

~~THE~~ *Some good ideas*
in here - How to know
whether they can be put on
 THE WHITE HOUSE

WASHINGTON

November 11, 1994

MEMORANDUM TO THE PRESIDENT

From: Gene Sperling

Subject: Summary of House Contract and Senate Pledge

94NOV 11 P1:06

- MC tax cut

- target 90, 100, 110, 120

- Main priority

- target cap gains

- 14% depreciation?

* [PWP: SS cut]

Leon asked me to give you a summary of the proposals -- particularly the tax and budget proposals -- within the House Contract and Senate Pledge. There is far more detail on the House Contract -- which included legislative language -- while the Senate pledge was quite vague.

I have not had a chance to vet this memo with all of the members of the economic team, so I have just tried to note some basic analytical issues, as well as some budgetary and revenue aspects that we have worked on with Treasury and OMB. Certainly, other members of the economic team will have other thoughts and comments for you during the budget process.

HOUSE CONTRACT WITH AMERICA

The Contract With America contains two sets of promises. First, the Republicans promise to enact a series of procedural and rule changes within the House of Representatives on the first day of the 104th Congress. Second, they promise, within the first 100 days of the Congress, to bring to a House vote 10 major pieces of legislation. While they have promoted this across the nation as an agenda to pass, they have built weasel room into their fine print by claiming that they have only obligated themselves to put it up to a vote. Section I lists the Opening Day reform promises; Section II discusses the major tax and budget aspects of the Contract; and, Section III outlines the remaining aspects of the Contract's legislation.

SENATE PLEDGE

The Senate pledge, "7 More in '94," is comprised of seven broad proposals, including a balanced budget amendment, an increased tax exemption for children, welfare and health care reforms, and anti-crime measures. Unlike their House counterparts, the Senators included no specific legislation in their agenda. Section IV describes the Senate proposals.

APPENDIX

Section V is an appendix which includes budgetary cost estimates the NEC prepared of the House Republican Contract, as well as a short summary and chart of the effect of the entire Contract on Seniors.

I. HOUSE CONTRACT OPENING DAY PROMISES:

- ✓ 1. Apply major national work standards and rules to Congress, including: the Fair Labor Standards Act, Title VII of the Civil Rights Act of 1964, the Americans with Disabilities Act, the Occupational Safety and Health Act, and the Family and Medical Leave Act.
- ? 2. Require that any bill which increases revenues be passed by a three-fifths super majority of Members voting.
- ? 3. Change baseline budgeting by eliminating adjustments of discretionary appropriations for inflation.
- ✓ 4. Reduce committee staff by one-third, realign and significantly reduce the number of standing committees, abolish most joint committees and limit all committees except Appropriations to 5 subcommittees.
- ? 5. Limit the terms of committee chairs to a maximum of three consecutive Congresses.
- ? 6. Ban proxy voting in committees and subcommittees.
- ✓ 7. Increase public access to committee and subcommittee meetings by limiting which meetings can be closed and increasing the access of print and broadcast journalists.
- ? 8. Select an independent auditing firm to conduct a comprehensive audit of the House of Representatives' financial records, physical assets and operational facilities.

II. MAJOR TAX AND BUDGET ASPECTS OF THE CONTRACT:

Below is a summary of the portions of the House Contract which include the major tax and budget changes. Most of these are included in four of their ten pieces of legislation: 1.) *The Fiscal Responsibility Act* (balanced budget, line item veto); 5) *The American Dream Restoration Act*; (child tax credit, expanded IRA, partial repeal of marriage penalty); 7) *The Senior Citizens Fairness Act* (lift earnings limit to 70, and repeal 85% threshold for Social Security), and 8) *The Job Creation and Wage Enhancement Act*, (capital gains tax cut, neutral cost recovery, small business incentives, etc).

After running through the major tax and budget provisions, this memo briefly mentions the provisions in the six other bills of the Contract.

1. BUDGETARY REFORM (THE FISCAL RESPONSIBILITY ACT)

(1A): Balanced Budget Amendment: The proposed balanced budget amendment requires that the federal budget be balanced by FY 2002 or by the second fiscal year after its ratification, whichever comes sooner. It also would require any bill that increases revenues to pass each House of Congress with a three-fifths majority of its members.

Analytical Notes:

X ● **Three-Fifth Majority for Revenue:** The Simon-Stenholm Amendment does not call for a three-fifth vote for revenues -- and Simon will be opposed to a constitutional amendment that has such a restriction on raising revenues.

X ? ● **Effect on Capital Gains and Dynamic Scoring:** Ironically, since they like to describe their capital gains proposals as raising revenues, it seems to me they have made a trap for themselves. If they claim that their proposals raise revenues through dynamic scoring, they will be subjecting their own proposals to a three-fifth scoring.

● **Social Security:** While some balanced budget amendments have specifically excluded Social Security from consideration in the balance calculation, this proposal does not. Yet, it is worth noting that excluding Social Security would make the budget more difficult to balance since the size of the deficit would not be masked by the Social Security surplus

● **Size of Deficit Reduction Plan Needed:** The Congressional Budget Office has estimated that balancing the budget over a seven year time frame would require reducing spending and increasing revenue by a total of \$743 billion and the Concord Coalition has confirmed that estimate. Over a seven year period, an evenly phased in plan would require a \$1.2 trillion deficit reduction plan.

✓ (1B). *Presidential line-item veto over appropriation bills and targeted tax benefits in revenue bills.*

This bill would give the President the authority to rescind all or part of any discretionary budget authority or veto targeted tax benefits within revenue bills if the President determines that the rescission or veto would:

1. help reduce the federal budget deficit;
2. not impair any essential government functions; and
3. not harm the national interest.

The President must notify Congress of the veto or rescission within 20 calendar days. Congress would have an additional 20 session days to review the President's action, during which time it could pass a rescission/receipts disapproval bill, that, if enacted, would restore the removed provision(s).

5. THE AMERICAN DREAM RESTORATION ACT: This is their middle class tax fairness provision. It has three parts: A) a \$500 child tax credit; B) begin repeal of the marriage penalty; C) and an expanded IRA.

(5A): \$500 per child tax credit: The Contract calls for a \$500 tax credit per child under age 18 in families with income up to \$200,000. The tax credit is gradually phased out for families with income in between \$200,000 and \$250,000. This is essentially the proposal that Rep. John Kasich offered in his 1994 Republican budget alternative in March, 1994.

Analytical Notes:

Unnecessary Regressivity: Because the proposed child tax credit is available for families making up to \$200,000 and because it denies any refundability to families with low tax burdens, the proposal would lead to serious inequities to working families. For example, a family with two children making \$150,000 would get a tax cut of \$1000. Yet, a similar family of four making \$20,000 would get no tax benefit whatsoever because they would not have taxable income to offset.

House Republicans Opposed a Child Tax Credit in 1992 and 1993: In 1992, 99% of Republicans voted against a child tax credit and an expanded IRA simply because the program also included a tax increase on the top 1.2%. In 1993, 100% of Republicans voted against a budget with a dramatic expansion of the Earned Income Tax Credit largely, again, because of tax increases on the top 1.2% -- those making over \$180,000 adjusted gross income.

(5B). *Begin to repeal the marriage penalty*: In the preliminary papers on the Contract that the House put out, they called for elimination of the marriage penalty. This was apparently based on legislation by Congressman Istook that called for allowing joint filers to choose whichever filing status they found most beneficial. They had clearly not thought through all of the gaming this would lead to or the cost. When Gephardt asked for scoring of the Istook bill, the cost came out at \$71 billion. At this point, the House Leadership backed off their proposal, and changed their proposal from "repealing" the marriage penalty to "begin to repeal" the marriage penalty.

Their crude way of dealing with this in the short time they had to change their proposal was to simply say that married couples who file jointly and would be required to pay more in taxes than if they had not been married and filed separately would be entitled to a tax credit -- *but that the Department of the Treasury is instructed to calculate the tax credit amount so that the total reduction in federal revenues is estimated to equal \$2 billion for each taxable year*. Thus, they have simply decided that it would only be as generous as could be afforded for \$10 billion over the five year window.

Analytical Notes:

Revenue Loss: Removing any marriage penalty is a revenue losing tax cut. The important thing to note about proposals that eliminate the marriage penalty is that they either cost serious revenue or they call for raising the tax rates of other to lower them for some married couples. More precisely, the tax burden would shift from two-income families onto one-income families (which frequently have just one parent) and single persons.

Gaming: Treasury notes that the Istook plan -- giving two income families the choice of filing separately would create incentives for couples to "game" the tax system and manipulate their unearned income, which would complicate the tax filing process and give some couples an unfair advantage over others. Married couples would manipulate their unearned income by moving ownership of assets to the spouse facing the lower tax rate. This would enable couples with significant unearned income to reduce their taxes, whereas other married couples with the same total income (but through only salary and wages) would be forced to pay a higher effective tax rate.

(5C): Create an Expanded IRA -- "American Dream Savings Account"

Currently, taxpayers are allowed to deduct up to \$2,000 and contribute to an IRA if their AGI is less than \$40,000 (joint) or \$25,000 (single) -- or if they are not active participants in an employer-sponsored pension plan (and their spouses are not active participants they are eligible regardless of income. The deduction is phased out between \$40,000 and \$50,000 of AGI on joint returns and between \$25,000 and \$35,000 for single filers. These income limits were added by the Tax Reform Act of 1986 (TRA). Earnings on IRA contributions are not taxed currently, yet distributions from IRAs are subject to income tax. An additional 10% penalty is imposed if distributions are made before the taxpayer is 59 1/2.

The plan creates a new type of IRA that is expanded in the following form:

Withdrawal for First Time Home Buyers, etc.: These IRAs are penalty free from withdrawal prior to retirement (59 1/2) for qualified special purpose distributions, which are for first time home buyers; higher education preventions for family (including grandchildren), medical expenses -- including longterm care insurance.

No income Limit: The new proposal would allow anyone, regardless of income or pension coverage to gain the tax benefits of an IRA. Currently, however, over two-thirds of taxpayers are already eligible. Anyone, regardless of income or pension coverage could benefit. This would essentially repeal the restrictions from the Tax Reform Act of 1986.

Backloaded: Under conventional IRAs, the benefit the taxpayers receive is their ability to contribute pre-tax income and then to allow interest to accumulate tax free. IRA contributors pay taxes eventually, but after significant tax free accumulation and presumably when their tax rates are lower. Therefore, the revenue loss from expansions would be seen right away as more currently taxable income can now be put into an IRA without paying taxes.

By contrast, American Dream Savings Account proposal is "backloaded:" There is no revenue loss in the five year budget window because taxpayers are still paying taxes on their income, and depositing after-tax contributions in their IRA.

Roll-Over and Back-Loaded: Indeed, if there is a "roll-over provision in the "back-loaded" IRA, it can actually raise revenues in the first several years. The "rollover" provisions give taxpayers with existing IRA accounts a one-time only option to pay taxes now on the funds in their IRA accounts and transfer the funds into new IRA accounts. Because those who "rollover" pay taxes on pre-tax income, the "backloaded, rollover IRA" actually raises money in the short-run.

Yet, the upside for IRA contributors is that the interest they make on their after-tax principal is exempt from taxation forever! Therefore, this is a very deceptive provision from a fiscal point of view. It is designed to give the impression that it raises revenue -- which it does in the short-run -- yet it pushes off serious revenue loss to the outyears. It is therefore inconsistent with a balanced budget provision, because it is pushing revenue loss off to the future, which will increase deficits in the future.

Revenue Impact: The Contract writers estimate that expanded IRAs will increase revenues by \$4.7 billion over the next five years. Past CRS analyses of similar proposals, however, suggest that ADS accounts could cost \$50 billion or more over subsequent 5-year period after the rollover period ends and the amount of exempt interest in the ADS account grows.

Analytical Notes:

10 Year Senate Scoring Rule: It will be interesting to see how the Senate's ten year scoring rule will affect the back-loaded, roll-over provision. Indeed, perhaps the best justification for a 10 year rule is that it smokes out bills that are designed only to "fool" the five year budget window.

Tax Break for Wealthy: It also allows even the most wealthy Americans to gain permanent interest free earnings, while it offers little for working poor families who could not afford to put \$2,000 a year into a saving account. In 1992, the Joint Tax Committee found that 95% of the benefits go to the top 20% of taxpayers and 33% goes to the top 3%. Nonetheless, many people in the "top 20%" would be seen as solidly in the middle class.

Increase Marginal Savings? One of the justifications for IRAs is that it will encourage savings. Yet, many economists feel that the more it is offered to higher income Americans the more it leads to families simply shifting existing savings. In that case, the expanded IRA works not as a savings incentive that increases private savings, but only as a windfall for existing savings. While most economists do not believe that IRAs for upper middle class families increases savings, Larry Summers is one of the economists who has suggested that comparative studies show that it could have some marginal savings effect.

Secretary Bentsen: Secretary Bentsen was previously a leader for the expanded IRA. His bill was one of the first to call for an expanded IRA that allowed distributions for first-time homebuying, education, long-term unemployment and high medical expenses. His bill -- Bentsen-Roth (now Breaux-Roth) was "backloaded" though many say that he agreed to this as a condition of winning support of Roth support. His bill also included inflation indexing for the IRA contribution limit. It is worth noting that if Democrats were to propose this, that through Secretary Bentsen, Democrats have as much of an original claim to this idea as anyone.

✓ **Variations Are Possible:** It is worth noting that variations of this provision are possible. Income limits could be raised to \$75,000 -- as opposed to being lifted completely.

And early withdrawals for first-time homebuying (or training as well) could be allowed regardless of the income limit.

7. THE SENIOR CITIZENS FAIRNESS ACT)

(7A): Raise the Social Security Earnings Limit: Currently, retired workers between the ages of 65 and 69 have their social security benefits reduced by 33 and 1/3 cents for each dollar of earnings over \$11,160. Above age 69, persons receive full social security benefits, regardless of their earnings. The earnings test is lower for younger beneficiaries. They can earn up to \$8,040 before benefits are reduced, and they are subject to a 50 percent benefit reduction. The earnings test thresholds are adjusted for inflation each year.

The House contract would phase in an increase to \$30,000 in over five years. The cost is likely to be around \$7 billion over five years.

Analytical Notes:

Not Benefit Most Seniors: Treasury notes that this is actually an extremely regressive -- the vast majority of the benefits would go to high-income seniors. Most retired workers between the ages of 65 and 69 would not benefit from these proposals. Of the 8 million persons in this age group who are covered by Social Security, 75% -- 6 million -- did not work at any time in 1989. Their decisions to retire were based on many factors in addition to the social security earnings test: health, leisure time, savings, pension income, the size of social security benefits, and employers' demand for elderly workers. For these same reasons, they are unlikely to seek employment once retired, even if the earnings test were raised.

Treasury notes that among those who currently work, many would likely not increase their work effort further in response to changes in the earnings test. Either they currently earn far less than the exempt amount (and would be unaffected by the change) or they earn too much to receive benefits even if the earnings test threshold were increased to \$30,000. As the earnings test thresholds are increased, some retired workers, who currently earn too much to qualify for benefits, and their families would become eligible to receive benefits. Receipt of this windfall may cause some of these higher wage workers to reduce their work hours.

(7B): Repeal OBRA '93 tax increases on Social Security benefits: As you know, in OBRA 1993, we increased the portion of benefits subject to taxation for the top 13% of Social Security recipients. This provision seeks to gradually repeal that deficit reduction provision.

X (Taxpayers with sufficient income must include some of their Social Security benefits in income subject to income tax. Both prior to our economic plan and after our economic plan, approximately 80% of Social Security recipients have all of their Social Security benefits exempt from any taxation. Prior to our economic plan, the top 20% or recipients already had 50% of their benefits counted as taxable income to the degree that they had total income and benefits above the threshold of \$25,000 for single taxpayers and \$32,000 for married taxpayers. What the economic plan did, was ask the top 13% -- single taxpayers above the \$34,000 threshold and married taxpayers, filing jointly above the \$44,000 threshold -- to include 85% of the benefits above this higher threshold as taxable income.

The House Contract calls for phasing out the increase in OBRA 1993. They would phase it out as follows:

Taxable year beginning in calendar year:	Percentage:
1996	75 percent
1997	65 percent
1998	60 percent
1999	55 percent

Analytical Notes:

Deficit Increase: The hypocrisy of repealing something that reduced the deficit and affected only high income entitlement recipients is striking. While eliminating it could have cost \$20 billion over five years, phasing it out would have a somewhat lower cost in the short-term.

HI Solvency: The savings from the 85% threshold in OBRA 1993 went into the HI (Medicare) Trust fund and helped keep it solvent for a few more years. Prior to our economic plan it was headed for trouble in 1999.

Seriousness: Calling for repealing this new threshold may have been good short-term politics because of the sensitivity of Social Security and because \$44,000 doesn't sound like much, even though it is in the top 13% for retired couples. Nonetheless, to go back and seek repeal of

a tough entitlement savings from 1993 will be looked at with a very negative perspective by opinion leaders.

Regressivity: It also is the case, that seeking a special provision to lower the 85% threshold, puts Republicans in a position of choosing to come up with billions of additional savings for seniors and then give them only to the top 13% of recipients -- completely ignoring all others.

(7C) Tax incentives for long-term health insurance:

Individuals will be allowed to deduct private long-term care insurance premiums from their taxable income according to the following schedule:

Taxpayer Age	Maximum Deduction
40 or less	\$200
41-50	\$375
51-60	\$750
61-70	\$1,600
More than 70	\$2,000

8: THE JOB CREATION AND WAGE ENHANCEMENT ACT

(8A): Capital Gains Tax Cut: Under current law, long-term capital gains that are taxed are capped at 28%. Taxpayers in the 15 and 28 percent brackets therefore pay the same tax rates on capital gains as on other income. Yet, since long-term capital gains rates are capped at 28 percent, taxpayers in the 31 percent, 36 percent and 39.6% tax bracket rate currently pay a lower rate on long-term capital gains than on other income. Thus, it is the case that Clinton economic plan, by raising marginal rates for higher income taxpayers, did create a strong incentive for longterm capital investment.

There have been several capital gains tax cut options over the last few years. President Bush had proposed several variations during his term. The way capital gains tax cuts are designed is that they exclude a portion from adjusted gross income. Under pre-Tax Reform Act of 1986 law, taxpayers were permitted to exclude 60 percent of the excess of long-term gains over short-term losses. Thus the maximum tax rate on long-term capital gains was 20 percent (40 percent of the 50 percent top income tax rate).

The contract calls for excluding 50% of capital gains income from taxation, which would have the effect of halving the tax rate individuals pay on capital gains. For example, a 50 percent exclusion would reduce the maximum capital gains tax rate to 14 percent (50 percent of 28 percent) and taxpayers in the 15 percent bracket would be subject to a 7.5 percent rate.

Congressman Archer, the new Chairman of the House Ways & Means Committee, introduced a slightly less generous option, H.R. 3739, that also excludes 50% of capital gains, but repeals the 28 percent rate cap. The difference is that someone in the 39.6% bracket would face a 19.6% capital gains tax rate (1/2 of 39.6%) as opposed to 14% rate (1/2 of 28%). While Congressman Archer is the likely Ways & Means Chair, the more generous option is the one in the Contract and the one that Republicans seem committed to proposing:

(8B): Index capital gains for inflation: This provision calls for indexing capital gains for inflation since assets must be held for at least one year. The basis of assets would be adjusted for Gross National Product deflator. Taxpayers would increase the basis (cost) of their assets to adjust for inflation since the asset was purchased. Variations of this proposal would index capital gains only for inflation after some future date or add indexing to one of the exclusion proposals.

Joint Tax Committee Analysis: The JCT did a preliminary analysis of the House Contract provision and found that its revenue effect, in addition to that of the indexing proposal, was \$208 billion cost over 10 years. It also found that 72% of the of the individual tax benefits would go to taxpayers making over \$100,000.

Different From Bush Proposals: A 50 percent exclusion is a deeper cut than those proposed by President Bush. Bush's proposals gave greater tax reductions depending on how long the capital assets were held. For example, the FY 1992 Budget proposal would have allowed a 15 percent exclusion for assets held between one and two years, a 25 percent exclusion for assets held between two and three years, and a 35 percent exclusion for assets held three years or more. The FY 1993 Bush Budget proposal had the same format, with 15 percent, 30 percent, and 45 percent.

Distribution of Aggregate Tax Change: Below is the full distribution for the 1992 Bush proposal, which gives a sense of how little of the revenue loss goes to the middle class.

Less than \$10,000	0.2%
\$10,000-\$20,000	0.5%
\$20,000-\$30,000	1.6%
\$30,000-\$40,000	3.6%
\$40,000-\$50,000	4.5%
\$50,000-\$75,000	11.1%
\$75,000-\$100,000	8.6%
\$100,000-\$200,000	17.4%
\$200,000 and over	52.5%
TOTAL	100%

JOINT TAX COMMITTEE (Estimate of Bush Administration's Capital Gains Proposal,
February 3, 1992)

(8C): Neutral Cost Recovery Depreciation: One of the most complex and deceptive of the proposals in the House Contract is a provision called the neutral cost recovery depreciation. It is deceptive in the same way as the back-loaded, roll-over IRA is: it is designed to give the impression of raising revenues in the short-term, while it creates large, deficit increasing losses in the outyears. The main design tactic is to provide 150% accelerated depreciation schedule to some assets currently on a 200% accelerated depreciation schedule -- in order to raise revenues in the short-term -- while increasing the amount of the depreciable asset for both inflation (based on a GNP deflator) and an additional 3.5% government subsidized rate of return.

The scheme is designed to be neutral in net present value terms to the alternative of expensing an investment in the year the investment is made (hence the name), *but by adding an additional 3.5% return factor above inflation*. These proposals give businesses a government subsidy, on top of the favorable tax accounting treatment.

Current Law: Under current law, for regular income tax purposes, depreciable assets other than buildings and structures are generally written off over recovery periods of 3, 5, 7, 10, 15, or 20 years (depending upon their "class life"). An accelerated depreciation method may be used (200 percent declining balance for assets with 3, 5, 7, and 10 year recovery periods, and 150 percent declining balance for assets with 15 and 20 year recovery periods). Residential buildings are written off over 27.5 years, and non-residential buildings are written off over 39 years using the straight-line method. For alternative minimum tax (AMT) purposes, less accelerated depreciation methods must be used.

A neutral cost recovery system (NCRS) was suggested in 1985 as part of the Kemp-Kasten "Fair and Simple Tax" proposal. The proposal allowed taxpayers to increase future depreciation allowances for inflation plus a specified real rate of return (3.5 percent). For example, if the depreciation that would otherwise be allowed on a \$100 investment is \$33.33 in the first year, \$44.44 in the second year, \$14.81 in the third year, and \$7.41 in the fourth year (for a total of \$100 of allowances), and the inflation rate is 3.9 percent, the first year NCRS depreciation allowance would remain \$33.33, but the second year's depreciation allowance would be \$47.79 ($\$44.44 \times (1.039) \times (1.035)$), and the third year's allowance would be \$17.13 ($\$14.81 \times (1.039) \times (1.039) \times (1.035) \times (1.035)$), etc.

Proposals: There are several Republican neutral cost recovery proposals that are included in legislation currently pending before Congress. The bills differ somewhat in timing and the treatment of depreciation for AMT purposes, but all the proposals include the NCRS fundamentals as proposed by Kemp and Kasten in 1985 -- depreciation amounts adjusted for both inflation (based on a GNP deflator) and an additional 3.5% rate of return. The Contract

Proposal seems to follow two bills, the Putting Jobs and the American Family First Act of 1993 (HR 2434) and Family, Investment, Retirement, Savings and Tax Fairness Act of 1993 (HR 3645): These bills, introduced by Rep. Grams (R-MN) on June 16, 1993 and November 22, 1993, respectively, would also create neutral cost recovery depreciation. H.R. 2434 and H.R. 3645 replace the 200 percent declining balance method allowed under MACRS with the 150 percent declining method before allowing for the NCRS adjustments. They also apply the NCRS adjustments to AMT depreciation and include a 3.5% adjustment on top of the inflation adjustment. H. R. 2434 has been referred to the House Government Operations, Rules and Ways and Means Committees.

Analytical Note:

Congressional Research Service Analysis of Longterm Revenue Effect: This proposal was also analyzed in a March 8, 1994 memo by Jané Gravelle, Senior Specialist in Economic Policy at the Congressional Research Service. The net effect, Ms. Gravelle concluded, would be to increase taxable income by \$87 billion in the first five years, but decrease taxable income by \$984 billion over a total of 39 years. And that was using only 1994 income levels throughout the time of the analysis. These losses would be exacerbated in times of high inflation when businesses will realize huge cash flow increases at the expense of the government.

✓ **(8D) Increasing Small Business Expensing to \$25,000:** Ironically, the House Contract calls for increasing small business expensing from \$17,500 to \$25,000. This was not in their initial discussions, but was included in the legislation they said they would submit. It is clearly ironic, as you proposed increasing it from \$10,000 to \$25,000 in your economic plan, and you received no support from Republicans. Against your wishes, the amount of the increase was eventually decreased from \$25,000 to \$17,500 -- still a 75% increase.

(8E) Regulatory Reform:

- **Risk assessment and cost-benefit analysis for new regulations:** Each executive branch agency would be required to prepare a risk assessment, a cost-benefit analysis and an analysis comparing the economic and compliance costs with likely benefits to human health and the environment for every major rule relating to human health, safety, or the environment.

- **Establish federal regulatory budget:** The Office of Management and Budget and the Congressional Budget Office would be required to jointly report on the total cost to the private sector of complying with federal regulations. They would create a regulatory baseline, similar to the budget baseline, that would be updated annually. A regulatory report cost would also have to be included with the President's annual budget submissions to Congress.

● *Private property rights protection and compensation:* Private property owners would be entitled to compensation for any measurable reduction in the value of their property due to final agency action.

✓ ● *Unfunded mandate reform:* Legislation and rules that would require an unfunded mandate on either the public or the private sector must include analysis of the cost of that mandate. In addition, the CBO and OMB would be required to issue a federal mandate baseline, similar to the budget baseline. The Advisory Commission on Intergovernmental Relations would study and make recommendations to Congress and the President regarding ways to reduce the unfunded federal mandates on state and local governments.

✓ ● *Taxpayer debt buydown:* Individual taxpayers would be allowed to specify that up to 10 percent of their tax liability be used to pay down the federal debt.

III: REMAINING SIX PIECES OF SOCIAL, DEFENSE AND GOVERNMENT REFORM LEGISLATION:

Below are brief descriptions on the other six major pieces of legislation they have committed to vote on in their first 100 days. I am just providing you with brief descriptions, but we will ensure that the respective departments in the White House are analyzing the portions relevant to them.

2: THE TAKING BACK OUR STREETS ACT:

● *Make the death penalty easier to implement:* This reform would limit the time period for an application for a writ of habeas corpus and would give judges greater latitude to deny a habeas corpus application. It would also create special habeas corpus procedures in capital cases.

● *Mandatory prison terms for the use of firearms in a drug trafficking crime or a crime of violence:* On the first offense, violators would be given a 10-year prison term for possessing a firearm, a 20-year prison term for discharging the firearm or a 30-year prison term for using a machine-gun or gun with a muffling device.

✓ ● *Mandatory victim restitution:* Courts would be required to order restitution of the victim of an offense of which a defendant is convicted. Additionally, courts would be given the option to order restitution of any other person who was harmed physically, emotionally and pecuniarily by the unlawful conduct of the defendant.

Law enforcement block grants: This section would provide budgetary authority for a total of \$10 billion in block grants from FY 1996 through FY 2000.

Truth in sentencing grants: States which have laws requiring that persons convicted of a serious violent felony serve not less than 85% of the sentence imposed will be eligible for these block grants. Budgetary authority is set at \$10.5 billion from FY 1995 through FY 2000.

Cut certain social spending from the Crime Bill: The following provisions of the Crime Bill would be eliminated:

we need to review [Drug Courts, Ounce of Prevention Council, Local Crime Prevention Block Grant Program, Model Intensive Grant Programs, Family and Community Endeavor Schools Grant Program, Assistance for Delinquent and At-Risk Youth, Police Recruitment, Local Partnership Act, National Community Economic Partnership, Urban Recreation and At-Risk Youth, Community-Based Justice Grants for Prosecutors, and Family Unity Demonstration Project

3. THE PERSONAL RESPONSIBILITY ACT: (welfare reform) This was one of the only aspects of the Contract where they listed a specific savings. They claim that the net impact of their welfare reform proposal would be a savings of \$40 billion.

- *Prohibit minor mothers from receiving welfare:* AFDC benefits could not be paid to children born out-of-wedlock to an individual who is less than 18 years of age. States would also be given the option to deny AFDC benefits to children born out-of-wedlock to individuals aged 18, 19 or 20.

- *Deny increased AFDC to parents who have children while on welfare:*

- *Cut spending on welfare reform:* The aggregate amount of federal money spent on welfare (including family support, Supplemental Security Income and housing aid) would be capped at the FY 1995 level, adjusted only for inflation and changes in the poverty population.

- *Restricting welfare for aliens:* Aliens would not be eligible for non-emergency public welfare assistance. Programs which would be prohibited include housing assistance, school lunches, non-emergency health services, WIC, domestic volunteer programs, and LIHEAP. Aliens who currently reside in the U.S. and are eligible for a program would be given a one-year grace period before losing eligibility.

- *Enact a "two years and your out" provision:* States would be allowed to force aid recipients to enter a work training program. After 24 months of receiving aid and participating in a work training program, the aid recipient would be required to engage in work activities at least 35 hours per week. States would be given the flexibility to design their own training programs and would be provided, in total, \$9.9 billion in funding over five years.

- *Consolidate food assistance programs:* States would receive block grants administered by the Department of Agriculture to fund food assistance programs. Current food assistance programs would be consolidated into this one block grant program. Budgetary authority would be \$35.6 billion for FY 1996 and such funds as are necessary thereafter.

4. FAMILY REINFORCEMENT ACT:

- *Provide tax incentives for adoption:* Certain adoption expenses would be allowed as a tax credit of up to \$5,000 per year. The credit is gradually phased out for individuals whose adjusted gross income is from \$60,000 to \$100,000.
- *Strengthen child protection laws:* This section would create a mandatory minimum sentence of three years for prostitution of children and increase the mandatory sentence to three years for sexual abuse of a minor or ward. In addition, it would increase the penalty for using computers to transmit child pornography.
- *Grant an elderly dependent care tax credit:* Individuals who care for an elderly parent or grandparent within their household may claim a \$500 tax credit.
- *Increase child support enforcement:* This section would require noncustodial parents who fail to make required child support payments to enter a job search program. If the noncustodial parent does not make the owed payments after participating in the job search program, he or she would be required to participate in a work program established by the state.

6. THE NATIONAL SECURITY RESTORATION ACT: (Nancy Soderberg is having NSC do an analysis of these provisions for you).

- *Develop an antiballistic missile system:* The bill would require that the U.S. deploy at the earliest possible moment an antiballistic missile system that is capable of providing a highly effective defense of the United States against ballistic missile attacks.
- *Create a "Commission on National Security and Department of Defense Force Structure and Readiness Funding Shortfalls"*
The Commission would examine both immediate supplemental funding needs and "conduct a comprehensive review of our Nation's defense strategy, force structure, modernization and infrastructure needs." The Commission would be required to submit its final report to the President and Congress by May 1, 1996. The President, the Speaker of the House and the President pro tempore of the Senate would each appoint 4 of the 12 Commission members.
- *Prohibit U.S. troops from serving under foreign command:* No U.S. forces would be allowed to be "placed under the operational control of a foreign national acting on behalf

of a multinational force or organization" except in circumstances where such "control is necessary to protect vital national security interests of the United States."

- *Restore "budget firewalls" for defense spending:* The bill suggests that Congress should enact additional legislation that would reset budget firewalls around the defense budget, to prevent the shifting of any funds out of defense to help finance domestic discretionary programs.

Note on Cost: As there was no specific scoring on this legislation, we based our cost estimates on the cost of the Defense proposals on the House Republican FY 1995 alternative budget written by Rep. Kasich, which proposed increasing outlays by \$61.1 billion and budgetary authority by \$73.7 billion over five years. He never backed away from this amount of funds and it was the only Republican proposal that was comparable to the goals of the Contract that had been scored. Yet, it is not a precise cost estimate of what is in their exact legislation.

9. THE COMMON SENSE LEGAL REFORM ACT

- *Require that nonprevailing parties in civil litigation pay the attorney's fee of the prevailing party*
- *Reform product liability laws to limit punitive damages*
Punitive damages in civil actions would be limited to the greater of 3% the amount awarded to the claimant for economic injury or \$250,000.

10. TERM LIMITS (The Citizen Legislature Act)

- This Constitutional Amendment would limit Senators to two elected terms and members of the House of Representatives to six elected terms. It would apply only to elections after the Amendment is ratified by the states.

IV. SENATE CONTRACT OR PLEDGE VERSION "SEVEN MORE IN '94"

The Senate Republican Agenda is based on seven broad proposals. Unlike their House counterparts, the Republican Senators have not drafted specific legislation.

Most of these seven proposals would require budgetary savings in order to be enacted without increasing the deficit.

1. ENACT A BALANCED BUDGET AMENDMENT TO THE CONSTITUTION

The Senators promise to "proceed to immediate consideration" of the amendment after swearing-in ceremonies on January 3, 1995. Their proposal does not specify any details about how the Amendment will be structured or about how the balancing process will be timed and enforced.

The Contract with America also proposes a balanced budget amendment.

2. DOUBLE THE INCOME TAX EXEMPTION FOR CHILDREN

This proposal would increase the income tax exemption for children from \$2,500 to \$5,000. No upward income bound is specified and the proposal says that the tax change will be paid for by "spending cuts".

The Senate version is more regressive than the House version because it relies on tax exemptions instead of tax credits. The additional \$2500 exemption would be worth \$900 to someone in the 36% tax exemption. Yet, it would only be worth \$375 for a family in the 15% tax bracket and zero for a family with no tax liability. Thus, it only exacerbates the current regressivity of the child exemption. As you may recall, prior proposals such as Gore-Downey sought to replace the exemption with a credit. Most other proposals have at least sought to have a credit on top of the existing exemption.

3. REAL HEALTH CARE REFORM BASED ON CONSUMER CHOICE AND PRIVATE MEDICINE

The Republicans promise "to expand access and control costs by expanding consumer choices, promoting competition, reforming medical liability laws, and reducing government paperwork and bureaucracy."

The Contract with America offers tax incentives for private long-term care insurance.

4. ENACT LEGISLATION THAT BRINGS AN END TO CRIME WITHOUT PUNISHMENT IN AMERICA

The Republicans promise to "impose mandatory prison sentences on violent felons and drug traffickers, stops building prisons as though they were Holidays Inns, and put prisoners to work." In addition, they state that they will repeal the "pork barrel spending" from the Crime Bill.

The Contract with America includes similar anti-crime proposals.

5. REFORM WELFARE AND EXPAND JOB OPPORTUNITIES

The Republican welfare reform would be "based on work, more individual responsibility, and less federal spending." They also propose to create jobs with three tax cuts: 1) IRA-Plus bill, 2) lowering the capital gains tax, and 3) indexing taxes on assets for inflation.

The Contract with America includes a capital gains tax cut, IRA expansion and also indexes assets for inflation.

6. TAX FAIRNESS FOR RETIRED AND WORKING ELDERLY

The Republicans promise to repeal both OBRA '93's increased tax on Social Security and the reduced benefits for those who work.

The Contract with America includes both of these proposals.

7. PROTECT NATIONAL DEFENSE

The Republicans promise to stop defense cuts and protect the defense budget from being used to fund non-defense spending.

The Contract with America includes similar defense measures.

FINANCING:

\$238 Billion in Entitlements: The Senate Pledge also made vague financing promises. It stated that it would use \$238 billion "equal to all proposals made by President Clinton not yet enacted that reduce non-Social Security entitlements. This clearly is a promise to use the Medicare and Medicaid savings in the Health Security Act to pay for their "pledge."

\$94 Billion Non-Defense Discretionary Freeze: They claim that a "hard" freeze in non-defense discretionary spending would save \$94 billion. Yet, such a hard freeze -- which would amount to a real, inflation adjusted cut of 3% a year, or 10-15% over five years -- does not even appear to get so much money. OMB projects that non-defense discretionary spending only goes up \$30 billion over five years -- barely enough (if enough) to keep up with inflation. By 1998, domestic discretionary spending will be the lowest as a percentage of GDP since the Kennedy Administration. As one might guess, there are no details on where the \$94 billion would come from.

\$100 Billion From Base Closing-type Commission: They also recommend an additional \$100 billion that would an independent commission would come up with for an up-or-down vote, like the BRAC. What is somewhat staggering about this idea, is that this is seen as on top of and in addition to the \$238 billion in entitlements and \$97 billion in non-defense discretionary spending promised above.

TOTAL: If they can accomplish all of the savings above -- \$432 billion -- they are still not even half way to balancing the budget and paying for their tax cuts and new spending proposals.

V: APPENDIX - BUDGETARY COST ESTIMATES AND SENIOR ANALYSIS

- I. Five-year cost estimate of the House Contract
- II. Seven-year cost estimate of the House Contract
- III. What Would the Impact on Seniors and Others Be?
- IV. Pie Chart of Programs Available for Spending Cuts

TABLE 1
5-YEAR COST ESTIMATE
HOUSE REPUBLICAN "CONTRACT WITH AMERICA"
(\$ in billions)

	5-Year Total
Balanced Budget Amendment <i>Source: CBO estimate of a 5-year balanced budget schedule. Rep. Arney has proposed balancing the budget by the year 2000.</i>	\$743.0
Tax Incentives for Adoption <i>Source: House Republican Leadership Estimate</i>	0.9
Dependent Care Tax Credit for Seniors <i>Source: House Republican Leadership Estimate</i>	8.0
\$500/child Tax Credit <i>Source: House Republican Leadership Estimate</i>	107.0
Modify the Marriage Penalty <i>Source: House Republican Leadership Estimate</i>	10.0 (1)
Super IRA	0.0 (2)
Defense <i>Source: House Republican Alternative Budget, March 1994</i>	61.1 (3)
Raise Social Security Earnings Limit to \$30,000 <i>Source: House Republican Leadership Estimate</i>	6.8
Phase-Out 85% Social Security Inclusion <i>Source: House Republican Leadership Estimate</i>	17.0
Tax Incentives for Private Long-Term Care Insurance <i>Source: House Republican Leadership Estimate</i>	1.3
Cut Capital Gains Rates/Index to Inflation <i>Source: House Republican Leadership Estimate</i>	56.0
Neutral Cost Recovery	0.0 (2)
Small Business Expensing Provision <i>Source: House Republican Leadership Estimate</i>	3.5
Raise Estate & Gift Tax Exclusion <i>Source: House Republican Leadership Estimate</i>	6.5
Restore Tax Deduction for Home Office Expenses <i>Source: House Republican Leadership Estimate</i>	0.6
Reduce Congressional Staff by One-Third <i>Source: House Republican Leadership Estimate</i>	0.1
TOTAL COST	\$1.0218 Trillion

- (1) Initial documents claimed the marriage penalty would be eliminated, as in the Istook proposal (HR 3851). JCT estimates this would cost \$72 billion. Apparently the "Contract" has been altered to only reduce the marriage penalty.
- (2) The IRA and Neutral Cost Recovery proposals are both listed as tax increases totalling \$24.2 billion. In fact, CRS analysis shows that the cost of the Super IRA would be \$8 billion per year. Likewise various JCT estimates of rollover, backloaded IRAs also show yearly costs of \$4-8 billion per year. The NCR proposal has been projected by the Senate Budget Committee as costing money within 5 years. In light of these differences, we have simply listed both proposals as cost neutral over the next 5 years.
- (3) The description in "Contract with America" repeatedly refers to "strengthening" the defense budget. The House Rep. alternative budget introduced by Rep. Kasich called for a \$61.1 billion increase in outlays and a \$73.7 billion increase in budget authority. However, in a cost estimate document released by the House Rep. leadership on Sept. 23, 1994, they claim that their defense proposal would have 'no costs.' If this reflects that the House Rep. leadership is in agreement with the Clinton defense budget, the total cost of their proposals would be \$61.1 billion less, or \$961 billion total.

TABLE 2
7-YEAR COST ESTIMATE
HOUSE REPUBLICAN "CONTRACT WITH AMERICA"
(\$ in billions)

	7-Year Total
Balanced Budget Amendment	\$1,200.0
<i>Source: CBO estimate of a 7-year balanced budget schedule.</i>	
Tax Incentives for Adoption	1.3
<i>Source: House Republican Leadership Estimate (1)</i>	
Dependent Care Tax Credit for Seniors	11.2
<i>Source: House Republican Leadership Estimate (1)</i>	
\$500/child Tax Credit	149.8
<i>Source: House Republican Leadership Estimate (1)</i>	
Modify the Marriage Penalty	14.0
<i>Source: House Republican Leadership Estimate (1)</i>	
Super IRA	16.0 (2)
<i>Source: Center on Budget and Policy Priorities, and past analyses by JCT and CRS.</i>	
Defense	85.5
<i>Source: House Republican Alternative Budget, March 1994</i>	
Raise Social Security Earnings Limit to \$30,000	9.5
<i>Source: House Republican Leadership Estimate (1)</i>	
Phase-Out 85% Social Security Inclusion	23.8
<i>Source: House Republican Leadership Estimate (1)</i>	
Tax Incentives for Private Long-Term Care Insurance	1.8
<i>Source: House Republican Leadership Estimate (1)</i>	
Cut Capital Gains Rates/Index to Inflation	109.8
<i>Source: House Republican Leadership Estimate (1) and JCT analysis, October 1994</i>	
Neutral Cost Recovery	16.0 (2)
<i>Source: Center on Budget and Policy Priorities, and estimates based on CRS analysis.</i>	
Small Business Expensing Provision	4.9
<i>Source: House Republican Leadership Estimate (1)</i>	
Raise Estate & Gift Tax Exclusion	9.1
<i>Source: House Republican Leadership Estimate (1)</i>	
Restore Tax Deduction for Home Office Expenses	0.8
<i>Source: House Republican Leadership Estimate (1)</i>	
Reduce Congressional Staff by One-Third	0.1
<i>Source: House Republican Leadership Estimate (1)</i>	
TOTAL COST	\$1.6537 Trillion

- (1) Estimates based on the House Republican Leadership numbers assume that the cost over seven years equals 7/5 (140%) of the five-year cost.
- (2) The IRA and Neutral Cost Recovery proposals are both listed by the Republicans as tax increases, totalling \$24.2 billion. In fact, CRS analysis shows that the cost of the Super IRA would be \$8 billion per year once fully implemented. The NCR proposal has also been projected by CRS as costing money. In light of these differences, we have calculated both proposals as cost neutral over the first 5 years and estimate the outyear cost on these objective analyses.

WHAT WOULD THE IMPACT ON SENIORS AND OTHERS BE?

The Contract calls for a balanced budget, major tax cuts, and increased defense spending. The five-year cost is more than \$1 trillion and the seven-year cost is more than \$1.6 trillion. In addition to these cumulative costs, it is important to also look at what percentage of the budget would have to be cut in order to pay for the Contract in the year the Republicans would make good on all of their promises. Since the Contract calls for the budget to be balanced by FY 2002 (Rep. Arme's bill calls for balance by FY 2000), the following analysis examines annual spending for FY 2002 alone.

According to the CBO, there would be \$1,891 billion in revenues and \$2,209 billion in spending leading to a deficit of \$319 billion in FY 2002. Thus, to balance the budget, the House Republicans would need to cut \$319 billion off the baseline spending plus find enough savings to pay for their tax cuts and additional spending. A conservative estimate is that their plan would require an additional \$102.5 billion in savings in FY 2002. *Thus, while their plan would call for savings of over \$1.6 trillion over seven years, supporters of the Contract would have to find a total of \$421.5 billion in savings in the single year of FY 2002 alone.*

How would they do it? To be generous, we will assume that they would get \$50 billion in interest savings in FY 2002 -- though that is very generous. Subtracting this amount leaves \$371.5 billion in savings the Republicans must find in the remaining budget. Since we have given them interest savings, interest has to be taken off the table, as does defense -- since they say they want to increase it. Thus, the Republicans start with a pool of \$1,689 billion in available savings to cut from in FY 2002. (See attached chart.)

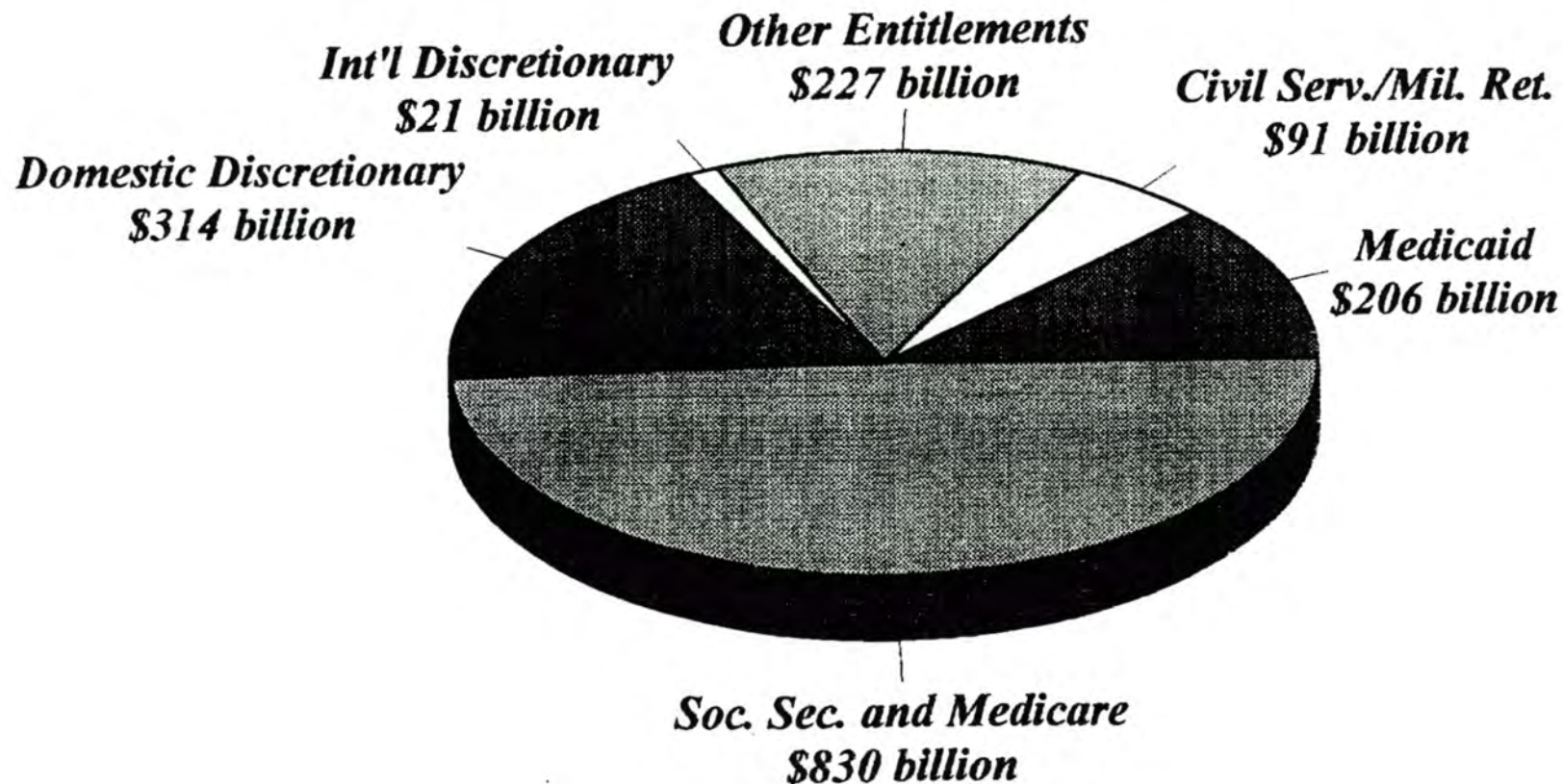
Domestic Discretionary	\$314 billion
Int. Discretionary	21
Medicaid	206
Social Security	476
Medicare	354
Civ. Service and Ret.	91
<u>Other</u>	<u>227</u>
TOTAL	\$1,689 billion

22% Across the Board Cut on Social Security and Medicare: Thus, they then have to reduce spending by \$371.5 billion out of a remaining pool of \$1,689 billion. This would mean a 22% reduction across the board in all programs, including Social Security.

31% Cut on Medicare and All Other Programs: If they take Social Security off the table, \$476 billion must be removed from the pool of potential savings and they would have to cut \$371.5 billion out of \$1,213 billion -- a 31% cut in all remaining programs, including Medicare.

43% Cut on All Non-Social Security and Medicare Programs: If they take Social Security and Medicare off the table, \$354 billion more must be removed from the available pool of savings and they would have to cut \$371.5 billion out of \$859 billion -- a 43% cut across-the-board in all other programs.

**The Republican "Contract with America" requires
\$371.5 billion in savings in FY 2002. What will they cut?**



PROGRAMS AVAILABLE FOR SPENDING CUTS, EXCLUDING DEFENSE
(CBO FY 2002 Projections)

cc: ~~Shirley~~
Gerson
UP

THE PRESIDENT HAS SEEN

11/27

from Jack

Excerpt From CSC Vanguard Technology Forum, "Redefining
Collaboration through Groupware," Atlanta GA, September 22-23, 1994.

For Internal Distribution Only, Office of Media Affairs, The White House

The NII and the Coming Era of Participatory Communications

Jonathan Gill

"This isn't your father's government; this government is technology friendly,"
began Jonathan Gill, director of special projects, Office of Media Affairs, The White House.

By technology friendly, Gill was referring to current government efforts to create the National Information Infrastructure (NII), and to create on-line access to The White House, the Cabinet and many of the most important federal agencies.

If current statistics are any indication, the effort is ahead of its time. "Most Americans haven't heard of the NII — two-thirds, in fact — but when it's described to them they think it sounds like a good idea," said Gill. Likewise, most Americans have little to do with computers in their daily lives, he believes, because only 12% of the U.S. population has modems.

Gill believes efforts to increase computer literacy among Americans will have a dramatic impact upon political science. "Political science is about power and its use," he said. How that power is used is reflected by the technology available for communication. "Political science in oral culture was much different than when clay tablets came along,

and it changed again when books came along. Interactive, participatory, computer-based communications will dramatically change the political science of the book world.

We're currently going through this latter transition, Gill believes. Today, "CNN carries the essential, fundamental information of the culture. It is no longer text based."

This is just a step on the way to a truly interactive era, Gill believes, when the passivity of TV will be supplanted by technologies that allow us to utilize our writing, painting and musical abilities and integrate more of our intellectual capacity into our communications. Yet it is unclear what role politics will play in this new era. "New technologies have always been adapted into the political process," he said. "The political community in the agrarian and industrial ages was well defined. But political community in the information age is still undefined."

Power and Knowledge

Power will play a key role in defining this new political community, Gill believes. "Power is an emergent property of knowledge," he said. "Ignorance does not yield power. So where does knowledge come from? It emerges from a process of dialog within a community." Today, our community is defined more by television than by the town meeting hall. Given this shift, Gill asked, "What will community mean when computer-based participatory communications become part of the mainstream and we all become economic nomads and our cities become carved up by highways? And how will that affect power and politics?"

As communities become more diffuse and impersonal, Gill believes power is shifting too. There is a need for a new set of what he called "power paradigms" for the 21st century that maximize knowledge production and enable a sense of community among people. The traditional sense of government for "the common good" becomes unclear in this era, when community is poorly defined and understood. Which power

paradigm best supports the common good? A traditional, top-down, hierarchical model, one that is based on power from the bottom up, or one that incorporates some of both?

These power paradigms also have implications for the future of groupware, Gill believes. "If my paradigm is one of scarcity — that the only way for me to increase my power is to take it from you, then groupware doesn't have a bright future," said Gill. "But if I view that I have an abundance of power and that it is related to the success of the group, then I have a power paradigm that is supportive of groupware."

These two basic views of power will determine not only the future of cooperative, networked computing, but of mass media as well, according to Gill. The ironic consequence of the rise of mass media, Gill believes, has been a rigid centralization of knowledge and its dissemination. "CNN and network news is one-way, top down," said Gill. "Normal people can't get on it or determine what it covers. The barrier to entry in standard media — books, radio, TV — is enormous." The result has been an American voting public that is increasingly passive, withdrawn and cynical. It has also promoted a sense of powerlessness among many segments of the population, as well as ever decreasing voter turnouts on election day. According to Gill, people who make \$8000 a year (the current minimum wage) vote less than 40% of the time, while those who make \$50,000 vote in over 70% of local and national elections.

Breaking Down Barriers to Entry

Yet there is a chance that this trend could be reversed through new participative forms of computer communications. If these systems are successful, argues Gill, Americans could be drawn back into the process of government. "What we're seeing with participatory computer networks," said Gill, "is that everyone is a player. What's the barrier today to becoming a multimedia computer sender and receiver? \$5000. For that, I can broadcast my news and my point of view. I become an active contributor rather than a passive consumer of news."

Gill believes that the rate of increase in knowledge production is related to the increase in cultural complexity and the decrease in knowledge centralization. "In the Dark Ages, for example, there was tremendous knowledge centralization — mostly in monasteries — and not very much cultural complexity. During the Renaissance, when knowledge became much more decentralized, you saw more knowledge production and more cultural complexity."

Participatory computer networks enable decentralization of knowledge production on a great scale, and they allow for a non-linear integration of local knowledge with global knowledge. Computer users talking with others around the world on topics of common interest will create an interwoven collaborative understanding that is unprecedented.

Yet the government faces a difficult task in trying to coordinate and build a suitable infrastructure for transporting all this information. Compounding the problem is the expense and current lack of practical applications for many new technologies. When Gill talked about the possibility of two-way video links to "attend" a far-off grandson's birthday party, Gill was asked by a member of the audience: "Two-way video is extremely expensive. What other use is there for this enormously expensive technology besides birthday parties? What can this do that other types of information can't do?"

Gill replied that the true benefits of the information superhighway will probably not be felt for some time. "If you'd asked this same question about the automobile in 1910, people wouldn't have been able to tell you what it could do and how it would transform society."

Developing the Common Good

Gill likened the information superhighway dilemma to that of building the interstate highway system in the 1950s — no one was quite sure what the long-term benefits would be, yet there was a sense that it should be done. Advisory board member

Alan Kay noted also that the Cold War gave Americans a built-in incentive to support projects that would have a long-term benefit.

"There's no longer an external organizing principal scaring us into acting on this," said Gill. "There's an economic threat, but there's not the fear of annihilation that we had during the Cold War. There's no doubt that the interstate system was good for the country. Yet suppose it had never been built and I went to Congress today and said I need \$100 billion for an interstate highway system. Do you think I'd get it?"

"Too often we let greed and short-term gain take precedence," he added. "What are the requirements for cooperation? There must be a sense that the accumulated benefit in 20 or 30 years is far greater than any current incremental cost to cooperation. You need to look at cooperation around groupware in terms of that broad horizon, too."

To achieve this long-term cooperation, community diversity is also an issue. "If the community is completely homogeneous, it's crystalline and there will be no tolerance for change or ability to adapt to change. If the group is completely diverse, there's nothing to bind it together at all. But if you have a good mix, you have a chance to gain that needed cooperation."

If groupware is successful, said Gill, traditional marketing of products will change radically. The mass media approach to "brands" will gradually be replaced by a concept of brand as a one-on-one relationship between consumers and companies. "Brand is a product of top-down, one-way communication," said Gill. "I spend millions of dollars on TV ads to build brand awareness so that people will become loyal consumers of my products. In the future, companies that reliably deliver quality products to the consumer will build an individual relationship with the customer, and that will become the brand. The mass market will become a market of one to one."

Indeed, in the future, consumers will have a choice as to whether they receive advertising or not. This means that the emphasis of advertising will shift from blanket messages directed at a general audience to providing truly useful, specific buying

information. "If I'm in the market for a stereo, I can elect to have stereo ads sent to my house and receive them until I feel I have enough information to make a purchase," said Gill. "Then I'll stop getting the ads."

The End of Traditional Political Brands

Just as brand names for products are threatened, so too are traditional political
"brands." "These days there are people who are fiercely moralist, others who are fiercely
libertarian, others who are fiercely business oriented, and others who are fiercely
environmentally oriented," said Gill. "There are also a few diehards who call themselves
Republicans or Democrats because that's what they've always called themselves. But the
branded section of the political spectrum is evaporating.

"Part of the reason we're seeing so much turmoil on the political scene," added Gill, "is because we're having to reinvent the ways we look at politics." The traditional reliance upon stasis and certainty in societies is going away forever, Gill believes, and the current upheaval is reflective of the shift that is occurring to a view of the world that accepts ambiguity and contradiction. "We have had 100 years of the most remarkable scientific discoveries," said Gill. "But it's like the snake that swallowed the rat. This vast chunk of scientific information is stuck in our culture's throat and it hasn't been smoothed out throughout the entire body of the culture yet."

Assuming that there is enough cooperation to build a truly efficient information superhighway capable of capitalizing on many of the more recent technological advances, Gill believes that the political implications of such a system should be thought out carefully — and early. "The technology will be incorporated into the political process
whether we like it or not," he said. "What we don't want is a system dominated by the
instant plebiscite. That's a tool of dictators. How do you prevent the slickest snake oil
salesman from gaining instant popular support?

"The New England town meeting wasn't perfect because it tended to favor landowners, but it was clear that the process worked well. They would meet in small groups to discuss a preliminary agenda and then meet as a large group to act on it. So if 'process over time' seems to be what's required for our form of government, how do we avoid the instant plebiscite?"

Meanwhile, Gill believes there must be a way to provide all segments of the population with access to computers, which is now restricted mostly to those who can afford to buy them, or schools that can afford to buy enough to stock a computer lab. "Free use of computers is like a free press," he said. "I think we need T-1 lines into every school in the country so we can get a knowledgeable, informed electorate.

"Why did we mandate public education in the first place? Because we couldn't run an industrial economy with illiterate people. How can we run an information economy with information illiterates?"

Fortunately, said Gill, computer literacy is growing, especially among children. "Kids today take graphical browsers for granted. By the time they hit the political scene the use of computers in the electoral process will be second nature to them."

Vanguard advisory board member Alan Kay argued that America is already wired. "Wiring everyone up looks like a solution, but it's not unless Americans can begin to deal with complex discourse," he said. "We're already wired up in a sense, and it's in the form of our national library system. People already have access to all the information they need. But if they aren't willing or able to deal with it, it doesn't have much impact."

The White House on the Internet

Whether the information superhighway will have the kind of political and social impact that its backers predict remains to be seen, but the process of connecting up with the electorate has already begun. Citizens now have Internet access to The White House and top government officials. When users call the system through Mosaic, they see an

introductory color slide with the Presidential seal and President Clinton. A recorded message from the President is heard, and the user has a box to send an e-mail message directly to the President's office.

As the system develops, users will be able to access each major administrative branch of the government, where there will be an introductory slide showing the Cabinet head (Lloyd Bentsen for the Treasury Department, for example) and pictures of the staff. Clicking on their pictures brings up biographies of the staffers and descriptions of their responsibilities. When the system is fully operational in the next few years, users will be able to search through the hierarchy of each department to find the person they want to speak to and leave an e-mail message for them. Right now, the system receives about 5000 e-mail messages per week, but that number will grow as the system evolves, Gill believes.

The long-term goal of the project, concluded Gill, is to create what he called a "citizens' handbook," an interactive system that enables computer users to access daily bulletins from the White House and send specific messages to their representatives. Gill is also hoping that an on-line system can be created that will enable the delivery of information concerning jobs and benefits into the living room, easing the bureaucratic burden on government employees and citizens who are frustrated in their ability to access — and deliver — services.

[REDACTED]

Leon:

Gabbitt gave this memo to Cabinet Affairs
and asked that it be given to POTUS w/
minimal staff involvement. Cabinet Affairs
gave 1 copy to [unclear], a copy to Podesta, and
a copy to [unclear]. I asked Podesta's office not
to do anything w/ it until you had seen memo.
Do you want [unclear] to forward to POTUS?

CC. V.P. JP

Jim Hamilton offer
of help

Leon - This is very good
larger w/ it - should get him
over head w/ others in Cabinet
to discuss Som - B

[REDACTED]



THE PRESIDENT HAS SEEN 11/27

THE SECRETARY OF THE INTERIOR
WASHINGTON
MEMORANDUM

94 NOV 18 A9:37

TO: President Clinton
FROM: Secretary Babbitt BB
DATE: November 17, 1994
RE: Governing by Veto - The Contract with America

X During most of my time in Arizona, I had a hostile Republican legislature. As a result, I vetoed hundreds of bills across my nine year tenure. In the process, I managed to define myself and my programs more clearly, to isolate the bomb throwers and to build working relations with responsible Republican leaders, even as we reserved the right to attack each other in public.

In my experience, there are three general types of "veto governance," each appropriate to its circumstances.

1. The implicit, unstated veto threat. This, as you well know, is the way that Presidents and Governors deal with 90% of the legislation that comes through the pipeline. No threats, just an occasional reminder of your constitutional power, is enough to put you into the game of shaping legislation.

2. The pre-emptive veto statement "we differ fundamentally, and there is no point in trying to obscure the difference." You have already done this effectively with your assault weapons ban statements.

3. Laying down markers. This is where the real opportunity lies -- it consists of defining in advance minimum criteria for you to accept the legislation. In my experience, it works best on issues that have already been shaped by public debate, and it absolutely works best on those issues where you start in a defensive position. It allows you to simultaneously move toward the other side and in the process to build a firebreak which you can defend and which the public will understand.

It is this third option that I suggest you exploit promptly. You should consider laying down markers on much of the "Contract on America" program all at once, thereby taking the offensive, showing Congress and, more importantly, the public that you are willing to move in a new direction, and building public support and understanding for your "firebreak" positions. As you do so, I suggest the following guidelines:

Take on a significant portion of the contract, but not necessarily all of it. You should choose the items where clear markers could be laid down. For example, I think the Congressional Reform, Taking Back Our Streets, Family Reinforcement, Job Creation and Wage Enhancement, and Security Restoration portions of the contract would lend themselves nicely to this treatment.

Show new direction. We should demonstrate that we heard the message and that, in response, we are prepared to take positions on issues we haven't taken before. For example, on private property rights (part of the Job Creation and Wage Enhancement Act) we should consider announcing that we, too, are in favor of private property rights, and agree that fairness requires that small landowners be exempted or compensated if regulations issued pursuant to the Endangered Species Act would drastically reduce the value of their property. This is a fairly dramatic move to the right from current positions, but maybe one whose time has come.

Establish clear limits. It's important that we stand on principle. Property rights legislation that simply guts environmental protection should be vetoed. So should tax cuts that we can't "pay for" with other revenue enhancements or budget reductions. Clear signals which we stand by and deliver on, I believe will be appreciated outside the beltway.

The downside to this pre-emptive strike strategy is obvious -- angry constituent groups and members of congress. And you could wind up eating crow as these issues unfold and you are compelled to reverse your position on one or two items. This happened to me on occasion in Arizona, notably when I characterized an industry tax relief bill as an "unconscionable fleecing" of the average taxpayer, promised to veto it, and six months later signed it. That will inevitably happen, but if you have to change positions on one or two issues in the context of comprehensive, up-front movement toward the Republicans, there will be no lasting effect.

On the other hand, if your positions dribble out one at a time, sounding defensive and lost on the back page of the press, any change of position then becomes a front page story -- unprotected by the larger context of your overall response.

Obviously, my specific illustrations are a lot less important than the basic approach which, to summarize, is:

- a) Take on much of the contract at once, emphasizing areas of agreement.
- b) Show a new direction on some important issues.
- c) Establish clear limits beyond which you will use your veto, choosing a degree of specificity suitable to what is really at risk.

- d) Then, step to the sidelines, let the process get underway, and wait as long as you possibly can before adding any detail to the debate.

Lastly, there is a Chinese ideogram for the word "danger" which also can be read to signify "opportunity." I think we are going to have a lot of the latter in the coming two years.

THE PRESIDENT HAS SEEN 11/27

THE WHITE HOUSE
WASHINGTON

94 OCT 31 AM : 14

October 28, 1994

Memorandum for the President

From: Leon Panetta
George Stephanopoulos

Post-Election Strategy

This memo summarizes the preliminary consensus we have reached on a variety of issues related to the post-election strategy.

First, objectives for the next year. In addition to being seen as a competent and strong world leader and Commander-in-Chief, we need to make progress on the three central issues:

- Economy -- Bill Clinton needs to be seen as the key to protecting and advancing the economic recovery. That means communicating a continued focus on the skills and living standards of people, advancing an aggressive trade agenda for the future, and maintaining credibility with the financial markets by maintaining our credibility on the deficit.
- Reform -- Bill Clinton has to be an outspoken advocate for political and government reform. That means proposing an aggressive -- even radical -- political reform agenda and redoubling our efforts on reinventing government. People have to know that we understand their anger at politics and government and that we are determined to do something about it.
- Trust -- Bill Clinton has to be seen in 1996 as a politician who kept the central commitments he made in 1992. Welfare reform could be central to this requirement. At the same time, we need to continually look for opportunities to reinforce trust in his personal character. Developing an effective defense and counterattack on Whitewater is necessary for this second requirement.

Second, we agree on the major Presidential events between the election and the State of the Union:

- 1.) November 9th Press Conference -- POTUS should claim credit for comeback, extend bipartisan hand, note that Republican gains mean they have to share

responsibility for governing, make GATT the first test of that bipartisanship, and express the urgency of continuing our crusade for change.

2.) November 10th Speech -- If we do well in elections, speech can largely focus on APEC trip with 20% on overall agenda. If we have a bad election, may have to focus more on overall agenda. If November 10th speech is more general, we may have to add a Rose Garden send-off to APEC on the 11th.

3.) APEC -- Focus on non-proliferation and expanding markets, with defense on human rights. While President is away, need to have aggressive domestic story line just as we have during the Middle East trip.

4.) GATT Vote

5.) Summit of the Americas -- Another opportunity to promote aggressive trade agenda.

6.) Bipartisan Camp David Retreat -- Invite bipartisan leadership to Camp David for a day or two to dramatize our efforts at bipartisanship.

7.) Values/Religion -- Close out the pre-holiday period with a major speech on the role of values and religion in public life.

Third, our governing agenda should reflect the values outlined above. The legislative agenda will focus on four main areas:

1.) Budget/Economy; 2.) Health Care; 3.) Welfare Reform; 4.) Political Reform.

Also, Pat points out that we want to run a low-profile track on the unfinished business of last year, ie. telcom; Superfund, etc. That legislative agenda will be matched with an aggressive government reform agenda focussing on REGO and successful implementation of the bills already passed like the Crime Bill. Both the legislative and governing agendas should be positioned in a way that separates us from the morass in Congress. With Congress, we need to be judged on effort and principle, not necessarily results. The President cannot appear to be held hostage to a divided and ineffective Congress.

Follow-up strategy meetings on above agenda items are being planned. Please let us know what else you need.

THE PRESIDENT HAS SEEN 11/27

THE WHITE HOUSE
WASHINGTON

94 NOV 23 P5:38

November 23, 1994

MEMORANDUM TO THE PRESIDENT

FROM: KATIE MCGINTY
CC: LEON PANETTA
RE: OEP WEEKLY REPORT

*Look forward to
hearing from you,
Lagumy this*

Post-Election Environmental Strategy Development

The election has provided the U.S. with perhaps the most environmentally hostile Congress in history. Significant rollbacks on protection of human health and our natural resources are being threatened. This has served to catalyze members of your Administration and the public interest community into a rapid game plan development effort.

- o **Meetings with the Agency Chiefs of Staff** (or other appropriate leadership) of the environmental agencies, including DOI, EPA, DOE, Commerce, USDA, Transportation, Justice, and DOD, to set priorities and plan for assaults in key areas. Next week each agency will present us with the impacts the *Contract with America* will have on our major policies and programs. We will then coordinate Administration responses.
- o **Meetings with Leadership of the Environmental Community:** the Vice President and members of the Cabinet met with the CEOs of the major environmental groups, and staff continues to meet frequently with an eye toward a 1995 game plan in ~4 weeks. There is eagerness to cooperate, but not a consensus view (at least at the moment) on how we should collectively proceed. We are hopeful that during the next several weeks we will be able to come together. One key item is the development of target areas that are politically vulnerable (freshmen republicans that just unseated democrats) and the associated positive environmental issues in those districts.

- o **White House Plans on Environmental Issues for the First Hundred Days:** We are working internally to generate administration positions on the issues raised in the Job Creation and Wage Enhancement Act portion of the Contract with America. The issues of risk assessment and cost benefit analysis, unfunded mandates and takings are raised in this title -- all of which have significant environmental ramifications.
- o **"Voters and the Environment" Briefing:** On Tuesday, we gave a political briefing to the Vice President and Leon Panetta which laid out data on the positive impact the environment can provide for you in 1996. The briefing was based on research amassed from a wide variety of recent surveys and opinion polls.
 - o First, the evidence suggests that environment is an issue important to many of our **swing voters** (Perot-types, educated suburban women, and youth, to name several).
 - o Second, environment is a **values** issue -- people associate it with morality, belief in God, and care for the future. If a public official is positively associated with environmental, his/her "honesty/integrity" numbers rise.
 - o Third, it is an issue that is at the moment **associated with democrats** (unlike other values and swing issues -- but we will need to do some work to keep it that way)
 - o And fourth, there will be **significant resources** (i.e., money, manpower, and media) for '96 if we demonstrate leadership on a few key environmental issues.

Both the Chief of Staff and the Vice President suggest that we present some of this data to you -- we look forward to doing this next week.

THE PRESIDENT HAS SEEN 11/27

THE WHITE HOUSE
WASHINGTON

84 NOV 23 P7:28

November 23, 1994

RECOMMENDED TELEPHONE CALL

TO: MRS. WANDA MILLER

DATE: NOVEMBER 23, 1994

RECOMMENDED BY: PATRICK J. GRIFFIN *PG*

PURPOSE: Call to express condolence on death of her husband, FBI Agent Michael Miller.

BACKGROUND: Agent Miller was killed yesterday in the line of duty at D.C. police headquarters.

CONTACT PERSON AND
TELEPHONE NUMBER(S): White House Operator
(202) 324-4515 (FBI Operator)

DATE OF SUBMISSION: November 23, 1994

ACTION: _____

*She said her husband
was just surprised
to get the call to say
she was his wife*

THE PRESIDENT HAS SEEN

11/27

THE WHITE HOUSE
WASHINGTON

94 NOV 23 P7:28

November 23, 1994

RECOMMENDED TELEPHONE CALL

TO: MR. JORGE MARTINEZ

DATE: NOVEMBER 23, 1994

RECOMMENDED BY: PATRICK J. GRIFFIN

PJG

PURPOSE: Call to express condolence on death of his wife, FBI Agent Martha Martinez.

BACKGROUND: Agent Martinez was killed yesterday in the line of duty at D.C. police headquarters.

CONTACT PERSON AND
TELEPHONE NUMBER(S):

White House Operator
(202) 324-4515 (FBI Operator)

DATE OF SUBMISSION:

November 23, 1994

ACTION: _____

THE PRESIDENT HAS SEEN 11/27

THE WHITE HOUSE
WASHINGTON

94 NOV 23 P7:49

November 23, 1994

RECOMMENDED TELEPHONE CALL

TO: MRS. MARY ANN DALY

DATE: NOVEMBER 23, 1994

RECOMMENDED BY: PATRICK J. GRIFFIN

PURPOSE: Call to express condolence on death of her husband, Sgt. Henry Joseph "Hank" Daly. **This call should be made as soon as possible.**

BACKGROUND: Sgt. Daly was killed yesterday in the line of duty at D.C. police headquarters. You are doing a waiver so that he can be buried at Arlington National Cemetery.

CONTACT PERSON AND
TELEPHONE NUMBER(S): White House Operator
(703) 532-2406

DATE OF SUBMISSION: November 23, 1994

ACTION: _____

THE PRESIDENT HAS SEEN 11/27

May 31, 1994

CLINTONOMICS: THE CASE FOR A MID-COURSE CORRECTION

Robert J. Shapiro

The economy is growing, the deficit is shrinking, trade is expanding. Yet President Clinton's economists forecast slower growth through the 1990s than in the 1980s, tacitly acknowledging that the U.S. economy's structural problems persist. In addition, interest-rate increases and other economic evidence signal that the current expansion could well end by early 1996. The President has ample time, however, to combine good policy and good politics by adjusting his program to target these problems and promote strong sustained growth.

The basic challenge for the rest of 1994 and into 1995 is to adopt policies that can, at once, permanently increase the economy's long-term productivity and help extend the current expansion. In the main, this course closely tracks the economic strategy proposed by Governor Bill Clinton in 1992. First, next year's budget should include fundamental entitlement reforms to both break the structural budget deficit once and for all, and deliver another timely dose of low long-term interest rates. Second, the President's next budget also should provide for substantial public investment in education, training, research and infrastructure, financed by deep cuts in unproductive business subsidies. Third, Congress can promote growing demand for U.S. products next year and into the future by implementing the GATT agreement this year. Fourth, the President can boost business and job formation by deregulating small and new businesses.

These steps build on the Administration's considerable achievements. Last year's budget reforms have reduced federal spending's claim on the economy over the next five years to an annual average of 21.5 percent of GDP, as compared to 23 percent under Presidents Reagan and Bush. And approval of NAFTA and conclusion of the GATT should extend the global economic reach of American workers and firms.

Yet these reforms have *not* significantly altered the U.S. economy's long-term prospects. The President's Council of Economic Advisers (CEA) forecasts that real growth for the rest of this decade will average only 2.6 percent a year -- significantly less than the 2.8 percent average of the 1980s. That will be too slow to generate

How long will this cycle last? No one can be certain when the current expansion will naturally end, but it probably has at least four more quarters to go. Over the last year, growth accelerated as long-term interest rates fell and a recapitalized banking system responded to rising demand for credit at the lower rates. Through the rest of this year and into 1995, strong corporate earnings should support healthy business investment, and higher cash flows for the many households benefiting from mortgage refinancing and rising stock prices in 1993 and early 1994 should drive consumption spending.

The Federal Reserve's recent interest-rate hikes may help lengthen the cycle by moderating the recent spurt of strong growth, but the Fed alone cannot sustain the expansion much beyond its natural course. Consider the problem from the point of view of factory capacity and employment. Expansions normally expire when the economy's capacity to expand production and employment is exhausted. Factories and offices run at full capacity and additional workers are hard to find at prevailing wages, but demand continues to grow. This gives rise to inflationary pressures so the Fed steps down hard on demand with higher interest rates, and the economy snaps back and down.

Today, 83 percent of the economy's factory capacity is in use, less than two percentage points lower than the peak for the 1980s expansion, which ended quickly after the "capacity utilization rate" hit 84.8 percent. There should be a bit more room this time since strong business investment and corporate downsizing have increased the economy's productive capacity. As a result, peak capacity utilization is now probably about 86 percent. Similarly, the current unemployment rate is 6.4 percent, or just about one percentage point from the lowest (adjusted) point in the 1980s expansion.

At the rate at which business has brought on line its unused capacity and hired new workers over the last two years, the current expansion should have about one year to go before reaching its peak.

We cannot depend on Fed fine-tuning to forestall the downturn. There are those who say that the Fed can continue to fine-tune the cycle, using incremental interest rate changes that modulate demand and so ensure that the expansion never hits the ceiling. The Fed has *never* been able to pull this off in the past; and its ability to do so now is *less* than it used to be, because financial deregulation and global capital have weakened its control over the total supply and price of credit. Besides, will a Republican Fed chairman, who tried hard to promote a strong economy for a GOP president in 1992 -- *and failed* -- do better this time?

The bottom line: Under current policies, the expansion could stall by mid- to late-1995, without addressing the economy's nagging structural problems.

ultimately support serious reforms. The President also can draw on a growing consensus that serious Social Security reforms are needed in any event, just to ensure the system's long-term solvency. Pulling off entitlement reform will make President Clinton and Congress genuine heroes for finally taming the permanent deficit, and thus helping to create the conditions for long-term national prosperity.

2. Cut-and-invest. As we ask middle-class people to accept less in future entitlement benefits, we should also offer economic reforms that will strengthen their future prospects: namely, greater public investment in their training and education, basic research and transportation systems. These investments should be financed by asking specific industries to give up their special subsidies. As public investment can strengthen national productivity and efficiency, these subsidies reduce the economy's potential, by insulating favored sectors from healthy market pressures to upgrade themselves, and by raising the cost of capital and labor for those without subsidies.

The cornerstone of President Clinton's strategy for reviving U.S. growth and productivity in a global economy is investment -- not only private investment by companies, but also public investment through the government in the training, education, basic research and infrastructure that can make every worker and firm more productive. This approach is fundamentally sound; but congressional resistance to cutting programs that don't work and subsidies for special interests has denied this strategy the resources it needs to succeed. As a result, funding for these economy-wide public investments is rising by just two-or-three percent a year -- not nearly enough to affect national productivity and growth.

To finance meaningful public investment, the Progressive Policy Institute recently compiled a list of 68 tax and spending subsidies totalling \$225 billion over five years, each one currently protected by its favored industry.¹ For example, on the spending side the list includes subsidies to defray airlines' costs to expand and upgrade terminals, payments to farmers whose commodities sell at below government-set prices, and cut-rate power from federal hydroelectric plants for private utilities in selected states. On the tax side, the list includes special credits for firms producing ethanol or natural gas from certain geological formations, a tax holiday for profits earned by firms on their operations in Puerto Rico and other U.S. possessions, a special one-year deferral for agribusiness on taxes for much of the income from crops, and many other singular provisions.

Phasing out these subsidies could clearly provide the resources for aggressive public investment, as well as a measure of tax relief for middle-class families with children. Yet the prospects of cutting subsidies for such powerful interests are slim, especially if we try to cut them one at a time. One way to break this gridlock is to

¹ Robert J. Shapiro, *Cut-and-Invest to Compete and Win, A Budget Strategy for American Growth*, Progressive Policy Institute, Policy Report No. 18, January 1994.

Cut-and-Invest to Compete and Win *A Budget Strategy for American Growth*

Policy Report No. 18

by Robert J. Shapiro

The 1994 debate over the federal budget will challenge President Clinton and Congress's ability to use the budget to promote U.S. growth and global competitiveness.

Meeting this challenge won't be easy, because Washington debates over the budget are usually disengaged from the economics of growth. Both political parties have been consumed with the distributional questions of who will pay more taxes and who less, and who should gain new benefits and who should shoulder any program cuts. Traditional liberals tend to focus on increasing spending and, when necessary, taxes as well, while conservatives concentrate on *cutting* both spending and taxes.

For the United States to succeed in the international economy, these variations of tax-and-spend macroeconomics must give way to a new strategy of **cut-and-invest**. This strategy proposes that the government use the budget both to promote higher levels of private and public investment and to actively encourage vigorous market competition to drive private-sector innovation and productivity.

> **First**, we must ensure that U.S. workers and firms have the means to compete more effectively in world markets. As President Clinton pledged, *the government should expand public investments in worker education and skill training, basic research for new technologies, and the primary infrastructure networks that link firms and customers to markets*. These investments in human, technological, and physical capital will help us compete, especially with the advanced countries that produce comparable goods and services to our own.

Public investment is different from other government spending. Its only purpose is to expand the private economy's capacity to create wealth, and it is called for only in those areas where markets invariably fail to generate appropriate levels of private investment. A budget that aims to enhance national growth in the global economy must promote greater private *and* public investments in training, research, and world-class communications and transportation systems.

To advance this process, the budget should be divided into two separate accounts: one for public investments; the other for all other expenditures. Deficit spending should be limited to the net investment account, and total expenditures should grow no faster than the economy.

> **Second**, we have to enhance domestic competition, because only increased competitive pressures can drive firms and workers to make the most of public and private investment. This imperative takes on special importance in the global economy, where successful firms must not only produce their goods and services efficiently, but they must also

AL FROM June 59, 1954

Dear Mr. President,

It was great to spend time with
you yesterday. Hope we can do it on a more
regular basis. As promised, here is material
on "Cut + Invert" and the book on Demosclerosis.
Some strategic thoughts, scheduling suggestions,
and suggestions for people for you to talk with will
come in a couple of days. Thanks for seeing
me. Cheers, Al



POLICY REPORT
January 1994
No. 18

CUT-AND-INVEST TO COMPETE AND WIN

A Budget Strategy for American Growth

by

Robert J. Shapiro

CHILDREN HAVING CHILDREN ♦ TWISTED FAMILY FILMS

THE NEW
DEMOCRAT

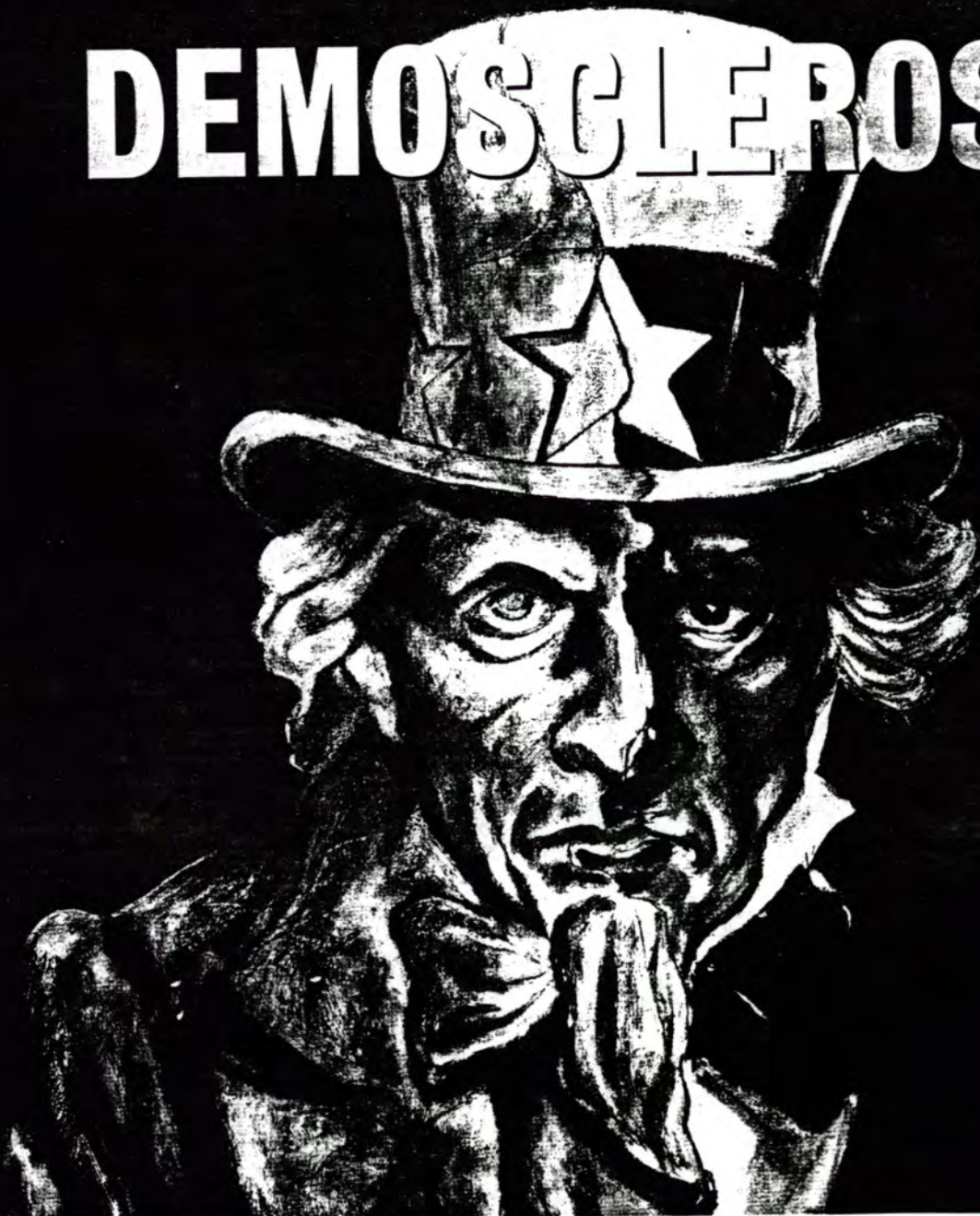
VOLUME SIX, NUMBER 3

JUNE/JULY 1994

DEMOSCLEROSIS

**The Disease
That's Petrifying
American
Government**

BY JONATHAN RAUCH



GOP Contract—My Amendments

By JACK KEMP

As the November election approaches and Democrats scramble for their political lives, voters may be wondering whether the country will really be better off with the Republican Party in control of Congress for the first time since the Eisenhower presidency.

Reps. Dick Armey (R., Texas) and Newt Gingrich (R., Ga.) think they have the answer: a resounding "yes." Next week, they will lead a rally on the Capitol steps at which GOP challengers and incumbents will pledge to support a Republican reform agenda to be passed in the first 100 days of the next Congress.

The Armey-Gingrich "Contract With America" calls for (among other things) a capital-gains tax cut, the line-item veto, moderate welfare reform, and curtailing the abuses of Congress.

Such a "contract" is a good start. But I would go further. My ideas may not all be feasible within 100 days. (They may require a Republican in the White House.) Call it an agenda for the next 1,000 days.

• *Repeal both the Clinton and Bush tax increases.*

Sharply progressive taxation is not healthy for the economy, nor is it efficient in collecting revenue. It smothers incentives for economic growth and attempts to redistribute income.

Republicans should assert a profoundly different principle: The tax code should create a dynamic climate for private sector growth and entrepreneurship. It's no accident that the world's fastest growing economies—like Hong Kong's—also have the lowest marginal tax rates. America was moving in that direction until the 1990 and 1993 tax increases.

To put America's economy back on the growth path, a Republican Congress should pledge across-the-board rate reductions on personal and corporate income taxes, payroll taxes, and taxes on capital gains and Social Security benefits. In this we should strongly support many of the principles embodied in Rep. Armey's flat tax proposal, which would replace the 1040 form with a tax return the size of a postcard.

• *Reform monetary policy to ensure price stability and low long-term interest rates.*

The latest round of interest-rate increases has demolished the central premise of President Clinton's economic plan. The president argued that raising taxes to lower budget deficits would produce lower interest rates; but today interest rates and inflation are higher than when Mr. Clinton took office.

The president got the economic policy exactly backwards. Lower interest rates produce lower budget deficits, not the other way around. How much lower? If interest rates were returned to their 1961 levels—when President Kennedy pledged to keep the dollar as good as gold—federal spending would eventually be reduced by more than \$70 billion a year, due to lower interest payments on the federal debt. That's \$350 billion in deficit reduction over five years without \$1 in new taxes.

To promote low interest rates and a stable cost of living, a Republican Congress should amend the Humphrey-Hawkins Act that now defines the Fed's mission. An amended act should require the Federal Reserve to publicly target price stability, not unemployment, with a mandatory goal of zero to 2% inflation. I've recommended

that the Fed use the international gold and financial markets as guides for regulating the supply of money. In any case, the Fed must recognize—as it now sometimes does not—that inflation is not caused by too many people working.

• *Pursue free trade beyond GATT.*

Many Republicans who believe in free markets have become bogged down in the debate over the General Agreement on Tariffs and Trade. Yes, GATT has been "Gored" by too many side agreements. Yes, the World Trade Organization is needlessly bureaucratic. And future trade negotiators should reject special interest appeals from environmental, labor, and big-business organizations. But these problems are secondary to the ultimate goal of reducing tariffs and trade barriers—in effect, giving an international tax cut to American consumers.

Republicans should go beyond GATT by proposing a Pacific Rim "Nafta," incorporating the Asian nations into a trans-Pacific free trade zone. Faced with such a dy-

A Republican Party without a plan to foster upward mobility and economic growth in our inner cities tolerates the intolerable—a permanent underclass dependent upon government.

namic combination, Japan would have little choice but to reduce its trade barriers and join in. We should quickly extend our free trade agreement to the rest of Latin and South America, uniting our hemisphere in the world's largest free market—bringing us one step closer to the ultimate goal of a "duty-free world."

• *Define a positive vision of limited government.*

The federal government has grown so large and intrusive that it is not enough for Republicans to try to scale back existing programs or merely force across-the-board spending cuts. Republicans should challenge the very premise of the "welfare-entitlement state." Every government program should face the test of market competition and consumer empowerment. If it can't compete, it should be privatized or eliminated. Then the budget must be subjected to the discipline of a strict, statutory spending limitation. The result will be a federal government vastly different in size and scope.

• *Enact market-based health care reform.*

The most discredited idea in this year's health care debate was not managed competition, employer mandates or other aspects of ClintonCare. It was the arrogance of centralized government planning, the notion that "experts" could take one-seventh of the U.S. economy, tinker with it and "fix" health care.

Republicans should propose specific reforms for specific problems. Individuals should be allowed to deduct the cost of their health insurance for tax purposes and to "own" their own health insurance policy so they don't lose it when they change jobs. Medical Savings Accounts

would give people the power to choose the best plan for their families, just as they now choose their auto insurance, mutual funds and home mortgages. Medical malpractice reform would lower insurance premiums and health care costs.

• *End urban socialism.*

A Republican Party without a plan to foster upward mobility and promote jobs and economic growth in our inner cities tolerates the intolerable—a permanent underclass dependent upon government.

The best solution is to reintroduce entrepreneurial capitalism into our inner cities. This dictates increased access to capital and credit, the encouragement of savings and an end to policies that discourage marriage and family. Our goal should be to restore the link between effort and reward—between individual acts and individual responsibility.

A few ideas: Enterprise zones with no capital gains tax on investment and no income or payroll tax up to 170% of the poverty line for anyone who takes a job and tries to work out of poverty. Privatize government-owned public housing to promote home ownership. Abolish the law that prohibits welfare recipients from saving.

• *Reverse welfare's destructive incentives.*

The basic problem with today's welfare system is this: Cash payments subsidize joblessness, government dependency and family breakdown. The perverse incentives of the cash-based welfare system undermine the traditional moral values necessary to carry people out of poverty to independence.

Republicans should support the end of cash payments through Aid to Families With Dependent Children. The alternative is to provide aid administered through community institutions, especially private organizations. These could be publicly supported but privately run.

• *Support community and individual self-determination through the initiative and referendum process.*

The debate over "community standards" is increasingly a debate over whether communities will be allowed to have any standards at all. Many parents are rendered virtually powerless in the moral and cultural upbringing of their children. It is a frustration that has led to a parental rights movement and a thousand school board fights.

To empower parents and communities in this struggle, Republicans should support the initiative and referendum movement that represents the cutting edge of the effort to enact conservative reforms such as school choice and tax limitation. We should welcome this as an authentic populist innovation.

What's the common thread among all these proposals? Each enhances the power of the individual at the expense of the state. Taken together they represent a principled philosophy of limited government that, I believe, is what the political marketplace is demanding.

There is much more at stake than partisan politics. Republicans have the opportunity not just to change the next Congress but to change the direction of the country into the next century.

Mr. Kemp, a former secretary of Housing and Urban Development, is co-director of Empower America in Washington.

THE PRESIDENT HAS SEEN

11/27

Galston
Spelling
[B. B. Reuch] Hal
These ideas should
also be reviewed along
w/ the GOP Contract

THE PRESIDENT HAS SEEN 11/27

THE WHITE HOUSE

WASHINGTON

November 22, 1994

Mr. President:

You brought to the presidency a distinctive outlook toward government rooted in your extensive experience as a governor working both in Arkansas and nationally with other governors on a bipartisan basis. One of the quiet successes of your administration has been the revitalization of our federal system, including the devolution of power and authority to states and localities. There's much more to be done, of course, but you've made a strong start.

A few months ago, the editors of **Publius**, the leading national journal of federalism, asked whether we might be willing to contribute a piece on the Clinton/Gore administration's accomplishments in this area. A young Domestic Policy Council and I got to work on it. The product is the attached article, hot off the press.

Many of us hope that the next two years of your administration will feature an even stronger emphasis on shifting power away from Washington whenever states and localities can do the job better.

Sincerely,

Bill Galston
Bill Galston

To

Agm → This must be a
big part of our ~~next~~ next
initiation.

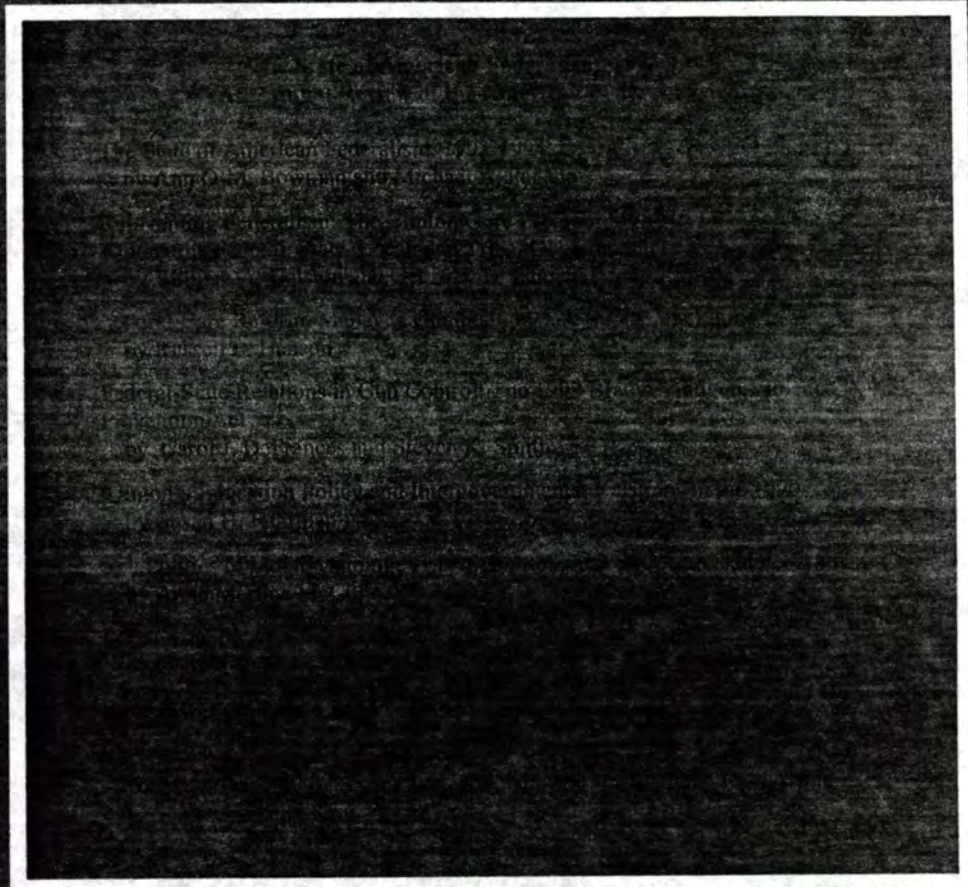
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article but we need a more
popularized summary → Reader
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Summer 1994
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Center for the Study of Federalism
and
University of North Texas

Leon/Hickey

we need to get
Peter ~~at~~ other in here
too →

THE PRESIDENT HAS SEEN

11/27

STILL LOOKING FOR CHANGE:

**AMERICA'S ASSESSMENT OF
THE CLINTON PRESIDENCY AT 500 DAYS**

Analysis of voter focus groups conducted in
Mount Laurel, New Jersey; Akron, Ohio; and Miami, Florida
June 1994

Focus groups designed and conducted by
Peter D. Hart and Geoffrey D. Garin

Report written by Guy D. Molyneux





Peter D. Hart Research Associates, Inc.

INTRODUCTION

In late May and early June 1994, Peter D. Hart Research Associates undertook an exploration of how voters assess the state of the nation 500 days into Bill Clinton's presidency. We conducted three focus group discussions among people who voted in the 1992 presidential election. Each group included a mix of Clinton, Bush, and Perot supporters, and had a distinctive demographic profile:

- ☒ In Mount Laurel, New Jersey, we talked with white-collar, fairly upscale (income over \$50,000), college-educated voters.
- ☒ Participants in Akron, Ohio, were young voters (in their early 40s or younger) who work in a mix of blue- and white-collar occupations and have household incomes of \$30,000 to \$75,000.
- ☒ Taking part in the Miami, Florida, session were low- to moderate-income voters with a high school education or some college (no degree); this group had more Clinton voters (eight of 12 participants) than did the other two groups.

Focus groups are a qualitative rather than a quantitative research tool, and thus are not representative of national public opinion in any precise way. They can, however, offer a depth of insight into public opinion that survey data often cannot; rather than "forcing" people to express their views within the constraints of simple either/or choices, focus group discussions encourage participants to explain and elaborate on their beliefs, which helps give a sense of the fuller context that shapes public attitudes.

This series of focus group sessions, then, enabled us to look beyond the question of whether these voters feel favorable or unfavorable toward Bill Clinton, as well as to explore their goals for the country, the standards of judgment they employ, and their understanding of the choices that they and the nation face--in 1994, 1996, and beyond.

While this report also draws on survey data from the Hart/Teeter NBC News/*Wall Street Journal* poll, its interpretations are based primarily on the results from the three focus group discussions.

OVERVIEW AND HIGHLIGHTS

As a whole, the focus group discussions reveal a complex political landscape, one that is different in critical respects from that suggested by the current conventional political wisdom. While the focus group findings do demonstrate that President Clinton and the Democratic Party face substantial challenges today, at the same time they reveal considerable underlying strengths. Even more important, the discussions help illuminate voters' framework for evaluating this presidency--a framework that appears to have less to do with the President's issue agenda or his personal behavior than with the fundamental questions of **performance** and **leadership**. This, in turn, points the way toward some clear, if difficult, steps President Clinton needs to take in order to strengthen his standing among the American people.

The key findings from the research are summarized in the following points:

- ★ The two principal forces that shaped the 1992 election--**economic anxiety and anger at the political process**--are still at work today. A third factor--**deep concern over social breakdown and moral decline**--is the other major dimension defining the current political environment.
- ★ Bill Clinton was elected to bring change to Washington and to America. This was the hope and expectation of those who voted for him in November 1992, and even of some who did not. **Today, most voters do not yet see the kinds and scope of change they were promised. Their dominant feeling about this, however, tends to be disappointment, rather than outright rejection.**

- ★ **The public's doubts about the Clinton Administration relate to performance more than to issue positions or ideology.** Voters are hard pressed to name a single noteworthy accomplishment of the Administration at this point, and have little sense that the White House has moved effectively to strengthen the economy--the centerpiece of Bill Clinton's 1992 campaign. At the same time, few voters voice concern about taxes or big government, and those who do are primarily conservative voters who are not truly available to President Clinton in any case. The bottom line is that the public feels Bill Clinton has accomplished too little of his agenda, rather than too much.

- ★ The much-discussed "character" problem for President Clinton is real, but this issue has been badly misunderstood in many quarters. **Voters are concerned about the quality of Bill Clinton's political leadership, not his personal morality.** They would like to have confidence in his *public* honesty, but fear that he is instead a typical politician--no worse than most, but also no better--who will say whatever his audience wants to hear. As voters struggle to assess and understand what they perceive as the President's broader failure to bring about promised change, the negative information they hear regarding his honesty and character seems to "fill in the blanks" and influence their evaluation process.

- ★ **Voters today express concerns about Bill Clinton's "political backbone," and they have little notion of what his core political principles are.** This finding is of critical importance in understanding attitudes toward this president and his leadership, because, though voters feel strongly that the country needs a better sense of direction, they cannot say what Bill Clinton has done toward that end nor can they discern in what direction he is taking the nation.

- ★ **Whatever doubts voters may have about the President and his ultimate success, however, the Republicans appear to have gained little public ground during Bill Clinton's first 500 days.** While the GOP's language of traditional values is attractive to many voters, most see Republicans as the party of the status quo in an era of needed change. Few participants think the country would be better off today if George Bush or another Republican were president.

- ★ **The large majority of Clinton voters are still with the President, despite their disappointment with the pace of change.** They believe he sincerely is trying to effect change--something even many non-Clinton voters concede--and feel he may still succeed. Most of them suggest Bill Clinton is still a long way from losing their electoral support.

- ★ **In the end, most voters have an open mind regarding Bill Clinton and his potential for success.** Though they may be dissatisfied with the story line so far, voters have not closed the book on the Clinton presidency. What they are looking for is the kind of **effective political leadership** that they hoped they were getting in November 1992--and that they believe is the answer to the economic and moral decline they see in America today.

AMERICANS' VIEW OF THE NATION

We began each focus group discussion by asking participants how things are going in America today. The news is not good. While some voters say they are "satisfied" or "optimistic," words such as "dismal," "concerned," "stressed," and "discouraging" emerge much more often. Most people feel the country is in trouble, and many are pessimistic about its prospects. Their national weather forecast may not call for rain, but "mostly cloudy" is a frequent prediction, and though people are not necessarily upset or angry, they are decidedly downbeat.

These reactions are consistent with national polling results. Fully half of all Americans now believe the nation is "on the wrong track," while just a third feel things are "generally headed in the right direction." While this is hardly the level of dissatisfaction recorded in the spring of 1992, when seven in ten Americans said the country was on the wrong track, it is significantly higher than was the case in January 1993 (when 47% of Americans felt things were moving in the right direction and just 27% said the nation was off course), when hopes and expectations for Bill Clinton's presidency were at their height. So, while the public's dissatisfaction is not at the level that brought down the Bush Administration, it is very substantial and heading upward.

Why do people feel so negative? Three dominant themes surface in the focus groups, which together define today's political playing field: economic anxiety, a sense of moral decline, and deep political cynicism. Overall, people feel

the nation is adrift--or is headed in unsettling directions to the extent that it is following any course--and is lacking in effective leadership.

Despite the country's economic upturn, many voters continue to feel the same kinds of economic pressures as they did in 1992. In Miami, among those in the lowest-income group, concerns about unemployment and health care surface frequently. When we asked voters where they would take Bill Clinton to give him a sense of how the economy was doing in their community, they suggest showing him a bridge under which homeless people live or taking him to Overtown--one of the city's poorest neighborhoods--and to a house shared by four single working people who cannot afford to live on their own.

Even among the upper-income New Jersey voters, economic anxiety is apparent. One woman, a college graduate and accountant, puts it this way:

The middle class is shrinking; there are more poor people. It's just so hard to make it. I have a two-year-old son, and I'm trying to think about putting him through school. I want to put him in a good school, but I don't know how I'm going to afford it. It's just so hard to make it, especially in New Jersey.

In every focus group, voters articulate a sense that the nation is "degenerating" or "going downhill" in terms of its moral values. An Akron man notes that "drugs have invaded our country, the family is breaking down, and our country is losing any moral anchor that it had." Survey data suggest that this sentiment has become increasingly prevalent since 1992, and is now a momentous political factor.

In the May NBC/WSJ survey, for example, we asked Americans to explain in their own words why they felt the country was off on the wrong track. Two years ago, the same question elicited almost nothing but economic concerns; today, however, issues such as drugs, family breakdown, and violent crime are even more salient than are economic factors. In fact, it is the fear of violent crime that most seems to drive this feeling of moral decay.

In addition to this sense of economic and moral decline, participants feel America's political system is badly broken. They express almost no trust in political leaders. To them, public officeholders never seem to get anything done, instead pursuing their own personal interests--either in the form of outright corruption or narrowly partisan agendas that promote gridlock rather than action--rather than what is best for the country, a phenomenon that voters find enormously frustrating:

Everybody is out for themselves. They're not looking out for the good of everybody else. They just want to know, "What am I going to get out of this? Am I going to be reelected?" And then you get in, and you spend the next four years trying to get reelected.

When asked what percentage of the members of Congress who went to Washington with good intentions still "have their hearts in the right place," Miami participants offer responses that average to a meager 9%.

We offered focus group participants the hypothetical opportunity to add a message to their ballot in the next congressional election. The loud and clear

sentiments, expressed by Miami voters and echoed by those in the two other groups, are *Remember why you're there*, and *Keep your promises*.

Concern about the *future*, even more than dissatisfaction with the present, seems to be what most troubles the Americans with whom we spoke. Many express the feeling that the nation is either directionless or sliding downward. An Akron woman thinks of the country as at a "standstill," noting that "there are all these problems, and nothing is being done about [them]." An Akron man observes, "We are suffering from an identity crisis" as a nation, and a New Jersey voter offers this characterization of the nation today:

We are going downhill. There seems to be hopelessness in the people; they don't seem to have the goals they used to have. . . . I think we're a country without a vision. I see aimlessness.

Many voters feel that America was stronger in the past because people had better values, especially a "willingness to work hard and invest in the future," as one man puts it. "They weren't so focused on immediate gratification." There also was a collective sense of confidence that is lacking today, according to these voters. "When Kennedy said, '*We're going to send a man to the moon*,' everybody believed that could be done," recalls a New Jersey man. "And that's why it was done, because everybody believed in it. That's all you need. If the people believe in it, then it's a done deal."

Voters indicate that it is political leaders who should provide the sense of direction and common purpose that America needs, but participants do not see

this kind of leadership evidenced in the political process today. They had hoped that President Clinton might be the answer, but they are not sure now whether he is up to the challenge.

RATING THE CLINTON ADMINISTRATION

The public's responses to President Clinton and his administration vary widely. Some voters in the focus groups admire Bill Clinton and his efforts, while others feel quite negative. Most voters fall between these extremes, offering a mixed assessment.¹

Even among the people who hold mixed or positive views, however, there are real misgivings about the first 500 days of the Clinton presidency. We would characterize the overall feeling as one of **disappointment** rather than rejection, and the cause of this disappointment is clear: voters feel they elected Bill Clinton to bring change to Washington and to America, but do not yet see the change they were promised.

We began our discussions of President Clinton in the groups by posing this question: "On Election Day 1992, what was your first thought when you learned that Bill Clinton had won?" Not unexpectedly, some Bush and Perot voters recall

¹ In all three groups, we found some participants--usually very socially conservative people--who feel strongly negative toward Bill Clinton. These individuals are, in nearly every case, people who voted for George Bush in 1992. Since no president can hope to gain everyone's support, and while we occasionally will take note of the strong anti-Clinton voters' views, we have focused our analysis here principally on Clinton voters, Perot voters, and those Bush voters who seem at least open to the possibility of supporting Bill Clinton. Together, these are the members of the electorate who will determine whether the President succeeds in implementing his agenda and, ultimately, whether he wins reelection.

feeling upset or disappointed. But Clinton voters, as well as some participants who had voted against Bill Clinton, say they felt hopeful that day. More specifically, they felt hopeful that change was coming: "I was hoping for a change, and the way he promised it, it sounded good," recalls a Miami voter, whose feeling is echoed by a woman in the New Jersey session: "I was hopeful that he could bring about some changes." Another voter asserts, "We sent the Republicans a message that things were going to be different."

Change was the hope and expectation in November 1992, but today there is general agreement that Bill Clinton has not yet wrought that change. Even his supporters have little to point to in this regard, saying perhaps that he needs more time. Some think there have been minor changes and others see none at all, but very few voters are satisfied with the progress to date. A participant in Akron notes, "I thought a change was needed; we needed a new direction; we needed more leadership. We need what Clinton claimed, and so far not much has been accomplished." The disillusionment also is articulated by the New Jersey voter who insists, "He has not done anything. He said that he has done a lot, and he has talked a lot about his health care [plan], but no one really knows what it is about. He wants to do a lot, and maybe he is taking on too much." One Clinton voter in Miami puts it simply: "I'm still waiting on a change."

Voters' thirst for change has not abated, nor has it been quenched. This state of unmet expectations, more than anything else, sets the parameters for the public's assessment of Bill Clinton's presidency.

Voters in our groups give varied assessments of the President's performance. Asked to grade Bill Clinton, some participants award him a "B" or an "A," and some a "D" or an "F." A sizable plurality, however, send the President home with a "C" report card--middle-range grades consistent with his current approval ratings (52% in the latest NBC/WSJ survey).

In a sense though, this "average" mark appears to be an implicit average of two separate assessments: effort and accomplishment. Many participants volunteer that Bill Clinton deserves an "A" for effort. Even people who do not like him generally concede that he is working hard, and most voters feel that he wants to do the right things. But they fault his effectiveness. An Akron voter who gives the President a "C+" offers an explanation typical of the participants: "I give him an 'A' for effort, [but] he has been rendered ineffective in a lot of ways. Things are out of his control."

The bad news is that, while the President earns an "A" for effort, an overall rating of "C" suggests deep problems on the performance front. Indeed, one of the most striking features of the three focus groups is people's almost complete inability to name a major accomplishment of Bill Clinton. This is true even among Clinton supporters. When asked to name the high point of Bill Clinton's first 500 days, people have genuine difficulty providing an answer. No single accomplishment comes readily to people's minds.

Particularly troubling for this Administration is that the economy is rarely mentioned in discussions of President Clinton's efforts. Voters are of varying

opinions on the state of the economy: some see recent improvement, though they remain cautious or concerned about the future; others simply do not see any progress. Those who do perceive improvement are loathe to give the President credit, saying that recovery was already underway when he took office. Especially striking is how little awareness people have of the Administration's efforts on the economic front. Some voters believe that Bill Clinton has not even addressed the issue of the economy.

Few voters seem to recall the 1993 budget deal, for example, much less associate this program with any subsequent economic upturn. Perhaps the greatest irony of the first 500 days is that the Administration stepped up to the plate, made some tough choices to achieve meaningful deficit reduction, and then received essentially no acknowledgement from the public for hitting solidly and safely. Though concern about the budget deficit does seem to have eased--it is mentioned only very infrequently--there is little indication that people recognize that progress has been made.

In Akron, the moderator prompted the group by reminding them of the 1992 phrase, "It's the economy, stupid." This rings a bell, but still fails to elicit any sense of post-election action. A couple of people recall the NAFTA vote, without enthusiasm, but otherwise participants draw a blank. One voter notes that the economy had indeed "been one of his big issues during the election," but that, come to think of it, "[the President] hasn't really done anything about it." A strong Clinton supporter says simply, "I haven't heard much on it."

As far as voters can determine, strengthening the economy--the centerpiece of his 1992 campaign--is not a major priority on Bill Clinton's agenda. National polls confirm the startling finding that even as a Democratic president presides over an economic recovery, the public has no more faith in the Democrats' capacity to manage the economy than it does in the Republicans' ability to do so. For an administration that came to power on a wave of economic discontent, and that sees its central strategic mission as reassuring the middle class that it understands their economic situation, this is discouraging news.

The President's unknown or untested aptitude as a military leader provokes some degree of worry, in the event that the nation were to face a crisis, and this is the one area in which voters seem to feel George Bush would be better were he president today. The larger context surrounding these misgivings reveals, however, that voters are essentially in an isolationist mood, and therefore do not consider foreign policy and the President's military role a top priority. "I think Bush was very good internationally, but we don't need that type of person; we need a United States person," is the way a New Jersey voter puts it. A woman in the Miami group elaborates: "I don't think [Clinton] has the military background to handle it. But--he was elected to accomplish different things."

Indeed, some voters also seem to feel that President Clinton's tentativeness in approaching potential conflict situations abroad--the subject of considerable criticism in both Democratic and Republican circles--is particularly appropriate to the public's current mood. "I think the country does not want to see any military

action from him and he feels that, so he is being supercautious on certain issues. He's up against the whole country not wanting any kind of war. I think he's all right in that respect. I think he's cautious because we want him to be."

If voters have trouble coming up with major achievements of the Administration, they are generally familiar with its current agenda. Virtually everyone knows of Bill Clinton's drive to reform the health care system, and most applaud his tackling of this problem. But there is a great deal of uncertainty regarding the specifics of his plan, and there are considerable doubts as to whether he has gotten it right yet. In one focus group, a discussion of the Clinton plan quickly devolves into a discussion of welfare, and it becomes clear that most of the people around the table believe that the essence of the health care plan is to extend health benefits to the non-working poor. While many express support for the goal of universal coverage, only a few seem to see this plan as having the potential to help them or other working people.

The President's support for welfare reform that would "end welfare as we know it" is something that voters seem to be both aware and supportive of. Some also indicate awareness of Bill Clinton's push for crime legislation. From these signs, it would seem that the President's efforts to position himself as a "new Democrat" have succeeded. Once again, however, the question comes back to performance. "The first positive thing was when he first became president and expressed his views on welfare and training and all that," observes a Miami woman, who adds the caveat, "I'm still waiting."

Sometimes public opinion analysts can learn as much from what people do *not* say in focus groups as from what they do. Especially notable in these groups is how rarely people mention concerns over taxes or big government (and those who do are generally Republican voters whose support Bill Clinton could never reasonably hope to get anyway). Just as voters seem unaware of the deficit reduction in the 1993 budget deal, they exhibit virtually no memory of the tax increases included in that legislation, so roundly attacked by Republicans as the "largest in history." Those tax increases have not registered significantly with participants, and certainly have not provoked any kind of anger.

More generally, relatively few voters voice the types of criticisms offered regularly by Republican critics. No one volunteers, for example, that Bill Clinton is an out-of-touch liberal or that he wants to coddle criminals. A few Republican voters say they think he is too fond of big government in general, but these objections are infrequent and raised without much passion.

In sum, voters do not seem to feel that Bill Clinton has the wrong agenda for America. Instead, they are frustrated that--as seems so often the case in politics--the President currently seems incapable of implementing that agenda.

BILL CLINTON THE MAN

While there is rough consensus regarding President Clinton's performance in office--voters believe the President is trying hard, but is not getting much accomplished--impressions of Bill Clinton the man are sharply polarized.

In describing Bill Clinton, some Akron participants offer such phrases as "a good man in office," "progress," or "genuinely concerned about the country." Others reply in a distinctly different tone: "crisis of character," "orchestrated and difficult to trust," or, simply, "untrustworthy." The same distinct split appears when they try to characterize Bill Clinton's values: "a family type" and "hard-working" are the adjectives that come to mind for some participants, while "power-hungry" or "valueless" are the appellations offered by others.

In two of the three focus groups, Mount Laurel and Akron, the negative sentiments are generally expressed more often and more forcefully than are the positive ones. This is not surprising; in our experience, negative opinions often easily overwhelm the positive in political discussions. Whether in the theater of talk-radio or the research setting of a focus group facility, the cynical comment seems to "trump" a more idealistic notion, and the pessimistic view always seems more "realistic" than does the upbeat assessment. Because the individuals who feel fairly positive toward the President tend to retreat in the face of sharply negative assessments, it becomes easy to take away from the sessions an exaggerated sense of the breadth of hostility toward Bill Clinton. In our opinion, some analysts and commentators have made this mistake in assessing the President's public standing.

At the same time, we suspect that this dominance of the negative view may often reflect the reality of political discussion as it occurs across America these days. It is hard to overstate the degree of cynicism toward and disgust with

politics and politicians. And it is of some consequence that critics of the President feel far more passionate and assertive than do those who support him. Bill Clinton certainly would be in a stronger position today if more average Americans felt good enough about his character and performance to stand up for him in the conversations that take place daily in the nation's coffee shops, laundromats, and living rooms.

In terms of Bill Clinton's personal strengths, common themes emerge in all three groups. The President is widely credited with making a serious effort to tackle the important issues facing the country, something voters feel his immediate predecessors in office did not do. Voters also feel that he brings both great energy and keen intelligence to those efforts--a combination they also have not seen in many years. As well, they have a strong sense that he cares about average people and their lives.

On the negative side, some voters are deeply offended by what they perceive to be Bill Clinton's low moral standards, citing Paula Jones' charges or the Whitewater issue. These impressions generally come from deeply conservative people who almost certainly would never vote for a Democratic president.

Other voters draw a crucial line between personal and public behavior. They are concerned about the latter, but not the former. "There are things with his personal life that people can poke at. Ultimately, I am sure that they are going to prove that he had an affair, but that is not my concern. My concern is what he is going to do for this country. I personally am against that type of behavior, but I

am not going to judge the man." A New Jersey voter speaks to the Whitewater allegations: "Everyone makes mistakes financially. My question is whether there were illegalities involved." Many voters blame the media for all the attention given the Jones and Whitewater issues. Even a Bush voter expresses anger that *The Star* and the *National Enquirer* seem to be driving the nation's agenda.

The Paula Jones story and other personal matters ultimately seem to be of limited interest to most of these voters. Whitewater is potentially a different problem, because it involves more public activities. Voters do not now see any clear evidence that the Clintons engaged in any illegal or unethical financial activities, however, and as long as this remains the case, Bill Clinton's public standing is unlikely to be seriously harmed.

We asked the New Jersey focus group participants where they would like to be if they could be a "fly on the wall" and listen in on Bill Clinton unobserved, to gain the kind of insight in which they are most interested. Although this group is by far the most negative toward the President, no participants express any voyeuristic interest in Bill Clinton's bedroom or hotel rooms. Instead, participants want to see him in a Cabinet meeting or just before a press conference; in other words, they wish to understand how he goes about doing his job.

Nevertheless, the President does confront a serious and important "character" problem with the voters. But this has been widely mischaracterized in the press and the political community as principally a question of personal

morality. Our research suggests that this is better understood as public doubts about Bill Clinton's capacity for effective **political leadership**.

For one thing, all the attention to scandals and charges reinforces people's doubts about President Clinton's ability to get the job done. At a minimum, the innuendoes are a major distraction. One Clinton supporter in New Jersey raises this concern:

All that has been focused on is this stuff that happened five years ago, and I don't see anything happening with the country. I just hear about his past life and/or maybe affairs. How can the man focus on what he is supposed to do . . . if he is being sidetracked with all this other stuff? You are hoping that he can do the best job, but I don't see how he possibly can with all this other stuff.

Much more important, though, are the doubts raised in voters' minds regarding Bill Clinton's honesty and trustworthiness in the public arena. In our focus groups, one major concern about the President stands out, emerging in every session and being voiced even by some participants who voted for him: **voters are not confident that they can trust Bill Clinton to be straight with them.** The NBC/WSJ survey underscores the breadth of this problem: only 26% of the public rates Bill Clinton well on the quality of "telling the truth," while 43% rate him poorly.

Many people in the focus groups describe Bill Clinton's level of honesty as that of a typical politician: no worse, but also no better. Given their great cynicism toward politicians, this is a discouraging assessment. The problem is that they do not see Bill Clinton as someone who really speaks his mind or who will tell the

nation what it may need to hear, if doing so will have a political downside. A New Jersey teacher says that although President Clinton "gave the country some hope, . . . he doesn't have a direction. I consider him a 'yes' man; he just does everything that people want him to do." Many other participants express a sense that Bill Clinton frequently is guilty of overpromising, which they think gets him into trouble: "I think that politicians do come in--I think Bill Clinton did this--and make all these unrealistic promises that he now realizes he cannot do. It's basically because people are dishonest."

Just as voters have trouble identifying any notable Clinton accomplishments, so too do they seem--even after a year and a half--not to have formed a clear image of this president. Only scattered images are offered when these voters try to recall the defining moments of Bill Clinton's term so far, and are often from very recent events such as the Nixon and Onassis funerals. It seems there has not yet been an event or action that has captured the essence of Bill Clinton for voters. The danger in this is that, in the absence of any clear sense of what he is about as a leader, the President's popularity will continue to depend entirely on the "what have you done for me lately" syndrome. His public standing then rises and falls with the news of the week.

Exacerbating this problem, of course, is the general atmosphere of political cynicism within which Bill Clinton must operate. Politicians are automatically suspect, and people will assume the worst unless they have clear evidence to the contrary. Some voters already see in President Clinton (or project onto him) the

very embodiment of what is most wrong with politics and the nation today. As is articulated by an Akron man, it is that "the nation votes for leaders that it sees like them, and we [now] have a man in office who tells the truth when it is convenient. I honestly don't know when I hear him speak if I am hearing the truth or hearing what he wants me to hear. I think the nation as a whole is going in that direction. There is no backbone anymore."

As voters try to come to grips with Bill Clinton's failure to achieve change, they often reach for the word, "backbone." This term implies not only honesty, but also strength and convictions--a willingness to fight for what one believes in, even in the face of powerful opposition or great risks. They see this as an essential quality in effective leaders: it takes backbone to face down political adversaries, to rally the nation to a common cause, or to fight against special interests on behalf of the entire nation. Unfortunately, many voters do not today see this critical leadership ingredient in their current president.

Indeed, when we asked the people in Miami what kind of backbone Bill Clinton has, their answers include "sawdust," "papier-maché," and "clay." When participants are asked to contemplate which qualities Bill Clinton could usefully take from previous presidents, a New Jersey man suggests "the guts of Truman," while a Miami man wants to "make him more of a 'The buck stops here' kind of guy." In addition, when considering the question of whether Bill Clinton still could become a great president, those who answer "no" express these same types of concerns in explaining the obstacles to greatness. "I would say 'no' only because

I don't think he has strong convictions," notes one woman, and another voter asserts, "I don't believe that he could become a great president. If we think back to who we consider great presidents, it is the ones that take a moral stand, whether we agree with them or not. It is the ones that take the stand and fight for what they believe in; those are the great ones."

The passage of NAFTA is an interesting exception to this assessment--one that proves the larger rule. While voters do not generally express any great enthusiasm for NAFTA as a policy, several participants cite this as a case in which Bill Clinton demonstrated some conviction. In that fight, they saw the President stake out a firm position, take on strong opponents (Ross Perot and congressional leaders), and prevail--demonstrating exactly their model of effective presidential leadership. In voters' minds, the NAFTA victory pointed to the broader possibility that change was coming, that Bill Clinton was going to be able to break gridlock and achieve his goals. This explains why the President's approval ratings went up considerably at the time, even though public support for the treaty was fairly modest. Tellingly, however, NAFTA stands nearly alone when voters are asked to recall an example of the President displaying strong convictions.

In addition to helping a president achieve legislative or policy victories, strong convictions have another value: they give voters a fuller sense of where their president hopes to take the country. If Americans are then called upon to make sacrifices or to be patient, this deeper understanding of their leader's vision makes it easier to comprehend why. But today, voters have little sense of what

core political principles Bill Clinton holds dear or what vision of America animates him and drives him forward. Just as voters cannot say what Bill Clinton has done, neither can they say where he is taking the nation. And this makes them uneasy, for it is precisely a clear sense of direction, one that can unite the efforts of the American people, that people most want from their president today.

AMERICANS' ADVICE TO THE PRESIDENT

Toward the end of each focus group, we asked voters what would have to happen in order for Bill Clinton to gain their vote if they had voted against him in 1992, or to lose their vote if they had been a Clinton voter. Almost all the Clinton voters, significantly, say they are still behind the President and expect to be again next time. Most indicate that things would have to go very badly--several say the situation would have to get "drastic"--for them to abandon Bill Clinton. Despite their disappointments, then, Bill Clinton's voters are still with him.

These participants are with him primarily, it seems, because they believe he sincerely is trying to make change happen--a point even many non-Clinton voters concede--and they hope he can still succeed. Voicing a feeling common to many participants, an Akron man proclaims, "As long as he tries to confront issues and move the country forward, he will keep my vote," and a woman in that group says the only way Bill Clinton could lose her vote is if "he stops the change."

The issue of change also remains an important frame of reference for voters in comparing this Democratic president to the Republicans. Most of the focus

group participants see the GOP as being very much a party of the status quo, with little interest in change. For most of the Republican voters, that is just fine. They generally are satisfied with the state of the nation or are at least convinced that anything government does to address problems will only make things worse.

But most people do not agree: despite voters' substantial skepticism toward government and their cynicism about politics, in the end, they say that attempts must be made to solve the very serious problems they see around them. Participants also admire Bill Clinton's willingness to face up to these challenges. An Akron accountant, somewhat favorably inclined toward Clinton, sums up this sentiment aptly:

I believe that there are significant changes that need to take place, and the Democratic Party traditionally is the party of change. Republicans just want to maintain the status quo, and that was Bush's theme during the campaign. I happen to think [there are] major problem[s] . . . and the Democratic Party is the one that will undertake those changes, just as Bill Clinton has decided to take on the health care and welfare problems.

This contrast should become more important as the country moves toward 1996. While voters now judge Bill Clinton mostly against the expectations he raised in 1992, voters in 1996 will evaluate him against an actual nominee from the party of the status quo. Significantly, few of the Democratic or Independent voters in our focus groups seem at all eager to trade in Bill Clinton for George Bush or another Republican. Even those who have doubts about Bill Clinton do not necessarily perceive that the political universe contains more attractive options.

For core Democrats, simply knowing that Bill Clinton is on the side of change may be enough to bring them home on Election Day. But Bill Clinton was elected with only 43% of the vote. Assuming there is a two-way race in 1996, he will need to secure the support of a considerable percentage of new voters and former Perot voters, while also holding onto his own "soft" 1992 voters. The latest NBC/WSJ poll suggests that accomplishing this feat remains a serious challenge, as more Perot voters express a negative assessment of Bill Clinton than a positive one. And for these voters, simply striving for change will probably not be good enough. As one Mount Laurel woman puts it, "Everyone says that he has good intentions, but intentions are not what the presidency is made of. It is doing something, and I don't know if he knows how to go about doing the task." In the final analysis, it comes back to performance.

In fact, when asked how they would like to see Bill Clinton's next 500 days be different and what advice they would give him for the rest of his term, voters overwhelmingly offer thoughts on how Bill Clinton could become a **stronger leader**. It is leadership, not specific issues or legislation, that is on their minds. Their straightforward counsel centers on two key steps that they feel the President needs to take:

 Focus on a few clear priorities, and demonstrate progress.

Do something, anything--just make some positive contribution. He needs to concentrate on one issue and get it through. It doesn't matter what the issue is.

If you try to take on too much, you will be ineffective.

Show improvement in a few areas. Push one all the way through and have the others following behind . . . If he could push these things [crime and economy] through a little bit, and maybe finish one of them.

 Communicate conviction and honesty.

Try to be honest, and communicate more what he is doing and how he is doing it.

When he says he is going to do something, do it. Be more decisive about his decision-making.

Demonstrate that he is above reproach; restore his credibility.

Be strong; convince us of your convictions.

Although people are disappointed with the story line thus far, they are far from closing the book on Bill Clinton. Most are reserving judgment; some are still optimistic that he will bring change. Many feel torn in their assessment: they like this president's energy and intelligence, but do not feel they can trust him as much as they would like to. Voters also recognize that the problems President Clinton is facing are substantial and long-standing, and many comment that both the press and the public are far less respectful of the presidency than they once were. These voters seem to consider the Clinton presidency a work in progress, and are not yet sure how it will turn out in the end.

His success, voters believe, will be determined by whether he shows himself to be a stronger leader than they have seen so far. Even a very conservative young woman in Akron concedes that Bill Clinton could still be a great president, if "he gets a backbone and uses it." What voters most want to see from Bill

Clinton are some occasions in which he tells the nation where he stands, faces down his opponents, and comes out a winner in the end. Two George Bush voters in New Jersey, one favorable toward Bill Clinton and one not, offer the following as the scenario for how Bill Clinton might win their 1996 vote:

He has become more focused; he stands behind a particular issue; he sees it all the way through and gets it done. He is strong in his decisions: he says something, he does it, and he is not afraid of the repercussions.

He would have to show that he could carry through something that he proposes, something significant. Find an issue and push it through.

Can Bill Clinton do that? The voters are not yet sure--but most still want him to succeed. And they believe a lot is riding on the outcome. The Miami session concluded with this advice from four Clinton voters, which encapsulates the potential, the expectations, and the opportunity that await the President's response:

- ★ Keep plugging away.
- ★ Get a little tougher.
- ★ This is the time to move.
- ★ Everybody is waiting.

Thomas J. Bliley Jr.

The City's Downward Spiral

History is filled with political confrontations great and small that resulted in unintended consequences because of misinformation and miscalculation. As Congress and the District of Columbia are both in the midst of political transition, the risk of misunderstanding is great. Congress has clearly defined its expectations, and it is vitally important that local misperceptions not result in mistaken judgments and actions.

The District is in a financial downward spiral, and although there may yet be time for corrective action, the ground is approaching fast. Del. Eleanor Holmes Norton deserves the District's thanks for her recent candid and courageous warnings to city officials and workers about the District's short-term fiscal crisis and long-term economic crisis. The city simply cannot escape the consequences of doing either nothing or the bare minimum.

Citizens should heed Del. Norton's warning and must understand the crisis grows more acute each day. The city government will soon be out of cash. Unless the city can borrow at least \$90 million to \$110 million from the market place this winter and again next summer, city workers and vendors will face being paid with IOUs. A failure to obtain credit from the private sector should not be underestimated. It takes years to recover from that loss of confidence and will cost millions in higher interest rates and insurance. Lending to the District may be considered too risky for many investors. Borrowing from the U.S. Treasury may be just as risky. Certainly potential investors would also view this option as a lack of confidence in the District, as the ability to borrow depends upon one's ability to repay the debt. The council need not wait any longer and should act now to guarantee confidence.

Even if the District survives the immediate crisis, there is greater trouble ahead. During the next few years, city expenditures will grow at twice the rate of revenues. This year's deficit pales in comparison with the \$1 billion budget gap projected for the year 2000. Moreover, the District needs another \$1 billion for capital improvements at a time when the city is already highly leveraged. By the year 2000, the debt service will almost reach its statutory limit of 14 percent of revenues. Further within the next 15 years, by some estimates, the District will lose perhaps another 55,000 residents, declining to 520,000 people.

Some political participants and observers in the District apparently are rationalizing that the District is insulated against substantial congressional action because: (a) regardless of party leadership, no Congress wants the headaches of municipal management; (b) regardless of party leadership, no Congress will allow the city to go bankrupt because of potential national and international embarrassment; and (c) the new Republican Congress will not risk a highly negative media campaign against federal intervention. They have calculated that Congress will not back up tough talk because of polarizing political images.

While it is certainly true home rule is mutually beneficial, at least in part because Congress is relieved of the burden of local governance, it is important to remember that Congress has only delegated its constitutionally mandated authority. The responsibility for the nation's capital remains with Congress. As such, Congress can re-delegate certain powers and still remain faithful to the concept of local government. If the local government surrenders its authority through its inaction, Congress must ensure responsibilities will be met.

For those who might wish to check the record, I have long maintained the District budget is not a partisan issue. As we have in the past, Democrats and Republicans will work together to resolve this crisis if necessary. However, people are mistaken if they believe Congress will give the District more time and money without making corrections. Since 1991, Congress has provided for a \$1 billion infusion of cash. This year, after the District government refused to balance its budget, Congress ordered \$140 million in cuts, but without specifying where reductions should be made. Now, in order to balance the budget, that level needs to be at least tripled. Yet the council still has not enacted the necessary changes. Given the federal time and money already invested in the District, it is foolhardy for any local politician to believe Congress will take a hands-off approach the third time around.

Some District officials might construct a political strategy based on pressure from residents and the media to prevent Congress from further intervention. This would be an unfortunate diversion from what should be everyone's primary objective—preventing the crash. While there may be some criticism for Congress's taking action, the consequences of doing nothing are far worse. The District's financial condition is about responsibility—nothing more, nothing less.

In our oath of office, each member of Congress is vested with a special responsibility to the nation's capital. While most members respect the careful balance of delegated authority in the Home Rule Act, there is a higher allegiance to the Constitution. If the local government does not adopt real and immediate short-term and long-term solutions, no one should underestimate the will in Congress to forge them.

The writer, who represents Virginia's 7th congressional district, is the ranking Republican member of the House District Committee.

Victor Gilinsky and Henry Sokolski

Korea Accord: What Is It?

It may seem churlish to raise questions about the Oct. 21 U.S.-North Korean nuclear agreement just as the president is getting China's approval. But the text, which has only recently been circulated, does not track with the administration's upbeat description at the time of the signing. It would be nice to know just what we are getting into.

At that time, the administration said that in exchange for eventual delivery of two large U.S.-style power reactors (so-called, LWRs)—and interim oil supplies—North Korea agreed to "terminate" its worrisome nuclear activities. North Korea was said to have agreed (1) to ship its small reactor's spent fuel, which contains several bombs' worth of plutonium, out of North Korea; (2) to dismantle its reprocessing plant, which extracts the plutonium from spent fuel; (3) to give up its two larger reactors, which are under construction and which, for their size, are potent plutonium producers; and (4) to let the International Atomic Energy Agency (IAEA) inspectors back in to check everything.

The trouble is the formal text doesn't quite get there. On the issue of North Korea's spent fuel, it speaks only of the United States and North Korea having to "cooperate in finding a method" to "dispose of the fuel in a safe manner that does not involve reprocessing in" North Korea. This could include leaving the plutonium-bearing fuel rods in North Korea. Nor is there anything in the text about North Korea dismantling any of its plutonium production apparatus—the reactors or reprocessing plant (the latter isn't named in the document)—before the two LWRs are "completed." This could be 10 years from now—or never. As for a prohibition on building other plutonium production reactors, the text is silent. These matters may be covered in a separate agreement, but if they are, why is that not public?

The agreement also is vague about just how far we are committed. To facilitate the LWR transfer, the administration has agreed, "as necessary," to conclude with North Korea a bilateral "agreement for cooperation in the field of peaceful uses of nuclear energy." How that can happen is unclear, for that is a specific type of agreement covered by the strict standards of the U.S. Atomic Energy Act. To be eligible, a nonnuclear state (which we hope North Korea still is) must allow the IAEA to inspect all of its nuclear activities. Yet, under the Oct. 21 agreement, the North Koreans will not have to allow inspections of the disputed waste sites until a "significant portion of the light water reactor project is completed." They will have to do this before delivery of "key components," but that's cutting it pretty close.

Moreover, countries' pledges to be inspected have been judged in light of their past records in complying with IAEA inspection requests, a test that

North Korea fails. Of course, the president could override these requirements. But is that a good idea? The law's inspection provisions are there precisely to put the brakes on deals with unreliable states like North Korea.

Then there is the agreement's provisions on inspections and "freezing" of its reactors and reprocessing plant. The Oct. 21 agreement text does require North Korea to let the IAEA inspect the nuclear sites acknowledged by the North Koreans, but only after the supply contracts for the LWR project are done. This requirement does not cover inspection of the two disputed waste sites, so North Korea would remain in violation of its IAEA obligations until we ship "key components" to open the sites to IAEA inspectors. Similarly, North Korea's "freeze" of its reactors' construction and on "related facilities" is also tied to U.S. assurances "for the provision of LWRs." Will they be hostage, or will we?

One thing is clear: We will be directly engaged with the North Koreans—which, of course, is their chief purpose. If the United States tries to influence North Korean behavior by holding things up, we won't be able to hide behind the South Koreans and Japanese, who will be financing and building most of the LWR project. The Oct. 21 agreement stipulates that the United States will "organize" and "lead" the "international consortium to finance and supply the LWR project" and "serve as the principal point of contact with" North Korea for the enterprise. All potential disputes about the project—including technical matters—will be political issues between the United States and the North Koreans. At best, this will involve full-time negotiation.

Which brings us to the final concern: how the agreement will be enforced. What do we do if North Korea decides to keep its spent fuel rods, as the agreement text allows, until the second LWR is built? If we break off the agreement, North Korea could keep the first LWR we gave it, restart its "frozen" small reactor, reprocess the spent fuel rods now in storage through its unfrozen reprocessing plant, separate several bombs' worth of plutonium and perhaps even finish building the two frozen reactors. To avoid this, we will be under tremendous pressure to keep building the second LWR.

If these eventualities are precluded by side agreements, we should know this now. To pay for our immediate obligations under the agreement, Congress will probably have to approve a near-term funding measure soon. This would be a good time to ask, just what are we getting into?

Victor Gilinsky is a former U.S. Nuclear Regulatory commissioner. Henry Sokolski is executive director of the Nonproliferation Policy Education Center and served as deputy for nonproliferation policy in the Pentagon in the Bush administration.

THE PRESIDENT HAS SEEN 11/27

Buy
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OPINION USA

Clinton needs a few good enemies

Take it from Nixon: Shared hatred breeds loyalty

It seemed odd for Bill Clinton, the boyhood fan of John Kennedy, to be so effusive at the funeral of Richard Nixon, for whom Kennedy had little regard. People asked whether Clinton felt some affinity with Nixon. I wondered, rather, if he could learn something from Nixon about presidential leadership.



By Garry Wills, author of *Certain Trumpets: The Call of Leaders*.

Nixon seemed to lack many of the qualities we associate with electoral leaders. He was not a good public communicator. He did not have the politician's easy (if empty) empathy with others. Few even of his strongest supporters felt uplifted by his presence. He was rather coldly admired for his cold gifts of maneuver.

He also tended to play bait and switch with his followers. The right wing, his original constituency, was baffled and angered by his willingness to change policies at home or abroad — to adopt wage and price controls, to seek detente

and arms control with the Soviets, to restore diplomatic relations with China.

What kept his followers loyal? Much had to do with the enemies he cultivated. He was a good hater — of liberals, Ivy Leaguers, rioters, demonstrators, critics of America. Those who shared these hatreds were bound by him with ties of fierce toughness, no matter how he disappointed them in other ways. The strangled grievances of an aggrieved time found their voice in his very inarticulacy.

Enemies — the right enemies — are a useful thing for a politician to have. Both Roosevelts knew that: Teddy "busting trusts," Franklin lashing out at "malefactors of great wealth."

Leaders, I argue in my book on leadership, *Certain Trumpets*, need to address particular followers with particular goals — and one way to focus on mobilizable followers is to distinguish them from others.

Abraham Lincoln could not get elected to check the spread of slavery if he were identified with abolitionists — so he took clear steps to alienate them. Those wanting too much were the enemies of what he felt could realistically be accomplished.

Bill Clinton, in a shapeless



Nick
USA TODAY

By Nick Galifianakis, USA TODAY

(post-Cold War) time has not defined his followers very well — in part because he hates to make enemies, any enemies, even useful ones. His mother said that Bill shares one trait with her: "If there are 100 people in a room and 99 of them love us and one doesn't, we'll

spend all night trying to figure out why that one hasn't been enlightened." It was said, when Clinton was governor, that the way to get his attention was to attack him; then he would smother you with special treatment.

That Southern style seemed

to work in a state with a constitution that minimized the governor's power and maximized his dependence on personal ties with the legislators. It seems not to be working at the national level.

Clinton's willingness to give in when challenged — on western land use, on his economic stimulus plan, on gays in the military — makes him look responsive only to those who are not his followers.

Even when he has alienated some powerful people — the National Rifle Association, for instance, or the tobacco industry — this looks more accidental than planned.

Useful enemies are chosen, the way FDR took on the banks. He did not wait for them to come after him, and then try to soften their hostility.

Tricky Dick may not have been our most admirable president. But some of his tricks were useful enough to have been in Lincoln's repertory of political tactics. Perhaps Clinton should praise Nixon less and study him more.

Garry Wills is also author of *Lincoln at Gettysburg*, for which he won the 1992 Pulitzer Prize, and *Nixon Agonistes*, among other books. He teaches at Northwestern University.

THE PRESIDENT HAS SEEN 11/27

Leon Little (under)
was sent to the car
this - Walter arrived
arriving on midnight
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Where We Stand

By Albert Shanker, President
American Federation of Teachers

Privileging Violence

There is a great deal of concern about school violence these days—and for good reason. Though some people maintain that the media greatly exaggerate the problem, those who work in schools in New York City or Chicago or Baltimore know better. And recent polls and surveys show that a majority of parents and other citizens agree with teachers about its seriousness. However, there is considerable confusion about how to deal with violence in the schools.

A high percentage of parents see the issue in matter-of-fact terms. Schools are places where kids are supposed to learn. Youngsters who consistently threaten the learning—and even safety—of others undoubtedly need help, but they have no business in the classroom.

But there are some well-meaning educators and policymakers to whom this is not self-evident. For them, the schools' most important mission is to "save" the violent and disruptive kids.

A report of the National Association of State Boards of Education (NASBE) is a good example of this kind of thinking. "Schools Without Fear" says that schools should be "advocates for all children," but it focuses almost exclusively on the needs and "rights" of disruptive students.

The report tells us that schools should restructure themselves to accommodate violent and disruptive youngsters; they should provide special programs and curricula to teach teachers and other kids how to cope with violent students. Above all, schools should bend over backwards not to exclude violent or disruptive students or even, in most cases, put them out of class. The report acknowledges the value of alternative programs but says that students should be placed there only when other possibilities have been exhausted and with a view to returning them as quickly as possible to their regular classes. The basic formula is: We must not give up on these kids, no matter what.

This sounds very good—and it is quite right that turning violent and disruptive kids out onto the street will not help them; quite right that they need special programs and alternative facilities. But the kids who are forgotten in this picture are the vast majority of students, who don't make trouble. Why do we place so much value on youngsters who come to class with knives or guns and so little on their classmates who want to learn—or would give it a try if their classes were not disrupted by violence or fears of violence? What kind of message does it send when youngsters who are chronically disruptive get all the attention? And what does it mean for the future of public education?

John Cole, president of the Texas Federation of Teachers, recently attended the annual Scholastic "Summit on Youth Violence," and what he heard led him to ask some of the same questions.

"The consistent theme," he writes in his report on the conference, "is that society's responsibility is to the perpetrators of violence, and that we should lavish our attention on those who commit violence, in an effort to save those individuals, without regard to the effect that attention has on other, nonviolent members of society."

"The message," Cole continues, "came through time and time again. Those who commit crimes, abuse drugs or disrupt school are crying out for help, and we should rush to help them. My problem with this line of logic is that if young people learn that the way to obtain help is to strike out in acts of violence, that will become the normal method for seeking special help in our society. By rushing to help these young people, are we not encouraging others to emulate their behavior?"

Cole does not think we should abandon violent young people, but he thinks that absolving them from responsibility is ultimately destructive: "We need programs to work with them, and we should try to salvage as many as we can. However, if we assume that society is to blame for all their problems and responsible for developing solutions, we take away from them the responsibility for their own lives. Once a person assumes that he has lost control of his destiny, he has no difficulty in justifying any act because he feels no responsibility for the consequences."

Cole's conclusion: "If the philosophy espoused at this conference wins the debate over the role of schools in our society, public schools will become the place where we try to salvage lost lives, and private schools will become the place where people send well-behaved children who want an education."

Most ordinary parents and citizens understand this—it explains why a lot of people who have supported public education are turning, in frustration, to vouchers. And it's time the well-meaning people who believe that schools should put violent kids first realize that they are helping to destroy public education.



What kind of message does it send when youngsters who are chronically disruptive get all the attention?

THE PRESIDENT HAS SEEN 1/1/27

U.S. Estimate Of Tax-Cut Cost Is Below GOP's

Five-Year Loss of Revenue In Capital-Gains Plan Is Put at \$44.8 Billion

ECONOMY

By LUCINDA HARPER

Staff Reporter of THE WALL STREET JOURNAL

WASHINGTON — The Treasury's estimate of the cost of the capital-gains tax cut Republicans are proposing is far lower than the estimate Republicans themselves are using.

Treasury estimates, obtained by The Wall Street Journal, indicate that the capital-gains tax cut outlined in the Republicans' "Contract With America" would cost the Treasury \$44.8 billion in revenue over five years. Using congressional estimates, House Republicans say it would cost \$56.6 billion.

The lower Treasury estimate could reduce an obstacle Republicans face in try-

Focusing the GOP Agenda

Republicans are pushing a social agenda, but many in the party say economic issues must take precedence. In other coverage, the White House and Senate GOP Leader Dole are close to a deal making it more likely the U.S. would withdraw from the proposed World Trade Organization if its decisions go against the U.S. Articles on page A26.

ing to get their capital-gains tax cut through Congress by reducing the spending cuts required to offset it, as required under current law.

Bruce Cuthbertson, spokesman for Rep. John Kasich (R., Ohio), who will be chairman of the House Budget Committee in the next Congress, said the Republican figures come from an estimate the congressional Joint Committee on Taxation made in March. The committee wouldn't comment. Both the Treasury and congressional estimators examined the same proposal, which would subject to tax only half the gain from the sale of stocks, bonds and other assets, and then only the gain in excess of inflation.

"The fact that Treasury analysis looks better for the Republicans shows they are really operating independently and in their own best judgment," said Yale law

professor Michael Graetz, who was a Treasury tax official in the Bush administration. Treasury estimates are traditionally made by non-political career government economists.

The discrepancy exists primarily because Treasury economists assume that more investors will sell assets if capital-gains tax rates fall than do congressional economists, said Princeton University economist Harvey Rosen, who headed tax analysis for the Treasury in the Bush administration. For instance, in 1989, the Treasury estimated that President Bush's capital-gains tax-cut proposal would bring in an extra \$16.1 billion in revenue over five years; the congressional estimates said it would cause a revenue loss of \$13.3 billion.

The new Republican leaders of the House, Newt Gingrich of Georgia and Dick Armey of Texas, aren't likely to be satisfied with either estimate, however. Neither analysis reflects the possible revenue gains to the government that would occur if a cut in capital-gains tax rates stimulated economic growth. Reps. Gingrich and Armey argue that the resulting growth would wipe out any revenue losses.

How Much Does It Cost?

Estimates of revenue lost under Republican capital-gains tax cut, in billions

	TREASURY	CONGRESSIONAL
YEAR ONE	\$1.7	\$1.9
YEAR TWO	5.4	5.9
YEAR THREE	10.3	12.7
YEAR FOUR	13.3	15.6
YEAR FIVE	14.1	20.5
FIVE-YEAR TOTAL	44.8	56.6

NOTE: Treasury estimate is for fiscal years 1996-2000; congressional estimate for fiscal years 1995-1999.

Sources: Treasury, House Budget Committee Republican staff

What's the diff in Bush proposal & Trump's? —

BE

OPEC Rallies Around Idea to Freeze Oil Output as Demand Rises Next Year

By JAMES TANNER

Staff Reporter of THE WALL STREET JOURNAL

DENPASAR, Indonesia — OPEC's financially strapped members rallied around recommendations to hold their output steady well into 1995 in an attempt to push up the price of oil.

Such a strategy to tighten oil supplies as demand rises next year could be adopted by the Organization of Petroleum Exporting Countries as early as today, the second day of OPEC's winter conference.

But even as the oil ministers meeting on Bali endorsed the idea of freezing production at the current level, there was debate over the duration of such a move. Some ministers continued to call for a six-month freeze on output despite the popularity of a proposal made over the weekend by Saudi Arabia to extend the current production ceiling of 24.5 million barrels a day for all of 1995.

The Saudi plan is backed by at least one-half of the 12 OPEC members and is credited with some firming of world oil prices yesterday. But some OPEC members object to any "rollover" of the current ceiling at this time beyond next year's first half.

Kuwait, which eventually is due a higher production quota under a previous OPEC promise, is among those expressing concern. Delegates said Kuwait's worry is that a full year's extension would lock in quota cheating by some other countries. OPEC's actual output is around 25 million barrels a day, or some 500,000 barrels a day above its official ceiling.

Abdalla Salem El-Badri, Libya's oil minister and outgoing OPEC president, is a leader of the group that would prefer to settle for a six-month rollover of the current ceiling. "I talked to all the members, and I think 12 months is too long," he said in an interview.

Still, in his address to the conference before the election of his successor, the Libyan oil minister took note of the deterioration in oil prices in recent years and the negative effects on OPEC's revenue. So did President Suharto of Indone-

sia, who also spoke to the oil ministers to open the conference.

The goal of the Saudi proposal to freeze the current output level for a year is to push up prices as demand exceeds production, particularly in next year's fourth quarter. And many of the analysts here to observe the outcome of the OPEC meeting said a six-month freeze on the ceiling already had been factored into the oil market and that prices weren't likely to rise if that is all that is decided.

"A 12-month rollover would be bullish and would raise prices 50 cents to \$1 a barrel," from the recent range of \$17 to \$19 for the main U.S. crude, said Mohammed Abdul Jabbar, a crude-oil market specialist for Washington-based Petroleum Finance Co.

THE WALL STREET JOURNAL TUESDAY, NOVEMBER 22, 1994

THE PRESIDENT HAS SEEN 11/27

To Rubin

THE PRESIDENT HAS SEEN

CAPITAL JOURNAL
By **GERALD F. SEIB**

Ohio's Voinovich Drives Another GOP Revolution

WILLIAMSBURG, VA.

THIS IS THE WEEK Republicans had to stop flexing their new muscles for a moment and face a strategic choice: Are they going to change the way Washington is run, or change the way the country is run?

George Voinovich argues for changing the way the country is run. He's got a pretty good case to make.



Mr. Voinovich is the Republican governor of Ohio. If anybody can claim to have won a ringing mandate from the voters this month, he can. He won re-election in the country's seventh-largest state with a staggering 72% of the vote, crushing Democrat Robert Burch by 47 points. He so dominated the race that he was able to give away \$3 million of his own campaign funds to help other Ohio Republicans.

Riding his coattails, Republicans won every statewide constitutional office in Ohio. His lieutenant governor, Mike DeWine, became the first Republican elected to the U.S. Senate from Ohio since 1970. Republicans took control of the state House and kept control of the state Senate. The Toledo Blade summed it up in a headline: "Voinovich in win of the century."

All this leaves Mr. Voinovich, an almost painfully earnest former mayor of Cleveland, looking like one of those quarterbacks who's asked: "You've just won the Super Bowl, George Voinovich. What are you going to do next?"

WHAT MR. VOINOVICH did was come here to Virginia along with the other Republican governors—now numbering 30—and argue for a quiet revolution. He wants the Republicans now running Congress to turn power, money and freedom over to the states so they can create change. In fact, he has a 13-page blueprint for doing it. It asks the new Congress to relieve the states of the costs of federal environmental, health and immigration regulations; to give states far more control of welfare; and to give states more freedom to tinker with the joint federal-state Medicaid program for the poor.

"The problems of this country are not going to be solved in Washington," Gov. Voinovich says bluntly as he sits in Virginia's autumn sunshine. "They are going to be solved at the state level."

This is asking a lot of congressional Republicans, who wandered the minority wilderness for four decades. Having finally won control of Congress, are they to start giving away its powers? Is the Republican Party going to strip away Washington's clout, or use it to change the nation's ideological course?



George Voinovich

There's no avoiding this decision. The painful fact for House Republicans is that many of the ideas they have pushed hardest—congressional term limits, a line-item veto—would shift power from Congress and toward the (Democratic) president. Now, on top of that, come GOP governors wanting a piece of the action.

PHILOSOPHICALLY, AT LEAST, Speaker-to-be Newt Gingrich doesn't flinch from this. In the introduction to a new book by Alvin and Heidi Toffler on "third wave" politics—now required reading for cutting-edge GOP politicians—Rep. Gingrich writes: "While I am a Republican leader in Congress, I do not believe Republicans or the Congress have a monopoly on solving problems and helping America make the transformation necessary to enter the Third Wave information revolution."

Gov. Voinovich, not a particularly philosophical man, has a simpler point. He says he has succeeded simply by offering voters common-sense management. He has shrunk government, but isn't against government activism. He likes Head Start, has increased spending on family programs and says industries are clamoring to get in on the state's job-retraining program. He's big on making business a partner. The private sector has given him some \$14 million in management help and cooperated in revamping Ohio's workers' compensation program. Can he live without the federal money that goes with the strings? He offers a straight-forward analysis: "The federal government is bankrupt," so the money is drying up anyway.

The kind of success Gov. Voinovich has enjoyed raises the inevitable question: Will he be a contender for a spot on the 1996 presidential ticket? For now, he gives the inevitable answer: He's too busy to pursue that.

But there's somebody who's already deep into the 1996 hunt who shares this power-to-the-states philosophy. He's Lamar Alexander, the former governor of Tennessee. Not so coincidentally, Mr. Alexander also showed up here for the governors' meeting. Classical pianist that he is, Mr. Alexander was playing in fine harmony with his old friends from the statehouses.

THE PRESIDENT HAS SEEN

11/27

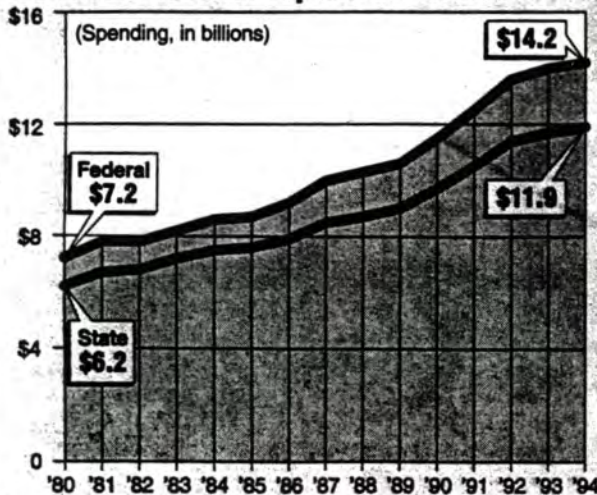
Marcia Hale
Pg. Per our
discussions
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Aid-to-the-poor programs under GOP scrutiny

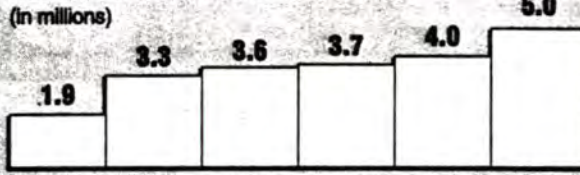
The incoming Republican congressional majority is planning cutbacks in federal assistance to the poor. Among programs targeted is Aid to Families with Dependent Children, the nation's primary welfare program,

in which the federal and state governments split costs. Also under review are Food Stamps, public housing, Medicaid, Supplemental Security Income and nutrition programs. History of spending on those programs:

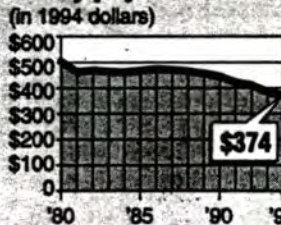
Aid to Families with Dependent Children



Number of families on AFDC



Average monthly family payment



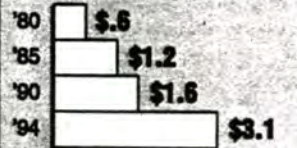
Most families on AFDC for five years or less



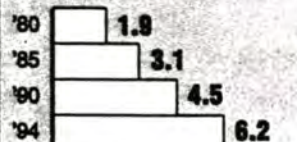
NUTRITIONAL PROGRAMS

Women, Infants and Children

Federal spending (in billions)

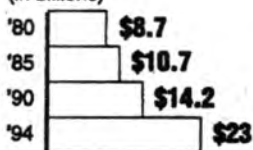


Participants (in millions)

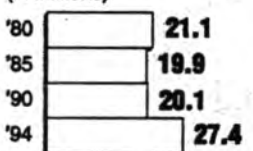


Food Stamps

Federal spending (in billions)

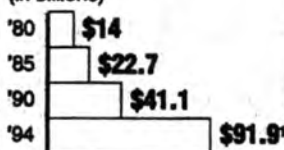


Recipients (in millions)

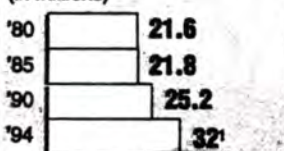


Medicaid

Federal spending (in billions)

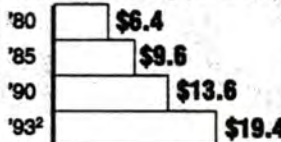


Participants (in millions)

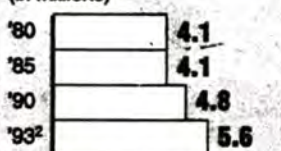


Supplemental Security Income

Federal spending (in billions)

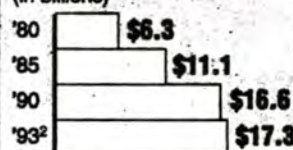


Participants (in millions)

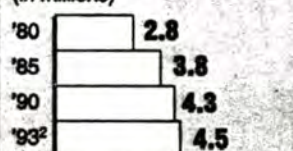


Public housing

Federal spending (in billions)

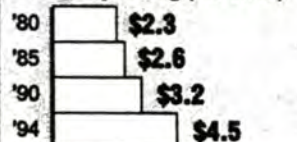


Households participating (in millions)

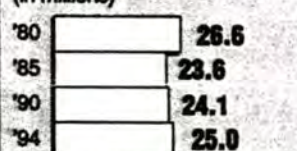


National School Lunch Program

Federal spending (in billions)



Participants (in millions)



Source: Department of Health and Human Services, Congressional Research Service, U.S. Census Bureau

1 - Estimate; 2 - Most recent year available

By Stephen Conley, USA TODAY

States lead way in putting parents back to work

By Patricia Edmonds
USA TODAY

As congressional Republicans draw their blueprints for welfare reform, they may borrow key elements from some pioneering state efforts.

Massachusetts, New Jersey and Wisconsin "really have been leaders" on welfare reform, says Doug Besharov of the conservative American Enterprise Institute.

Mark Greenberg of the liberal Center for Law and Social Policy agrees that state reforms generally have tried "to get more parents working," as proposed in sweeping welfare-reform legislation being promoted by the House Republican leadership.

But Greenberg worries that a na-

tional GOP plan would take reform farther — too far, in his view — and would end up forcing states "to cut assistance to poor families."

Among states whose welfare-reform efforts have caught congressional Republicans' eyes, Besharov and Greenberg mention:

► Massachusetts, where Gov. William Weld's plan shifted money into child care and health care, allowing tens of thousands of welfare-recipient parents to take jobs.

► New Jersey, where a "family cap" provision bars additional benefits to mothers who are on welfare for at least 10 months and have another child.

► Wisconsin, where a "Work Not Welfare" program requires able-bodied

adults to go to work, school or job training within 30 days of signing up for welfare benefits; and a "Learnfare" program requires parents ages 13-19 to attend school or lose part of their welfare payments.

► Illinois, where young mothers newly on Aid to Families with Dependent Children were assigned counselors to coach them through school and job training programs, and had their monthly benefits slashed if they failed to participate.

► Michigan, where a "social contract" requires welfare recipients to work, study or volunteer 20 hours a week to get full benefits; and where welfare families are encouraged to work by being allowed to keep more of their earnings, yet still qualify for

benefits.

► Florida, which set a 24-month limit on benefits.

Besharov suggests that "one reason Republican governors are doing so well" — leading 30 of the 50 states, after the last election — is that they're seriously addressing the issue.

Greenberg says any federal reforms should look at "what states have attempted to do, and help them do it."

But he worries that a federal law would add other restrictions, such as denying aid to any child for whom paternity had not been established; and requiring parents to work 35 hours a week to earn a grant amounting to about \$2.50 per hour worked.

► Reich's jobs proposal, 1A

THE PRESIDENT HAS SEEN
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In America

BOB HERBERT

At
Last,
A Truce

The cold war has ended. Governor-elect George Pataki and Mayor Rudolph Giuliani are going to sit down and talk. The blood feud, provoked by Mayor Giuliani's decision to cross party lines and endorse Mario Cuomo for re-election, is being put aside — at least for the time being.

Political egos being what they are, it took nearly a week to negotiate the cease-fire. The word began to filter out early yesterday:

"Something may happen soon," said a Pataki aide.

"We may have it resolved," said a voice from the Giuliani camp.

You might have thought they were talking about Grant and Lee at Appomattox.

However it was arranged, the agreement comes not a moment too soon. Mr. Pataki is on a working vacation in Florida, no doubt trying to figure out how to keep his promise to cut income taxes by 25 percent now that he knows the state will face a \$4 billion shortfall next year.

Mr. Giuliani is in City Hall, trying to close a billion-dollar budget gap right now. The Mayor's cuts are no longer surgical in nature. Most fat has already been removed. Each new cut is a ghastly gouging of services needed by New Yorkers — in some cases, desperately needed.

With both the city and the state in deep financial trouble, there was no time for a feud between the Mayor and the Governor-elect.

Ramon Cortines, the city's Schools Chancellor, was on the verge of tears Monday as he testified before the City Council about the latest cuts to hit the school system. "We are standing at the edge of an abyss," he said. "With each new round of cuts our footing grows more precarious."

Council leaders are fighting drastic budget cuts on a wide front. They are trying to prevent the elimination of city funding for mental retardation and substance abuse programs. They are trying to block the dismissal of civilians from the police force and prevent further cuts to the overburdened Department of Corrections.

Pataki and
Giuliani need
each other.

Youth programs are hemorrhaging. Programs that feed the hungry are hurting. And Comptroller Alan Hevesi contends that the city could face another shortfall, of \$400 million, before the end of the fiscal year.

The feud between Mr. Pataki and Mr. Giuliani had gone far beyond the usual antipathy between governors and mayors. Mr. Giuliani took an enormous gamble with his endorsement and he lost. It was inevitable that he would be punished. But there were other elements to the feud — big slights and little slights, some public, some private. And there was always the specter of U.S. Senator Alfonse D'Amato, Mr. Pataki's patron, hovering in the background. The feud was threatening to seriously interfere with the work of running the city and the state.

I once asked Dizzy Gillespie how close he had been to Charlie Parker. He replied, "How close are two coats of paint?" The same can be said about the interests of New York City and New York State. Each is dependent upon the other.

Mr. Giuliani's continuing budget problems cannot be worked out without the help of the state. Mr. Pataki's effort to cut taxes and streamline government haven't a prayer without the cooperation of the city.

The mutual interests go far beyond issues of budget and taxation. Mayors and governors have no choice but to work together in good faith on economic development, on transportation issues, on law and order.

(One example: As soon as a convict in New York City is sentenced to a year or more in jail, he goes into the state prison system.)

The links are endless. The city's health and social welfare systems are monitored and regulated by the state. And while there are many who are reluctant to admit it, the city is the dynamic force that gives the entire state its national and international stature.

"You can't separate the two," said a former state official. "Without a hand-in-glove kind of interaction, neither jurisdiction can be effective in achieving its objectives."

New York City is particularly vulnerable now because of the tax-cutting, anti-urban, anti-social welfare policies of the national Republican Party. Although Mr. Pataki and Mr. Giuliani are Republicans, they have an obligation to fight for the legitimate interests of city residents.

That can begin to happen when they finally sit down next week. It could have begun sooner, if either man's ego had allowed him to just pick up the telephone. □

Public & Private

ANNA QUINDLEN

Out of the
Hands of
Babes

Would you buy a rug if you knew that it had been woven in India by 10-year-olds beaten if they didn't work fast enough? Would you wear a shirt if it had been sewn by a 9-year-old locked into a factory in Bangladesh until production quotas for the day had been met? Would you eat sardines if the cans had been filled by 12-year-old Filipino children sold into bonded servitude?

The General Agreement on Tariffs and Trade, known as GATT, is the most sweeping free-trade pact in history. But like many agreements among different nations with different agendas, much has been lost in the translation. One of the losses in the GATT negotiations was the right of children not to be exploited, overworked and underpaid as a source of cheap and compliant labor around the world.

From the children who make carpets in India, sometimes 16 hours a day, seven days a week, to those who sew in Bangladesh for as little as five cents an hour, the International Labor Organization estimates that there may be as many as 200 million child laborers worldwide. Some are working in sweatshops that contract to make American goods. In testimony before the Senate earlier this year, a 15-year-old from Honduras told of girls working up to 80 hours a week at a factory manufacturing Liz Claiborne sweaters.

Child labor is the dirty little secret of foreign imports. Senator Tom Harkin, who wants to outlaw U.S. imports of all products made by children under age 15, says the problem is that Americans don't know that some of what they buy, including toys for their own kids, has been manufactured by children working the kind of hours, under the kind of conditions, that many still associate with the darkest days of the Industrial Revolution.

"You give me any cross-section of 100 Americans," says the Senator, "people from any income level, any area of the country, and I think the reaction would be overwhelmingly against buying the products."

Mr. Harkin is a voice crying in the wilderness, and the wilderness is the gilded thicket of free trade, thorny with U.S. concessions. Mr. Harkin's bill to keep products made with child labor out of the United States would probably be a violation of GATT, which provides only for those restrictions spelled out in the trade pact.

During various GATT negotiations, developing countries successfully argued against child labor provisions, insisting that children have always worked in their cultures, that to try to interfere with child labor is protectionist and punitive when a child may be the only wage-earner in a desperately poor family.

But the tradition of children helping on small farms and the innovation of locking them into a hotbox of a factory for 14 hours a day are worlds apart. The reason they may be the only wage-earner in some areas is because adult workers have

Child
labor,
free
trade.

been laid off in favor of children, who are infinitely more exploitable and provide bigger profits for prosperous factory owners. And nations that really want to compete in a global economy will educate their kids, not work them half to death before they've even reached puberty.

After the bad publicity of the Senate hearings, Liz Claiborne announced that it was ditching the Honduran contractor, then decided instead it would "work with the facility" to "meet our human rights standards." A few American companies have been ahead of the curve; Levi Strauss and Reebok, for instance, had already demanded that their contractors overseas hire only workers over age 14. In India a consortium of carpet makers has started an industry campaign that tags those products made without child labor. That's the least Americans deserve, some assurance that what they buy has not been manufactured by kids.

Amid attempts to protect elephants from ivory poachers and dolphins from tuna nets, the rights of children go remarkably unremarked. "This is the last vestige of slavery sanctioned in the world today," said Senator Harkin. If GATT passes, an opportunity to end these children's servitude will have been shunted aside for the alleged bonanza of free trade. But consumers can vote with their credit cards only if products are labeled. At the very least the slogan "Not Manufactured with Child Labor" should shame those companies not in a position to affix it to their products. □

THE PRESIDENT HAS SEEN 11/27

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Gay Officials Gather to Share Ideas

By DAVID W. DUNLAP

Special to The New York Times

SEATTLE, Nov. 21 — Like many colleagues in state capitols and city halls around the nation, the officials who met here over the weekend are concerned about race relations, religious conservatism and re-election.

But what brought about 60 of them together is what sets them apart: they are openly gay, a small but growing presence in local government. They gathered as they have each year since 1985.

"Who else do you talk to about your problems with your domestic partner — or, more like it, your domestic partner's problems with you?" asked David Scondras, a founder of the International Network of Lesbian and Gay Officials, which sponsors the conferences. Mr. Scondras served 10 years on the Boston City Council until his defeat last year.

And where else, these officials said, could they swap stories over what seems to be a national phenomenon: the preoccupation of the press with their homosexuality. They said it was most often reporters, not constituents or opponents, who brought up the issue.

Sherry D. Harris was elected to the Seattle City Council in 1991, becoming the first openly lesbian black woman to hold public office. "We used to have a joke in my campaign," she said. "'Sherry Harris, the lesbian' — was always how the news story started, no matter what it was about." And what her legislative agenda was about, she said, was transportation.

State Representative Gail Shibley of Portland, Ore., said that in commiserating with other gay officials, she could reassure herself that reporters were "not just picking on me and not just picking on Oregon — this defines who you are." She, too, said that transportation issues had defined her campaign.

While conference participants spoke of the need for stronger coalitions between gay organizations and groups favoring abortion rights or environmental protection, they acknowledged the wide gaps that have yet to be bridged within their own ranks.

"We live in a racist society," Ms. Harris said. "The same dynamic exists in the gay community."

Dorinda Henry, a legislative assistant to Ms. Harris, said she took exception to comparisons between the gay rights and earlier civil rights struggles. "As an African-American," she said, "many of my people have gone through much, much more than any gay white man has ever gone through."

Ron Simons, the editor of *Brother to Brother* Seattle, a monthly newsletter for black gay and bisexual men, told the officials that "one of the reasons people of color get marginalized and left out is because many fund-raising events come in at \$100 or \$200 or \$1,000 a shot," which they cannot afford.

Ms. Harris said that feelings of alienation had made it "very difficult" to enlist black constituents in the fight earlier this year to keep two initiatives opposing gay rights off the ballot in Washington.

The distance between some black leaders and some gay causes is one that religious conservatives have turned to political advantage.

The Rev. Louis P. Sheldon, chairman of the Traditional Values Coalition, a conservative church network, said "many of our black churches in Brooklyn were very active below the radar screen" in helping defeat Karen S. Burstein, who ran for Attorney General of New York State.

Pastors and congregations were told that "if this woman was elected Attorney General, it would be very precarious for conservative Christians," Mr. Sheldon said.

But Ms. Burstein's defeat was an

exception to the rule for openly gay candidates. The Gay and Lesbian Victory Fund, a political-action committee, said 17 of the 14 candidates it backed in the general election had won their races.

"It was far more hazardous to be an openly Democratic candidate than openly gay or lesbian," said William W. Waybourn, the fund's executive director, in a telephone interview. He said the number of openly gay public officials in the nation had grown by 9, to 216, out of a total of 475,000.

Open antagonism was not faced by every candidate, but Cal Anderson got a taste of it running for the State Senate after representing Seattle for seven years in the Washington House of Representatives. He said his Republican opponent, Mike Meenen, referred in a campaign appearance to Mr. Anderson's "perverted and deviant life style."

"I think it really did contribute to the fact that I got 81 percent of the vote," Mr. Anderson said. "A lot of people don't want to be associated with that kind of bigotry."

Other state legislators at the conference included Senator William P. Fitzpatrick of Rhode Island, Assemblywoman Deborah J. Glick of New York and Representatives Tammy Baldwin of Wisconsin, Karen Clark of Minnesota, and George V. Eighmey and Cynthia Wooten of Oregon.

Some city council members who attended were Thomas K. Duane of Manhattan, Tim O. Mains of Rochester, Bruce R. Williams of Takoma Park, Md., and John Heilman of West Hollywood, Calif., who will serve this year as Mayor. Tom Amiano, one of three openly gay candidates elected to the San Francisco Board of Supervisors this month, was also present.

Oregon voters elected five openly homosexual or bisexual Representatives, including a Republican, Chuck Carpenter. They also defeated a referendum to deny homosexuals status as a minority and, therefore, protection against discrimination in employment and housing. The initiative was advanced by Lon T. Mabon, chairman of the conservative Oregon Citizens Alliance.

"It doesn't surprise me that openly gay and lesbian candidates can win in Portland and Eugene," Mr. Mabon said by telephone. "From the standpoint of democracy, I could care less. If they can run and can win and the constituency doesn't see a problem, that's their business. But from my standpoint, I'm disturbed that they don't see a problem."

THE PRESIDENT HAS SEEN 11/27

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GOP Welfare Bill Would Deny Benefits to Millions, Report Says

By Barbara Vobejda
Washington Post Staff Writer

The welfare bill supported by Republican leaders in the House would deny benefits to millions of American children and families, causing increases in poverty, homelessness and hunger, according to a report released yesterday by an advocacy group for the poor.

The Center on Budget and Policy Priorities reported that if the legislation—known as the Personal Responsibility Act—were fully implemented today, 2.5 million families and at least 5 million children now getting benefits under the Aid to Families with Dependent Children (AFDC) program would be pushed off the rolls.

"These are sweeping changes in safety net programs," said Susan Steinmetz, director of welfare reform for the advocacy group. "The bill contains provisions that go far beyond

what people typically refer to as welfare reform."

In response, Republicans said the report overstated the negative effect of the legislation and failed to take into account other benefits that poor families would continue to receive, such as food stamps and Medicaid.

"It's exactly what we expect from people who lobby to give as much money to the poor as they can," said a Republican aide who did not want to be named. "Now Republicans are saying, 'No, we're going to stop this.'"

Despite disagreements about the specifics of the legislation, both sides are clear on this: The changes advocated by Republicans in the House are dramatic, affecting the most basic assumptions about the nation's social service programs.

While Democrats and advocates for the poor argue that the Republican proposal goes too

far, Republicans have said that many recipients do not deserve continued assistance.

"The existing system is terrible, everybody agrees," said Rep. James M. Talent (R-Mo.), who earlier this year proposed a welfare bill similar to the latest Republican version. "The defenders of the status quo are going to try to convince people that the only alternative is abandoning the poor."

"This is in no way punitive," said Rep. E. Clay Shaw Jr. (R-Fla.), who is in line to head the Ways and Means subcommittee responsible for welfare. "For those who want to improve themselves . . . they will see this as an opportunity."

Among the most significant changes advocated by Republicans would be to subject AFDC and the Supplemental Security Income program for the elderly and disabled to annual budget reviews under the discretionary spending accounts approved by Congress.

These programs are now entitlements, which guarantees that any American meeting the eligibility requirements will receive benefits, regardless of the total cost. Under the proposed change, families falling onto hard times during a recession may be denied benefits or be forced onto a waiting list for aid. Similar changes would apply to the school lunch and food stamp programs.

While President Clinton and other Democrats have also called for substantial overhaul of the welfare system, the bill backed by House Republicans, led by speaker-to-be Newt Gingrich, is much more restrictive than Democratic and previous Republican proposals.

It would cap spending on welfare programs, consolidate several nutrition programs, including food stamps and school lunches, into a block grant to the states, and limit assistance to five years. The bill would eliminate aid to young unwed mothers and deny additional ben-

efits to unwed mothers on welfare who bear another child.

It would deny benefits to children whose paternity has not been established. The bill would also eliminate aid for most immigrants, even documented aliens who have not become U.S. citizens.

Those provisions, said the report released yesterday, would mean that more than half the families receiving AFDC today would be denied benefits. Of the more than 14 million families now in the program, about 48 percent have received benefits for a total of five years, although not necessarily in one spell.

Also, paternity has not been established for nearly a third of children in the caseload.

Children denied benefits because their paternity has not been established, Republicans said, would still have access to their mother's benefits.



DONNA E. SHALALA
... links slow rise to low inflation

In Smallest Rise Since '86, Health Spending Was Up 7.8% in '93

By Spencer Rich
Washington Post Staff Writer

Health spending by Americans increased 7.8 percent last year, the smallest rise since 1986, Secretary of Health and Human Services Donna E. Shalala announced yesterday.

Americans spent \$884.2 billion on health services, about \$3,299 a person, she said.

Only a few years ago, the annual increases in nationwide health spending were in double digits. But whether last year's slowing rate of growth means that the nation has gotten control of what a Shalala predecessor once called "the health care inflation monster" is still unclear.

"No one knows whether the slowdown in cost growth can be sustained," said John Holahan, a health care policy analyst at the Urban Institute. "There is certainly evidence of near-term success, but whether it's permanent is a big unknown."

Shalala said that while the growth of health spending slowed from 8.6 percent in 1992 to 7.8 percent last year, the 1993 rise was still much higher than the national rate of inflation—2.7 percent—and greater than the growth of the gross domestic product (GDP).

However, Mike Bromberg, executive director of the Federation of American Health Systems, which helped defeat President Clinton's

proposals for cost controls for health spending, took a more optimistic view. He said the low growth figure demonstrates that "the market is working better and can work. And if we remove some barriers, the market can work even better."

"The problem of rising health costs is not over," he said, "but the latest figures are clearly a reflection of managed care trends," in which insurers and providers of medical care, competing for business, carefully monitor care and payments to reduce waste.

"Private expenditures are slowing for two reasons," Holahan said.

One is that fewer people are cov-

ered by health insurance each year, so they and the insurers are spending less, he said.

The second is that the private sector has been "successful in controlling costs" through such managed care methods as "negotiating contracts with doctors and hospitals" to provide services at specified discounts or fee schedules.

Shalala said, "Slow growth in health spending appears to result more from very low inflation in the rest of the economy than from any permanent changes in the health sector." In 1986, the growth rate of health outlays slowed to 7.2 percent, only to rise to near double that

a few years later. The 1993 rise of 7.8 percent is still "2.4 percentage points" higher than the growth of the GDP, she said, and the U.S. now spends 13.9 percent of GDP on health, by far the highest figure for any developed nation.

The report released by Shalala yesterday shows that the federal government, which paid 31.7 percent of the nation's health care bill, "was the fastest-growing payer of health care." Reversing the pattern of a decade, said Medicare-Medicaid administrator Bruce C. Vladeck, "Medicare outlays per enrollee grew more rapidly than private insurance in 1992 and 1993."

THE PRESIDENT HAS SEEN

WEDNESDAY, NOVEMBER 23, 1994 THE WASHINGTON POST

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Gingrich's Life: The Complications and Ideals

By KATHARINE Q. SEELYE
Special to The New York Times **A1**

WASHINGTON, Nov. 23 — It was September 1942 when 16-year-old Kathleen Daugherty married Newton C. McPherson Jr., a 19-year-old mechanic in a small town in Pennsylvania. In three days, the marriage fell apart; nine months later, she gave birth to a baby boy, whom she named Newton Leroy.

When Kathleen remarried three years later, her new husband, Robert B. Gingrich, an Army artillery officer, adopted her son.

Today, the boy, Newt Gingrich, is on the verge of becoming the Speaker of the House and next in the line of succession for the Presidency after the Vice President.

He says he wants to do nothing less than to save American civilization with a renewal of family values.

But while he often refers to an idealized American family life with Ozzie-and-Harriet mores, Mr. Gingrich has made it clear he did not have such an upbringing himself. As he told *The New York Times* in the spring: "I'm not sitting here as someone who is unfamiliar with the late 20th century."

He was born fatherless to a teenage mother. He married against his adoptive father's wishes and later underwent a bitter divorce. While promoting family values, he remains close to a daughter who vocally supports abortion rights and a half-sister who is gay. As he has said, "I know life can be complicated."

Kathleen Gingrich, now 68, said that when she was 16, her father was killed in a car accident. He had been the stabilizing influence in her family, she said, and when he was gone, she turned to Mr. McPherson, whom she had known only briefly. "I never should have gotten married to start," she said in a telephone interview from her home in Dauphin, a small town near Harrisburg, Pa.

Her new husband stayed out late at the pool hall one night, she said, and when she tried to wake him in the morning to go to work, "he got mad and he hauled off and hit me. It was the only time, believe me."

"We were married on a Saturday, and I left him on a Tuesday," she said. "I got Newtie in those three days."

She was not working at the time and could not support herself, so she moved in with her mother, a school teacher.

Newt grew up under the tutelage of his maternal grandmother, with whom he shared a bedroom and who stayed with them after Kathleen remarried. His grandmother taught him to read, which he does voraciously to this day. (For his part, said his mother, he put snakes in jars on the night stand between their beds and scared his grandmother out of her wits.)

After the war, his biological father, who had been in the Navy, eventually remarried and had two other children. Young Newt retained some relationship with him and was with him when he died at age 48 of lung cancer.

Complex Bonds Of Father and Son

His mother went on to have three daughters with Bob Gingrich. Kathleen Gingrich summed up the relationship between her son and husband by saying, "Newtie is a talker; Bob is not." She said her husband preferred doing crossword puzzles.

One of Mr. Gingrich's closest friends, former Representative Vin Weber, said the father-son relationship was complex. "On one hand, there is a side of Newt that is brash, disrespectful of authority and certainly willing to challenge authority, but on the other hand, he really does value father relationships if they can begin to develop," he said.

"I found his relationship with Michel was more complicated than people thought," Mr. Weber added, referring to Representative Bob Michel, the House Republican leader who is retiring this year and whose calm, courtly style differed in every way from the confrontational style of the younger Mr. Gingrich, the minority whip. "Newt challenged him and made life tough for him, but I felt he wanted Michel to like him, at times more than I thought was appropriate. Newt was bending over backwards to try to get his approval. I think that is related somehow to something that was missing before."

Mr. Gingrich, who declined to be interviewed for this article, once told a reporter that he could not finish Pat Conroy's novel "The Great Santini," which was about a boy's struggle to prove himself to his father, who was an overbearing military officer. "His father seemed like a cold, austere kind of person," a former political associate, L. H. (Kip) Carter, said of Mr. Gingrich's view of his adoptive father. "He's felt abandoned his whole life."

Kathleen Gingrich said that of the myriad photographs that have appeared lately of her son, the only one her husband wants to frame is the Nov. 7 cover of *Time*. It shows a snarling Newt with his mouth agape and the cover line: "Mad As Hell."

At the same time, the young Mr. Gingrich developed an deep attachment to animals. His grandmother once gave him a leather jacket that he painted with white stripes so he could look like a zebra, said his half-sister, Roberta. When he was 11, he was flying alone from Fort Riley in Kansas to Harrisburg and was late getting home. It turned out he got off the plane in Chicago and took a taxi to the zoo. Another time, he told his mother he was going to the library in Harrisburg and went instead to the Mayor's office to plead for a zoo.

To this day, his office in the Capitol is adorned with models of prehistoric creatures. In 1990, he sent nearly half of his \$67,000 in honorariums from speeches to the Atlanta Zoo. Last year, he sent \$15,000 to the Atlanta Zoo to buy a pair of rare Komodo dragons.

Proud of Being An Army Brat

The Speaker-to-be is also consumed with things military, and he often closes his speeches with bursts of patriotism and a reference to his stepfather's military career. He practically boasts of growing up as an Army brat, a rootless existence that started near Harrisburg and included stints in France, Germany and Fort Benning, Ga. Today he counts two generals — Dwight D. Eisenhower and George Marshall — among his top three heroes (Franklin D. Roosevelt is the third).

He often points to a visit in 1958, when he was 15, with his adoptive father to Verdun, the bloodiest battlefield of World War I, and its warehouse collection of bones, as the seminal moment in his political coming of age.

"It is the driving force which pushed me into history and politics, and molded my life," he wrote in his 1984 political manifesto, "Window of Opportunity."

The next day, he supposedly told his family he would run for Congress because politicians could prevent such madness.

The sense that he might save civilization seems to drive him still. "People like me," he said last year, "are what stand between us and Auschwitz."

Despite his interest in the military, Mr. Gingrich opted out of the service himself, taking student and marriage deferments during the Vietnam War. Although he opposed the war, he was not vocal about it.

Early Years As a Liberal

But he was something of a liberal. As a graduate student in history at Tulane University, he led a protest against the school administration for trying to censor pictures of nudes from the student newspaper. He also helped to coordinate Nelson A. Rockefeller's 1968 Presidential campaign in Louisiana.

As a young history teacher with a Ph.D. at West Georgia College in Carrollton, Ga., he started a program in environmental studies and taught a course about the future.

But after he lost two races for the House in 1974 and 1976, he determined that he could get elected only by moving further right. Many who knew him in that period attribute his adoption of a conservative agenda and his exploitation of "family values" to his political ambition, not to a belief, at least at that time, in core conservative values.

"When I first knew him in the 70's, when I was on the Atlanta Constitution's liberal editorial board, and we were looking for a liberal to get behind, we chose to endorse Newt Gingrich because we thought he was progressive and thought he was, to use the terrible L word, liberal," said Bill Shipp, who now writes a newsletter on Georgia politics.

"Why did he switch?" Mr. Shipp said. "Public opinion polls, what do you think? Liberal went out, conser-

212

vative came in."

Richard Dangle, who was dean of arts and sciences at West Georgia when Mr. Gingrich taught there, said that as a "middle-of-the-road Democrat," he supported Mr. Gingrich because he was "bright, young, reasonable and rational." Then, Mr. Gingrich moved to the right. "He said he had grown," Mr. Dangle said. "I think his motivation was ambition and the need for power."

James T. Gay, who still teaches history at the college, said: "I'm not certain whether he has principles. He reads polls a lot and adjusts to them."

His former minister, Rev. Brantley Harwell, said: "He saw that swinging to the right as Reagan did was the way to get to the goal he wanted, which was Speaker. He sees what will help him; whether he believes it or not, he uses it."

Like his mother, Mr. Gingrich was raised Lutheran (his stepfather was Pennsylvania Dutch), but as he laid the groundwork for his political career in Georgia, he became a Southern Baptist.

"People who know him know there's a difference between what he projects and who he is," said Kip Carter, the former friend, "though it's hard to know who he is anymore. He's a moderate when that's helpful, he's right wing when that's helpful, he's bipartisan when that's helpful. Whatever it takes for power, that's what he'll do."

But Mr. Weber said: "Everyone goes through a political metamorphosis. You can portray him as opportunistic or as flexible, depending on if you want to be complimentary. But it's a combination, and that's true for all politicians."

When Mr. Gingrich finally won an open Congressional seat in 1978, he ran a brutal campaign against his Democratic opponent, State Senator Virginia Shepard, who he said did not have "family values." If elected, Mrs. Shepard intended to commute between Washington and Georgia and leave her children in the care of a nanny. Mr. Gingrich ran a television commercial accusing her of breaking up her family while Mr. Gingrich would keep his family together.

Mr. Gingrich won, but it was his family that broke up.

Bitter History Of a Divorce

His divorce from his first wife, Jackie, has become part of the Gingrich lore and has been routinely resurrected by political opponents.

His first wife, Jackie Battley, was his high school geometry teacher and seven years his senior. After high school, as a freshman at Emory University in Atlanta, he pursued her, despite what his mother describes as her husband's disapproval because of the age difference. They married in June 1962 when he was 19, with his family boycotting the ceremony. Kathleen Gingrich said that since her husband would not attend, she and her daughters would not either.

Jackie Gingrich followed her husband to Tulane and, back in Georgia, worked doggedly on his campaigns. After his election in 1978, they moved to Washington, but separated shortly thereafter. By the end of his first term, he had filed for divorce.

His wife, who had started treatments for uterine cancer in 1978

underwent surgery in 1980. A day after the operation, Mr. Gingrich came to the hospital. Since they had already separated, he called her room to see if he could come up. Once there, according to friends who knew them both, he began talking about the terms of the divorce. She has said that she threw him out of the room. In a few months they were divorced, and in 1981 he married his current wife, Marianne. The Jackie Gingrich, who still teaches high school math, declined to be interviewed for this article.

A few weeks before Mr. Gingrich filed for divorce, he called his political aide and friend Mr. Carter to talk about his marriage. Mr. Carter said he and other friends had been worried that the marriage was falling apart. Mr. Gingrich told him why he wanted a divorce. "He said: 'She's not young enough or pretty enough to be the wife of a President. And besides, she has cancer.' It sounds harsh and hokey, but anyone who knows him knows it's perfectly consistent with the kinds of things he says."

Mr. Gingrich has adamantly denied saying any such thing. His supporters dismiss Mr. Carter as a disgruntled former aide who was miffed at not being asked to accompany Mr. Gingrich when he moved to Washington.

Mr. Gingrich was supposed to pay \$150 a month for each of his daughters and \$400 in alimony to his ex-wife, the same amount he had allotted himself for "food/dry cleaning, etc." But a few months later, Jackie Gingrich filed court papers saying he had not provided reasonable support for her living expenses and that some of her accounts were "two or three months past due." Some of her friends took up an informal collection on her behalf. The court raised the child support to \$200 a month a daughter and \$1,000 in alimony.

Political Points And Private Life

In an 1984 article in Mother Jones, which detailed Mr. Gingrich's private life, he was asked whether his private life had been consistent with what he said in public.

"No," Mr. Gingrich was quoted as telling the magazine. "In fact I think they were sufficiently inconsistent that at one point in 1979 and 1980, I began to quit saying them in public. One of the reasons I ended up getting a divorce was that if I was disintegrating enough as a person that I could not say those things, then I needed to get my life straight, not quit saying them."

"And I think that literally was the crisis I came to. I guess I look back on it a little bit like somebody who's in Alcoholics Anonymous. It was a very, very bad period of my life, and it had been getting steadily worse. 'I ultimately wound up at a point where probably suicide or going insane or divorce were the last three options.'"

In 1992, his Democratic opponent, Tony Center, ran a television advertisement against Mr. Gingrich that said — erroneously — that Mr. Gingrich "delivered divorce papers to his wife the day after her cancer operation." It went on to say that Mr. Gingrich had "left his wife and child penniless" while using a Lincoln Continental limousine and driver as one of the perks of his position as minority whip.

Gingrich's younger daughter, Jackie Gingrich Zyla, who is 28, to volunteer to make an advertisement defending her father.

"My dad has always stood behind and supported me and my sister in everything we have done," she said. "We care about our father, and he cares about us."

In an interview in 1992 with The New York Times, Mr. Gingrich, who has proved to be one of the most ferocious competitors in politics, said he was so disgusted with Mr. Center's attack on his family life that he considered quitting the race.

"This filth is so sickening," he said. "If survival in public life means this level of degradation, I don't want to be part of it."

Last year, Jackie Gingrich was back in court saying that her former husband had failed to keep up payments on a \$100,000 life-insurance policy. He subsequently increased his alimony payments to \$1,300 a month, in accordance with his increase in salary, in exchange for a promise that she would not take him to court again.

Mr. Gingrich's supporters say he continues to have a strong and close relationship with his daughters. Both declined to be interviewed for this article. His older daughter, Kathy, made news in 1992 when she came to Washington to participate in a news conference staged by the National Republican Coalition for Choice. She said the Republicans would never attract young people unless it could "throw off the stranglehold that the anti-choice movement has on the apparatus of the party." Both she and her father, who opposes abortion, said their family was strong enough to have their differences and remain close.

The same is true with his siblings. His youngest half-sister, Candy, 28, is gay. He has made numerous pronouncements about homosexuality, including comparing it to alcoholism. But as he told The New York Times earlier this year, "Our position should be toleration. It should not be promotion, and it should not be condemnation."

Last year, he said he had "no strong position" against President Clinton's proposal to lift the ban on gays in the military. Nonetheless, when it became a polarizing public issue, Mr. Gingrich said he had talked with members of the Joint Chiefs of Staff and decided to support the ban. "Unlike the commander in chief, who has changed his position somewhat," Mr. Gingrich said of Mr. Clinton, "I am sticking with my military advisers."

Those close to him say that if Mr. Gingrich's public pronouncements about family values are not mirrored precisely in his private life, it does not matter.

"He believes in family values," said his half-sister, Roberta. "And that's a goal. I don't think it takes away from him that he's not there."

"I'm surprised some of the press is demanding of him that he be his vision," she added. "I don't think anyone is. I think it's to his credit that he aspires to be better than he is."

Mr. Weber, one of his closest friends, said Mr. Gingrich did not try to square family values with his own life. "I haven't heard him try to make any rationalization," Mr. Weber said. "I think he has a deep intellectual commitment to the notion that values matter and that the country faces almost a crisis because of the damage that's been done."

Gingrich Favors 'Toleration' Of Gays by Republican Party

'I Don't Want to See Police in the Men's Room,' He Says

Associated Press

Homosexuality is an orientation "like alcoholism is an orientation," House speaker-to-be Newt Gingrich says in an interview to be published in a gay newspaper. The Republican Party's position, he says, should be "toleration."

"I think that on most things most days, the vast majority of practicing homosexuals are good citizens," the Georgia Republican said in an interview to be published in Friday's edition of the Washington Blade. "So why would you then say that, of all the different groups you can pick on, this is the one group you're going to single out?"

Gingrich was interviewed April 16, seven months before the GOP won control of Congress and he moved into line to be the next House speaker.

He spoke to Chandler Burr, a freelance writer who was working on a profile of Rep. Steve Gunderson (R-Wis.) for the New York Times Magazine. Gunderson has been in a long-term relationship with another man but declines to answer the question of whether he is gay.

Gingrich, who is a friend of both Gunderson and his partner, said the Republican Party's position on homosexuality "should be toleration."

"It should not be promotion and it should not be condemnation. I don't want to see police in the men's room, which we had when I was a child, and I don't want to see trying to educate kindergartners in understanding gay couples."

Gingrich's comments to the Washington Blade echo what he has said in other forums about homosexuality. He also said he has no trouble being friends or working with homosexuals. In fact, one of his younger sisters is gay.

Candace Gingrich, 28, said her sexual orientation is not a secret, but she has not previously discussed it publicly. She told the Associated Press that her brother's response was that "I have every right to live my life the way I want to."

Gingrich told the Blade that the Republican Party and society are moving toward the position that "consenting adults can have private



ASSOCIATED PRESS

"On most things most days, the vast majority of practicing homosexuals are good citizens," Gingrich, shown speaking to GOP governors, told interviewer.

relations without in any way the political system being involved." But he called it "madness" to suggest that families are anything other than heterosexual couples.

"Over time, we want to have an explicit bias in favor of heterosexual marriage," Gingrich said. "If you look at the pathologies and weaknesses of America today, re-establishing the centrality of marriage and of the role of a male and female in that relationship is a very central issue of the next 20 years."

Yesterday, a gay Republican group pointed to Gingrich's "Contract With America" as evidence that the GOP is moving away from the far-right social agenda that has historically repelled gay voters.

"Among all minority groups, the gay vote showed the greatest shift

toward the GOP in 1994," said Rich Tafel, executive director of the Log Cabin Republicans. "This demonstrates that gay voters will vote Republican when the party focuses on the core issues of economics and crime, and does not engage in gay-bashing."

Gingrich volunteered in the interview that he believes homosexuality is "an orientation in the way that alcoholism is an orientation."

Asked whether he thought it was a pathology, he said no, but then compared it to nearsightedness.

"If you're asking me do I believe there are very many people who are compelled to that lifestyle, I think the answer is basically no," he said. "I think there's a bias in that direction . . . just like there's a bias towards lots of behaviors."

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THE PRESIDENT HAS SEEN

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THE WHITE HOUSE
WASHINGTON

THE PRESIDENT HAS SEEN ^{11/27}

November 25, 1994

NOV 25 5:53

MEMORANDUM FOR THE PRESIDENT

FROM: BRUCE REED
MICHAEL WALDMAN
BILL GALSTON
PAUL WEINSTEIN
ELAINE KAMARCK

THROUGH: JACK QUINN
CAROL RASCO
ROBERT RUBIN

SUBJECT: Political and Governmental Reform

Agree in the

concept

details matter

*Need agenda
time to discuss*

*That should make sense
Do ~~some~~ lot of the lifting*

Attached for your review is a memorandum outlining options for a political and governmental reform program.

Our goal is to have a bold, coherent and plausible reform agenda, as an integral component of your overall strategy. This agenda could be included as part of a major address in December, if you decide to give one, or in your State of the Union address. As you can see, some of the proposals are conceptually "ready to go," and primarily need a political decision whether to go forward. Others require further work, as part of the budget process or in other appropriate fora.

It is clear that, to break through public cynicism and allow you to retake the mantle of reformer, this program must be both responsible and dramatic. Finding the right mix is the most significant task we now face.

We have a one-hour meeting scheduled for next Tuesday to discuss this with you.

Attachment

cc: George Stephanopoulos

POLITICAL, CONGRESSIONAL, AND GOVERNMENT REFORM

The collapse of public trust in the institutions of government is the fundamental political fact of our time. After two decades of growing disillusionment, this break between the people in office and the people who put them there dominates every aspect of American politics, from the noisy bombast of talk shows to the silence of empty voting booths.

Voters believed that Bill Clinton understood this situation, and would act to rectify it. But for all of our efforts over the past two years, the public is still disillusioned, more embittered than it was in November 1992.

Our reform agenda should do battle on two fronts:

- Shifting power back to the American people and cleaning up Washington, through: campaign reform that requires broadcasters to provide free time to candidates; a "citizen frank" that lets citizens contact Congress for free; a sweeping effort to produce a leaner, cleaner Congress (lobby reform, a gift ban, applying private sector laws to Congress, a 25% staff cut, reducing unnecessary reports, and a pay freeze until the budget is balanced); and perhaps insisting that any term limits not grandfather current members; and
- Launching a renewed government reform program, through: reducing special interest subsidies; the elimination of one or more departments; faster downsizing of the federal workforce; and initiatives on civil service reform, privatization, devolution, state flexibility, and regulatory reform.

We need to address the role of government and, to use your words, to "repair the damaged bond between the people and their government." Then, toward achieving those objectives, you could propose specific measures from sections I and II from this memo.

I. Giving Government Back to the People

1. Free TV Time for Candidates. A campaign reform bill with public funding will not pass the new Congress. Instead, we should press for the changes the President called for in his campaign -- free TV time for candidates who abide by spending limits, a \$1,000 limit on PAC donations or outright PAC ban, a ban on campaign contributions from lobbyists to the lawmakers they contact, and our soft money reforms from last year. Free TV time has strong public support. Over the years, it has also been endorsed by Bob Dole and Ross Perot. The idea would prompt a major battle with the broadcasting industry and its champions in Congress. And a campaign reform push would put the congressional GOP on the spot.

2. Eliminate the Congressional Frank, and Give It to the American People.

The frank is one of the most entrenched and abused symbols of incumbency. We could propose to drastically limit it for Congress and give it to the American people instead. Any individual who wants to send a letter to their Congressman or Senator would be able to do so for free. Members of Congress could use the frank to answer letters, but not for unsolicited mailings. Postcards, letters from organizations, and letters from another district or state would not be eligible. The citizens' frank could also be applied to letters to the White House.

3. A Leaner, Cleaner Congress. We should propose a comprehensive congressional reform package that presses for major changes in the way Congress does business:

a. Lobby Reform and Gift Ban. We should demand that Congress pass a gift ban and a back-to-basics lobby reform bill as soon as they return. The Republicans raised several bogus objections to the lobby reform bill in the waning days; we should call their bluff, accept those changes if necessary, and pass the bill on a bipartisan basis.

b. Apply Laws to Congress. Legislation applying a host of laws to Congress passed the House but not the Senate this past Congress. We should press Congress to pass it immediately.

c. Insist on Line-Item Veto. The Republican Contract includes a strong version of the line-item veto. We should support it, and insist that it become effectively immediately, not in some future Presidency. (Their version does not specify an effective date.)

d. Endorse Congressional Staff Cuts. In the campaign, the President promised not only to cut the White House staff by 25%, but to challenge Congress to do the same. We could praise Republicans for doing this, but we need to consider the effect of doing this on our Democrats.

e. Reduce Congressionally Mandated Reports. Since 1970, the number of reports mandated by Congress has grown from 700 to 5,300. Many of these reports consume the agencies' time and the taxpayers' dollars for the members' gain; most just gather dust. We could introduce legislation to reduce or eliminate such reports. In Arkansas, the President ordered a complete review of every report produced by the Department of Education, and got rid of those no one read.

f. Freeze Congressional and Presidential Pay Until the Budget Is Balanced. The NEC is preparing another memo on our strategy for the Balanced Budget Amendment. One position we can take in any event is to insist that if we're going to make significant spending cuts to reduce the deficit, public officials should lead by example. The American people don't get a guaranteed cost-of-living increase. Why should their leaders? A performance-based freeze on Congressional and

Presidential pay is a responsible, common-sense alternative to plans to "cut their pay and send them home."

4. Term Limits. Republicans pledge to bring to a vote a constitutional amendment limiting congressional terms to 12 years, but they would grandfather-in existing Members of Congress. Beyond principled opposition, we can respond in two ways:

a. Call Their Bluff. We could demand that the 12-year limit on service apply immediately (or by a date certain, such as 1996), and thereby affect sitting members of Congress; and/or

b. Let the States Decide. We could support a constitutional amendment to allow states to vote to apply term limits to their own federal representatives. This would be consistent with our legal position that state-mandated term limits are unconstitutional.

II. Renewed Government Reform Program

Unlike the Republicans, our goal is not cutting government for its own sake, but using government for things it can do well and getting it out of the business of things it does badly. As the President has said, we want to cut spending on yesterday's programs and deliver a government that can deal with tomorrow's problems. We should eliminate governmental functions that have outlived the purpose for which they were created. When a state or local government can do a better job, we should give them more authority and control, not new mandates. And when a government function could be done as well or better by the private sector, we should find a way to make it possible.

Such decisions are difficult and far-reaching, and should generally be made in the budget process, where the tradeoffs are fully clear. But it is essential that as we go through that process, we look for bold, compelling ways to dramatize what we're doing. In the first two years, we have made great strides in reinventing government, reducing the deficit, and downsizing the federal workforce. But public cynicism about government is so high that it may well take more visible, dramatic steps to break through. The following ideas are meant to illustrate such an approach.

1. Cutting Special Interest Tax Expenditures or Subsidies.

This cut-and-invest strategy, proposed by Rob Shapiro, would give us the high ground of insisting that a middle-class tax cut be fully paid for, and enable us to do so with cuts that would otherwise be off the table for deficit reduction or new investment. Alternatively, this money could be dedicated toward an education trust fund, deficit reduction, or some other worthy purpose.

Like all other means of creating resources within the budget, Rob's strategy involves difficult decisions that are likely to be hotly contested. An example of a few ideas, or partial ideas that could be considered are:

* Reduce deductibility of advertising expenses	\$17.5 billion
* Cut Energy Supply, R&D grants	\$ 6.9 billion
* Reduce government subsidies to private utilities (REA, BPA, nuclear)	\$ 3.6 billion
* Make industries pay for services government provides (market rates for water sales, inland waterways, nuclear waste disposal, CFTC, FDIC, poultry)	\$10.2 billion
TOTAL	\$38.20 billion

2. **Eliminating One or More Departments.** We could seize back the initiative in the debate over downsizing government by proposing to abolish one or more departments. The drama of eliminating a whole department far exceeds the impact of cutting numerous smaller programs. This is no easy task, and only makes sense if it could produce real budgetary and FTE savings. But we believe it is worth a careful look. *ag*

3. **Faster Downsizing.** NPR and OMB are preparing legislation to repeal FTE floors in existing appropriations bills, and ban the use of FTE floors in future bills. This could be coupled with a Presidential vow to veto future appropriations bills that limit our ability to downsize. We should also consider directing agencies to accelerate the mandated downsizing of the workforce to accomplish its objectives by 1996 instead of 1999. The current track will bring the workforce under 2 million by late 1996. To illustrate that downsizing the bureaucracy is one of this Administration's signature achievements, we should start a Bureaucracy Clock (in a prominent place like Times Square) that would track our progress. It may also be possible to accelerate downsizing by allowing early retirement without buyouts; we are looking at the cost of legislation once proposed by Roth that would give 500,000 federal employees the ability to retire early.

4. **Privatization.** A New Democratic approach to privatization would be based on a set of principles which focused on privatization not as a means to run the government but as a means to get the government out of

a) obsolete businesses such as: United States Enrichment Corporation, Sallie Mae, the Helium reserve, Alaska Power, some Department of Energy labs, etc;

b) programs that are viable private sector activities, such as: the Air Traffic Control System (an NPR recommendation that DOT is anxious to pursue), Amtrak, the Export-Import Bank, and the Overseas Private Investment Corporation (In the same vein: a number of DOD non-core missions could be privatized, but current law prevents this step.)

William what

*I would want
to grow this
company - 1975
Cap. \$100M to 100M
well*

5. **Devolution.** NPR and OMB are looking at a number of federal categorical programs that could be devolved down to the state and local level, such as: public housing programs, trade and export promotion, economic development, and perhaps job training. We are also preparing initiatives on unfunded mandates, waivers, and state flexibility. A package of initiatives could be announced at the NGA meeting in late January.

6. **Civil Service Reform.** NPR is preparing a sweeping civil service reform bill that will reduce the number of job classifications and give federal managers the right to hire and fire federal workers. Negotiations with unions and management are under way; the bill will be ready to introduce in January.

7. **Regulatory Overhaul.** There is considerable concern in the public and in the business community that the current regulatory process is too intrusive and too costly. As chair of the Regulatory Advisory Group, the Vice President is setting up a process whereby each member would convene a seminar to explore innovative approaches to regulatory reform. This process would then yield a set of less bureaucratic proposals to reform our regulatory apparatus.

↳ subversion?

→ By whom?

THE PRESIDENT HAS SEEN

NOV 22 1994

TO: Leon Panetta

FR: Marcia Hale *MH*

RE: Meetings with Governors

DT: November 21, 1994

P - Give to Pans

I think it is very important that the concerns expressed by the Democratic Governors this weekend are addressed in a timely fashion.

The Governors have both policy and process suggestions and much of their advice is well worth heeding. We have an opportunity to work with them, as well as the Republican Governors, on many of the issues that the Congress will debate in the upcoming months. The Democratic Governors are looking for direction from the White House. Several of them expressed their frustration at watching the four Republican Governors (Wilson, Weld, Whitman, and Thompson) outline an agenda that they believe rightly belongs to the President on Sunday's "Meet the Press".

The President agrees with the Governors on some of the issues under debate and we will miss an important political opportunity should we fail to swiftly capitalize on these agreements. In the same light, we should also determine our areas of disagreement and propose alternatives -- or make a conscious decision to remain silent.

I am not certain from my conversations around here that others are aware of how strongly the Democratic and Republican Governors feel about the need for a shift of power to the states. As is often the case, we have a particularly Washington and Congressional view of our political predicament. As was stated at the DGA meeting on Saturday, we can either lead this parade in a responsible fashion, or we can get trampled in the process.

My thoughts on how to work with the Governors are outlined below:

I. Process

The Governors find many of the agencies disconnected from the White House -- both politically and substantively. Many of them have complaints about particular Departments and Secretaries. I will not elaborate here, but will tell you the complaints center on EPA, Interior, and HHS.

In response to this, I have already begun contacting the Governors for more specific information and to offer my assistance in addressing their concerns. I have

outlined the three areas in which their problems will fall: 1) regulatory areas, where we cannot interfere, 2) agency initiatives, where the Department is responding to what they believe is White House direction and, 3) Agency initiatives of which the White House is unaware and that we will need to determine whether or not we can intervene.

After receiving these lists, assuming that we think a couple of Agency meetings are warranted, I would like to coordinate the appropriate White House meetings to determine whether or not we can be more responsive to the Governors.

Waivers

Almost every Governor has a welfare or health care waiver pending before the Administration. We have issued far more waivers than previous Administrations --- and received little credit for them, in many cases due to the protracted process. In the near future, we should review the waivers before us and decide our strategy for granting them. Both Governor Bayh and Weld have Welfare Reform waivers pending (for many months). If there is a substantive reason we cannot grant them the waiver, we should let them know. They both feel that it is only government bureaucracy that is keeping them from having their waiver granted.

As you know, we have put together information books on many of the states. Included in each of these are the top issues (waivers) and requests from the elected officials. It would be very helpful if we share this information where appropriate and work to resolve some of these issues.

Why not now!

2) Policy

Prior to the Greenbriar meeting we offered to meet with a bi-partisan delegation of Governors on Health Care and Welfare Reform on December 8, at the White House. This meeting could be extremely important to us in fashioning Welfare Reform legislation that can serve as a vehicle for a bi-partisan bill more acceptable to us than what is presently being discussed by Republicans on the Hill. While the Republican Governors have differences with us, there is considerable common ground and we should explore our areas of agreement.

I will convene the meeting and Carol Rasco and Bob Rubin are scheduled to discuss the issues. The Governors are not expecting to meet with the President, although a drop-by would be very helpful. I think it is important for you to attend this meeting.

In addition, Governor Dean has requested that we discuss the Balanced Budget Amendment and the inclusion of unfunded mandate language in that amendment. I agree with Governor Dean that we should expand the meeting to include this topic.

This will be our only chance to meet directly with Republican Governors before the Congress convenes to vote on the Amendment. Again, I believe we have much in common with the Governors on this subject, however, the tone we set at this meeting is almost as important as the substance.

I think that it would be helpful if the President were to call one or two of the Republican Governors (Thompson, Weld, Leavitt) before they come to Washington. They are meeting with Dole and Gingrich today, and I think sending them a signal would help us communicate the message that we are willing to work with the Republicans where we have common interests. If you agree that a phone call from the President is a positive step, I will do any advance work necessary to make sure he is calling a Governor receptive to working with us on these issues.

As 20 I
The Democratic Governors have asked for a separate meeting after the one described above. They are not requesting that the President be present, although I am sure they would appreciate talking with him. Harold has told me that he has suggested that the President have a small (perhaps dinner) meeting with 5-6 Democratic Governors so that they have the opportunity to talk with him. I also endorse this idea, but recognize that his time is limited. Many of the Governors will be in Washington December 5-7 and whatever we do with the Democratic Governors should be done in that time frame, if at all possible.

I think we have an opportunity to work with both the Democratic and Republican Governors on many of the issues about which the President cares. Forming a coalition with them could help us considerably on the Hill and improve our chances of receiving legislation which the President supports and can sign. I feel strongly that we will lose this opportunity if we do not meet with the Governors before the Congress convenes in January.

Please let me know what you think about these ideas.

cc: Harold Ickes
Erskine Bowles

P.S. Governor Nelson has a call into you. I have spoken with him and know that he is calling for two reasons. He wants to talk with you, Rubin, and Rasco about health care, and he wants to talk with you about a proposal that he and Governor Leavitt have been working on for a Federalism summit. Before you return the call, I should give you some background on Governor Nelson and these issues.

THE PRESIDENT HAS SEEN "1/27

CS
VP/Hec
BT
30