gubernatorial campaign — there has been no credible allegation that any specific person, and certainly not Clinton, has committed a federal crime.

Rep. Jim Leach (R-Iowa), who has been calling for a full-scale investigation into Whitewater, concedes, "I don't think there's anything big at the end of the tunnel. I don't see anything beyond a very serious embarrassment of the president."

Yet Leach wants a full-fledged investigation anyway. He believes that Clinton, while governor of Arkansas, may have abused the powers of office. I submit that it is a far worse abuse of official power for Leach to demand a congressional investigation when he clearly believes that its outcome will merely be "embarrassment of the president." Congress supposedly exists to pass laws, not to create embarrassments. Though, true, it cannot often tell the difference.

Leach was asked whether his remedy, a full-blown federal investigation, might be overkill given his own belittling of the alleged misdeeds. "That's a fair point," he said.

But with this cowardly bipartisan lynch mob howling after him, Clinton agreed yesterday to the selection of a special counsel. It will win him only brief respite, like tossing the smallest of your babies to the wolves chasing the sleigh.

No, the wolves will find no criminal wrongdoing. But what a rich field for an open-ended fishing expedition! Everything is now ripe for rummaging: From the suicide of White House aide Vincent Foster to speculation about the Clintons' marriage. Everything is linked to everything else. And watch it leak.

Rep. Chuck Schumer (D-N.Y.) believes Clinton has yielded to the inevitable in accepting the counsel. But the process troubles him: "Naming a prosecutor implies guilt, and you have to prove your innocence. There ought to be a mechanism that can do independent fact finding without assuming guilt."

There is no such mechanism. So, Mr. President, prove that you are innocent. And, no, we won't tell you what you're accused of.

Lars — Thanks for looking at the facts —

[illegible]

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PROBE from Page 3

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CHRON

THE WHITE HOUSE
WASHINGTON

DATE: 1/20/94

NOTE FOR: The Vice President
George Stephanopoulos
David Gergen
Mark Gearan
Dee Dee Myers

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

Information XX

Action ☐

Fw'd to

P

Thank you.

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

cc:

THE WHITE HOUSE

WASHINGTON

94 JAN 20 A11 : 01

January 20, 1994

MEMORANDUM FOR THE PRESIDENT

FROM: RER ROBERT RUBIN & BERNARD NUSSBAUM

SUBJECT: UPDATE ON *BARCLAYS BANK* V. *FRANCHISE TAX BOARD*

As you may recall, the *Barclays* case concerns a constitutional challenge to California's "worldwide combined reporting" tax system and presents difficult questions concerning tax policy, domestic policy, and international retaliation.

Late yesterday, the Solicitor General, reversing a position espoused by the Reagan and Bush Administrations, filed an *amicus* brief solidly in favor of California. While reaching the same conclusion as the California Supreme Court, the brief employs a different argument. The brief emphasizes that foreign commercial policy was evolving at the time and that California was not on notice that its tax scheme was unconstitutionally in tension with federal policy. The California court relied on a more sweeping argument that Congress authorized the State's tax regime. Administration officials were concerned that the latter argument could trigger international retaliation, and some were concerned that it would reduce Executive authority over foreign policy.

While some California officials would have preferred that the Solicitor General's brief more closely track the state court's ruling, the brief articulates a position that minimizes the likelihood that the Court will require California to refund up to $4 billion to foreign–based and domestic–based corporations, minimizes the likelihood of international retaliation, and preserves Executive authority in foreign commercial policy.

In short, the brief is a constructive solution to a delicate and complex situation. As the attached *Los Angeles Times* story suggests, this filing will be viewed very favorably in California.

U.S. Urges High Court to Back Calif. in Tax Case

By DAVID G. SAVAGE
TIMES STAFF WRITER

WASHINGTON—Siding with California in a tax case in which $4 billion is at stake, lawyers for the Clinton Administration on Wednesday urged the Supreme Court to uphold the state's use of the so-called "unitary tax" on multinational corporations.

The legal brief, filed in the pending case of Barclays Bank vs. California, 92-1384, redeems Clinton's campaign pledge to take a "pro-California" stand in the huge tax dispute, which involves the nation's foreign trading partners.

In an earlier phase of the case, officials of the Ronald Reagan and George Bush administrations had contended that California's distinct method of taxation disrupted the nation's foreign relations and should be declared unconstitutional.

If the high court were to adopt that view, the state could be forced to pay refunds or forgo disputed tax assessments that amount to $4 billion.

But the Administration brief argues that neither Congress nor the White House put California on notice during the 1970s and 1980s that its taxing system was disruptive.

The state should not be "unjustly held liable for refunds of tax that violated no federal policy" at the time, the brief says. Congress could have required all states to adopt an identical taxing system, but it did not do so, the brief noted.

Brad Sherman, chairman of the state Board of Equalization, praised the Administration's action and said that it could save California far more than it will cost to rebuild the freeways that were damaged in Monday's earthquake.

"After 12 years of this case, it's wonderful to have a pro-California brief," he said.

Unlike most states and nations, which treat the local operations of a multinational firm as though they are separate businesses, California treated multinationals as a single business and taxed a portion of the whole enterprise.

Corporate tax lawyers complain this unitary method permits California to tax profits that were not earned within the state.

But state lawyers counter that the simple accounting system combats international tax cheating. Some foreign firms have allegedly shifted their costs so as to claim they earn no profits in California.

Nonetheless, state lawmakers bowed to pressure from international business last year and essentially repealed the unitary tax. But billions of dollars in past collection remain in dispute.

The high court is expected to hear arguments in the case in late March and issue a ruling by summer.

January 21, 1994

George and Gene --

This is a draft of an appendix chapter to the budget on capital budgeting. Because it has some relationship to balanced budget issues, John wanted you to get a copy.

Todd

Draft: January 20, 1994
g:\wp\invest.rwk

FEDERAL INVESTMENT OUTLAYS AND CAPITAL BUDGETING

Part I -- Introduction

In 1993 the Federal Government spent $242 billion on investment, 17.2 percent of total Federal outlays. Investment outlays are outlays that yield long-term benefits. They take several forms and are made for many purposes. They can be direct Federal outlays or grants to State and local governments. They may be aimed at improving the efficiency of internal Federal agency operations or at increasing the nation's overall stock of capital for economic growth. They can be for physical capital, which yields a stream of services over a period of years, or for research, development, education, and training, which are less tangible but also provide long-term benefits. They can also be for acquiring commodities or other purposes.

The Administration is strongly committed to increasing investment -- both public and private -- in order to raise economic growth and future living standards. In <u>A Vision of Change For America</u>, the President identified these as key elements of his economic plan for the nation -- "long-term public investments to increase the productivity of our people and businesses; and a serious, fair, and balanced deficit-reduction plan to stop the government from draining the private investments that generate jobs and increase incomes." Thus, the President proposed to increase investment outlays above the baseline and to reduce the deficit. Congress appropriated a substantial amount of the President's 1994 request for investment funding, and $500 billion of deficit reduction was achieved by enactment of the Omnibus Budget Reconciliation Act of 1993 (OBRA). The 1995 budget builds on these successes by requesting additional investment funding for 1995 while maintaining the fiscal policy constraint envisioned by OBRA.

Higher investment funding carries with it the responsibility to use Federal investment dollars wisely. Yet, as recognized by the National Performance Review (NPR), "Poor choices of capital investment and the acquisition methods are currently costing the taxpayer millions of dollars each year."[1] Therefore, in addition to requesting higher investment funding, the Administration will

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[1] *Creating A Government That Works Better & Costs Less*, Report of the National Performance Review, September 7, 1993, p. 111.

implement the NPR recommendation to establish a capital budgeting process for the Federal Government that will improve the analysis and review of its acquisition of general purpose fixed assets.

Most budget presentations combine investment outlays with outlays for current use. This chapter focuses solely on Federal and federally financed investment. It discusses the size, composition, and long-term trend of Federal investment outlays. It presents a capital budget for Federal investment using two definitions of investment, and it analyzes the effectiveness of a capital budget for the Federal Government as a capital planning tool. Information about Federal and federally financed capital stocks and the depreciation of these assets is also presented. The final section provides projections of Federal physical capital spending and information regarding recent assessments of public civilian capital needs, which is required to be included in the budget by the Federal Capital Investment Program Information Act of 1984 (Title II of Public Law 98-501).

Part II -- Description of Federal Investment

For more than forty years, the budget has shown Federal investment outlays separately from outlays for current use, using the broad definition of investment as those outlays which yield long-term benefits. This presentation has been primarily for analytical purposes rather than to direct budget decision-making. This section of the chapter describes the composition of Federal investment outlays and discusses recent trends in Federal investment.

The classification of outlays into investment and current outlays is a matter of judgment. The budget has traditionally employed a relatively broad classification, including both physical investment and items such as education and training. But presentations for particular purposes would adopt different definitions of investment:

- To suit the purposes of a more business-oriented balance sheet, investment might include only those physical assets owned by the Federal Government, excluding capital financed through grants and intangible assets such as education and training.

- Focusing on the role of investment in improving national productivity and enhancing economic growth would exclude items such as national defense assets, the benefits of which are enhanced national security rather than economic growth.

- Concern with the efficiency of Federal operations would lead to a focus solely on investments to reduce costs or improve effectiveness of internal Federal agency operations, such as of computer systems.

- A "social investment" perspective might broaden the coverage of investment beyond what is included in this chapter to encompass programs such as childhood immunization, maternal health, and substance abuse treatment, which are designed in part to prevent more costly health problems in future years.

The relatively broad definition of investment used in this section has the presentational virtue of consistency over time: historical figures on investment outlays back to 1940 can be found in the separate Historical Tables volume. The detailed tables at the end of this section allow disaggregation of the data to focus on those investment outlays that best suit a particular purpose.

In addition to this basic definitional issue, there are two technical problems in the classification of investment data, involving the treatment of grants to State and local governments and the classification of spending that could be shown in more than one category.

First, for some grants to State and local governments, the recipient jurisdiction, not the Federal Government, ultimately determines whether the money is used to finance investment or current programs. This analysis classifies all of the outlays in the category where the recipient jurisdictions are expected to spend most of the money. Hence, community development block grants are classified as physical investment, although some may be spent for current purposes. General purpose fiscal assistance is classified as current spending, although some may be spent by recipient jurisdictions on physical investment.

Second, some spending could be classified into more than one category of investment. For example, grants for construction of research facilities finance the acquisition of physical assets, but they also contribute to research and development. To avoid double counting, the outlays are classified in the category that is most commonly recognized as investment. Consequently outlays for the conduct of research and development do not include outlays for research facilities, because these outlays are included in the category for physical investment. Similarly, physical investment and research and development related to education and training are included in the categories of physical assets and the conduct of research and development.

The Federal Credit Reform Act of 1990 changed the treatment of loans obligated or guarantees committed in 1992 or later. The estimated subsidy value of these direct and guaranteed loans is included as budget outlays since 1992 and related cash flows are not included. The subsidies are classified according to their program purpose, such as construction, education and training, or non-investment outlays. For more information about credit reform, refer to Chapter 10, "Underwriting Federal Credit and Insurance."

Composition of Federal Investment Outlays

Major Federal Investment

The composition of major Federal investment outlays is summarized in Table 8-1. They include major public physical investment, the conduct of research and development, and the conduct of education and training. Total defense and non-defense investment outlays totalled $236.7 billion in 1993, falling to an estimated $233.6 billion in 1994 and edging up to $234.0 billion in 1995. Major Federal investment will comprise an estimated 15.4% of total Federal outlays in 1995, representing 3.3% of the nation's Gross Domestic Product (GDP). Tables 8-3 and 8-4, appearing at the end of this section of the chapter, provide more detail on the composition of investment outlays.

Physical investment. Outlays for major public physical capital investment (hereafter referred to as physical investment outlays) will total an estimated $119.8 billion in 1995. Physical investment outlays are primarily outlays for construction, rehabilitation, and major equipment. About three-quarters of these outlays are for direct physical investment outlays by the Federal Government, with the remaining quarter representing grants to State and local governments for physical investment.

Direct physical investment outlays by the Federal Government are primarily for national defense. Defense physical outlays are an estimated $60.4 billion in 1995. Almost all of these outlays, or $55.4 billion, are for the procurement of weapons and other military equipment, and the remainder, $5.0 billion, is primarily for construction of military bases and family housing for military personnel.

Outlays for direct physical investment for nondefense purposes are estimated at $22.9 billion in 1995. These outlays include $15.0 billion for construction and rehabilitation. This amount funds water, power, and natural resources projects of the Corps of Engineers, the Department of Interior, the Tennessee Valley Authority, and the power administrations in the Department of Energy; construction and rehabilitation of veterans hospitals and Postal Service facilities; and facilities for space and science programs. Outlays for the acquisition of major equipment are estimated to be $7.1 billion. The largest items are for the space program and the air traffic control system. Outlays for the purchase of land and buildings are estimated to be $0.8 billion, mostly for the Federal buildings fund in the General Services Administration.

Grants to State and local governments for physical investment are estimated to total $36.5 billion in 1995. About half of these outlays, or $18.3 billion, are to assist with the Interstate Highway System and other major highways. Other major grants for physical investment fund sewage treatment plants, community development, airports, and mass transit.

Conduct of research and development. Outlays for the conduct of research and development are estimated to be $69.7 billion in 1995. These outlays are devoted to increasing our basic scientific knowledge and promoting related research and development. They increase our national security, improve the marginal productivity of capital and labor for both public and private purposes, and enhance the quality of life. Slightly more than half of these outlays, an estimated $39.4 billion in 1995, are for national defense. Physical investment for research and development facilities and equipment is included in the physical investment category.

Nondefense outlays for the conduct of research and development are estimated to be $30.3 billion in 1995. This is almost entirely direct spending by the Federal Government, and is largely for the space programs, the National Science Foundation, health research, and research for nuclear and non-nuclear energy facilities.

Conduct of education and training. Outlays for the conduct of education and training are estimated to be $44.6 billion in 1995. These outlays add to the stock of human capital by developing a more skilled and productive labor force. Grants to State and local governments for this category are estimated to be $25.6 billion in 1995, more than half of the total. They are primarily for the disadvantaged and the handicapped, and for vocational and adult education. Direct education and training outlays by the Federal Government are estimated to be $19.0 billion in 1995. Programs in this category are primarily aid for higher education through student financial assistance, loan subsidies, the veterans GI bill, and health training programs.

This category does not include outlays for education and training of Federal civilian and military employees. Outlays for education and training that are for physical investment and for research and development are in the categories for physical investment and the conduct of research and development.

Miscellaneous Investment Outlays

In addition to the categories of major Federal investment, several miscellaneous categories of investment outlays are shown in Table 8-1. These items, all for physical investment, are generally unrelated to improving Government operations or enhancing economic activity. Sales of commodity inventories are estimated to exceed purchases by $0.2 billion in 1995. Outlays in this category are for the purchase or sale of agricultural products pursuant to farm price support programs, purchases of oil for the strategic petroleum reserve, and other purposes.

Outlays for other miscellaneous physical investment are estimated to be $5.5 billion in 1995. This category includes primarily conservation programs and assets acquired and sold as collateral on defaulted loans. These outlays are entirely for nondefense, direct Federal spending.

Detailed Tables

Tables 8-3 and 8-4 present further detail on the composition of physical and other investment outlays. They provide two basic classifications. The first separates national defense from nondefense investment outlays, and the second separates grants to State and local governments for investment from direct Federal investment outlays.

Trends in Federal Investment Outlays

In real terms, Federal investment outlays rose through the 1970s and early 1980s and have held roughly steady since then. Table 8-2 shows the major categories of Federal investment since 1970 in constant FY 1987 dollars.

The overall trend in Federal investment conceals two very different patterns for defense and non-defense outlays. Through the 1970's, defense investment declined in real terms from $92.6 to $66.4 billion, an average annual decrease of 3.3%. The defense buildup of the early 1980's reversed this trend, with defense investment growing at a rate of 9.7% annually through 1987. Since then, in recognition of the end of the Cold War, defense investment has again begun to decline. This decline continues in the 1995 budget, with defense investment reduced by 19.2% from 1993 levels. At the same time, defense R&D, with its greater potential to spill over into the general economy, will make up an increasing share of defense investment while declining in inflation-adjusted terms. Defense R&D is estimated to increase to 37% of total defense investment, up from 32% in 1993.

Non-defense investment rose steadily in the 1970s, at an annual rate of 2.3%, and was then cut sharply in the early 1980's. Real non-defense investment fell from $93.3 to $78.2 billion from 1981 to 1982 alone. In the late 1980's, non-defense investment began to increase again in real terms. However, only in the last few years has non-defense investment reached its level of the end of the 1970s. Expressed as a percent of GDP, the level has still not been restored: in 1970, non-defense investment was 2.6% of GDP, while in 1993 it was only 1.9%.

A key priority of the Administration is to accelerate the restoration of domestic investment spending. In 1995, investments are proposed to increase dramatically in priority areas such as [take from policy chapter: full funding of ISTEA, information superhighway, etc.] These proposals, along with the investments funded in the 1994 appropriations acts, will increase the share of Federal outlays devoted to non-defense investment from 8.5% in 1993 to 8.8% in 1995.

Additional data about trends in Federal investment outlays can be found in the separate Historical Tables volume of the budget. Section 9 of that volume contains data on physical investment, and Section 10 contains data on the conduct of research and development and the conduct of education and training.

Part III -- Alternative Capital Budget Presentations

A capital budget would separate Federal expenditures into two categories: spending for investment and all other spending. In this sense, the previous section provided a capital budget for the Federal Government, distinguishing outlays that yield long-term benefits from all others. But alternative capital budget presentations have been suggested, two of which are described in this section.

The Federal budget finances investment for two quite different types of reasons. It invests in capital -- such as office buildings, computers, and weapons systems -- that contributes to its ability to provide governmental services to the public. And it invests in capital -- such as highways, education, and research -- that contributes to the economic growth and well-being of the Nation. Most of the capital in the second category, unlike the first, is not owned or controlled by the Federal Government. In the discussion that follows, the first is called "Federal capital" and the second is called "national capital." Table 8-5 compares total Federal investment as defined in this chapter with investment in national capital and with the part of investment in Federal capital that the National Performance Review singled out for special attention.

Capital budgets and other changes in Federal budgeting have been suggested for both types of investment. Some of these proposals are discussed below and illustrated by alternative capital budget presentations.

Investment in Federal Capital

The nature of investment in Federal capital. -- The goal of investment in Federal capital is to deliver Government services as efficiently and effectively as possible. The Congress allocates resources to Federal agencies to accomplish a wide variety of programmatic goals. Because these goals are diverse and most are not measured in dollars, they are difficult to compare with each other. Policy judgments must be made as to their relative importance.

Once amounts have been allocated for one of these goals, however, analysis may be able to assist in choosing the most efficient and effective means of delivering service. This is the context in which decisions are made on the amount of investment in Federal capital. For example, budget proposals for the Department of Justice must consider whether to increase the number of FBI agents, the amount of Justice assistance grants to State and local governments, or the number of prisons in order to accomplish the department's objectives. The optimal amount of investment in Federal capital derives from these decisions. There is no efficient target for total investment in Federal capital as such.

The universe of Federal capital encompasses federally owned fixed assets. It excludes Federal grants to States for infrastructure, such as highways, and it excludes intangible investment, such as education and research. Investment in Federal capital in 1993 was $____ billion, or ____ percent of the total Federal investment outlays shown in table 8-1. Of the investment in Federal capital, ____ percent went for defense and the remainder for nondefense purposes.

NPR recommendations. -- The recommendation by NPR that the budget "recognize the special nature and long-term benefits of investments through a separate capital budget"[2] takes this perspective and refines it further. For the purpose of a capital budget, NPR would limit the coverage of investment to include only a small part of the Federal capital as defined above. It would include only common commercial-type products used to support the delivery of Federal services: office buildings, computers, hospitals, automobiles, and the like. This excludes not only investment in military weapons systems and bases, but also non-defense special purpose capital such as space stations and dams.

The NPR recommended a separate capital budget, operating budget, and cash budget to be implemented fully in the 1996 budget. A capital budget of this kind, functioning in tandem with an operating budget and a cash budget, could improve the Government's fixed asset decisions. In order to construct the capital budget -- the explicit plan for cash outlays for fixed assets over a period of years -- agencies would have to make systematic long-range plans for their fixed asset acquisitions

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[2] Ibid.

and these plans would then have to be incorporated in the budget process. This would help to achieve the NPR goal of "steer[ing] our scarce resources toward the most economical means of acquisition of the most needed assets."[3]

In order for the capital budget to be most effective, however, it needs to be accompanied by several related improvements that NPR also recommends to the planning and budgeting process for fixed assets. OMB plans to put them into effect for the 1996 budget.

- A long-term planning and analysis process for fixed asset acquisitions will be established to determine agencies' current and prospective needs -- extending the present short-term focus of budget requests over the full 5-year budget horizon. Guidance will be provided to assist agencies in evaluating choices and setting priorities. The process will include assessing the cost-effectiveness of fixed assets in fulfilling agency missions, determining the least-cost method of asset acquisition, life-cycle planning for the acquisition and management of fixed assets, and analysis of risk. Guidance will also be provided to improve agencies' accountability for and management of their fixed assets; this will complement the planning process for new acquisitions.

- The budget process will incorporate the results of agency plans, so that agency planning can be implemented in an orderly way within the framework of setting priorities for the Federal Government. Fixed asset acquisitions would be distinguished from other spending in the budget review process so the long-term nature of the benefits and the time pattern of the cash outlays can be taken into account. Cross-cutting analysis of fixed asset proposals among different agencies would help determine which acquisitions had the highest priority.

- More flexible funding mechanisms will be adopted, where appropriate. Procedures will be developed to ensure that the rules of the annual budget process will not prevent fixed assets that have been justified from being acquired by the most economical means. In particular, the rules will be designed to accommodate temporary "spikes" in agency spending when they are caused by needed acquisitions of fixed assets.

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[3] Ibid.

Table 8-6 illustrates a capital budget for fixed assets under the NPR coverage of investment. It is accompanied by an operating budget and a total budget. The operating budget consists of all expenditures except those included in the capital budget, plus depreciation on the stock of assets that corresponds to those purchased through the capital budget. The capital budget consists of expenditures for fixed assets and, on the income side of the account, depreciation. The total budget is the present unified budget, largely cash based and often called a "cash budget," which records all outlays and receipts of the Federal Government. It consolidates the operating and capital budgets by adding them together and netting out depreciation as an intragovernmental transaction.

Budget discipline and a capital budget. -- The total budget or cash budget, as the NPR stated, "reflects the effect of both the capital and the operating budget on the economy." As NPR concluded: "Therefore, the discipline of the cash outlay caps in the Budget Enforcement Act must be maintained."[4]

The NPR recommendation thus differs from some supporters of a capital budget, who would effectively dispense with the unified budget and make expenditure decisions on fixed asset acquisitions in terms of the operating budget instead. The operating budget would include only the depreciation on the proposed purchase of a fixed asset. For example, suppose that an agency proposed to buy a $50 million building at the beginning of the year with an estimated life of 25 years and with depreciation calculated according to the straightline method. Operating expense in the budget year would increase by only $2 million, or 4 percent of the asset cost. By spreading the real cost of the project over time, this would make the budgetary cost of the fixed asset appear very cheap when decisions were being made that compared it to alternative expenditures. As a result, there would be an incentive to purchase fixed assets with little regard for need, and also with little regard for the least-cost method of acquisition.

Once the decision was made and the asset put in place, recording the annual depreciation in subsequent budgets would provide no control. Most Federal investments are sunk costs and as a practical matter cannot be recovered by selling or renting the asset. "Budgeting for depreciation," as this would entail, would lose effective control over expenditure for fixed assets. NPR was therefore wise to conclude that budget control should be exercised through the unified cash budget and the caps on its spending.

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[4] Ibid.

A budget is a financial plan for allocating resources -- deciding how much the Federal Government should spend in total, program by program, and for the parts of each program. The budgetary system provides a process for proposing policies, making decisions, implementing them, and reporting the results. The budget needs to measure costs accurately so that decision makers can compare the cost of a program with its benefits, the cost of one program with another, and the cost of alternative methods of reaching a specified goal. These costs need to be fully included in the budget up front, when the spending decision is made, so that executive and congressional decision makers have the information and the incentive to take the total costs into account.

The unified budget does this for investment. By recording investment on a cash basis, it causes the total cost to be compared up front in a rough and ready way with the total expected future net benefits. This comparison is consistent with the formal method of cost-benefit analysis of capital projects in government, in which the full cost of a fixed asset as the cash is paid out is compared with the full stream of future benefits (all in terms of present values).[5] This comparison is also consistent with common business practice, in which capital budgeting decisions for the most part are made by comparing cash flows. The cash outflow for the full purchase price is compared with expected future cash inflows either through a relatively sophisticated technique of discounted cash flows -- such as net present value or internal rate of return -- or through cruder methods such as payback periods.[6] Regardless of the specific

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[5]For example, see Edward M. Gramlich, A Guide to Benefit-Cost Analysis (2nd ed.; Englewood Cliffs: Prentice Hall 1990), chap. 6; or Joseph E. Stiglitz, Economics of the Public Sector (New York: Norton, 1986), chap. 10. This theory is applied in formal OMB instructions to Federal agencies in OMB Circular No. A-94, "Guidelines and Discount Rates for Benefit-Cost Analysis of Federal Programs" (October 29, 1992). GAO, Discount Rate Policy, GAO/OCE-17.1.1 (May 1991) discusses the appropriate discount rate for such analysis but not the foundation of the analysis itself, which is implicitly assumed.

[6]For a full textbook analysis of capital budgeting techniques in business, see Harold Bierman, Jr., and Seymour Smidt, The Capital Budgeting Decision (7th ed.; New York: Macmillan, 1988). Shorter analyses may be found, for example, in Charles T. Horngren and George Foster, Cost Accounting (6th ed.; Englewood Cliffs: Prentice-Hall, 1987), chap. 19 and 20; and in Surendra S. Singhvi, "The Capital Budgeting Process" and "The Capital Expenditure Evaluation Methods," chap. 19 and 20 in Robert Rachlin and H.W. Allen Sweeny, Handbook of Budgeting (3rd ed.; New York: Wiley, 1993).

technique adopted, it usually requires comparing future returns with the entire cost of the asset up front -- not spread over time through annual depreciation.[7]

Practice outside the Federal Government. -- The proponents of making investment decisions on the basis of an operating budget with depreciation have sometimes claimed that this is the common practice outside the Federal Government. However, while the practice of others may differ from the Federal budget and the terms "capital budget" and "capital budgeting" are often used, they do not normally mean that fixed asset acquisitions are decided on the basis of annual depreciation cost.

Private business firms call their investment decision making process "capital budgeting," and they record the resulting planned expenditures in a "capital budget." However, decisions are based on up-front comparisons of cash outflows with cash inflows, and the capital budget records the period-by-period amounts of cash outflows for capital projects.[8] This supports the business's goal of deciding upon and controlling the use of its resources.

The cash-based focus of business budgeting for capital is in contrast to business financial statements -- the income statement and balance sheet -- which use accrual accounting for a different purpose, namely to record how well the business is meeting its objectives of earning profit and accumulating wealth for its owners. For this purpose, the income statement shows the profit in a year from earning revenue net of the expenses incurred. These expenses include depreciation, which is an allocation of the cost of fixed assets over their estimated useful life. With similar objectives in mind, the Federal Accounting Standards Advisory Board (FASAB) is considering the appropriate use of depreciation as a measure of expense in financial statements and cost accounting for Federal agencies.

Business borrowing to finance investment is very unlike Federal borrowing in the nature of its constraints. Borrowing by the U.S. Treasury is judged free of any risk of default, whereas

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[7]A recent survey of business practice that finds such techniques to be predominant is Glenn H. Petry and James Sprow, "The Theory and Practice of Finance in the 1990s," The Quarterly Review of Economics and Finance, vol. 33 (Winter 1993), pp. 359-82. Petry and Sprow also verify that such techniques are recommended by the most widely used textbooks in managerial finance.

[8]A business capital budget is depicted in Glenn A. Welsch et al., Budgeting: Profit Planning and Control (5th ed.; Englewood Cliffs: Prentice Hall, 1988), pp. 396-99.

the amount that a business can borrow is limited by the market's assessment of its capacity to repay. The greater its debt, other things equal, the more risky is any additional borrowing. This puts a limit on the amount of borrowing that a business can do for investment and helps to ensure that the rate of return on such investment is at least as high as the market interest rate.

Most States also have a "capital budget," but the operating budget is not like the operating budget envisaged by proponents of making Federal investment decisions on the basis of depreciation. State capital budgets differ widely in many respects but generally relate some of the State's purchases of fixed assets to borrowing and other earmarked means of financing. For the debt-financed portion of investment, the interest and repayment of principal are usually recorded in the operating budget. State operating budgets are not charged for assets purchased in the capital budget but financed by grants or taxes. No State operating budget is charged for depreciation.[9]

State borrowing to finance investment, like business borrowing, is subject to limitations that do not apply to Federal borrowing. Like business borrowing, it is constrained by the credit market's assessment of the State's capacity to repay. Furthermore, it is usually designated for specified investments, and it is almost always subject to constitutional limits or referendum requirements.

Other developed nations tend to show a more systematic breakdown between investment and operating expenditures within their budgets than does the United States, even while they record capital expenditures on a cash basis within the same budget totals. For example, the United Kingdom shows the capital spending within each agency total and displays the sum of capital spending for the government as a whole. However, a survey by the Congressional Budget Office found that all developed nations

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[9]The characteristics of State capital budgets were examined in an OMB survey of State budget officers for all 50 States in 1986. See Lawrence W. Hush and Kathleen Peroff, "The Variety of State Capital Budgets: A Survey," Public Budgeting and Finance (Summer 1988), pp. 67-79. More detailed results are available in an unpublished OMB document, "State Capital Budgets" (July 7, 1987). Two GAO reports examined some of the same issues and reached similar conclusions on the issues in question. See Budget Issues: Capital Budgeting Practices in the States, GAO/AFMD-86-63FS (July 1986) and Budget Issues: State Practices for Financing Capital Projects, GAO/AFMD (July 1989).

except Chile and New Zealand budget on a cash basis[10]; and New Zealand requires the equivalent of appropriations for the full cost up front before a department can make net additions to its fixed assets. Some countries -- including Sweden, Denmark, and Finland -- formerly had separate capital budgets but abandoned them a number of years ago.[11]

Conclusions. -- It is for reasons such as these that the General Accounting Office has recently issued a report that criticized budgeting for capital in terms of depreciation. Although the criticisms were in the context of what is termed "national capital" in this chapter, they apply equally to "Federal capital."

> Depreciation is not a practical alternative for the Congress and the administration to use in making decisions on the appropriate level of spending intended to enhance the nation's long-term economic growth for several reasons. Currently, the law requires agencies to have budget authority before they can obligate or spend funds. Unless the full amount of budget authority is appropriated up front, the ability to control decisions when total resources are committed to a particular use is reduced. Appropriating only annual depreciation, which is only a fraction of the total cost of an investment, raises this control issue.[12]

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[10]Robert W. Hartman, Statement before the Subcommittee on Economic Development, Committee on Public Works and Transportation, U.S. House of Representatives (May 26, 1993). Hartman stated: "to our knowledge, only two developed countries, Chile and New Zealand, recognize depreciation in their budgets."

[11]The budgets in Sweden, Great Britain, Germany, and France are described in GAO, Budget Issues: Budgeting Practices in West Germany, France, Sweden, and Great Britain, GAO/AFMD-87-8FS (November 1986). Sweden had separate capital and operating budgets from 1937 to 1981 and a total combined budget from 1956 onwards. The reasons for abandoning the capital budget are discussed briefly in the GAO report and more extensively by a government commission established to recommend changes in the Swedish budget system. See Sweden, Ministry of Finance, Proposal for a Reform of the Swedish Budget System: A Summary of the Report of the Budget Commission Published by the Ministry of Finance (Stockholm, 1974), chapter 10.

[12]GAO, Budget Issues: Incorporating an Investment Component in the Federal Budget, GAO/AIMD-94-40 (November 1993), p. 11. GAO had made the same recommendation in earlier reports but with less extensive analysis than in this report.

Investment in National Capital

A target for national investment. -- The Federal Government's investment in national capital has a much broader and more varied form than its investment in Federal capital. The Government's goal is to support and accelerate sustainable economic growth for the Nation as a whole and in some instances for specific regions or groups of people. The Government's investment concerns for the Nation are two-fold:

- o The effect of its own investment in national capital on the output and income that the economy can produce. Reducing expenditure on consumption and increasing expenditure on investment that supports economic growth are a major priority for the Administration. In both the 1994 and the 1995 budgets, it has reordered priorities by proposing more investment and less other expenditure within the budget constraints. The Congress is generally supportive of this shift.

- o The effect of Federal taxation, borrowing, and other policies on private investment. The Administration's deficit reduction policy has reduced interest rates and thereby brought about an expansion of private investment.

In its recent report, Incorporating an Investment Component in the Federal Budget, the General Accounting Office recommended establishing an investment component within the unified budget -- but not a separate capital budget or the use of depreciation -- for this type of investment.[13] GAO defines this investment as "federal spending, either direct or through grants, that is directly intended to enhance the private sector's long-term productivity." [14] To increase investment -- both public and private -- GAO recommends establishing targets for the level of Federal investment and for a declining path of unified budget deficits over time.[15] Such a target for investment in national capital would focus attention on policies for growth, encourage a conscious decision about the overall level of growth-enhancing investment, and make it easier to set spending priorities in terms of policy goals for aggregate formation of national capital.

Table 8-7 illustrates the unified budget reorganized as GAO recommends to have a separate component for investment in

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[13]Ibid., pp. 1-2, 9-10, and 15.

[14]Ibid., pp. 1 and 5.

[15]Ibid., pp. 2 and 13-16.

national capital. This component includes infrastructure outlays financed by Federal grants to State and local governments, such as highways and sewer projects, as well as direct Federal purchases of infrastructure, such as electric power generation equipment. It also includes intangible investment for nondefense research and development, for basic research financed through defense, and for education and training. Much of this consists of grants and credit assistance to other governments, nonprofit organizations, or individuals. Military investment and fixed assets in the NPR capital budget are excluded, because that investment does not primarily enhance economic growth.

A capital budget for national investment. -- Table 8-8 illustrates what a capital budget and operating budget would look like under this definition of investment -- although it must be emphasized that this is not GAO's recommendation. Some proponents of a capital budget would make spending decisions within the framework of such a capital budget. But the limitations that apply to the use of an operating budget in deciding on investment decisions for Federal capital apply even more strongly for assets neither owned nor controlled by the Federal Government, which is the case for most national investments.

In addition to those basic limitations, the definition of investment is more malleable for national capital than Federal capital. Many programs promise long-term intangible benefits to the Nation, and depreciation rates are much harder to determine for intangible investment such as research and education than they are for physical investment such as highways and office buildings. These and other definitional questions are hard to resolve. The answers could significantly affect budget decisions, because they would determine whether the budget would record all or only a small part of the cost of a decision when the decision was being made. The process of reaching an answer would open the door to gimmicks, because there would be an incentive to make the operating expenses and deficit look smaller by classifying outlays as investment and using low depreciation rates. This would "justify" more spending by the program or the Government overall.[16]

Borrowing to finance a capital budget. -- A further issue raised by a capital budget for national investment is the financing of capital expenditures. Some have argued that the Government ought to balance the operating budget and borrow to finance the capital budget -- capital expenditures less depreciation (and less tax receipts earmarked to finance capital expenditure). The rationale is that if the Government borrows for net investment and the rate of return exceeds the interest

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[16]These problems are also pointed out in ibid., pp. 11-12.

rate, the additional debt does not add a burden onto future generations. Instead, the burden of paying interest on the debt and repaying its principal is spread over the generations that will benefit from the investment. The additional debt is "justified" by the additional assets.

This argument is at best a justification to borrow to finance <u>net</u> investment, after depreciation is subtracted from <u>gross</u> outlays, not to borrow to finance <u>gross</u> investment. To the extent that capital is used up during the year, there are no new assets to justify additional debt. If the Government borrows to finance <u>gross</u> investment, the additional debt exceeds the additional capital assets. The Government is thus adding onto the amount of future debt service without providing the additional capital that would produce the additional income needed to service that debt. This justification, furthermore, requires that depreciation be measured in terms of current cost, not historical cost, because, when prices change, historical cost depreciation will not measure the extent to which the capital stock is used up each year.

Table 8-8 shows that the operating deficit, defined to be net of current cost depreciation, would not be substantially less than the unified budget deficit -- $___ billion in 19__ compared to $___ billion. Depreciation (plus the earmarked excise taxes for highways and airports and airways) is high relative to gross new capital outlays, because the stock of national capital has not been growing very fast. [NB: This conclusion is speculative.]

Even with depreciation calculated in current cost, the rationale for borrowing to finance net investment is not persuasive. The Federal Government, unlike a business or household, is responsible not only for its own affairs but also for the well-being of the Nation. To maintain and accelerate national economic growth and development, the Government needs to sustain private investment as well as its own national investment. To the extent that financing of increased Federal national investment results in lower private investment, the net impact of total investment on the economy is less than the impact of the additional Federal capital outlays alone. The net increase in total investment is significantly less if the Federal investment is financed by borrowing than if it is financed by taxation, because borrowing primarily draws upon the saving available for private (and State and local) investment whereas much of taxation comes out of private consumption instead. Therefore, the net effect of Federal investment on economic growth would be reduced if it were financed by borrowing.

This would be the result even if the rate of return on Federal investment in national capital was higher than the rate of return on private investment. For example, if a Federal investment that yielded a 15 percent rate of return crowded out private investment that yielded 10 percent, the net social return would still be positive but it would only be 5 percent.[17]

In the last decade net national saving and investment have been low, both by historical standards and in comparison to the amounts needed to achieve the Administration's goals for accelerated growth. [Chart 8-1 -- showing net national saving by decade and projected under Administration policy.] The 1994 budget was a bold proposal to increase the saving available for private investment while also increasing Federal investment for national capital. Nevertheless, current deficits still exceed net Federal investment for national capital, and balancing the operating budget in 199_ would require additional deficit reduction of $____ billion -- almost as much as balancing the unified budget. As the NPR concluded, a capital budget is not a justification to relax current budget constraints.[18] Any easing would undo the gains from the $500 billion of deficit reduction achieved in the Omnibus Budget Reconciliation Act of 1993.

Part IV -- Federally Financed Capital Stocks

Federal investment outlays, by definition, create a "stock" of capital that is available in the future for productive use. Each year, Federal investment spending adds to the stock of capital, while wear and tear and obsolescence reduce it. This section presents very rough measures of three different kinds of capital stocks financed by the Federal Government: public physical capital, research and development (R&D), and education. Capital stocks are not estimated for training.

Federal outlays for physical assets add to the Nation's capital stock of tangible assets, such as roads, buildings, and aircraft carriers. These assets deliver a flow of services over their lifetime. The capital depreciates as the asset is used, wears out, or becomes obsolete.

Federal outlays for the conduct of research, development, and education add to an ''intangible'' asset, the Nation's stock of knowledge. Although financed by the Federal Government, the research and development or education can be performed by Federal or State government laboratories, universities and other nonprofit organizations, or private industry. Research and development covers a wide range of endeavors, from the

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[17]The GAO report considered deficit financing of investment but did not recommend it. See ibid., pp. 12-13.

[18]NPR, Creating a Government That Works Better & Costs Less, p. 111.

investigation of subatomic particles to the exploration of outer space; it can be ''basic'' research without particular applications in mind, or it can have a highly specific practical use. Similarly, education includes a wide variety of programs, assisting people of all ages with basic education through graduate studies. Like physical assets, the capital stocks of R&D and education provide services over a number of years and depreciate as they become outdated.

For this analysis, physical and R&D capital stocks were estimated using the perpetual inventory method. In this method, the estimates are based on the sum of net investment in prior years, rather than, for example, a survey of the current market worth of the asset. Each year's Federal outlays are treated as gross investment, adding to the capital stock; depreciation and discards reduce the capital stock. Gross investment less depreciation and discards is net investment.

In contrast, the estimate of the education stock is based on the replacement cost method. Data on the cumulative years of education in the U.S. population are combined with data on the cost of a year of education and the Federal share of spending on education to yield the cost of replacing the Federal share of nation's stock of education.

Additional detail about the methods used to estimate capital stocks appears in a technical appendix to this chapter. It should be stressed that these estimates are rough approximations, and provide a basis only for making broad generalizations. Errors may arise from incomplete data for historical outlays, imprecision in the deflators used to express costs in 1987 dollars, and uncertainty about the useful lives and depreciation rates of different types of assets.

The Stock of Physical Capital

This section presents data on stocks of physical capital assets and estimates of the depreciation on these assets.

Trends. Table 8-8 shows the value of the total net federally financed physical capital stock since 1970, in constant fiscal year 1987 dollars. The total stock held constant through the 1970's and began rising in the early 1980's. The stock reached a high of $1,380 billion in 1993 and is estimated to increase to $1,387 billion in 1994 and remaining at roughly that level in 1995. In 1993, the national defense capital stock accounted for $682 billion, or 49 percent of the total, and nondefense stocks for $698 billion, or 51 percent of the total.

Real stocks of defense and nondefense capital show very different trends. Nondefense stocks have grown consistently since 1970, increasing from $368 billion in 1970 to $698 billion in 1993. With the investments proposed in the budget, nondefense stocks are estimated to grow further to $735 billion in 1995. During the 1970's, the nondefense capital stock grew at an average annual rate of 3.9%, above the rate of growth of real GDP. In the 1980's, however, the growth rate slowed to just over half that rate, or 2.0% annually, less than GDP growth. More recently, the rate of growth in nondefense stocks has accelerated. Under this budget, the stock will grow an estimated 2.6% annual rate from 1993 to 1995, closer to the rate of growth in GDP.

National defense stocks began in 1970 at a relatively high level, and declined steadily throughout the decade, as depreciation from the Vietnam era exceeded new investment in military construction and weapons procurement. Starting in 1982, however, a large defense buildup began to increase the stock of defense capital. By 1992, the defense stock had nearly equalled its level at the height of the Vietnam War. In the last few years, reduced defense investments due to the end of the Cold War and the recognition of other pressing national needs have once again begun to reduce the defense stock. The stock will decline by an estimated 2.7% in the 1995 budget.

Another trend in the Federal physical capital stocks is the shift from direct Federal assets to grant-financed assets. In 1970, 41 percent of the federally financed nondefense stock was capital owned by the Federal Government, and 59 percent was capital owned by State and local governments but financed by Federal grants. By 1993 this ratio had changed substantially, with 33 percent of the stock owned by the Federal Government and 67 percent by State and local governments. [share actually shifted earlier--add interpretation]

The growth in the stock of physical capital financed by grants has come in several areas. The growth in the stock for transportation is largely grants for highways, including the Interstate Highway System. The growth in community and regional development stocks occurred largely with the enactment of the community development block grant in the early 1970s. The value of this capital stock has been unchanged in the past few years. [Check for increase in 1993-95] The growth in the natural resources area occurred primarily because of construction grants for sewage treatment facilities, a program that is being phased out. [Verify with examiner] The value of this federally financed stock is also relatively stable, as responsibility for this area shifts back to State and local governments. [Mention new water infrastructure financing program]

Table 8-9 shows nondefense physical capital outlays both gross and net of depreciation for selected years from 1960 to 1985 and annually from 1985 to 1994. The net capital outlays in this table are the change in the net nondefense physical capital stock displayed in Table 8-8. (should this be a chart instead of a table?]

The Stock of Research and Development Capital

This section presents data on the stock of research and development, taking into account adjustments for its depreciation.

Trends. As shown in Table 8-10, the R&D capital stock financed by Federal outlays is estimated to be $_____ billion in 1993 in constant 1987 dollars. About one-third is the stock of basic research knowledge; about two-thirds is the stock of applied research and development.

The total federally financed R&D stock in 1993 was about evenly divided between defense and nondefense. Although investment in defense R&D has exceeded that of nondefense R&D in almost every year since 19__, the two stocks are about the same because of the different emphasis between basic research and applied R&D. Defense R&D outlays are heavily concentrated in applied research and development, which is assumed to depreciate at a ten percent geometric rate. In contrast, a greater share of nondefense R&D is for basic research, which is assumed not to depreciate. Therefore, the total defense stock depreciates much more quickly than the total nondefense stock.

The defense R&D stock rose slowly during the 1970s, as gross outlays for R&D trended down in constant dollars and the stock created in the 1960s depreciated. A renewed emphasis on defense R&D spending from 1980 through 1989 led to a more rapid growth of the R&D stock. Since then, defense R&D outlays have tapered off, depreciation has grown, and, as a result, net defense R&D stock has grown more slowly.

The growth of the nondefense R&D stock slowed from the 1970s to the late 1980s, from an annual rate of 3.6% from 1970 to 1980 to a rate of 1.6% from 1980 to 1988. Gross investment fell during much of the 1980s, and about three-fourths of new outlays went to replacing depreciated R&D. Since 1987, however, nondefense R&D outlays have been on an upward trend while depreciation has edged down. As a result, the net nondefense R&D capital stock has grown more rapidly.

The Stock of Education Capital

This section presents estimates of the stock of education capital financed by Federal government outlays.

As shown in Table 8-11, the federally financed education stock is estimated at $800 billion in 1994. This stock represents about 3 percent of the nation's total education stock.[19] Three-quarters of this stock is for elementary and secondary education, while the remaining one quarter is for higher education.

The federally financed stock of education was larger than that for the research and development stock but smaller than the federally financed stock of physical capital. Since 1970, the education stock has grown steadily. Despite a slowdown in growth during the early 1980's, the stock grew at an average annual rate of 5.3% from 1970 to 1992. Expansion of education stocks is projected to accelerate under this budget, reflecting the emphasis on investment in education, with stocks estimated to increase by 5.8% annually from 1992 to 1994. [Check on how this method can estimate 1993 and 1994. Any way to estimate 1995?]

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[19]For estimates of the total education stock, see Table 2-3 in Chapter 2, "A Stewardship Statement for the Federal Government."

Methodological Note

This note provides further technical detail in the estimation of the capital stock series presented in Tables 8-3 through 8-6.

As stated previously, the capital stock estimates are only rough approximations. Sources of possible error include:

The historical outlay series. The historical outlay series for physical capital was based on budget records since 1940 and was extended back to 1915 using data from selected sources. There are no consistent outlay data on physical capital for this earlier period, and the estimates are approximations. In addition, the historical outlay series in the budget for physical capital extending back to 1940 may be incomplete. The historical outlay series for the conduct of research and development began in the early 1950s and required selected sources to be extended back to 1940. In addition, separate outlay data for basic research and applied R&D were not available for any years and had to be estimated from obligations and budget authority. For education, data for Federal outlays from the budget were combined with data for non-Federal spending from the institution or jurisdiction receiving Federal funds, which may introduce error because of differing fiscal years and confusion about whether the Federal Government was the original source of funding.

Price adjustments. The prices for the components of the Federal stock of physical, R&D, and education capital have increased through time, but the rates of increase are not precisely known. Estimates of costs in fiscal year 1987 prices were made through the application of the National Income and Product Accounts deflator series, but these should be considered only approximations of the costs of these assets in 1987 prices.

Depreciation. The useful lives of physical, R&D, and education capital, as well as the pattern by which they depreciate, are very uncertain. This is compounded by using depreciation rates for broad classes of assets, which do not apply uniformly to all the components of each group. As a result, the depreciation estimates should also be considered approximations.

Research continues on the best methods to estimate these capital stocks. The estimates presented in the text could change as better information becomes available on the underlying investment data and as improved methods are developed for estimating the stocks based on those data.

Physical Capital Stocks

For many years, current and constant-cost data on the value of most forms of public and private physical capital--e.g., roads, factories, and housing--have been estimated annually by the

Bureau of Economic Analysis (BEA) in the Department of Commerce[20]. However, the BEA data are not directly linked to the Federal budget, do not include estimates for the years covered by the budget, and do not account for capital financed but not owned by the Federal government. For budgetary purposes, OMB prepared separate estimates.

Method of estimation. The estimates were developed from the OMB historical data base for physical capital outlays and grants to State and local governments for physical capital. These are the same major public physical capital outlays presented in the previous section. This data base extends back to 1940 and was supplemented by rough estimates for 1915-1939.

The deflators for Federal, State, and local purchases of durables and structures were used going back to 1940. Specific deflators were not used for subdivisions of durables and structures. There are no specific price indices for public purchases of durables and structures for 1915 through 1939, and estimates were made on the basis of Census Bureau historical statistics on constant price public capital formation. Using these deflators, the outlays were converted to constant fiscal year 1987 dollars.

The resulting series was adjusted for depreciation. The data were depreciated on a straight-line basis over the following assumed useful lives: 46 years for water and power projects; 40 years for other direct Federal construction and capital financed by grants (primarily highways); and 16 years for defense procurement and major nondefense equipment.

Research and Development Capital Stocks

Method of estimation. The estimates were developed from a data base for the conduct of research and development largely consistent with the data in the Historical Tables. Although there is not a consistent time series on basic and applied R&D for defense and nondefense outlays back to 1940, it was possible to estimate the data using obligations and budget authority. The data are for the conduct of R&D only and exclude outlays for physical capital for research and development, because they are included in the section on physical capital.

Nominal outlays were deflated by the implicit price deflator for gross domestic product (GDP) in fiscal 1987 dollars to obtain estimates of constant dollar R&D spending. This is virtually the same as the gross national product implicit price deflator used by the National Science Foundation to deflate R&D spending.

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[20]See "Fixed Reproducible Tangible Wealth in the United States", Survey of Current Business, September 1993, pp. 61-69.

The appropriate depreciation rate of intangible R&D capital is even more uncertain than that of physical capital. Empirical evidence is inconclusive. It was assumed that basic research capital does not depreciate and that applied research and development capital has a ten percent geometric depreciation. These are the same assumptions used in a study published by the Bureau of Labor Statistics estimating the R&D stock financed by private industry.[21]

Education Capital Stocks

[Note--this discussion is largely repeated in Chapter 2; one of these should simply refer to the other.]

Method of estimation. The stock estimates for education are derived in part from annual educational expenditures reported by elementary, secondary and higher education institutions. These data are published in the Digest of Education Statistics, U.S. Department of Education. The data are available biannually from 1948 to 1972 and annually thereafter. Data for State, local, and other public and private educational expenditures from this series were combined with data on Federal outlays consistent with the data appearing in the Historical Tables volume of the budget.

The stock of capital estimated in Table 8-11 is based only on outlays for education. Stocks created by other human capital investment outlays included in Table 8-1, such as training and vocational rehabilitation, were not calculated because of the lack of historical data prior to 1962 and the absence of estimates of depreciation rates.

Table 8-11 presents estimates of the federally-financed education capital stock in constant FY 1987 dollars. These estimates were calculated by first estimating the nation's total stock of education capital, based on the current replacement cost of the total years of education of the population. Replacement costs include the direct costs reported in the Digest of Education Statistics and out-of-pocket expenses for books and supplies, as well as the indirect costs in the form of forgone earnings of students. The replacement cost is estimated using the average cost of a year of schooling at primary, secondary and higher education institutions, the average number of years of schooling of the population at each level, and the total population. The method is described in detail in Investment in Higher Education

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[21] See U.S. Department of Labor, Bureau of Labor Statistics, The Impact of Research and Development on Productivity Growth, Bulletin 2331, September 1989.

by Walter McMahon (1974). The 1987 dollar stocks are derived from 1972 dollar stock estimates published by McMahon.[22]

To derive the Federal share of the nation's education capital, the Federal share of total educational expenditures was applied to the total stock of education capital. The percent in any year was estimated by a five-year moving average of the prior years' share of Federal education outlays in total education costs.

Part V -- Supplemental Physical Capital Information

The Federal Capital Investment Program Information Act of 1984 (Title II of Public Law 98-501; hereafter referred to as the Act) requires that the budget include projections of Federal physical capital spending and information regarding recent assessments of public civilian physical capital needs. This section is submitted to fulfill that requirement.

This section is organized in two major parts. The first part projects Federal outlays for public physical capital and the second part presents information regarding public civilian physical capital needs.

Projections of Federal Outlays For Public Physical Capital

Federal public physical capital spending was $______ billion in 1993 and is projected to increase to $_____ billion by 2003 on a current services basis. The largest components are for national defense and for roads and bridges, which together accounted for about four-fifths of Federal public physical capital spending in 1993.

Federal public physical capital spending is defined here to be the same as the "major public physical capital investment" category" in Part II of this chapter. It covers spending for construction and rehabilitation, acquisition of major equipment, and other physical assets. This section excludes financial capital, such as loans, and outlays for human capital, such as the conduct of education, training, and research.

Table 8-13 shows projected current services outlays for Federal physical capital by the major categories specified in the Act. Total Federal outlays for transportation-related physical capital were $____ billion in 1993, and current services outlays are estimated to increase to $____ billion by 2003. Outlays for nondefense housing and buildings were $_____ billion in 1993 and

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[22]Walter McMahon, "Relative Returns to Human and Physical Capital in the U.S. and Efficient Investment Strategies", Economics of Education Review, Vol. 10, No. 4, 1991.

are estimated to increase to $_____ billion by 2003. Physical capital outlays for other nondefense categories were $_____ billion in 1993 and are projected to be $_____ billion by 2003. For national defense, this spending was $_____ billion in 1993 and is estimated to increase to $_____ billion in 2003.

Table 8-14 shows current services projections adjusted for inflation on a constant dollar basis, using fiscal year 1987 as the base year.

Table 8-15 compares the current services and presidential policy projections from 1993 to 1999 in current and constant dollars.

For outlay details for most programs, see the items included in major public physical capital in tables 8-3 and 8-4.

Public Civilian Capital Needs Assessments

The Act requires information regarding the state of major Federal infrastructure programs, including highways and bridges, airports and airway facilities, mass transit, railroads, federally assisted housing, hospitals, water resources projects, and space and communications investments. Funding levels, long-term projections, policy issues, needs assessments, and critiques, are required for each category.

Capital needs assessments change little from year to year, in part due to the long-term nature of the facilities themselves, and in part due to the consistency of the analytical techniques used to develop the assessments and the comparatively steady but slow changes in underlying demographics. As a result, the practice has arisen in reports in previous years to refer to earlier discussions, where the relevant information had been carefully presented and changes had been minimal.

The needs assessment material in reports of earlier years is incorporated this year largely by reference to earlier editions and by reference to other needs assessments. The needs analyses, their major components, and their critical evaluations have been fully covered in past Supplements, such as the 1990 Supplement to Special Analysis D.

Currently there is an initiative to develop a Federal infrastructure strategy. This effort includes the Department of the Army, the Department of Transportation, the Environmental Protection Agency, the Department of Energy, and other Federal agencies. They have been working in partnership with State and local governments, the private sector and the Congressional Budget Office. See <u>Toward a Federal Infrastructure Strategy: Issues and Answers</u> (ACIR) below. Interim reports are scheduled throughout FY 1993 with a final report due in FY 1994. [Check on the status of this.]

Significant Factors Affecting Infrastructure Needs Assessments

Significant Factors *Amount*

<u>Highways</u>

1. Projected annual growth in travel to the year 2009 .....2.5 percent

2. Annual cost to maintain overall 1989 conditions on highways eligible for Federal-aid .....$31.2 billion (1989 dollars)

3. Annual cost to maintain overall 1989 conditions on bridges .....$4.2 billion (1989 dollars)

Airports and Airway Facilities

1. Airports in the National Plan of Integrated Airport Systems with scheduled passenger traffic 568

2. Air traffic control towers 462

3. Airport development eligible under airport improvement program for period 1990-1999 .....$40.5 billion ($28.2 billion for capacity) (1989 dollars)

Mass Transportation Systems

1. Yearly cost to maintain condition and performance of rail facilities over a period of 10 years .....$1.1 billion-$1.7 billion (1991 dollars)

2. Yearly cost to replace and maintain the urban, rural, and special services bus fleet .....$2.0-2.2 billion (1991 dollars)

Wastewater Treatment

1. Total needs of sewage treatment facilities .....$80.5 billion (1990 dollars)

2. Total Federal expenditures under the Clean Water Act of 1972 .....$62 billion

3. Percent of population served by centralized treatment facilities that benefits from at least secondary sewage treatment systems .....95 percent

4. States and territories served by State Revolving Funds 51

Housing

1. Total unsubsidized very low income renter families (3.6 million*):

A. In severely substandard units .....0.4 million

B. With a rent burden greater than 50 percent .....3.4 million

* The total is less than the sum because some renter families have both problems.

Indian Health (IHS) Care Facilities

1. IHS hospital occupancy rates (1991) .....47 percent

2. Average length of stay, IHS hospitals (days) (1991) 4.5

3. Hospital admissions (1989) 102,793

4. Outpatient visits (1990) 4,634,945

5. Population (1990) 1,102,001

Department of Veterans Affairs (VA) Hospitals

1. Hospitals 171

2. Outpatient clinics 369

3. Domiciliaries 37

4. Outreach centers 196

5. VA owned nursing home beds 15,898

Water Resources

1. Navigation (deepwater ports and inland waterway)

2. Flood control and storm damage protection.

3. Irrigation.

4. Hydropower.

5. Municipal and industrial water supply.

6. Recreation.

7. Fish and wildlife mitigation and enhancement.

8. Soil conservation.

.....Needs data are not regularly collected by the Federal Government. Most recent estimates of the need for navigation, flood control and shoreline storm damage protection, and municipal and industrial (M&I) water supply are found in the National Council on Public Works Improvement, 1987. Meeting M&I needs as well as certain other water resource needs estimated in this report (e.g., urban storm water management and dam safety) is primarily a non-Federal responsibility. Program reforms have emphasized non-Federal cost sharing which encourages reexamination of needs, responding to changing values (instream flows for fish and wildlife versus consumptive use for irrigation and industrial purposes), coping with drought and transfers of existing supplies from one purpose to another.

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1. .....''Water Resources: Increasing Demand and Scarce Supplies,'' Chapter 2 of America's Renewable Resources: Historical Trends and Current Challenges,'' Kenneth Frederick and Roger Sedjo editors, Resources for the Future, Washington, DC, 1991.

2. .....National Council on Public Works Improvement. The Nation's Public Works, Washington, D.C., May, 1987. see ''Defining the Issues_Needs Studies,'' Chapter II; Report on Water Resources, Shilling et al., and Report on Water Supply, Miller Associates.

3. .....Frederick, Kenneth D., Balancing Water Demands with Supplies: The Role of Demand Management in a World of Increasing Scarcity, Report for the International Bank of Reconstruction and Development, Washington, D.C. 1992.

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TABLE 8-1 -- COMPOSITION OF FEDERAL INVESTMENT OUTLAYS

(In billions of dollars)

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	1993 Actual	1994 Estimate	1995 Estimate
MAJOR FEDERAL INVESTMENT OUTLAYS			
Major public physical capital investment:			
Direct:			
National defense	76.1	66.5	60.4
Nondefense	19.1	22.5	22.9
Subtotal, direct major public physical capital investment	95.2	89.0	83.3
Grants to State and local governments	31.2	34.2	36.5
Subtotal, major public physical capital investment	126.4	123.3	119.8
Conduct of research and development:			
National defense	40.4	38.9	39.4
Nondefense	28.0	29.2	30.3
Subtotal, conduct of research and development	68.4	68.1	69.7
Conduct of education and training:			
Grants to State and local governments	21.5	24.9	25.6
Direct	20.4	17.4	19.0
Subtotal, conduct of education and training	41.9	42.3	44.6
Major Federal investment outlays	236.7	233.6	234.0
MEMORANDUM			
Major Federal investment outlays:			
National defense	116.6	105.5	99.8
Nondefense	120.1	128.2	134.2
Total, major Federal investment outlays	**236.7**	**233.6**	**234.0**
Miscellaneous physical investment:			
Commodity inventories	-0.2	-0.8	-0.2
Other physical investment (nondefense, direct)	5.6	5.8	5.5
Total, miscellaneous physical investment	5.4	4.9	5.3
Total, Federal investment outlays, including miscellaneous physical investment	242.1	238.6	239.3

MAJOR FEDERAL INVESTMENT OUTLAYS IN CONSTANT PRICES

(In billions of FY87 dollars)

Fiscal Year	Grand Total Capital	Physical Capital					Research and Development			Education and Training
			Direct Federal							
		Total Physical	Total	National Defense	Non-defense	Grants	Total	National Defense	Non-defense	
1970............	168.2	98.6	76.7	69.4	7.3	21.9	43.8	23.2	20.6	25.9
1971............	159.7	88.6	66.1	58.0	8.1	22.5	42.3	22.3	20.1	28.8
1972............	156.7	83.4	60.9	51.5	9.4	22.6	42.6	23.1	19.5	30.7
1973............	149.8	76.4	54.0	44.9	9.2	22.4	42.4	22.7	19.6	31.1
1974............	142.0	72.0	49.7	40.5	9.3	22.3	40.3	21.7	18.5	29.7
1975............	145.0	71.0	50.3	41.0	9.3	20.6	39.0	20.4	18.5	35.1
1976............	149.2	73.9	49.3	40.0	9.4	24.5	39.0	19.2	19.8	36.3
1977............	148.5	77.3	49.4	39.6	9.8	27.9	38.7	19.6	19.1	32.5
1978............	154.2	79.7	50.8	40.0	10.7	29.0	41.2	20.3	20.9	33.3
1979............	158.0	83.1	55.2	43.9	11.3	27.9	40.7	18.7	21.9	34.3
1980............	161.6	83.4	55.7	45.7	10.0	27.7	42.8	20.7	22.1	35.4
1981............	164.7	85.2	59.8	49.6	10.2	25.4	43.9	21.8	22.2	35.5
1982............	156.2	86.0	63.5	54.3	9.2	22.5	41.5	23.7	17.8	28.7
1983............	160.6	92.8	70.2	61.7	8.5	22.6	41.3	25.6	15.6	26.6
1984............	174.4	103.7	79.2	68.9	10.3	24.5	45.1	28.4	16.8	25.6
1985............	190.9	114.8	89.1	77.0	12.1	25.8	50.1	32.2	17.9	26.0
1986............	200.5	120.5	94.0	82.6	11.4	26.5	53.7	36.7	17.0	26.3
1987............	203.8	125.9	102.1	89.5	12.5	23.8	53.3	37.1	16.2	24.7
1988............	204.4	124.4	100.4	86.1	14.3	24.1	54.1	36.7	17.4	25.8
1989............	209.5	125.5	101.9	88.6	13.3	23.7	56.1	37.3	18.8	27.8
1990............	210.2	125.4	100.6	86.5	14.1	24.9	56.5	36.4	20.1	28.2
1991............	207.5	124.7	99.3	84.1	15.2	25.4	52.8	32.2	20.6	30.0
1992............	207.7	122.6	96.0	76.9	19.2	26.5	53.4	31.5	21.9	31.7
1993 Est.......	205.4	115.2	87.6	69.5	18.1	27.4	55.4	32.7	22.7	34.8
1994 Est.......	197.6	109.6	80.0	59.2	20.9	29.4	53.8	30.7	23.0	34.3
1995 Est.......	192.4	103.4	72.8	52.3	20.6	30.6	53.6	30.3	23.3	35.4

Table 8-3.—FEDERAL INVESTMENT OUTLAYS: DEFENSE AND NONDEFENSE PROGRAMS

(In millions of dollars)

	1993 actual	1994 estimate	1995 estimate
MAJOR FEDERAL INVESTMENT OUTLAYS:			
NATIONAL DEFENSE:			
Major public physical investment:			
Construction and rehabilitation:			
Military construction	3,704	3,612	3,160
Family housing	421	707	739
Atomic energy defense activities and other	1,383	1,116	1,094
Subtotal, construction and rehabilitation	5,508	5,435	4,993
Acquisition of major equipment:			
Procurement	69,929	60,629	55,003
Atomic energy defense activities and other	781	509	403
Subtotal, acquisition of major equipment	70,710	61,138	55,406
Purchase or sale of land and structures	−16	−9	−9
Subtotal, major public physical investment	76,201	66,564	60,390
Conduct of research and development			
Defense military	37,666	36,219	36,773
Atomic energy and other	2,730	2,664	2,600
Subtotal, conduct of research and development	40,396	38,883	39,373
Conduct of education and training (civilian)	39	42	39
Subtotal, national defense investment	116,637	105,489	99,803
NONDEFENSE:			
Major public physical investment:			
Construction and rehabilitation:			
Highways	16,203	17,602	18,277
Mass transportation	3,058	2,367	3,033
Rail transportation	141	389	338
Air transportation	2,022	1,958	1,798
Water transportation	107	133	122
Community development block grants	3,198	3,746	4,136
Other community and regional development	763	1,118	1,354
Pollution control and abatement	3,242	3,688	3,631
Water resources	2,166	2,869	2,241
Other natural resources and environment	445	556	450
Housing assistance	3,226	4,558	5,679
General science, space, and technology	1,232	1,459	876
Energy	2,868	3,450	3,212
Veterans hospitals and other health	1,134	1,386	2,327
Postal Service	677	653	688
Federal buildings fund	675	1,355	1,278
International affairs	351	367	368
Other programs	672	978	973
Subtotal, construction and rehabilitation	42,180	48,630	50,780
Acquisition of major equipment:			
Air transportation	2,204	2,050	2,141
Other transportation	336	371	484
Space flight, research, and supporting activities	1,371	1,347	1,301
General science and basic research	39	94	96
Veterans medical care	594	800	670
Postal Service	516	649	1,033
General supply fund	371	555	526
Other	652	667	817
Subtotal, acquisition of major equipment	6,085	6,534	7,068
Purchase or sale of land and structures			
International affairs	4	4	4
Domestic	1,265	870	831
Subtotal, purchase or sale of land and structures	1,269	874	835
Other physical assets (grants)	675	662	688
Subtotal, major public physical investment	50,209	56,700	59,371
Conduct of research and development:			
General science, space, and technology:			
NASA	7,004	6,999	7,071
National Science Foundation	1,753	1,983	2,001
Other general science	789	757	708
Subtotal, general science, space, technology	9,546	9,740	9,779
Energy	2,517	2,470	2,708
Transportation:			
Department of Transportation	420	611	700
NASA	1,084	1,206	1,227
Subtotal, transportation	1,504	1,816	1,927
Health:			
National Institutes of Health	9,063	9,713	10,391
All other health	1,380	1,235	1,165
Subtotal, health	10,442	10,948	11,556
Agriculture	1,129	1,142	1,172
Natural resources and environment	1,762	1,825	1,958
International affairs	318	345	174
All other research and development	764	895	1,043
Subtotal, conduct of research and development	27,982	29,181	30,316
Conduct of education and training:			
Education, training, employment and social services:			
Elementary, secondary, and vocational education	13,523	15,184	14,846
Higher education	14,458	10,563	11,809
Research and general education aids	1,840	2,012	2,031
Training and employment	5,006	5,428	5,890
Social services	4,035	5,507	6,044
Subtotal, education, training, and social services	38,861	38,693	40,620
Income security	109	128	148
Veterans education, training, and rehabilitation	1,091	1,424	1,518
Health	775	825	1,015
Intenational affairs	212	239	235
Other education and training	838	963	1,019
Subtotal, conduct of education and training	41,885	42,272	44,555
Subtotal, nondefense investment	120,077	128,152	134,242
Total, major Federal investment outlays	**236,713**	**233,641**	**234,045**
ADDENDUM: Miscellaneous physical investment			
Commodity inventories:			
Agriculture	−359	−416	−71

Table 8-3.—FEDERAL INVESTMENT OUTLAYS: DEFENSE AND NONDEFENSE PROGRAMS—Continued

(In millions of dollars)

	1993 actual	1994 estimate	1995 estimate
Strategic petroleum reserve and other	134	−415	−141
Subtotal, commodity inventories	−225	−831	−212
Other physical assets (direct)	5,578	5,751	5,501
Subtotal, miscellaneous physical investment	**5,354**	**4,920**	**5,290**
Total investment outlays, including miscellaneous	**242,067**	**238,561**	**239,335**

Table 8-4.—FEDERAL INVESTMENT OUTLAYS: GRANT AND DIRECT FEDERAL PROGRAMS

(In millions of dollars)

	1993 actual	1994 estimate	1995 estimate
MAJOR FEDERAL INVESTMENT OUTLAYS:			
GRANTS:			
Major public physical investment:			
Construction and rehabilitation:			
Highways	16,177	17,574	18,253
Mass transportation	3,058	2,367	3,033
Rail transportation	19	43	35
Air transportation	1,931	1,850	1,710
Pollution control and abatement	2,358	2,637	2,570
Other natural resources and environment	170	254	119
Community development block grants	3,198	3,746	4,136
Other community and regional development	524	788	956
Housing assistance	2,929	4,049	4,834
National defense	60	79	4
Other construction	69	192	169
Subtotal, construction and rehabilitation	30,493	33,580	35,818
Other physical assets	675	662	688
Subtotal, major public physical capital	31,169	34,242	36,506
Conduct of research and development	344	429	672
Conduct of education and training:			
Elementary, secondary, and vocational education	12,763	14,341	13,964
Higher education	119	105	91
Research and general education aids	315	312	306
Training and employment	3,982	4,327	4,747
Social services	3,862	5,264	5,790
National defense (civilian)	6	6	3
Other	496	528	713
Subtotal, conduct of education and training	21,543	24,884	25,614
Subtotal, grants for investment	53,055	59,555	62,793
DIRECT FEDERAL PROGRAMS:			
Major public physical investment:			
Construction and rehabilitation:			
National defense	5,448	5,356	4,989
International affairs	351	367	368
General science, space, and technology	1,232	1,459	876
Water resources projects	2,038	2,675	2,168
Other natural resources and environment	1,287	1,548	1,466
Energy	2,868	3,450	3,212
Transportation	345	613	536
Veterans hospitals and other health facilities	1,079	1,314	2,268
Postal Service	677	653	688
Federal Prison System	385	527	524
Federal buildings fund	675	1,355	1,278
Other construction	810	1,169	1,582
Subtotal, construction and rehabilitation	17,195	20,485	19,955
Acquisition of major equipment:			
National defense	70,710	61,138	55,406
General science and basic research	39	94	96
Space flight, research, and supporting activities	1,371	1,347	1,301
Energy	231	367	346
Postal Service	516	649	1,033
Air transportation	2,204	2,050	2,141
Water transportation (Coast Guard)	222	219	232
Hospital and medical care for veterans	594	800	670
General supply fund	371	555	526
Other	535	452	723
Subtotal, acquisition of major equipment	76,794	67,672	62,474
Purchase or sale of land and structures:			
National defense	−16	−9	−9
International affairs	4	4	4
Domestic	1,265	870	831
Subtotal, purchase or sale of land and structures	1,253	865	826
Subtotal, major public physical investment	95,242	89,022	83,254
Conduct of research and development:			
National defense	40,396	38,883	39,373
International affairs	318	345	174
Domestic	27,321	28,407	29,470
Subtotal, conduct of research and development	68,034	67,635	69,017
Conduct of education and training:			
Elementary, secondary, and vocational education	760	843	882
Higher education	14,339	10,457	11,718
Research and general education aids	1,525	1,699	1,725
Training and employment	1,024	1,101	1,143
Health	775	825	845
Veterans education, training, and rehabilitation	1,091	1,424	1,518
National defense	33	36	36
International affairs	212	239	235
Other	623	805	879
Subtotal, conduct of education and training	20,382	17,429	18,981
Subtotal, direct Federal major investment outlays	183,658	174,086	171,252
Total, major Federal investment outlays	**236,713**	**233,641**	**234,045**
ADDENDUM: Miscellaneous physical investment:			
Commodity inventories:			
Emergency energy preparedness	137	76	9
Commodity Credit Corporation	−359	−416	−71
Other	−3	−490	−150
Subtotal, commodity inventories	−225	−831	−212
Other physical investment:			
Department of Agriculture:			
Conservation reserve program	1,690	1,819	1,808
Other	3,542	3,782	3,551
Subtotal, Department of Agriculture	5,231	5,601	5,359
Department of the Interior	65	48	60
Other	282	102	83
Subtotal, other physical capital	5,578	5,751	5,501
Subtotal, miscellaneous physical investment	**5,354**	**4,920**	**5,290**
Total Federal investment outlays, including miscellaneous	**242,067**	**238,561**	**239,335**

TABLE 8-5
ALTERNATE DEFINITIONS OF INVESTMENT OUTLAYS
(In millions of dollars)

01/20/94
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	All Federal Investment	NPR Federal Capital	National Capital
Construction and rehabilitation:			
Grants:			
Transportation	23,031	0	23,031
Natural resources and environment	2,689	0	2,659
Community and regional development	5,092	0	933
Housing assistance	4,834	0	0
Other grants	861	0	98
Direct Federal:			
National defense	4,989	739	0
International affairs	368	368	0
General science, space, and technology	876	436	876
Natural resources and environment	3,634	72	3,333
Energy	3,212	0	3,212
Transportation	536	0	536
Veterans and other health facilities	2,268	2,268	2,268
Postal Service	688	688	688
Federal buildings fund	1,107	1,107	0
Other construction	2,278	202	462
Total construction and rehabilitation	56,463	5,880	38,095
Acquisition of major equipment (direct):			
National defense	55,406	0	0
General science, space, and technology	1,397	96	1,397
Energy	346	0	346
Postal Service	1,033	1,033	1,033
Air transportation	2,141	0	2,141
Water transportation	232	0	232
Hospital and medical care for veterans	670	670	670
General supply fund	526	526	0
Other	723	462	283
Total major equipment	62,474	2,787	6,102
Purchase or sale of land and structures	826	564	0
Total physical investment	119,761	9,230	44,197
Research and development:			
Defense	39,373	0	1,139
Non-defense	30,316	0	29,545
Total research and development	69,690	0	30,684
Education and training	44,595	0	44,127
Total investment outlays	234,045	9,230	119,008

Table 8-6. CAPITAL, OPERATING, AND UNIFIED (CASH) BUDGETS: NPR DEFINITION OF CAPITAL, 1995/1/
(In billions of dollars)

Operating Budget	
Receipts	0
Expenses:	
Depreciation	0
Other	0
Subtotal, expenses	0
Surplus or deficit (-)	0
Capital Budget	
Income: depreciation	0
Capital expenditures	0
Surplus or deficit (-)	0
Unified (Cash) Budget	
Receipts	0
Outlays	0
Surplus or deficit (-)	0

/1/Historical data to estimate the capital stocks and calculate depreciation are not readily available for the NPR definition of capital. Depreciation estimates were based on the assumption that such outlays were a constant percentage of their larger categories over time.

Table 8-7. UNIFIED (CASH) BUDGET WITH NATIONAL INVESTMENT COMPONENT
(In billions of dollars)

Receipts	0
Outlays:	
National investment	0
Other	0
Subtotal, outlays	0
Surplus or deficit (-)	0

Table 8-8. CAPITAL, OPERATING, AND UNIFIED (CASH) BUDGETS: NATIONAL CAPITAL, 1995/1/

(In billions of dollars)

Operating Budget	
Receipts	0
Expenses:	
Depreciation	0
Other	0
Subtotal, expenses	0
Surplus or deficit (-)	0
Capital Budget	
Income:	
Depreciation	0
Earmarked tax receipts	0
Subtotal, income	0
Capital expenditures	0
Surplus or deficit (-)	0
Unified (Cash) Budget	
Receipts	0
Outlays	0
Surplus or deficit (-)	0

/1/For the purpose of this illustrative table only, education and training outlays are arbitrarily depreciated over 30 years by the straight-line method. This differs from the treatment of education and training elsewhere in this chapter and in Chapter 2.

THE WHITE HOUSE

WASHINGTON

MEMORANDUM

To: Ricki Seidman

From: John Podesta JP

Re: M. Larry Lawrence

Date: January 21, 1994

In anticipation of a floor fight on the confirmation of M. Larry Lawrence to be Ambassador to Switzerland, we are reaching out to Democrats off the Foreign Relations Committee. I would appreciate it if you would contact Senator Ben Nighthorse Campbell, and ensure him that the White House is committed to the nomination. We have no reason to doubt his support for Larry, but it is important to ask.

I am attaching talking points on the nomination, and would be happy to provide you any further information you might require. Thank you.

*****

M. Larry Lawrence

OUTSTANDING NOMINEE FOR U.S AMBASSADOR TO SWITZERLAND

"For 33 or 34 years I have worked with [M. Larry Lawrence] on a variety of fronts, beginning with the Kennedy Administration in the 1960's. He is a creative person, a thoughtful, responsible person. It is not a small thing to be a success in business and to represent that part of America so well with such a sense of social responsibility that he has excercised throughout all the years that I have worked with him. I look very much forward to seeing him represent the United States in Switzerland, where I know he will do an outstanding job."

-- Senator Harris Wofford, Pennsylvania; M. Larry Lawrence Confirmation Hearing, 11/10/93.

EMINENT BUSINESS LEADER

- M. Larry Lawrence has been one our Nation's leading business executives for the past 45 years, carving out a record of singular distinction in the fields of real estate, insurance, banking, investment, and, of course, the hotel industry.

- Mr. Lawrence has been the Chief Executive Officer of over 58 corporations, and has empoyed over 50,000 people at a single time. Mr. Lawrence's Hotel Del Coronado alone employs over 1300 people. He has chaired or directed organizations ranging from Federal Home Loan Bank of San Francisco to the San Diego County Economic Advisory Committee, with responsibility for economic development in a county of over 3 million people.

- He has been recognized throughout his career for his creativity and excellence in building a world renowned service empire, receiving numerous awards including the San Diego Citizen of the Year, the Man of the Year, from the City of Coronado, the County of San Diego, and the San Diego State University's Outstanding Community Leadership Award. Additionally, he has served as Chairm of the Advisory Board of the University of San Diego's School of Business Administration, and was selected Alumni of the Year and one of the 100 Outstanding Alumni of the University of Arizona.

- Mr. Lawrence's business experience has been truly global, taking him frequently to Europe, Latin America, and Asia. This international background has given Mr. Lawrence significant insight into the flow of world trade, and a true understanding of the importance of strengthening America's trading relationships abroad.

I believe [M. Larry Lawrence] can be a strong and forceful citizen ambassador, and I think in many of the countries of the world there is a place for a strong and forceful United States Ambassador."

-- Senator Diane Feinstein, California; M. Larry Lawrence Confirmation Hearing, 11/10/93.

DISTINGUISHED WORLD CITIZEN

- In the course of M. Larry Lawrence's distinguished careeer, his enterprises have taken him to dozens of countries around the world. He has actively participated in over 25 business trips to Switzerland and has worked with business leaders throughout Europe, Latin America, and Asia.

- Mr. Lawrence has had a life-long and active interest in foreign affairs, particularly in the arena of international trade, with involvement in organizations ranging from the International Center for Development Policy to the Nobel Peace Prize Nominating Commission, on which he served as Vice-Chair.

- Mr. Lawrence served as a U.S. Representative to the Council of Europe in Strasbourg as part of his work with the National Democratic Institute for International Affairs.

- Mr. Lawrence is a founding member of the San Diego World Affairs Council, and has hosted world leaders in forums discussing global issues for the past 35 years.

- At the University of California, San Diego, Mr. Lawrence has worked with the Center for U.S. Mexican Studies on trade issues, and was a founding member of the School of International Relations Pacific Studies program.

- Through the International Center, Mr. Lawrence brought delegations from the former Soviet Union to meet with Chambers of Commerce throughout the country.

"There is no one that appreciates the senior Foreign Service more than I do. I think it is a profession that is an honorable one. It is one in which great contributions are made to this country. But there is not, in my opinion, a right of someone in this area to question whether people with other qualifications, people whose qualificiations were gained on the battlefield of this country, whose love for his community and his country have been demonstrated far and above our sitting in a paid job and doing that which we love to do. I wanted to be here particularly and especially to say that I feel Mr. Lawrence has the compassion, has the background, has the ability, has the love -- he has those things which will make our country a better neighbor as he serves in this position."

-- Senator Harlan Mathews, Tennessee; M. Larry Lawrence Confirmation Hearing, 11/10/93.

ACTIVE PUBLIC CITIZEN

- In 1945, Merchant Mariner M. Larry Lawrence, although injured, survived a torpedo attack on the SS Horace Bushnell 15 miles off Murmansk. His active commitment to our Nation has continued throughout his life, and he has devoted considerable time to his community and to a number of significant public projects.

- President Carter appointed Mr. Lawrence to serve a four-year term on the Federal Home Loan Bank Board of San Francisco, where he served as Chairman of the non-industry committee, overseeing the takeover of failing Savings and Loans.

- Mr. Lawrence has served in a number of prominent posts in California, including the Chairman of the Finance Sub-committee of the State of California Cost Control in Government committee and the Vice-Chair of the California State Commission on Tourism and Visitors Services.

- Mr. Lawrence has advised leaders on economic and trade issues from the Mayor of SanDiego, to President Clinton, at the Clinton Economic Conference. He also participated in the California Economic Conference.

Name	Date
Michael Imbrosia	4/10/98 Counsel

THE WHITE HOUSE

WASHINGTON

MEMORANDUM

To: Mack McLarty

From: John Podesta JP

Re: M. Larry Lawrence

Date: January 21, 1994

As you know, we are fast approaching a Senate fight on the nomination of M. Larry Lawrence to be our Ambassador to Switzerland. The nomination was reported out of the Senate Foreign Relations committee without recommendation on a 10-10 vote, with Senators Sarbanes, Moynihan and Feingold voting against. At the end of the First Session, Larry was one of four ambassadorial nominees remaining to be resolved, and we expect the full Senate to take up the nomination shortly, possibly as early as the end of the first week of February.

There are a number of Democratic Senators that we need to contact to ensure that they are planning to support Larry's nomination. It would be helpful if you could phone Senators Johnston and Boren, and reassure them that the White House is committed to the nomination and is mounting a significant effort on Larry's behalf.

Additionally, it would be helpful if you could contact Senators Bumpers and Pryor, to confirm their support. We have no reason to doubt their commitment to the nomination, but it is important that the White House reach out to them.

I am attaching talking points that make the best case for the nomination, and I would be happy to provide any further information you require. Thank you.

*****

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Name	Date
Michael Lalbroccio	4/10/98

counsel