THE WHITE HOUSE

WASHINGTON

December 16, 1994

Anthony C. Huntley, Ph.D.
813 East Francisquito Avenue
West Covina, California 91790

Dear Dr. Huntley:

I was sorry to hear about the loss of your mother, and my heart goes out to you and William.

Your mother upheld the honorable tradition of military service, and I'm glad that my staff was able to ensure that her wish was fulfilled.

Thank you for your kind words of support.

Sincerely,

Bill Clinton

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

Dear Mr. President,

I am writing to thank you for a recent consideration I and my family received through the Agency Liaison Office at the White House. On October 16 my mother died, suddenly and unexpectedly. Although she was 73 years old, she was in incredible health. She was a nurse, and still worked at a local hospital. Judging from her endless supply of energy and love most people thought her to be much younger.

In the horrible confusion that occurs following a death such as this, we were confronted by numerous problems. As we worked our way through the funeral and burial planning, we were informed that my mother's wish for a veteran's service and burial with my father at the National Cemetery in Los Angeles, would be impossible. Both of my parents served during the Second World War. My mother, as a Second Lieutenant army nurse served in France in 1944 and 1945. The Veteran's Administration told us that the National Cemetery in Los Angeles was closed for veteran's burials; a veteran's burial it would only be possible at the veteran's cemetery in Riverside, California, a city 60 miles to the east of Los Angeles. However, if she was buried as a "spouse", the internment could be made at Los Angeles. A spouse receives no veteran's honors, and, perhaps more importantly, no headstone. Instead, the spouse's first name is carved on the existing stone. So in my mother's case, they were suggesting that this phrase would be added to my father's headstone "Annette, his wife."

In response to this news, I called the White House. This was a new experience for me. I've never even called the police, much less an elected official. My concern was turned over to the Agency Liaison Office. Mr. President, I would like to express the gratitude of myself and my family for the prompt interest we received. Within hours of my initial call, I received a return call indicating that the matter was being handled. And, indeed, it was. Her burial took place at the National Cemetery in Los Angeles in the plot with my father. She received full veteran's honors, and will receive her own headstone, placed alongside that of my father. Remarkably, as we walked through the cemetery, we noticed that she was one of very few female veterans, and perhaps the only husband and wife veterans in that cemetery.

The follow-through on the part of the Agency Liaison Office was nothing short of remarkable. On the morning of the funeral, October 20, Mr. Bob Jones call to make sure that everything was working out as planned. A few weeks after the funeral, Susan, from that office, called to make sure that everything had been done properly. In fact, I felt somewhat guilty receiving so much attention. These folks have been incredible.

We extend our thanks to you and the Agency Liaison Staff . We loved our mother very much. She carried my brother, sister and I through some very tough times; following the death of my father, in 1974, she made it her goal to graduate each of her children from college. And now, just as she was beginning to enjoy life, she was stolen from us. I know that you feel a similar pain as, with the loss of your own mother. When I saw your Thanksgiving day message on the television, I could see the tears form as you spoke of the last Thanksgiving with your own mother. Thus I am sure you can know the depth of my gratitude.

Finally, let me tell you that my mother and father raised three children who are voting Democrats. They, and several of my friends have asked that I tell you what a good job you are doing for us and our country. I know that things look pretty bad right now. But you and Mrs. Clinton are our greatest hope (perhaps our only hope since the election). Please continue to fight for the things you know are right! If there is anything I can do to help you, please do not hesitate to call. Thank you again.

With admiration, gratitude, and respect,

Anthony C. Huntley, PhD
813 E. Francisquito Avenue
West Covina, California 91790

THE WHITE HOUSE

WASHINGTON

December 16, 1994

Mrs. Tarnell Lewis
Apartment 9A
2106 Center Street
Clarksdale, Mississippi 38614

Dear Mrs. Lewis:

I am so glad that you received the help you needed and to which you were entitled. I hope you are feeling better.

Hillary and I will keep you in our prayers and we wish you a Merry Christmas and a happy New Year. Please give our best wishes to Sharon.

Sincerely,

Bill Clinton

THE WHITE HOUSE

WASHINGTON

December 16, 1994

The Reverend Robert Handley
Mount Harmony Baptist Church
Pine Bluff, Arkansas 71601

Dear ~~Reverend Handley~~ Robert:

Thank you for letting me know about Mrs. Lewis. As you probably know, she is now receiving the Social Security benefits to which she is entitled. You and your parishioners are to be commended for your efforts to help her.

Hillary and I wish you and yours a very Merry Christmas and a happy New Year.

Sincerely,

Bill

11-18-94

Dear charlene,

my mother + I thank you for your support + knowledge for getting the job done. people like us a lot of the time don't know how to get the help we need.. But Thanks to you + God my mother case was approved and she will be recieving money to help care for her self + meet her daily needs. My mother wanted me to say Thank you for her. we desperate need more people like you

Charlene

Your kindness is warmly appreciated!

Thank you

Karen Thomas

+ Tarnell lewis

THE WHITE HOUSE

WASHINGTON

December 16, 1994

Ms. Wanda L. Moaveni
1066 Oak Road
Lilburn, Georgia 30247

Dear Wanda:

Thank you so much for your letter. I am pleased that my staff was able to assist you.

Please extend my best wishes to Mr. and Mrs. Moaveni and Ghamar as they begin their life in the United States.

Hillary and I wish you a very Merry Christmas and a happy New Year.

Sincerely,

Bill Clinton

Wanda L. Moaveni
1066 Oak Road
Lilburn, GA 30247
(404) 979-3320

Dec. 5, 1994

Mr. Bill Clinton
President, United States Government
Whitehouse
1600 Pennsylvania Ave.
Washington, D.C.
20500

Dear Mr. President,

Hello. I am writing to express my gratitude for the assistance I recently received from a member of your staff.

As it is policy not to give out last names, I only know her by her first name, Susan, she is on your Agency Liaison Office staff.

In the times we live in it is very easy for people to be pessimistic and feel that we are greatly removed from their government. That no one will listen to us, or take our concerns seriously. I, for one, do not believe this. I was raised to believe that our government is by the people, of the people and for the people.

Recently I had an opportunity to put my beliefs to the test, and I was not disappointed.

Susan worked with me, not around me or above me, but with me. We became a team and through that teamwork accomplished our goal. It may have been on a very small scale, but the process is the same, Government working with people to accomplish a common goal.

For this I want to thank you. And for having staff members, such as Susan, who not only work for and with the people, but who also remember that they themselves are one of The People.

Sincerely,

W. L. Moaveni

Wanda L. Moaveni

THE WHITE HOUSE

WASHINGTON

To - [illegible]
I won't forget
him down there
B

December 16, 1994

Julie Ratner
131 East 91st Street
New York, New York 10128

Dear Julie:

Thanks for your letter of December 7 and for your many kind words about our work here.

We face a number of important challenges in the next two years, and I know I would benefit from a visit with Bruce. I hope we'll have an opportunity to talk sometime soon.

Hillary and I hope you have a wonderful holiday season.

Sincerely,

Bill

Julie Ratner
131 East 91st Street
New York, New York 10128

December 7, 1994

President Bill Clinton
The White House
1600 Pennsylvania Avenue
Washington, D.C. 20500-2000

Dear Mr. President:

I am writing to you as a concerned citizen and supporter of your Presidency. Bruce and I talk often about you and think that you have done a wonderful job since assuming office. The problem is that your many successes have not been recognized or acknowledged by either elected officials or the press.

I know that you have said to Ellen Ratner that Bruce should "stop by" and talk with you when he is in Washington. The problem is that he is rarely in Washington. Moreover, he is an unassuming person and would not presume to call on you. But I believe it could be beneficial to you to talk with Bruce. He is full of good, practical ideas and has a keen grasp of situations and people. As you know, Bruce desires nothing from your administration. When Bruce and I speak, it is clear he is motivated by his concern for the health and welfare of this country, and the desire that you are successful in achieving the ambitious goals you have established.

As I am writing this letter, C-SPAN is carrying your speech to the DLC. Bravo!!! What a wonderful speech. I wish you would take this speech to the American people every day. We were hopeful two years ago when you were elected, and we are still hopeful. After all, you are the man from Hope.

Bruce and I look forward to seeing you soon and send you and your family best wishes for a healthy and happy holiday season.

Sincerely yours,

Julie Ratner

Leon / Erskine

I do think we should get the Western Dems in the Senate in here early next yr —

I agree.

B.

cc ✓ FW
Leg affairs
OS del

THE WHITE HOUSE

WASHINGTON

12-17-94

Dear Dennis

I want to thank you again for your letter of Nov. 21, your consistently candid advice and counsel, your strong leadership on so many fronts, and your friendship and support.

Let's keep in touch and keep working together. I'll miss you in the Congress and look forward to our continued friendship.

Merry Christmas.

Sincerely

Bill Clinton

DENNIS DECONCINI
ARIZONA

CHAIRMAN:
SELECT COMMITTEE ON
INTELLIGENCE

COMMISSION ON
SECURITY AND COOPERATION
IN EUROPE

COMMITTEES:
APPROPRIATIONS
JUDICIARY
VETERANS' AFFAIRS
INDIAN AFFAIRS
RULES AND ADMINISTRATION

United States Senate

WASHINGTON, DC 20510-0302

PLEASE DIRECT YOUR RESPONSE TO:
☐ WASHINGTON OFFICE
☐ PHOENIX OFFICE
☐ TUCSON OFFICE
☐ MESA OFFICE

November 21, 1994

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

DETERMINED TO BE AN ADMINISTRATIVE
MARKING Per E.O. 13526
Sec. 3.2(C) Initials: LB Date: 5/18/18

PERSONAL AND ~~CONFIDENTIAL~~

Dear Mr. President:

I know after November 8th you were probably overcome with advice and counsel on what went wrong and advice on which direction the Democrats and Bill Clinton need to move in the next two years.

Excuse my presumptuousness, but I feel that someone needs to set forth some opinions which might influence the Administration's direction during the next 23 months.

It is so clear to me that your victory in November 1992, though not a mandate or even a majority, nevertheless, sent a message to Washington. The people of this country wanted someone in the White House who was outside the normal Washington government circles and who could move the country in a new direction, someone who advocated the decentralization of federal government, the reduction of the national debt, and crime free streets. Other issues such as, women's productive rights, environmental reauthorization, education opportunities, housing opportunities are all of great importance and worthy. However, in my opinion, these were not paramount in the public's mind.

Upon your taking office, the agenda seemed to be different than what those who voted for you and Perot, which was a clear majority, believed it to be. In the short course of two years you have accomplished some great legislative victories. The Education Reauthorization Bills, the Public Service Corporation, the Student Loan Program, NAFTA, the Crime Bill, and the genuine reduction in the growth of the deficit were all major legislative victories.

To me, the deficit reduction and the Crime Bill were the issues of which the people of this country focused during your campaign and have followed closely for the past two years. Other legislative victories are nice to have in your repertoire, but, in my opinion, do not translate into voter satisfaction or support, and may, in fact, work the other way. Republicans are able to point to much of this legislation as more government and less decentralization.

The Crime Bill would not have passed if not for your hard work and the work of the White House staff. However, there was a lack of interest in the question of crime at the beginning of your Administration, which was also apparent during the debate of the Crime Bill. It took Senator Biden, on his own, to introduce a bill, and it took public sentiment in the polls to raise the issue to the point where the White House finally got the message. Not fair? Your efforts to reinvent government recommended slashing federal law enforcement substantially. Your ultimate crime package of 100,000 new police officers on the beat, was to be partially offset by the effort to reduce federal law enforcement under the plan to reduce the federal work force as a whole. It so happens that in the course of this, the FBI was granted an exemption from reductions. Other federal law enforcement agencies were not exempted. Congress, however, in its wisdom or cantankerousness, elected not to make those reductions and, in fact, added a number of law enforcement personnel to DEA, Customs, ATF, Secret Service, Border Patrol, and others. The reduction requested in your budget request was not missed by Republicans who pointed out the contradiction in the effort to put more cops on the street and reduce federal law enforcement at the same time.

The budget reduction efforts in 1993 was historical. In my eighteen years in the Congress, nothing like this has ever happened. However, it was interpreted by the Republicans as the biggest tax increase in American history. Of course, we cannot control what the Republicans say. However, more effort could have been put forth by the Democrats, in the White House and the Congress, to aggressively promote the positive points of the budget and of your Presidency.

The assault by this Administration on the western states is an example of direction gone asunder. You are the first Democrat to carry a majority of western states since Lyndon Johnson in 1964. In your Administration's first budget, estimations for revenues from mining law and grazing reform were miscalculated. You may remember meeting with Western Democratic Senators and agreeing to remove these reforms from the budget. This was interpreted by environmentalists, and the press, as the President backing down. Quite frankly, it was interpreted in the West as a President who understood what was best for the West. You can, Mr. President, have a good environmental policy without decimating western states.

The West has turned dramatically in opposition to your Administration's policies as they relate to land use, mining law reform, and grazing on federal lands. These issues can be negotiated with the western interests. However, the fact that the Governor of Colorado successfully negotiated with the Interior Department on grazing fees for his state is deemed universally unacceptable in the West. Republicans were smart to capitalize on this, and as a result, the Democrats have suffered substantially in western states.

Mining law reform is heading in the same direction. I cannot caution you enough as you prepare for 1996, that the West is extremely vulnerable and close to being lost for the Democrats. There may be some strategists who believe the West is not necessary for a victory, but I would firmly disagree.

I also see other decisions forthcoming, relating to land use and property rights, that are going to be fostered by the Republicans in the West. Mr. President, you need to talk earnestly to some Western Senators regarding its future.

The purpose of my letter is not to cause consternation or anxiety, but to express to you my feelings that your victory in 1996 is important to the better quality of life for myself, my family, and for all Americans, not that someone else can't achieve some of these things, but you are the first President, as I have said before, in 18 years who is willing to take on the deficit and other issues vitally important to the future of the country.

I, in some ways, wish I were going to be in the 104th Congress to assist you once again. However, I have paid the price for my principles and have elected to retire.

It has been my pleasure to have worked with you for the past two years and wish you every success as you continue on the difficult, and sometimes unrewarding, task of governing the country.

My very best wishes.

Sincerely,

Dennis

DENNIS DeCONCINI
United States Senator

DDC/q

Thanks for taking the time to read this ~~this~~, If I can help you any way let me know.

December 16, 1994
Memorandum to the President
From: Al From
Subject: Speech Follow-up

THE PRESIDENT HAS SEEN
12/19

You did good last night. Your speech sent the right message -- your proposals are solid, New Democrat ideas, grounded in the right values and the right approaches to governing. I particularly liked the tone: tough, aggressive, yet optimistic -- a tone that sounded, in a word, Presidential.

And, the juxtaposition of your championing the hard working middle class with Fred Thompson's response that focused entirely on paring back government draws battle lines that are favorable to us.

So this speech was very important for you to give. It accomplished what you needed to accomplish last night. It laid a solid foundation for the next two years. It is the beginning of a long march back. It reforged the bond between you and the forgotten middle class.

But a speech -- even a good one -- is not an end in itself. And, your critics will say it doesn't mean much because you always give good speeches but your actions don't always follow your words. Cynics will say that your call to transcend politics as usual sounds hollow (I've already gotten that line from a reporter). Your challenge is to prove them wrong.

When we get together we can talk more about steps to reinforce your message of last night and to disprove your critics. But very briefly, I'd like to make two suggestions for follow-up that can, in the weeks preceding your State of the Union, build on the foundation you laid last night.

First, I think you should seek out a major national forum (outside Washington) or a university campus early in January and make a speech that does what you did not have time to do last night -- a speech that explains to the people the changes in the world that make them anxious and articulates more fully the values that undergird your policy. (A good start on the latter would be to go through and explain the main principles of the *New Orleans Declaration*).

Such a speech is important because it would set a context for the policy proposals you offered last night that is greater than trying to offer benefits to middle class voters who voted Republican five weeks ago. By fulfilling your important bully pulpit role as teacher with such a speech, you would give credence to your message that you are doing what's right, not just what's politic.

Equally important, such a speech would help clarify your core values and begin to restore your position as moral leader of the country. That's very important because while politicians talk in program terms, voters hear in values terms. I believe your clearly stating your values and explaining how they relate to your vision and policies would be very useful in building on last night's foundation. If the voters know where you want to go and what you believe in, they'll be a lot more likely to help you than if they're not sure. In your first two years, you did not tell them enough; in the next two you need to do that as many times as you can. And it's not too soon to start.

Second, you desperately need validators and surrogates. When Gingrich makes a charge about White House drug use, nobody who's not on your payroll speaks out on your behalf. That's because most people on the Hill -- who should speak out -- are afraid the charge is true and they'll be burned by defending you. You've got to rebuild trust among a core of respected people in this town, so you're not always hanging out alone.

There is no easy way to do that, but I suggest you target a few senators (starting with Breaux and Lieberman) and a few well respected Washington heavyweights (beginning with the likes of Bob Strauss and Harry McPherson) and bring them in one on one to try to reassure them they can defend you without risk of being burned and to ask them for their help. I know this probably sounds like something that's less than pleasant to do, but I believe you have to do it to survive over the long haul. You, Hillary, the White House staff, and top Administration officials can't be your only validators. You need some well respected validators. And now -- as you launch your new beginning -- is the time to go after some.

I look forward to getting together at your earliest convenience.

THE PRESIDENT HAS SEEN

Leon

Pls read + lets discuss

BC

TH[illegible]ESIDENT HAS SEEN
12/19

Centrist Group Offers Reply to GOP 'Contract'

DLC Also Distances Itself From Clinton

By Dan Balz
Washington Post Staff Writer

The centrist Democratic Leadership Council (DLC) yesterday issued a 10-point alternative to the "bumper-sticker bromides" of the Republicans' Contract With America and its leaders pledged to wage "hand-to-hand combat" with the Republicans for the support of the "vital center" of the American electorate.

DLC president Al From said the agenda would push the country in a "far different direction" than the Republican contract. But he acknowledged that it also represents a sharp departure from the policies of the Clinton administration.

From said the White House had played no direct role in the formulation of what he called a "progressive alternative" to the Republicans, despite the fact that Bill Clinton chaired the DLC before launching his presidential campaign.

In a sign of the DLC's continuing disappointment with Clinton's presidency, From offered the White House another cold shoulder, declaring that his organization is an independent think tank, "not an adjunct of the Clinton administration." Nonetheless, Clinton is scheduled to speak at the group's fund-raising dinner tonight.

The 10-point package includes measures to cut the federal deficit; reform welfare, housing and health care programs; shift power away from Washington; and assure U.S. military strength.

The unveiling of the alternative agenda marked the 10th anniversary of the DLC's founding, but From and others conceded that the centrist group's ranks in Congress are thinner than ever since the November elections and that there is little hope congressional Democrats will take up its cause.

"If we depend on Congress to reform the Democratic Party, we'll sit here until the funeral," he said.

He and other speakers at a news conference insisted, however, that the ideas they are promoting enjoy support across the country and that they will take them to the grass roots as part of an effort to combat the new Republican majority in Congress and to revitalize a Democratic Party that absorbed its worst defeat in 40 years last month.

"We are alerting the Republicans we intend to engage them in hand-to-hand combat for every inch of ground in the battlefield for ideas," From said.

Will Marshall, president of the Progressive Policy Institute, the policy arm of the DLC, said the agenda outlined yesterday is "rooted in the values" of working Americans and that while the many of the themes are similar to those in the Republican contract, the philosophy and details are different.

Marshall said that while the Republican contract offers the symbolism of a balanced budget amendment, the DLC offers specific ways to shrink the deficit. He said that while both seek to change the welfare system, Republicans favor a punitive approach in contrast to a DLC philosophy he described as "reciprocal responsibility."

The DLC agenda renews the group's recommendation for a budgetary policy called "cut and invest" in which Congress would wipe out many tax subsidies now provided for various industries and use part of the proceeds to invest in education, training, infrastructure and tax relief for families.

Robert Shapiro said the DLC already has identified 68 tax subsidies

See DLC, A24, Col. 1

AN[illegible]RNATIVE AG[illegible]NDA

Highlights of an [illegible]ive to the Republica[illegible] "Contract With America" releas[illegible]rday by the Democra[illegible]adership Council and the Prog[illegible] Policy Institute, its poli[illegible]m:

1. Create a "G.I. Bill" fo[illegible]s by:
- converting money sp[illegible]isting job-training programs int[illegible] vouchers.
- encouraging displaced [illegible] to finance their retraining through federally guaranteed, inc[illegible]ntingent student loans.
- developing Individual D[illegible]ent Accounts (similar to IRAs) to encourage saving for lifeti[illegible]ing.

2. Cut tax and spending prog[illegible]t subsidize certain industries and redirect $225 billion over five y[illegible]: education and training; research and infrastructure; deficit reduc[illegible]d family tax relief.

3. [illegible]uild on the North American [illegible]ade Agreement by:
- [illegible]nviting in any emerging de[illegible] that accepts NAFTA's standards on tr[illegible]e, investment, labor and th[illegible]onment.
- c[illegible]ing international institut[illegible] resolve international labor and enviro[illegible]ental disputes.

4. Reform w[illegible]fare by:
- limiting c[illegible]sh payments to tw[illegible]
- placing recipients who do not [illegible] in the private sector in community service jobs.

5. Rebuild housing opportunity by:
- limiting occupancy in public housing to two years and giving housing managers authority to enforce standards of conduct.
- gradually shifting resources from subsidies toward efforts to boost the supply of low-cost, privately owned, owner-occupied homes.

6. Combat teenage pregnancy by:
- resurrecting "social sanctions" against out-of-wedlock births.
- creating "second-chance" homes where teenage mothers receive help raising their children.

7. Cut the size of the federal government by:
- "dismantling petrified central bureaucracies and returning power from Washington to states, communities and citizens."
- ? convening a "Federalism Convention" to plan a redistribution of power.

8. Reforming health care by changing the market through:
- requiring everyone to purchase insurance.
- changing the tax-subsidy system for employer-paid insurance.
- applying private sector managed care reforms to Medicare and Medicaid to bring their costs under control.

9. Move toward a nuclear weapons-free world by the middle of the next century by striking a grand bargain between nuclear and non-nuclear states.

10. Strengthen U.S. military forces by ending the 1993 "bottom-up review" launched by the Pentagon and beginning a more systematic assessment of the services' roles and missions in light of changing demands.

THE WASHINGTON POST

Centrist Democrats Offer Alternative To GOP 'Contract'

DLC, From A21

[illegible]r corporate America that repre[illegible]nt an industry's clout in Congress, [illegible] its value to the economy. Elimi[illegible]ng them would save $225 billion [illegible] five years, he said, adding that [illegible]ntually such reforms could save [illegible] government $75 billion a year.

[illegible]bor Secretary Robert B. Reich re[illegible]tly called for a similar policy to sc[illegible]ack on what he and the DLC ca[illegible]rporate welfare," although the [illegible]ech was not cleared in advanc[illegible] the White House.

Shap[illegible]o also urged reforms in entitlement programs, including a gradual increase in the age of eligibility for Social Security to 70.

Other elements of the DLC economic program include a "G.I. Bill" for workers that would consolidate existing programs and offer new incentives for workers to undergo retraining throughout life.

Marshall said the group disagrees with both the Republican and the Clinton administration approaches to welfare reform. "We don't want to reform welfare, we want to replace it with work," he said.

He said the Republican proposal to deny benefits to children born to teenage mothers and put the children into orphanages is insensitive. To combat teen pregnancy, the DLC called for a national campaign to make out-of-wedlock births socially unacceptable and for the creation of community homes, patterned after settlement houses from the turn of the century, where teenage mothers could raise their children.

The DLC also called for significant changes in public housing policy designed to make it a transitional program, not a permanent condition, including the gradual phase-out of housing subsidies and using the money to build low-cost housing for the poor.

On health care, an area not covered in the Republican contract, the DLC recommended step-by-step changes, beginning with insurance reforms but eventually requiring all Americans to purchase health insurance.

Like the Republicans, the DLC called for a significant shift in governmental responsibility from Washington to the states and cities. But rather than outline specific programs that should be moved out of Washington, the DLC urged Clinton to convene a "Federalism Convention" to develop a plan for decentralizing power.

TUESDAY, DECEMBER 6, 1994 THE WASHINGTON POST

4c

THE PRESIDENT HAS SEEN
12/19

Bill Galston
we need to evaluate
the other proposals
& determine which we
should pursue — pls. organize
brief recommendations on those
we aren't yet acting on
BC

To ~~[illegible]~~ Leon

a Good idea
from Reich
#5+6 — Need
to do something
like this in Jan
+ Feb — BK -

Reich

THE MIDDLE CLASS AGENDA:
1. Returning to the middle class message

o The challenge is not inventing a middle-class message--we have crafted a superb one--but returning to it. A powerful middle-class message is what won for us in 1992.

o In his announcement speech more than three years ago, the President said: "This is not just a campaign for the Presidency -- it is a campaign for the future, for the forgotten hardworking middle-class families of America who deserve a government that fights for him."

o Nine months later, at the Democratic National Convention, the President said: "in the name of all the people who do the work, pay the taxes, raise the kids, and play by the rules, in the name of the hardworking Americans who make up our forgotten middle class, I accept your nomination for President of the United States. I am the product of that middle class. And when I am President you will be forgotten no more."

o The middle class message is the cornerstone of *Putting People First*: "During the 1980s, our government betrayed the values that make America great: providing opportunity, taking responsibility, rewarding work. While the rich got richer, the forgotten middle class -- the people who work hard and play by the rules -- took it on the chin. They paid higher taxes to a government that gave them little in return."

o In his inaugural address, the President discussed the difficulties middle class families face in a world convulsing with change: "This new world has already enriched the lives of millions of Americans who are able to compete and win in it. But when people are working harder for less; when others cannot work at all; when the cost of health care devastates families and threatens to bankrupt many of our enterprises, great and small; when fear of crime robs law-abiding citizens of their freedom; and when millions of poor children cannot even imagine the lives we are calling them to lead -- we have not made change our friend."

o Each of the President's state of the union addresses have emphasized the middle class. "We cut the deficit so that our children will be able to pay for a home, so that our companies can invest in the future and in retraining their workers." (1993) "For 30 years family life in America has been breaking down. . . . For too many families, even when both parents were working, the American dream has been slipping away." (1994)

o We must communicate what we have already done for middle-class families (EITC, Family and Medical Leave, direct student loans); what we are now doing (e.g. pension reform); and what we are trying to do (e.g. health care reform) in terms of the basic rubric **if you work hard and play by the rules, you should be able to get ahead.**

o By shifting the focus from the number to the quality of jobs--wages, benefits, job security--we can signal that we can understand the nature of working families' anxieties, while simultaneously revealing the hollowness of Republican supply-side rhetoric that ignores the job-quality problem which is driving the middle class down.

THE MIDDLE CLASS AGENDA:
2. A Lifelong Learning Tax Cut

o Current tax policy grants advantages to investments in physical and financial capital, real estate, and skill investments by firms and by individuals focussed on current jobs--but not for education and training investments by individuals to gain new skills for middle-class jobs.

o About 15 million Americans get post-secondary education or training each year. This does not include parents of actual or prospective college students, who form a major potential constituency for a lifelong learning tax break. The most recent data (from 1991) show over 85 percent of these students coming from families earning less than $75 thousand per year.

o Every year of education or job training beyond high school boosts average future earnings by 6 to 12 percent, making post-secondary education an exceptionally high-payoff investment.

o A mid-November poll found that two-thirds of adults had a highly favorable response to the idea of tax breaks for spending on education or training for oneself or one's family. Only one-half responded so favorably to the idea of a $500 tax credit for families with children. Paying for school is a potent kitchen-table issue.

o A lifelong-learning tax cut would complement and reinforce other Administration initiatives, including direct student loans and the proposal to channel training grants directly to workers. It would be the centerpiece of the "purchasing power in workers' hands" message. And it could be packaged with other new middle-class initiatives.

o Several variants of a lifelong-learning tax break are possible. Some options include:

- Allowing penalty-free withdrawals from Individual Retirement Accounts to pay for education and training expenses of the taxpayer and the taxpayer's family would probably cost approximately $500 million over five years. (All cost estimates are highly preliminary, and are being refined by Treasury's Office of Tax Policy. Better numbers should be ready around November 30.)

- Granting a 25-percent tax credit on education and training loan interest would cost at least $1 billion over five years.

- The boldest option would package a substantial middle-class tax cut in the form of allowing full deductibility from gross income (or an equivalent credit) for education and training expenses, including college. This would not require itemizing deductions to get the tax cut, and would reach a large fraction of middle-class families. Complete deductibility without any limitation would cost around $55 billion over five years. This cost can be limited through annual ceilings on deductible expenses (high enough to cover tuition at most universities or community colleges, but not to cover full professional-school tuition) or through phasing out deductions over, say, the $75,000 - $100,000 range.

THE MIDDLE CLASS AGENDA:
3. Restoring the minimum wage to make work pay

o The real value of the minimum wage is now 33 percent lower than it was in 1979. If the minimum wage does not increase again, by 1996 it will sink to its lowest real level since 1955. The declining minimum wage accounts for an estimated 20 percent of the increase in inequality among males since 1979, and for 30 percent of increased inequality among women.

o In Putting People First President Clinton promised to index the minimum wage to prevent a decline in its purchasing power and to "make work pay." Since its last increase (April 1991), the real value of the minimum wage has declined by 45 cents.

o Two-thirds of minimum-wage workers are adults. The dramatic changes in the wage structure the last 15 years (i.e., the rise in wage dispersion) has meant that many prime-age workers are earning wages at, or near, the minimum wage.

o The average minimum-wage earner brings in 40 percent of his or her family's labor income.

o Recent research finds no convincing evidence of significant adverse employment consequences of moderate (e.g., $1.00 or less) increases in the minimum wage.

o The minimum wage could become a defining issue in the 1996 elections. Senators Kennedy and Sarbanes made raising the minimum wage an effective campaign issue this year.

o A large majority of Republicans voted to increase the minimum wage to $4.25 in 1989 (including Newt Gingrich).

o A 1992 Time-CNN poll found that 74% of the public favored raising the minimum wage to make work a more attractive alternative to welfare.

o The recent expansion in the EITC only partially offsets the erosion in the value of the minimum wage. In the best scenario (for a married couple with a year-round minimum-wage earner) the EITC brings the after-tax hourly wage rate up to $5.14 in 1994 -- not enough to escape poverty, even with full-time, year-round work.

o The phase-out of the EITC raises the marginal tax rate for some workers, and may discourage work. The minimum wage makes every hour of work pay.

THE MIDDLE CLASS AGENDA:
4. The Republican's Contract goes too far--
It bypasses the middle class to reach the rich

o The Republican "Job Creation and Wage Enhancement Act" is a simple reprise of supply-side economics. It centers on a capital-gains tax cut. This would heavily favor passive income from investments--including gains on the sale of assets investors already own--over income earned by middle-class working people. Those families earning more than $100,000 a year own 60 percent of the bonds and over a third of other income-producing assets, and are poised to collect the bulk of the benefits from any capital-gains tax break. Fully half the benefits of a capital-gains tax cut would go to the richest one percent. A Clinton Administration Lifelong Learning Tax Cut would concentrate its benefits on the broad middle class, and favor a form of investment that directly, demonstrably expands the middle class.

o The Republican "American Dream Restoration Act" would leave most Americans still locked out of the dream while bloating the budget. It grants richer taxpayers access to tax-advantaged savings which many middle-class people already have; it includes a $500-per-child tax credit for families with incomes up to $200,000 per year. The richest one-fifth of families would collect 95 percent of the benefits of the expanded IRA. A Clinton Administration Lifelong Learning Tax Cut, by contrast, would be tightly targeted on the middle class. Instead of expanding the deficit and burdening future middle-class taxpayers, our middle-class tax cut would be paid for.

o The "Senior Citizens' Equity Act" grants advantages to better-off retirees. The Clinton approach is to bolster the retirement income system without threatening middle-class retirees who no longer work and who lack investment income.

o In the 1980's we tested the theory that tax cuts for the rich can spur the economy without busting the budget. Interest on the debt left over from that binge is what prevents a balanced budget today. That interest claims 28 cents of every dollar individuals pay in taxes.

o Even if tax cuts for the rich could ignite a business boom, without skills and education the middle class won't benefit from that boom. Productivity and profits are soaring today, and much of the middle class is still being left behind.

o Any tax cuts we can afford should be focussed on the middle class, and should favor the kind of skill investments that do promote middle-class prosperity and let them share in the recover.

[o A balanced budget amendment would dictate as much as $700 billion in tax hikes or spending cuts--none of which the Contract specifies, making this a stealth attack on middle-income families' budgets.]

THE PRESIDENT HAS SEEN
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THE MIDDLE CLASS AGENDA:
5. Presidential Outreach
A. Conversations with America's Working Families

The middle-class agenda can be crystallized by a series of presidential events from January until June 1995 called "Conversations with America's Working Families." The kick-off of the series would be an open letter to America's working families from the President. The letter would focus on what needs to be done to bring back the American dream, and announce a series of informal conversations with working families on how to restore the bargain that if you work hard and play by the rules, you can get ahead. The kick-off letter would be widely circulated on the anniversary of the President's inauguration.

The White House could choose the 10 families based on individuals who have written to the President since he's been in the White House. A few examples:

- a family whose primary breadwinner is in a dead-end job and needs to go to a community college at night to get new skills;
- a family whose kids aren't planning on a traditional four-year college, who are concerned about how the kids can get the skills they need for decent jobs;
- a family whose working mother has trouble balancing work and family;
- a family where both the mother and father have to work, and work harder than their parents did and who still can't match their parents' living standard.

Each family could invite 10 friends to join them and the President for a conversation on recovering the American dream. The President could learn from the families, demonstrate his understanding of working Americans' concerns, and suggest solutions for getting beyond anger and anxiety to confidence and hope.

These conversations could become a powerful but flexible forum for the Administration's middle-class message, encompassing a range of specific issues, which may include:

- **child and elder care for working families (possible legislative initiative?);**
- **the breakdown in the bargain that if you work hard and your company prospers, you can expect to share in the benefits;**
- **earning a living without abandoning time for building families;**
- **pension security and fears about retirement income;**
- **cutting corporate welfare to fund the middle-class agenda.**

There would be a number of media opportunities around these meetings with America's working families, such as feature stories about the families who have been selected.

THE MIDDLE CLASS AGENDA:
Presidential Outreach
B. Industrial-America Town Halls

The President would host a series of town hall meetings titled "Working for America's Workforce." The theme of the meetings would be what business, government, and individuals can do to restore the American Dream for middle class families.

The town hall meetings could be organized around 10 industries -- perhaps the ten largest industries, the ten fastest-growing, or the ten industries that trade and technology have most dramatically changed.

Each event would be structured like a town hall: workers in the audience, a small panel on stage, and the President as moderator. The panel could consist of one or two workers who have adapted to change, an expert in the industry and a human resources VP or CEO from the industry leader.

The discussion would center on the changes that have taken place in that industry -- and how frontline workers and managers have adapted. Real workers could voice their fears and aspirations and the President could respond -- stressing his message of opportunity and responsibility, and drawing contrasts with Republicans.

The President could also talk directly to middle-class Americans about the Administration's policies to offer hope to families in distress. He could highlight the lifelong learning agenda, tax cuts for education training or other middle-class tax cuts, and other policies aimed at middle-class workers.

One advantage of this approach is the nearly limitless list of potential sites and industries. Some suggestions that make sense in today's environment would be:

- the auto industry in the industrial mid-west -- Michigan or Ohio;
- the retail industry -- dominated by non-college women -- anywhere in the country;
- the telecommunications industry in Georgia or the West;
- the computer or other high tech industry in California.

12/19

THE PRESIDENT HAS SEEN

Carol
This is very helpful
even for me after all
the years I've dealt w/
the numbers - can you get me
a similar one on Medicare?
BC

14 December, 1994

NOTE FOR: Carol Rasco

FROM: Ken Thorpe KT

RE: Medicaid Program Statistics

Recipients

During fiscal year 1993, there were a total of 33.4 million Medicaid recipients. Of this, 16.3 (49%) were children under the age of 21, 7.5 million (22%) were AFDC adults, with the remainder (approximately 9 million or 27%) elderly, blind or disabled. The remaining 2 percent were scattered across other categories.

Expenditures

During fiscal year 1993, the federal government spent $72 Billion on the Medicaid program--we have projected spending of about $79 Billion in FY 1994 (about 57% of total costs are federal, 43% is spent by state and local governments). Of this, the elderly, blind and disabled accounted for 69% of total spending, AFDC adults 13%, children under age 21 16%.

Trends

In our midsession review of the program, Medicaid was projected to grow at approximately 10.5% per year, (the new budget baseline is likely to be somewhat lower). Several factors account for the apparently high rate of growth; of particular interest is the growth in the number of recipients. Under current law, Medicaid recipients are projected to increase 4.1% per year. This masks substantial variation in the program, however. The AFDC population will rise by 1% per year, the elderly, blind and disabled 6.7% (note within this the growth in the disabled population is 8.2% per year), and the additional coverage of children living in poverty through the year 2002 (by then we will cover all kids in poverty under age 19) results in a 5% growth in recipients per year.

[redacted]

Background on Medicaid

The Medicaid program provides acute health care and long term care services to low-income families, the disabled, and the elderly. The program is jointly funded by the federal government and the states, with the federal "match" varying from 50% to 78% depending on the economic condition in a state.

Any low-income family receiving AFDC or elderly or disabled person receiving SSI automatically is eligible for Medicaid. Certain categorical groups not eligible for cash assistance -- including pregnant women and children -- may also eligible for Medicaid, with income thresholds generally varying from state to state.

Certain services and eligibility levels are specified in federal law, while others are funded on a matched basis by the federal government at the option of states.

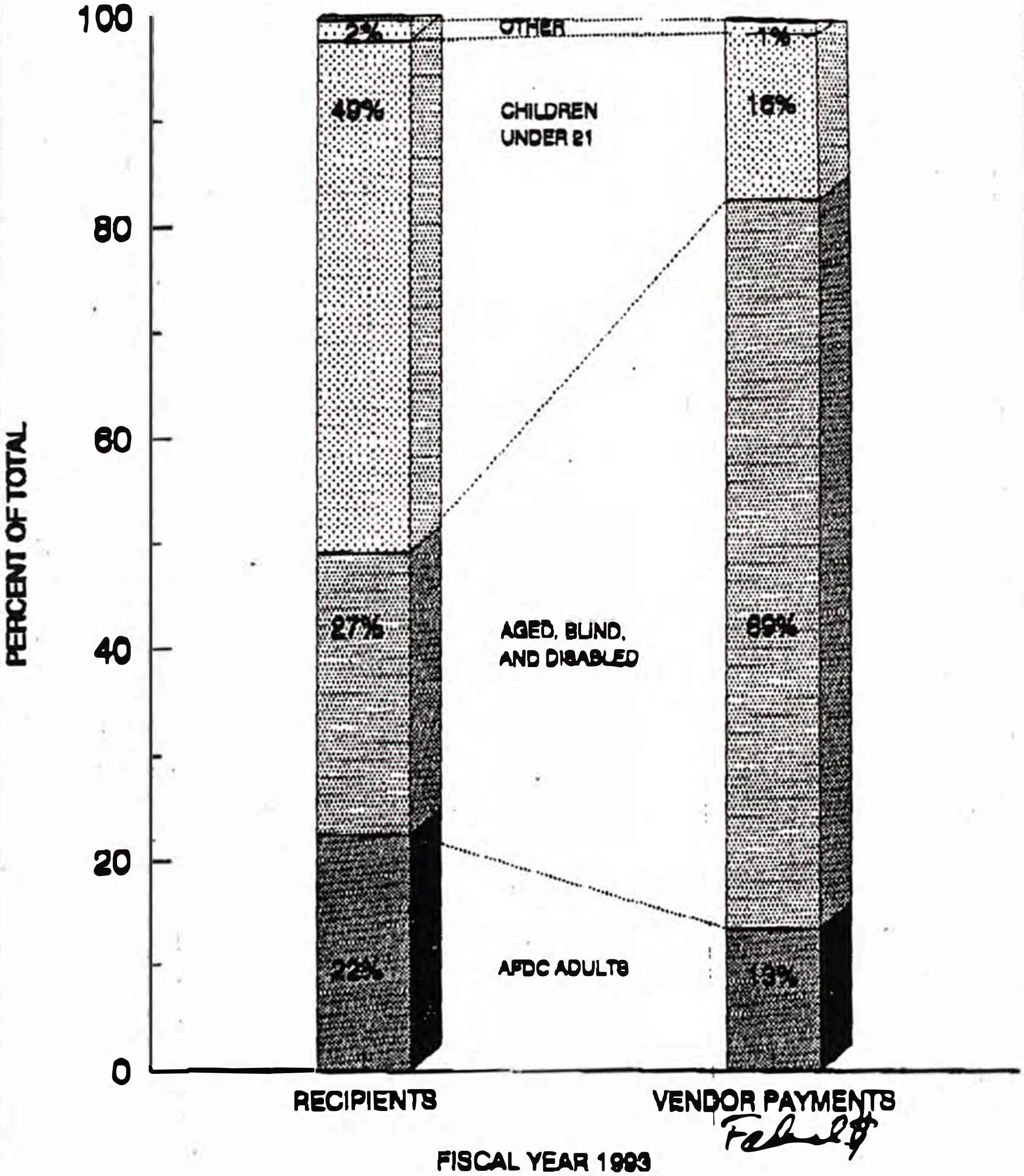
Where Medicaid Dollars Go

While a large number of the people receiving Medicaid are children (50% of all recipients), the vast majority of Medicaid spending is for the elderly and the disabled. Medicaid provides long term care services for the elderly and the disabled who "spend down" their assets and income. And for low-income elderly persons, Medicaid pays for the Medicare premium and cost sharing, as well as some services not covered by Medicare.

- Medicaid is a program that serves four groups of people:
  - Poor mothers and kids get health insurance.
  - Non-elderly disabled people get health insurance and long-term care.
  - Poor elderly people get Medigap-like insurance to supplement Medicare.
  - Disabled elderly get long-term care.
- A disproprotionate share of Medicaid funds are spent on elderly and disabled people:
  - Low income kids (16.1 million) and adults (7.1 million) comprise 73.1% of Medicaid enrollees, but account for only 32.8% of spending.
  - Nonelderly disabled people (5 million) comprise only 15.5 of Medicaid enrollees, but account for 38.7% of spending.
  - Elderly people (3.7 million) comprise only 11.5% of Medicaid enrollees, but account for 28.4% of spending.

FIGURE 6.

PERCENT DISTRIBUTION OF MEDICAID RECIPIENTS AND VENDOR PAYMENTS BY BASIS OF ELIGIBILITY



(UNKNOWN REPRESENTS 0.4% OF RECIPIENTS AND 0.2% OF VENDOR PAYMENTS)

SOURCE: HCFA, BDMS, OFS, DIVISION OF MEDICAID STATISTICS

TABLE 3.

MEDICAID RECIPIENTS AND VENDOR PAYMENTS BY BASIS OF ELIGIBILITY FISCAL YEAR 1993

BASIS OF ELIGIBILITY	RECIPIENTS (MILLIONS)	PERCENT OF TOTAL
TOTAL	33.4	
AGED,BLIND,AND DISABLED	8.9	26.6%
CHILDREN UNDER 21	16.3	48.7%
ADULTS IN FDC	7.5	22.4%
OTHER	0.6	1.9%
UNKNOWN	0.1	0.4%

BASIS OF ELIGIBILITY	VENDOR PAYMENTS (BILLIONS)	PERCENT OF TOTAL
TOTAL	$101.7	
AGED,BLIND,AND DISABLED	$70.2	69.0%
CHILDREN UNDER 21	$16.5	16.2%
ADULTS IN FDC	$13.6	13.4%
OTHER	$1.2	1.2%
UNKNOWN	$0.2	0.2%

SOURCE: HCFA, BDMS, OPS, DIVISION OF MEDICAID STATISTICS

TABLE 1.

MEDICAID RECIPIENTS AND VENDOR PAYMENTS BY YEAR

YEAR	RECIPIENTS (MILLIONS)	Federal $ VENDOR PAYMENTS (BILLIONS)
1989	23.5	$54.5
1990	25.3	$64.9
1991	28.3	$77.0
1992	31.2	$91.5
1993	33.4	$101.7

SOURCE: HCFA, BDMS, OPS, DIVISION OF MEDICAID STATISTICS

VENDOR PAYMENTS
FISCAL YEAR 1993

TYPE OF SERVICE	VENDOR PAYMENTS (BILLIONS)	PERCENT OF TOTAL
TOTAL	$101.7	
GENERAL HOSPITAL	$25.7	25.3%
MENTAL HOSPITAL	$2.2	2.1%
NURSING FACILITIES	$25.4	25.0%
ICF MENTALLY RETARDED	$8.8	8.7%
PHYSICIAN SERVICES	$7.0	6.9%
DENTAL SERVICES	$1.0	0.9%
OTHER PRACTITIONER	$0.9	0.9%
OUTPATIENT HOSPITAL	$6.2	6.1%
CLINIC SERVICES	$3.5	3.4%
LAB & X-RAY	$1.1	1.1%
HOME HEALTH	$5.6	5.5%
PRESCRIBED DRUGS	$8.0	7.8%
FAMILY PLANNING	$0.5	0.5%
EPSDT	$0.9	0.8%
RURAL CLINIC HEALTH	$0.2	0.2%
OTHER CARE	$4.7	4.7%
UNKNOWN	$0.0	0.0%

SOURCE: HCFA, BDMS, OPS, DIVISION OF MEDICAID STATISTICS

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THE PRESIDENT HAS SEEN 12/19

OPINION USA

End special tax favors for seniors

Low-income young people starting out at minimum wage are being forced to subsidize relatively affluent retirees

By Bill Strauss and Neil Howe

Plus ca change, indeed!

For the 40 years the Democrats ruled the Congress, they constantly upped the ante in redistributing money from young to old. The mythology may be otherwise, but the cornerstone reality of today's "big government" is the huge growth in elder entitlements over that era of Democratic rule.

The numbers speak for themselves: In 1954, when the Democrats began their long congressional run, elder entitlements consumed 2.2% of the nation's gross domestic product. Today, they consume 7.7% — an increase of 5.5 percentage points. Over that same period, all other federal spending *actually declined* by 2.5% of GDP.

In the waning days of this year's election campaign, the Democrats played the old Social Security card like they usually do, warning that the Republicans would take away grandma's monthly check. But surprise! The old "third rail" of politics — "touch it and you die" — had no juice, and the GOP won anyway.

The aging World War II vets who care most about Social Security are the USA's most pro-Democrat generation. Now well up in their 70s, they're not the political force they once were.

Honesty about Social Security is an issue tailor-made for continuing the shift of young voters toward the GOP. Witness a recent Third Millennium poll confirming that more twentysomethings believe in UFOs than believe that Social Security will still be around when they retire.

So you would think the incoming Republicans would be rolling up their sleeves to slow down the flow of money from the hard-pressed young to the affluent old.

Wrong.

If the Republican Contract with America is turned into law, and if recent comments by incoming Speaker Newt Gingrich and House Ways and Means Chairman Bill Archer are to be believed, the new GOP majority will continue the old New Deal coalition tradition of shoveling money up the age ladder, no matter how rich the elder beneficiaries might be.

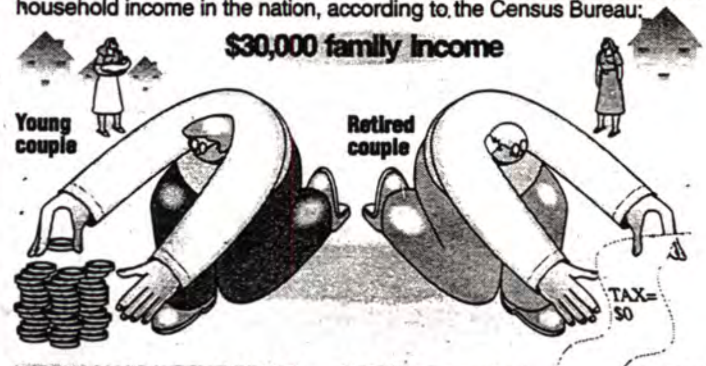
Yes, they'll change the approach slightly. Rather than adding new elder-targeted benefits, they'll add new seniors-only tax cuts. They want to roll back the recently enacted and very limited tax on 85% of Social Security benefits paid to the most affluent seniors. This is the portion which was *not* previously taxed, despite what many seniors may think. Five-year cost: $17 billion.

The Republicans also want to eliminate the earnings test for beneficiaries in their late 60s, regardless of income. That's a big new benefit for the wealthiest age bracket in American history. Five-year cost: $7 billion.

Disparity in tax burden

Here's how the 1996 tax burden of a 30-year-old homeowning couple with one child compares with a 65-year-old retired couple in Fairfax County, Va., a Washington, D.C., suburb, which has the highest median household income in the nation, according to the Census Bureau:

$30,000 family income



Young couple		Retired couple	
U.S. income tax	$2,127	U.S. income tax	$0
Social Security tax	$4,239	Social Security tax	$0
Va. income tax	$930	Va. income tax	$0
Real estate tax[1]	$1,188	Real estate tax[1]	$0
Total tax	$8,474	Total tax	$0
As % of income	20%	As % of income	0%

$60,000 family income

Young couple		Retired couple	
U.S. income tax	$6,837	U.S. income tax	$4,143
Social Security tax	8,478	Social Security tax	0
Va. income tax	2,523	Va. income tax	5
Real estate tax[2]	2,377	Real estate tax[2]	2,377
Total tax	$20,215	Total tax	$6,525
As % of income	34%	As % of income	11%

1– Based on $100,000 home; 2 – Based on $200,000 home

Source: Bill Strauss and Neil Howe

By Julie Stacey, USA TODAY

> "More twentysomethings believe in UFOs than believe that Social Security will still be around when they retire."

True to the party's grass-roots credo, these Republican ideas are percolating up from the states. Ever since California passed Proposition 13 to curb property taxes back in 1978, Republicans at the state and local level have been the prime movers in pressing for seniors-only tax relief. Examples abound everywhere.

Nowadays, young home-buying Californians can pay as much as nine times more in property taxes than an older resident who has occupied the same house for 16 years or more. Proposition 13 wasn't written to favor the old, but do the math: It almost always does.

The most egregious GOP pro-senior tax giveaways can be found in Virginia, through a combination of enactments by Gov. George Allen and the Republican-led Board of Supervisors of Fairfax County, just outside Washington.

Effective in 1996, a 65-year-old couple on maximum Social Security will pay no Virginia income tax on their first $59,728 of income — while a 30-year-old working couple would pay tax after the first $7,400. And in Fairfax County, a 65-year-old couple with an income of $30,000 pays no real estate taxes on their house, no matter how expensive it is. A young couple? No discount, no matter how poor they are.

Add this to the steeply pro-retiree bias in the federal tax code. (Remember: FICA — Social Security tax — is the biggest tax paid by 90% of workers under age 30, and retirees don't pay it at all, no matter how rich they are.) What you get is this:

A 30-year-old couple with a small child and a $30,000 income living in a $100,000 house in suburban Reston, Va., would pay a total of $8,474 in the "big four" taxes (federal income, federal FICA, state income, and local real estate).

Now picture a 65-year-old couple with the same house and income (60% of which comes from Social Security). What would they pay in those four taxes? Zero. You read right: $0.00.

Do a similar calculation for couples with $60,000 incomes and $200,000 homes, and here's what you get: The young working couple pays $20,215 in "big four" taxes, and the retiree couple pays just $6,525.

Let's suppose the congressional GOP passes its new seniors-only tax rollback. If so, the total tax on $60,000-income Virginia retirees would fall to even less.

Yes, Virginia, there is a Santa Claus — for seniors only.

Not to be outdone, another new GOP governor, South Carolina's Jim Beasley, is proposing his own $50,000 seniors-only tax exemption. Georgia and other jurisdictions also have empty-nester laws benefiting homeowning seniors, but not younger people.

Money is money. Seniors-only tax benefits are "entitlements," too. Recognizing this, the Kerrey-Danforth Commission — a panel appointed by President Clinton and dominated by moderates from both parties — soon will come forward with much more potent anti-big-government medicine than the Republicans are now prescribing.

The Republicans risk missing out on a golden opportunity. The Democrats have allowed Social Security and Medicare to become giant pyramid schemes, siphoning tax money away from young people at ever-rising rates — even though today's younger generations stand no chance of getting anywhere near the deal dished out to today's seniors.

Young workers are paying *30 times* more in taxes (in inflation-adjusted dollars) than they did in Congress' pre-Democratic era. Today's maximum FICA tax for a two-income 25-year-old couple is $18,544. When today's 75-year-olds were that age, that maximum was $120. (Adjust for inflation, and it was still only $611 in today's dollars.)

Clinton-style Democrats have made a shameless habit out of ignoring the truth about Social Security every time an election is near. They run negative ads the instant a Republican like Rick Santorum dares to suggest a common-sense reform (raising the Social Security retirement age) that would help balance the budget and benefit the young. What happened in Pennsylvania? Meet *Senator-elect* Santorum. Could a new trend be in the offing here?

Wake up, Newt & Co.: Four short years from now, in 1998, the generation born in the 1960s and '70s (the ones who rank Social Security below UFOs) will be the largest generational voting bloc in the USA. The day is coming when they vote, and vote big.

If the GOP is bound by contract to give a big, seniors-only tax cut, why stop there? If you *really* want to impress young voters, give a tax cut to UFOs. It would make just as much sense.

Bill Strauss and Neil Howe are co-authors of Generations *and* 13th Gen.

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12/19

Economic Policy Institute

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FOR IMMEDIATE RELEASE
Friday, November 4

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202-331-5546
Elizabeth James
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NEW REPORT OUTLINES PLAN FOR "SUSTAINABLE DEFICIT REDUCTION"

Related Study on Kerrey Commission Says Its Interim "Findings" Distort Nation's Economic Problems, Fail to Offer Viable Remedies

Washington, D.C. -- The current debate over reducing the federal budget deficit rests more on political posturing than economic arguments, according to two new reports released today by the **Economic Policy Institute** (EPI). The reports challenge the case for rapid deficit reduction and conclude that the demand for further deficit reduction is threatening the nations' most important income support programs -- Social Security, Medicare, and Medicaid.

In ***Up From Deficit Reduction***, EPI economist **Max B. Sawicky** finds that the continuing political emphasis on deficit reduction is harming the nation's economic prospects in three ways:

-- It enforces a fiscal policy that will be overly contractionary, and thus employment, family income, personal saving, and business investment will be needlessly depressed.

-- It is blocking expansion of public investment -- in infrastructure, education and training, environmental protection, and defense conversion -- that was the programmatic heart of Bill Clinton's electoral victory in 1992.

-- It is placing the nation's key income support programs, such as Social Security and Medicare, in jeopardy.

In a related report, entitled ***Lost in Findings: A Critique of the Interim Report of the Bipartisan Commission on Entitlements and Tax Reform***, Sawicky challenges the conclusion of the interim report of the Kerrey Commission that the only way to reduce the deficit and increase economic growth is to cut federal entitlement benefits. Sawicky analyzes the interim findings of the Kerrey Commission and finds that the report distorts the nation's economic problems and fails to point the way toward viable remedies.

- more -

The author points out that deficit reduction is neither as important nor as urgent as is commonly believed, particularly in light of recent, substantial changes in the deficit outlook. High deficits and rising national debt are not reliable indicators of diminished economic well-being. According to the author, a greater importance should be placed on economic indicators such as employment, wages, profits, and labor productivity.

The predominant sentiment in Congress and the budget strategy advocated by well-financed groups and individuals such as the Concord Coalition and Ross Perot is that the deficit should be eliminated in the next five to seven years, almost exclusively through spending cuts rather than tax increases. Sawicky argues that deficits and debt need to be controlled, but the approach, rather than the "zero option," should be "sustainable deficit reduction" -- stabilizing the ratio of public debt to gross domestic product (debt/GDP ratio) to provide a framework of fiscal discipline that is responsible, noncontractionary, politically feasible, and hospitable to expanded public investment.

The author finds that the only serious argument for deficit reduction -- that it will increase private investment and augment the nation's capital stock -- is not supported by evidence. Therefore, Sawicky concludes that ideology, not economic theory, is fueling much of political pressure for fiscal austerity.

Deficits, now falling, are projected to begin growing again at the end of the 1990s. This growth can be attributed *entirely* to just two programs in the federal budget -- Medicare and Medicaid. Social Security does not add to the problem until 2019. On the basis of these projections, it is indeed the case that, left unattended, these programs -- and only these programs -- will eventually destabilize the federal budget. In other words, the problem cannot be solved by spending cuts in other areas of the budget. Sustainable deficit reduction requires addressing the long-term deficit problem through structural reform of Medicare and Medicaid.

At the same time, these programs insure the vast majority of Americans against destitution in sickness and old age. Moreover, the health programs are deeply intertwined with the nation's entire health care system. Therefore, deficit reduction measures must support the missions of these programs and reform must be structural, as opposed to fiscal. The fiscal solutions -- such as entitlement caps, spending freezes, and sequesters -- being promoted by the Kerrey Commission and others only postpone and complicate the inevitable reckoning of these budget problems.

Max B. Sawicky is an economist at the Economic Policy Institute. He has worked in the Office of State and Local Finance of the U.S. Treasury Department and for the U.S. Advisory Commission on Intergovernmental Relations. He has studied and written about the economics of public finance, with an emphasis on the federal budget, the U.S. federal system, state and local finance, and welfare reform. His publications include *The Roots of the Public Sector Fiscal Crisis*, *The Poverty of the New Paradigm*, and *Deficit Reduction for Growth and Fairness* (with Jeff Faux). He received a Ph.D. from the University of Maryland-College Park.

The **Economic Policy Institute** is a non-profit, non-partisan economic think tank founded in 1986 and supported by grants from foundations, corporations, labor unions, and individuals. Its founders include economic policy experts Lester Thurow, Robert Reich, Robert Kuttner, Barry Bluestone, Ray Marshall, and EPI President Jeff Faux.

To order copies of the EPI reports **Up From Deficit Reduction** ($10) and **Lost in Findings** ($5), by Max B. Sawicky, contact Public Interest Publications at 1-800-537-9359.

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FOR IMMEDIATE RELEASE
Monday, October 24th

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NEW REPORT SHOWS IMPORTANCE OF WAGE GROWTH TO DEMOCRATIC PARTY'S ELECTORAL BASE

Perot Voters Experienced Greater Wage Losses than Clinton Voters

Washington, D.C. -- Despite a recovering economy, the Clinton Administration and the Democratic Party seem to be getting little of the credit for it. A new report released today by the **Economic Policy Institute** (EPI) suggests that stagnant wages and incomes affect voting behavior more than has been generally assumed.

In **The Politics of the High-Wage Path: The Challenge Facing Democrats**, author Ruy A. Teixeira finds that reviving wage growth and expanding the Democrats' electoral base are interconnected and, together, present the Democratic Party with a set of challenges that it must meet in order to forge a solid governing majority. Teixeira's analysis of polling data suggests that long-term economic decline is driving much of the bitterness toward the Democrats and the failures of government. He argues that in order for Democrats to relieve middle-class anxiety, they must reverse the adverse wage trends of the last 20 years.

The report examines the question of why swing voters chose to vote against Bush but selected Perot over Clinton in 1992. Based on analysis of Voter Research and Surveys (VRS) exit poll data, the analysis shows that negative assessments of the economy, both short- and long-run, were important predictors of an anti-Bush vote. Teixeira found that those who thought their family financial situation was worse today than four years ago were more likely to vote against Bush, all else equal. Similarly, those who thought trade lost rather than produced jobs and, especially, those who thought that the country was in serious long-term economic decline, rather than a temporary downturn, were more likely to vote against Bush, controlling for other factors.

Distinguishing among anti-Bush voters, Teixeira found that Perot voters were different from Clinton voters in at least two important ways. The first was that, while **Clinton voters and Perot voters experienced wage losses in every time period studied, Perot voters' wage losses were greater.** Consistent with this pattern, **the greater the wage loss experienced, the more likely a voter would choose Perot over Clinton.** Moreover, Teixeira found that the pro-Perot effects of wage losses were stronger over longer time periods (dating back to 1979), indicating that long-term wage decline may be driving much of the bitterness toward the Democrats and the perceived failures of government.

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The second, and widely known, difference is that Perot voters were skeptical of the utility of increased government activism and spending, while Clinton voters were much more supportive.

Teixeira argues that the economy, left to its own devices, is no longer doing a very good job of raising middle-class living standards. He attributes this to the fact that the real wages of American workers have been declining since 1973, making most families struggle -- many unsuccessfully -- simply to maintain a middle-class lifestyle. These trends have been particularly bad for those without a four-year college degree: high school dropouts (down 23%); high school graduates (down 15%); and those with some college (down 12%), according to the author. Thus, if the Democrats are to provide a secure basis for middle-class prosperity, Teixeira believes they must have a plan for reviving wage growth.

"New Democrats" have argued that the Democratic Party base can be expanded by concentrating on "winners" in the new economy, for example, the **college-educated** and **relatively affluent**. But Teixeira warns that **exit poll data far overestimate the proportion of voters from these groups**. More accurate Census data show that 27%, not 39%, of voters have a college education, while only 14%, not 32%, have family incomes over $50,000 (estimates are even less for Clinton and Perot voters), the author found. Therefore, there are not as many "winners" as the polling data would suggest. In addition, the strategy of expanding Democratic support among the highest education groups is particularly unlikely to be fruitful: only about 9% of the electorate has a post-graduate education.

Thus, those doing well in the new economy are simply not numerous enough to constitute a plausible alternative basis for Democratic strategy. Expanding the Democrats' electoral base and reviving wage growth are therefore tightly linked, according to the author.

"One challenge for the Democrats is to develop a *substantive* new approach to generating middle-class prosperity. Otherwise, the symbolic battle with the Republicans can be very hard to win, as witnessed by Clinton's continuing problems," writes Teixeira. "But, so far, the Democrats' strategy for restoring middle-class prosperity has defaulted to promoting business expansion."

Teixeira cautions against relying on aggregate economic growth to ensure Democratic political fortunes. "In a situation where aggregate economic growth and wage growth are disconnected, we should not expect positive overall economic performance (as Bush had in the last several quarters before the 1992 election) to have the same effect as in previous situations. Bush and the Republicans expected this and they were wrong. Clinton and the Democrats should be careful they do not make the same mistake," concludes Teixeira.

Ruy A. Teixeira holds a Ph.D. in Sociology from the University of Wisconsin and is the author of numerous books and articles about American politics. His most recent book is *The Disappearing American Voter* (Brookings 1992). He is also the co-author (with Lawrence Mishel) of the Economic Policy Institute report, *The Myth of the Coming Labor Shortage*.

The **Economic Policy Institute** is a non-profit, non-partisan economic think tank founded in 1986 and supported by grants from foundations, corporations, labor unions, and individuals. Its founders include economic policy experts Lester Thurow, Robert Reich, Robert Kuttner, Barry Bluestone, Ray Marshall, and EPI President Jeff Faux.

To order copies of the EPI working paper **The Politics of the High-Wage Path: The Challenge Facing Democrats**, by Ruy Teixeira, contact Public Interest Publications at 1-800-537-9359. Price is $10.

THE PRESIDENT HAS SEEN 12/19

To Laura Tyson

Pls get these 2 reports
have them analyzed
and evaluated and do
me a short report.

Thanks

BC

THE PRESIDENT HAS SEEN
12/19

December 12, 1994

MEMORANDUM

Mr. President - This is what we talked about!
John Breaux
12/13/94

TO: Senator Breaux

FROM: Marcia Jones

SUBJECT: 1992 Tax Bill--Middle Income Tax Cut

Everyone supports a middle income tax cut. This is a "no brainer" so to speak. The problem is, and has always been, how to pay for one. Bill Clinton campaigned for a middle income tax cut. His 1993 budget bill did not include one because he applied resources to deficit reduction. If we now adopt a cut, we have to make sure it is honestly paid for and will not increase the deficit in the long term. Deficit Increases are tax increases for middle income Americans (interest payments on the debt).

The Republican Contract has included ideas that the Republicans have in fact voted against in very recent history.

In 1992, the House and Senate sent to the President, H .R. 4210--the Tax Fairness and Economic Growth Act of 1992. This bill contained a variety of tax cuts for middle income taxpayers (list below). In the Senate, not one Republican voted for the conference report. In the House, only one Republican (Olympia Snowe) voted for it. And, the President vetoed the bill.
BUSH

Why? Because these tax breaks for the middle class were paid for by: raising the top rate on wealthier taxpayers (new 36% bracket on single filers with taxable income of $115,000 and married filers with $140,000)'; imposing a 10% millionaires surtax; and extended the limitation for itemized deductions and personal exemption for high income taxpayers. This is a party that is truly for the rich and is not for the middle class.

The Republicans voted against many good provisions that would have helped middle income taxpayers.

1. Temporary payroll tax credit. A two year (1992 and 1993) income tax credit for up to 20% of an employee's social security tax liability.

   For married couples, the maximum tax credit was $300 and was phased out for those with adjusted gross income of $50,000-$70,000.

   For single taxpayers, the maximum credit was $150 and was phased out between $35,000-$50,000.

2. Permanent per child tax credit. For 1994 and beyond, a permanent non-refundable $300 per child tax credit was

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provided for families with children under the age 16. The credit was phased out for taxpayers with adjusted gross income of $50,000 and $70,000.

3. Tax Credit for Student Loan Interest. A tax credit up to $400 per year for interest paid on debt for student loans for middle income taxpayers.

4. Progressive Capital Gains Tax Cut. The bill gave a bigger tax break for those in the lower income brackets and smaller for those in the upper income brackets:

Taxable Income	Capital Gains Tax Rate
$0-35,800:	0%
$35,800-86,500:	14%
$86,500-175,000	21%
$175,000 and over	28%

5. Expanded the IRA. The bill allowed penalty free withdrawals for home ownership, education and medical expenses, and long-term unemployed. It also created a new backloaded IRA, very similar to what the Republicans.

THE PRESIDENT HAS SEEN
12/19

<u>Leon</u>
We need to keep
using this as we go along

THE PRESIDENT HAS SEEN
12/19

Will Success Spoil America?

Why the Pols Don't Get Our Real Crisis of Values

By Edward N. Luttwak

HAVING TRIED George Bush, who showed himself blithely unaware of the very existence of the problem, and having tried Bill Clinton, who spoke as if he knew all about it but failed to act, the American electorate has now given a two-year opportunity to the congressional Republicans to show that they can understand the problem and also come up with valid remedies.

The problem in question is the unprecedented sense of personal economic insecurity that has rather suddenly become the central phenomenon of life in America, not only for the notoriously endangered species of corporate middle managers, prime targets of today's fashionable "downsizing" and "reengineering," but for virtually all working Americans except tenured civil servants—whose security is duly resented.

Individual Americans who are neither economists nor statisticians do not focus on the economy's overall rate of growth, but rather on the security of their own jobs. Hence the vigorous recovery that provoked the Federal Reserve's anti-inflationary crusade cannot assuage personal fears. And the source of these fears is obvious: The once highly regulated and internationally dominant U.S. economic system has given way to a far more dynamic but also much more unstable turbo-charged capitalism open to the world's competition, in which no single firm, no particular industry and certainly no job or self-employment niche can be secure any longer. However tiny its effect, the General Agreement on Tariffs and Trade (GATT) Treaty now before this lame-duck Democratic Congress, can only add to those worries.

There is nothing new about the "creative destruction" of free competition. Only if outdated economic structures and obsolete working methods are first swept away, freeing up their human and material resources, can more efficient structures and methods arise in their place. What is new is only a matter of degree, a mere acceleration in the pace of structural change at any given rate of economic growth. But that, as it turns out, is quite enough to make all the difference.

The rise and decline of skills, firms and entire industries is now quite rapid even when there is zero growth, becoming that much faster when the economy does grow. In the process, the most enterprising or most fortunate individuals are offered more opportunities for rapid enrichment than ever before, and even tiny firms can aspire to fabulous growth. (Microsoft, born 1975, is the classic example). At the same time, however, the great majority of individuals has experienced not only unprecedented job upheavals, but also an absolute 20-year decline in personal earnings.

See SECURITY, C4, Col. 1

Edward Luttwak is senior fellow at the Center for Strategic and International Studies and author of "The Endangered American Dream."

THE WASHINGTON POST SUNDAY, NOVEMBER 27, 1994

Success and America

SECURITY, From C1

Republicans of the "family values" persuasion should have been the first to recognize that more disruptive change has been inflicted on working lives and entire industries than the connective tissue of many families and communities has been able to withstand. As it is, only a few paleo-conservatives of Pat Buchanan's persuasion have recognized the far-from-mysterious economy-society connection. Hence in the standard two-part Republican political speech, Part I still celebrates the virtues of dynamic economic growth, propelled by technological progress, deregulation and free trade, while Part II mourns the decline of the family and community "values" eroded precisely by the constant dislocations caused by our turbo-charged economy.

So far, the blatant contradiction at the very core of what has become mainstream Republican ideology ("family values" and dynamic economic growth) has gone mostly unremarked. And in any case it is not the Democratic Party as it now defines itself that can benefit from the Republican contradiction. Americans who work and earn but who fear for their economic future cannot benefit from what the Democrats have to offer: more taxes, more redistribution and more favors for any group that can claim victim status.

Both political parties promise more growth through the magic of an unfettered economy. But what most working Americans now seem to want is not the *possibility* of better jobs or higher incomes through growth (because they have seen that it need not increase their earnings) but rather security for the jobs and income they already have.

A vast segment of the political spectrum is thus left vacant by the mainstream Republican contradiction on the one hand, and by mainstream Democratic "assistentialism" on the other. That was the space briefly occupied during the 1992 election year by the caprices of Ross Perot, who burdened his core message of personal economic security with strange preoccupations. And that is the space that the Republicans will leave vacant for another third-party candidate if they do not address the problem of personal economic security by 1996.

Perhaps the most obvious cause of accelerated structural change is the retreat of government regulatory controls. (Actually the totality of regulations continues to increase, but commercial as opposed to health, environmental and anti-discriminatory regulation has certainly diminished, and continues to do so.) With that, competition and efficiency both increase and once secure enterprises must face the full perils of the market.

The airline industry is the exemplary case. When still highly regulated, the moderately inefficient airlines were consistently profitable, commonly offering lifetime jobs for all their employees. While their profits were not spectacular, they earned enough to pay both rank-and-file and management employees rather well, and to serve as a stable and rich customer base for the aircraft industry.

Today's deregulated industry by contrast, consists largely of airlines perpetually within sight of bankruptcy, which they try to avert by extreme cost-cutting (service standards have notoriously collapsed) and desperate marketing maneuvers. Almost all have imposed serious wage reductions, layoffs or both. By contrast, almost all now pay much, much more to their top managers. And all surviving airlines offer such low domestic fares that, unlike the days of regulation, even Americans with ample free time and/or low incomes now habitually travel by air.

Airline deregulation has also destabilized the aircraft industry. Domestic airlines fly more aircraft than before, but tend to keep them until they are worn out. Lockheed has stopped manufacturing airliners altogether; McDonnell Douglas is too weak financially to develop any new airliners on its own (and seeks Asian risk-sharing partners at the price of sharing its key technologies); and Boeing's future is secure only because of sales to foreign airlines—most of which are still highly regulated.

Overall, airline regulation served the interests of Americans-as-producers, at the expense of Americans-as-consumers. Now it is the other way around. From a strictly economic point of view, the greater efficiency brought about by cut-throat competition may justify all. But from a social point of view there is no such compensation.

With its stable, well-paid jobs the regulated airline industry of the past obviously contributed to family and social stability. By contrast, today's chaotically unstable airlines are very disruptive for families and communities, as they rapidly expand or drastically shrink over a matter of months or even weeks, as they shift hubs and maintenance bases, each time hiring and firing employees in their constant maneuvering for market survival. It would be a nice bit of sociological research to calculate the number of divorces and problem children caused by deregulation-induced economic stresses on the families of airline employees.

Partly because there are no such statistics, we are accustomed to simply ignore the non-economic consequences of de-regulation, not just in the airline industry but in all industries. Yet it is intuitively obvious that social losses must outweigh economic gains in many cases.

Another obvious cause of accelerated structural change in the U.S. economy is the rather sudden computerization of office work. After being long delayed, the increased efficiencies that electronic computation, data storage, reproduction and internal communication machines were supposed to achieve bit by bit, finally arrived in bulk during the 1980s. Partly because even senior managers can now work these machines; partly because junior managers are increasingly compelled to use those machines in place of clerical help; and partly because "local-area networks" allow managers at the next level up literally to oversee the work that their subordinates are doing or not doing—for all these reasons the computerization of office-work has suddenly become a near-universal reality. With that, white-collar workers too are now exposed to the mass firings and diminishing employment prospects that have long been the lot of blue-collar workers in mature industries.

Management consultants prattle about "reengineering the corporation," but the very real economies that Wall Street anticipates by bidding up the shares, thereby enriching top executives with stock options, come not from the background music of management-consulting jargon but rather from the firing of telephone-answering secretaries replaced by voice-mail systems, of letter-writing secretar-

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ies replaced by word-processing and fax-boards, and of filing secretaries replaced by electronic memories, with the resulting elimination of their clerical supervisors, and the middle managers who used to supervise those supervisors.

That is why businesses whose revenues and profits are increasing nicely in the present recovery are nevertheless not adding white-collar or middle management positions; why businesses whose revenues and profits are stable are eliminating quite a few of those positions; and why businesses in decline are drastically reducing both white collar and management positions.

To be sure, technological progress also allows many new jobs to emerge, often very good ones. Unfortunately, as the continuing decline in the average hourly earnings of all employed Americans proves beyond a doubt, the loss of a great many so-so white collar jobs continues to outweigh increases in exciting new-technology jobs. A recent highly optimistic column by Robert J. Samuelson inadvertently showed why the totality of new jobs is not a satisfactory replacement for the old white collar jobs that have been lost.

The Samuelson list included such classic new-tech companies as Intel, Microsoft, Apple Computer and Genentech. Simple arithmetic, though, showed that all the companies in the list employed a grand total of 62,500 people—only 500 more than Home Depot alone, a retail chain that offers mostly low-paid and part-time jobs.

That indeed is the true destination of most fired white-collar workers: lower-status jobs in retail sales or other cheap services, with diminished earnings, smaller fringe benefits, and scant if any job security. (Since the table was published there have been mass firings at Apple). It is interesting to note that the table also included Nike, which manufactures mostly outside the United States, and Southwest Airlines, a non-union company that pays the lowest wages in the industry, forcing competing airlines to do the same in each regional market it moves into.

Once again, as with deregulation, structural changes induced by the arrival of new technologies are undoubtedly increasing the total efficiency of the U.S. economy. The trouble is that they are enriching only the architects of change and those who can invest in their ventures, while impoverishing a net majority of all working Americans.

The most blatantly obvious (if not most important) cause of structural change is the so-called "globalization" of the U.S. economy. Negotiated trade agreements, including the new GATT Treaty, have been only one factor in increasing the exposure of the economy to the competitive pressures and opportunities of the global marketplace. Other factors include cheap and instant telecommunications that ease the formation of new commercial relationships; the diminishing incidence of transport costs and the hammering down of once diverse consumer preferences into uniformity by trans-national mass media imagery and advertising.

Globalization means that U.S. sales of goods or services can expand far beyond the limits of the domestic market—and of course that the U.S. production of many kinds of goods and services, and the related employment, can be displaced at any time by cheaper production from someplace else in the world. True, globalization as such does not determine U.S. wage levels. Even the U.S. worker who happens to be competing head-on with an Indian counterpart is paid according to the supply and demand for his skills in the U.S. labor market, and not the Indian market. But life for the vast number of Americans who now participate in the global economy, wittingly or unwittingly, is full of exciting surprises and catastrophic downfalls.

Viewed in the very narrow national-accounting perspective of all our globalization debates, whether NAFTA last year or the GATT Treaty now, any increase in the combined income of all Americans—no matter how unevenly distributed—fully justifies going ahead to globalize some more. On that there seems to be a perfect consensus between mainstream Democrats and mainstream Republicans. Both take it for granted that globalization has increased and can continue to increase the country's total GNP (true), that it must therefore increase the income of all Americans or at least most of them (false), and that because protectionism is always bad for U.S. consumers (true), it must always be bad for the country (false).

What is missing is anything resembling a social perspective. In fact it is simply taken for granted that economic efficiency must never be compromised in the slightest to suit the needs of society. That would make perfect sense if the United States were a very poor country with a perfectly peaceful and tranquil society. As it is, the United States has much more wealth than social tranquility and would benefit much more from economic stability than from further economic growth, inevitably achieved by disruptive structural changes of one kind or another.

If one does take into account the psychological and practical need of families and communities for a reasonable degree of stability, very different criteria apply to globalization as well as to deregulation.

Those are the very criteria that have shaped Japan's protracted resistance to the globalization of its own economy, as well as to deregulation. U.S. trade negotiators are forever arguing the merits of free markets, but the overall purpose of Japan's many overt and covert trade barriers and domestic regulations is precisely to protect Japanese society from the disruptive effects of any competition, foreign or domestic. Small shopkeepers are protected by a Large-Scale Retail Law that greatly restricts the spread of chain stores, supermarkets and department stores. Craftsmen threatened by cheaper imports are protected by unwritten customs house conspiracies as well as overt barriers. And many industries, including low-tech paper and plywood, have their own informal protective arrangements, while high-tech industries are officially assisted as well as protected. As a result, Japanese-as-consumers must pay very high prices, but Japanese-as-producers enjoy all the benefits of personal economic security.

American visitors immediately notice the tranquility of Japanese crowds, and the conspicuous absence of the free-floating anger that has become a sinister feature of American life, and a deadly one at times. They may attribute all this calm to the homogeneity of Japan's population, or its ancestral discipline. But they would be wrong: Before its all-powerful bureaucracy stabilized Japan's economy with its regulations and protectionism, the country witnessed a great many very violent strikes, any number of political assassinations and frequent mass demonstrations that often degenerated into outright street fighting.

To be sure, the Japanese system sacrifices economic efficiency at every turn, and the consumer pays the price every time. It is a fact that the actual Japanese standard of living is on average much lower than the American, even though average Japanese money incomes are now substantially higher.

But that is a very incomplete truth, for it only includes purely material factors, overlooking society-wide considerations that count for much more—even in purely monetary terms.

When I drive into a gas station in Japan, three or four clearly underemployed young men leap into action to wash and wipe the headlights and windows as well as the windscreen, check tire pressures and all the different oils, in addition to dispensing the fuel. For that excellent service, I have to pay a very high price for the gasoline. The Japanese bureaucracy, determined to protect those low-end jobs for youths who lack the talent for better employment, as well as small gas stations in rural areas, flatly prohibits self-service gas pumps, and in any case forces all gas stations to compete by offering lavish service because fuel prices are fixed by the government and price-cutting is banned.

Back in America, I fill my own tank much more cheaply from a self-service pump, but there also three or four young men are waiting—sometimes in person but certainly by implication. But because they are not employed by the gas station, or by anybody else, I do not have to pay their wages through government-imposed high prices for my gas. That is where U.S.-style economic analysis stops: Japanese consumers are being exploited, while the free market provides American consumers with cheap gas.

But in reality, I still have to pay for those young men who are not employed by the gas station. My car insurance rates are higher because of their vandalism and thefts, my taxes must be higher to pay for police, court and prison costs, and even a little by way of welfare benefits. If I am very unlucky, I may have to pay in blood. In a recent article on a Washington youth who killed a Korean immigrant at the age of 17, while absent from a psychiatric clinic where he had been sent for killing a taxi driver at the age of 15, it was parenthetically noted that more than $100,000 had been spent on his psychiatric treatment; his 30-year prison term will cost another $750,000 or so.

Not counting two deaths and his trial costs, the cost of not employing that one youth would pay for at least 37,777 gallons of gasoline—even at very high Japanese prices. American free-market gasoline is thus very expensively cheap, as compared to Japan's employment-generating, cheaply expensive gasoline.

There is no assurance of course that those young men whom I see loitering would actually take gas station jobs if any were available for them. But what is certain is that in Japan the governments acts to ensure that there are job openings for youths incapable of more demanding employment, while in the United States, nothing must stand in the way of free-market efficiency, very narrowly defined to exclude any and all social consequences.

As it happens, in Japan even the bureaucracy is now beginning to discuss deregulation. But the currently victorious Republicans might still benefit from glancing over at the Japanese model. As of now, we have not only unemployed youths but also a great many small-town shopkeepers facing the relentless spread of Wal-Mart and its ilk; textile workers imminently threatened by imports and employees everywhere caged with corporate tigers out to fire them if they possibly can.

If the Republicans too only offer more economic growth and yet more social disruption, by 1996 the electorate will be ready to try out whatever third party comes along—or lacking that, it may even vote for the Democrats if only to show its displeasure once again.

Trickle Down and Out

THE WASHINGTON POST SUNDAY, NOVEMBER 27, 1994

Low-Tech Reality: How Workers Get Hurt in Our Flexible Economy

By Anthony Carnevale

THE ELECTION of a Republican Congress, committed to vote on a capital gains tax cut in early 1995, is likely to renew the long-running controversy over whether so-called supply-side or trickle-down economic policies actually benefit the majority of the American people.

Who is right in this debate? The "pessimists" who argue that the Reagan era's tax cuts and deficit spending mortgaged America's future? Or the "optimists" who say tax cuts for the economically productive infuse the American economy with dynamism that makes it the envy of the world?

Many Americans remember the pre-supply-side administration of Jimmy Carter as a time of slow growth

Flexibility cannot simply become a fancy term for "fired," or for a job without benefits, or for a widening divergence between the "haves" and the "have nots."

and malaise, and the trickle-down era of Ronald Reagan as a time of buoyant prosperity. But many other Americans who grew up with expectations of a middle-class life found the '80s to be a disillusioning time in which job insecurity grew and wages fell.

The record shows that overall, job creation and economic growth were, in fact, virtually identical in the '70s and '80s. So the issue isn't growth, the issue is—who got the money and which approach is more likely to benefit the most Americans in the long run.

Into this debate now come some interesting new findings in a series of studies for the National Commission for Employment Policy conducted by chief economist Stephen Rose. Rose tracked the earnings and employment experiences of a group of prime-age and young adults over a 22-year period. The 5,000 families tracked included men and women who were aged 22 to 46 in 1967 through 1979 (when they were 34 to 58). He used the same age progression for the 1980s starting in 1977 and ending in 1989. The conclusions are bittersweet:

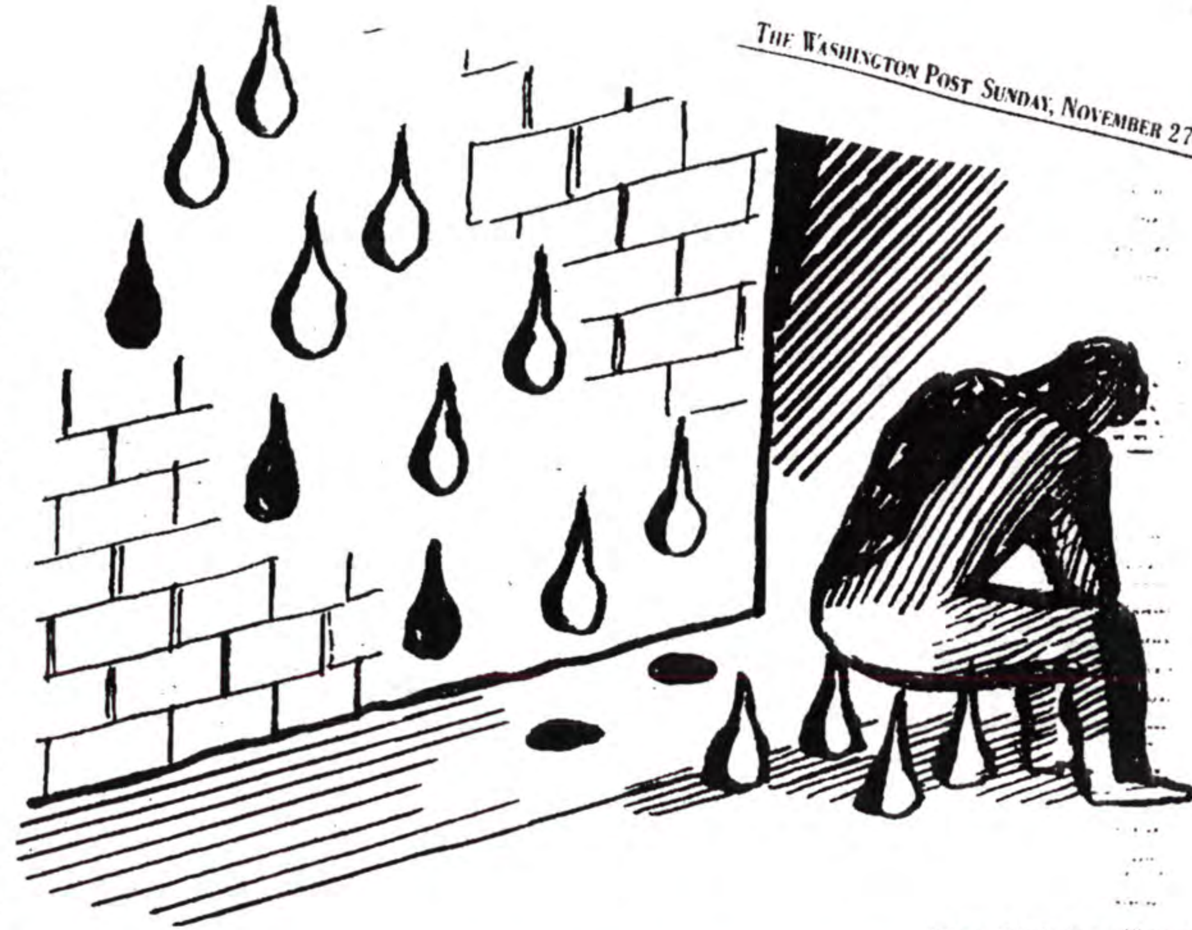
- Although the American economy still provides upward mobility for most, it does so for a declining majority of Americans. In the 1970s, 79 percent of those studied were income gainers compared to only 67 percent in the 1980s.
- Access to education and technology separated the winners from the losers. In fact, the earnings advantages derived from increased education doubled over the 22 years. Those who had access to computers on the job, for example, earned between 15 percent and 30 percent more than those with the same education and job experience but no access to computers.

Accordingly, there was a widening income divergence between those with similar characteristics—such as level of education and experience—in the 1980s as compared to the 1970s, resulting in growing risk and anxiety even among well-educated and experienced workers.

- Men, who seem to be the angriest part of the current electorate, apparently have some reason to be mad. Twenty-four percent of men were losers in the 1970s compared to 36 percent in the 1980s.
- While the declining fortunes of white males apparently figured in the 1994 electoral revolution, it is actually black males who have lost the most ground. In the 1970s, nearly three-quarters of black men were able to maintain a full-time job year-round consistently throughout the decade. Only half of black men in the 1980s were able to maintain full-time, year-round employment.
- While women were consistent winners in earnings, they paid for their success by working harder. In the 1980s, women earned 55 percent more in real terms than their counterparts in the 1970s in every age, income and education category, and their average wage rates in the 1980s were 9 percent higher. But women worked nearly 50 percent more hours in the 1980s than in the 1970s (an average of 1,240 hours per year in the 1980s as compared to 870 hours per year in the 1970s).
- Young men found it difficult to gain purchase on the lower rungs of the career ladder. Of those between 22 and 26, only 9 percent suffered from declining earnings in the 1970s, while 26 percent were losers in the 1980s. The number of young women losers in the same age category declined from 40 percent to 30 percent in the two decades because they worked harder.

In short, the benefits of national economic policies between 1979 and 1990 trickled down to far fewer people than the previous economic policies did.

These findings reveal a central riddle of the new



i.e., flexible work patterns—is also a source of economic risk—i.e., worker layoffs. The dilemma is maintaining the strengths inherent in our flexible labor markets without creating an economy that fails to provide job security. Flexibility cannot simply become a fancy term for "fired," or for a job without benefits, or for a widening divergence between the "haves" and the "have nots."

If we truly want American workers to be flexible, we must provide them with a tool kit that increases opportunity rather than economic failure in a turbulent labor market, including portable health care and pensions, education and training, counseling and job search assistance, accurate labor market information, family support and an atmosphere in which capital and labor can be partners.

In general, we need more adaptive labor market policies. Adaptive policies, which help workers adjust to change, can both enhance flexibility and improve earnings and employment security. Passive labor market policies, which protect jobs that are no longer competitive or encourage unemployment over reemployment, will reduce

Continuing to pursue the economic policies of the 1980s would seem to ensure continued turbulence in American labor markets. It would engender anger from those with good educations and work experience who play by the rules but feel cheated by an economic system that seems unpredictable and unfair. And, of course, those who are completely excluded, the poor, will fall further and further behind.

Increasing wage inequality and greater risk, in turn, may also destabilize the social compact that keeps society functioning well. Ours is a society based on work. A job is the price of admission in this individualistic culture and participatory political system. Good jobs create good neighbors and good citizens. The unemployed and underemployed tend to drop out of the community and in the worst cases, after generations of poor job prospects, create alternative subcultures, economies and political factions that are a threat to the American mainstream. Elected officials who fail to respond to these realities will, as the Democratic Party learned earlier this month, face the

Anthony Carnevale is chairman of the National Commission for Employment Policy, which advises the

THE PRESIDENT HAS SEEN
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Don Baer / Bill Galston etc

worth reading —

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THE PRESIDENT HAS SEEN
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An Orphan on Orphanages

By Richard B. McKenzie

At the start of the movie "Annie," Miss Hannigan—the decadent, overbearing house mother of 30 or so little girls—says, in obvious exasperation, "Why any kid would want to be an orphan is beyond me."

The stark contrast between the movie version of life in the orphanage and the life Annie comes to know with her adoptive father, the extravagantly wealthy Daddy Warbucks, probably left many movie-goers convinced that Miss Hannigan was right: no one in his or her right mind would ever want to be an orphan. Social critics continue to paint dreadful pictures of life in homes for children, which give them license to tag proposals to bring back orphanages as "extreme" (columnist Ellen Goodman's word).

A funny thing has happened in the emerging debate: No one has thought to ask us orphans, the children who grew up in institutions, what we would prefer.

I've spent a lifetime quietly listening to others disparage orphanages as cold and loveless institutions where every child longs to be adopted. I know that this description is out of date and out of whack, and should have no bearing on the debate of how to help some of the least fortunate children among us. I was there. I grew up in a home with 150 or so other girls and boys in North Carolina in the 1950s—and I'm damn proud of it, and thankful!

Life in The Home (which is what we called it) was no picnic. When we were young, we got two baths and changes of clothes a week, regardless of whether we needed more. We went barefoot to school until late November (which, until it got cold, was a marked advantage). We went to bed in "sleeping porches" that were totally unheated. We worked hard for long hours on the farm and in the shops, and we lacked a lot, not the least of which were the daily hugs other children take for granted and the requisite level of encouragement to read and study.

Critics of orphanages stress what the children there did not have. Those of us who were there have a different perspective. We were, and remain, able to draw comparisons between what we had at The Home and what we would have had outside it.

If any of us had had a choice between growing up with Ozzie and Harriet or in The Home, each would surely have taken the former. However, we either didn't have parents or left parents behind who were not worthy of the roles they had assumed. Those who think that private orphanages are "extreme" solutions to the problems many children face do not appreciate the realistic options available to many children. Few of us would have entertained adoption, and virtually all of us today shudder at the foster-care option. The dominant emotion for those of us who return each year to homecoming is neither hostility nor regret, but sheer *gratitude*.

We understand that we have not always set the world on fire. At the same time, we realize that we would not be where we are today had we not had the opportunity to grow up the way we did. With all the current talk about "family values," critics must never forget that some families value very little. Sometimes, families work much less well than even the worst of institutions.

Besides, the popular images of orphanages do not square with the many good things we had and were taught. We got structure and stability. We got security in the knowledge that The Home would always be there, no mean advantage for children whose families had failed them. We had 1,500 acres of pastures and woods to roam, and we made dozens of lifelong "brothers and sisters."

I know many people, with unforgettable pictures of Miss Hannigan in their minds, harbor fears about workers in homes for children. They, however, have never had the good fortune of meeting Albert McClure and Rebecca Carpenter, the highly religious leaders of The Home, who devoted their lives to making sure, as best they could, that we learned (albeit reluctantly and imperfectly) the difference between right and wrong. The critics could not have known Mrs. Mac, one of the many house mothers with big hearts, who, after I left The Home, sent a birthday card every year until her death in the late 1980s.

The critics have never had the opportunity to sit in Frances Moore's seventh-grade class. By her unbounded force of character, she turned my life, and the lives of so many of my classmates, away from a destructive course to one that had prospects. She made us believe what then was surely a myth—that it was *us*, not our circumstances, that would ultimately determine how far we would go in life. Would you believe that after nearly four decades of her following my career, she sent one of the best Christmas gifts I have ever received, a framed set of original verses in needlepoint on what it means to be successful—not the money kind, but the kind that affects the heart and soul? Square that with the likes of Miss Hannigan.

Most critics would like the public to believe that those of us who went through orphanages were throttled by the experience. No doubt, some were. However, most have charged on. In many ways, we represent the best of what this country is about—plumbers and nurses, ministers and managers, teachers and baggage handlers—in the main, good, well-meaning Americans who have answered the call to rise above expectations.

Most might be surprised to learn that during World War II, when the military was turning down close to 40% of draftees from the general population, it rejected a scant 1.4% of the boys from The Home. We gave more than our share. Moreover, of the boys and girls who graduated from high school in my class and the classes immediately before and after, more than 80% now have college degrees, and a third have advanced degrees, no minor accomplishment for kids who supposedly grew up the "hard way" in an era when only a minor fraction of high school students went on to college.

I often watch the television program "Cops," and I am especially drawn to the episodes involving domestic violence and abuse of children. My heart goes out to the children caught off to the side in the pictures. I know that many will remain mired in their unfortunate circumstances. Few will have the opportunity that the kids at The Home had, to be catapulted into a totally new environment and onto a totally new life course.

Miss Hannigan, you should have asked a real orphan, not the ones cast in Hollywood or Washington. Life in a home for children cannot be perfect. If children's homes are ever reinvigorated, many reforms are obvious and needed. However, people should understand that homes for children must remain a viable option for many children. Those of us who were there share an array of experiences that children from many families—the traditional ones and the publicly supported variants—can only envy.

Mr. McKenzie is a professor in the Graduate School of Management at the University of California, Irvine. He grew up at the Barium Springs Home for Children.

65

THE PRESIDENT HAS SEEN 12/19

Clearso

fyi - interesting

B.C.

THE PRESIDENT HAS SEEN
12/19

[redacted]

To UP
FYI —
I used some of this —
Thought you'd like to read —
B.

...ASICH
SPENCE
DARILEK
MCCLURE

ROY M. SPENCE, JR.
PRESIDENT

December 12, 1994

Dear Mr. President:

I hope to see you tonight at your Christmas party. But in case I do not (because I have to go to L.A. tonight on an 8:00 flight) I wanted you to have this.

It is a message that I truly believe will give you an anchor to speak on any domestic-oriented issue you so choose and it is a great and natural transition from your campaign focus. Instead of, "It's the economy, stupid" the focus of all you and your administration's message ought to be on, "It's The New Economy, stupid."

I think The New Economy ought to be the focus of your State of the Union speech. And if it is, then I'll bet you the headlines will read, "Clinton to focus the next two years on building The New Economy."

I look forward to discussing this with you when Gordon Giffen and Garry Mauro and I have dinner with you in the near future.

Best regards,

Roy

Roy M. Spence, Jr.

Clinton/Gore
The Architects of The New Economy

The Situation:

Today's political landscape is forcing us to be reactive and insecure with our message. From a non-Beltway perspective it looks like our message is too tentative, too shotgun and too "me too." Again, from the outside it looks like the internal debate at the White House is focused upon all the wrong issues. The debate seems to be political instead of what's good for America. I won't dwell on this, because you already know what I am talking about. But as long as the impression is that Clinton is going to decide what to do based on politics vs. what he believes in and what is good for America, we will continue to be on the defensive.

The Message:

The Clinton/Gore administration is and will continue to be the ***Architects of The New Economy***. The simple and undeniable truth is that this message is *true.*

There is no question that The New Economy is now not just some guru's buzzword. The New Economy is real. It is alive. And it is on the move. The basic foundation of today's domestic and global economy is vastly different from the economic foundation of yesterday's economy. **And there is no question that the Clinton/Gore administration ushered in the focus on The New Economy.**

Let's take the credit, plus let's push The New Economy's agenda to the forefront of the national debate. (When we package this as The New Economy, we will have something to offset the Contract With America. And in a real sense, we become new and their principles old.)

The concept of The New Economy gives you a handle and a bigger and broader message from which to speak. If The New Economy becomes symbolic for all the things that are going on and the people and press begin to attribute The New Economy debate to your administration, it will have a rub-off effect on the idea that there is a new era of economic principles and that the Clinton/Gore administration was the forerunner of the development of The New Economy.

The New Economy encompasses a lot of what you and the Vice President have been saying, but there has not been a handle for your message. So what you are now saying just sounds like what other people are saying.

A Message With Meat:
If any message is going to stand up to the test of credibility and relevancy, it must be full of substance as well as sizzle.

> *"I will veto any program, policy or legislative initiative that does not fundamentally support the basic principles of sustaining and growing The New Economy. On the other hand, this administration stands ready to fight and work alongside anyone, regardless of political party, who sees the future in terms of the realities and vision of The New Economy."*
>
> *President Bill Clinton*

The New Economy

1. Real job and wage growth.

2. Unleashing the power of entrepreneurs and small businesses (with emphasis on minority-owned businesses) by stripping away regulations and paperwork. (Introduce three bold new initiatives.)

3. Dismantling dysfunctional parts of government that contribute little to the stimulation of the growth of The New Economy. Eliminate and cut all those layers of bureaucracy, especially inside the Beltway. (There is no question in my mind that if we eliminate 20 percent of the cost of the administration of the federal government, no one would miss it but the bureaucrats and the lobbyists.) *One of the fundamental principles of The New Economy is to force government to be a low-cost, high-quality provider of services. Under The New Economy the federal government will be smaller and customer driven.*

4. Will veto any measure that will seriously reverse the positive trends of deficit reduction....a deficit increase is a *contract with the devil.*

5. Phase in a lower middle income tax break to help those in the $24-30K household incomo level—those are the families who are being left behind in this restructuring of The New Economy.

6. Fight against any reduction of the training and social parts of the crime bill—The New Economy demands high priority on training and skills that will give all Americans the opportunity to earn a piece of the new economic pie.

7. GATT/NAFTA/Free Trade are the centerpieces of The New Economy both domestically and globally.

8. Real welfare reform fits within the principles of The New Economy.

9. A new health care initiative—controlling costs, less government and more marketplace driven—fits within the principles of The New Economy.

10. Tax breaks for "at home offices" and mothers who work at home fit within the realities of The New Economy.

11. Lower interest rates. (Take on the feds—high interest rates are the enemy of The New Economy.)

Final point: All of these ideas have been said by someone at some time within this administration, but because we have had no handle, really, since the new Covenant, our message has been single-event oriented and has not resonated in the hearts and minds of the American people. We will focus the message machine around the idea that "the Clinton administration is not only the architect of The New Economy, but it is prepared to champion the fundamental principles and not waiver when opposition arises."

Mr. President, I am convinced that the message of The New Economy will allow you to seize the offensive again. It also allows all of our messengers to speak with one voice around the idea that "if it's good for The New Economy we will champion it; if it's bad for The New Economy, we will veto it."

I remain committed and loyal.

12/19/

THE PRESIDENT HAS SEEN

THE PRESIDENT HAS SEEN

Dec 2, '94

~~Bill Galston~~

To Bill Galston

Don Baer

B

94 DEC 2 P7:17

Dear Mr. President:

This is a refinement of the analysis I discussed with you the other evening. There are bridging themes that allow us to appeal to disaffected upwardly mobile Americans even as we assure our base voters that we stand for opportunity, justice, and hope for them.

Henry

Henry G. Cisneros

The Secretary of Housing and Urban Development

BRIDGING THE GAP BETWEEN HOW OUR BASE IS SEEN AND HOW UPWARDLY MOBILE AMERICANS THINK ABOUT THE WORLD

OUR TRAPPED BASE

- Older New Dealers
- Growing Minority Population:
  - -Isolated underclass
  - -Chaotic schools-undertrained
  - -Underemployed/Unemployed
  - -Separatist messages
- Labor:
  - -Declining industrial base
  - -Angry
- Special Cases: Disabled, AIDS, Gays
- Government Culture:
  - -Big bureaucracy
  - -Nonsensical rules, labyrinth
  - -Top down attitudes, prescriptive
  - -Massive wastes of money
  - -Untrusting of local folks, business
  - -Inertia
- Special interests: Money tied to Government programs

NEW PUBLIC ATTITUDES IN THE PERSONAL COMPUTER AGE

- Young professionals
  White males
  Suburban skeptics
- Highly informed, educated
- Involved in entrepreneurial, lean organizations
- Non-ideological but individualistic; even self-centered
- Fast-paced, impatient: place high value on time; efficiency
- Demanding: results-oriented
- Short attention span; news cycle is hard to absorb
- Globally aware
- Ruthless attitudes:
  - -Video game "zap" mentality
  - -Business judgments
- Disdainful of people getting a "free ride" because of unpreparedness or unwillingness to work.

BRIDGE VALUES

- American themes: The nation, fair play, justice for all
- The American mosaic
- Families and children
- Opportunity and hopefulness

- Constancy of message
- Decency: Respect for norms
- Reciprocity: Work for benefits
- Anti-violence, anti-crime
- Less overt segmentation of Americans by class, political groupings.

- Entrepreneurial government
- Privatization with accountability
- Smaller scale responses
- Decentralization: Reliance on local answers
- Competence

Newsweek, December 5, 1994: "In explaining why he switched from Democrat to Independent, Angus King, the newly elected governor of Maine declared that the Democrats were still 'a mainframe party in an age of PCs'."

OUR MOTIVE MUST BE: Jobs, continued growth, and opportunity for all <u>who want to work</u> in a changing world.

OUR METHODS MUST CHANGE: Bureaucratic models of government cannot do it. The President must err on the side of decentralized, smaller scale, entrepreneurial approaches that provide opportunity for our base but which catch the wave of new public expectations and attitudes

THE TRICK: To convey a sense of opportunity and hopefulness to all Americans, including our base, by harnessing the "bridge values" to get results by new methods.

NEW METHODS

FROM (BUSINESS AS WE HAVE CONDUCTED IT)	TO (A NEW LANGUAGE THAT EMBODIES THE "BRIDGE VALUES")
Federally targeted money for education	Charter Schools with performance accountability
Complicated government-led, large scale health care systems	Incremental health care reform with market incentives
Governmental investment strategies- industrial policies	Middle Class / capital gains tax cuts
Federal role with waivers	Clinton Federalism: Decentralize to the states with performance responsibility
FHA, FAA, FmHA, SBA Insurance programs, Retirement programs, Commerce's service functions as government agencies	Convert Federal agencies to corporate models, (government-sponsored or owned enterprises)
Regulatory mindset	More use of Oversight Models: reformed CRA, GSEs; market-based pollution credits
Collaboration, accommodation of the interests	Real political reform
Industrial policies - investment targets	Financing partnerships, i.e., for infrastructure
Bureaucratic arrogance in centralized organizations	More reliance on the non-profit and private sectors

12/19

MEMORANDUM

THE PRESIDENT HAS SEEN

To: **President Bill Clinton** **Dated:** **December 15, 1994**
Honorable Hillary Rodham Cllinton

From: **Bob Raymar**

Re: __Yale Law School Dinner: 12/16/94__

Thank you very much for inviting the Yale contingent to briefings and dinner. Everyone is __very__ excited to be remembered.

Below I identify the few invitees whose significance may not be readily apparent:

cc Betsey Wright

Peter C. Alegi '59 is the energetic and very successful Chair of Democrats Abroad, and is flying in from Italy. He has requested that you meet with Democrats Abroad at their annual D.C. gathering January 19-21, 1995.

Alan D. Bersin '74 is now the U.S. Attorney in San Diego.

Clifford Dammers '69 was vital in helping Alegi with Democrats Abroad. He is flying in from England.

cc: V. Rabel

Lisa Hill Fenning '74 is a long-time Bankruptcy Court Judge from Los Angeles and is on the short list for a 9th Circuit Seat.

Raymond C. Groth '72 recently moved from New York City to Charlotte, where he is with First Union Bank.

Ronnie Feuerstein Heyman '72 recently sat with POTUS at dinner. Sam Heyman owns and heads GAF Corp.

Lewis B. Kaden, Esq. is not Yale. He helped Gene Ludwig, Paul Joffe, Steve Honigman and me write our periodic memos to you. Ellen Orens is General Counsel for CBS.

Ruth L. Lansner, Esq. was a Yale undergraduate. Steve Honigman and I adopted her during the campaign, and she was most helpful.

Mark I. Levy '75, your Deputy Assistant Attorney General for Appellate Litigation, is on the short list for the 7th Circuit. He was the very effective and loyal leader of our Chicago YLS Graduates effort.

Barbara Lindemann '56 is on the short list for the U.S. Court of International Trade. She was the very effective and loyal leader of our Los Angeles YLS Graduates effort.

Andrea M. Mercado '86 was on your New York and Pennsylvania issues staff during the campaign.

Harold Rabner '67's daughter Nicole works for HRC.

David A. Richards '72, under my direction and with Roz Fink's help, is hard at work on your behalf now.

Joseph Rieser, Esq. is not Yale. He assisted YLS Graduates on certain legal issues, which are being concluded successfully.

Darryl Roth is not Yale. She produced "Broadway for Bill" in New York City, and we then adopted her and her husband, developer Steve Roth.

Sidney H. Stein '72 has been nominated to S.D.N.Y.

RSR/cb

THE PRESIDENT HAS SEEN 12/19

THE WHITE HOUSE

WASHINGTON

94 DEC 14 P6:28

December 13, 1994

MEMORANDUM FOR THE PRESIDENT

THROUGH: LEON PANETTA

FROM: HAROLD ICKES (HI)

SUBJECT: Restrictions on transfer of White House and other Federal employees to the Democratic National Committee or the Clinton/Gore Re-elect Committee

As you requested, I have checked with the Counsel's Office regarding the legal restrictions on White House and other federal employees moving to the Democratic National Committee ("DNC") or the Clinton/Gore Re-election Committee ("Re-elect") (which has yet to be formed). My understanding of the applicable law is as follows.

Section 207, Title 18 U.S.C.: The basic restriction is contained in sections 207 (c) and (d) of 18 U.S.C., a criminal statute, which applies to "senior" and "very senior" federal employees. In essence the statute states that if one has served as a "senior" or "very senior" employee, then, for 1 year after the former employee leaves that "senior" or "very senior" position, the employee may not knowingly make, with the intent to influence, any communication or appearance (sometimes referred to herein as "contacts") seeking official action before an employee or officer of his/her former agency. For "senior" or "very senior" former employees serving in the Executive Office of the President ("EOP"), this includes contacts with the entire EOP and includes communications with and appearances before the President and the Vice President, if that contact is made on behalf of any other person (i.e., the DNC or Re-elect).

For former "very senior" employees the list of prohibited contacts also includes individuals appointed to Executive Schedule positions (essentially Senate-confirmed Presidential appointees) in any agency which includes the Secretary/Administrator of the department/agency and typically the top 4 levels in the department/agency.

Unlike "very senior" employees, those classified as "senior" employees are not barred from contacts with federal Executive level employees in agencies outside the EOP. (Note, however, that the President's Senior Appointee pledge, discussed below, bars contacts by certain former "senior" employees with Executive level employees holding positions outside the EOP.)

This restriction applies to all matters, regardless of whether the former "senior" or "very senior" employee was ever officially involved in a matter that is the subject of the contact. In addition, the restriction applies to any matter about which the former senior employee is seeking official action, not just matters involving specific parties.

The basic criteria for a "senior" employee is compensation in excess of $108,200. The basic criteria for a "very senior" employee is compensation in excess of $148,400 (or $133,600 for EOP employees), as well as all Assistants to the President regardless of pay level. By way of example, I am considered a "very senior" employee and thus, if I were shifted to the Re-elect, I could not communicate with or appear before anyone in the EOP, including you and the Vice President, or any Senate confirmed appointees at any agency, for a period of one year if that communication or appearance were for the purpose of seeking official action on behalf of any other person, which, in this case, would be the Re-elect.

The restrictions with respect to each former employee vary depending upon the status (title, jurisdiction and salary) of the employee, but the basic rule is outlined above. Thus, for example, it is my understanding that John Emerson, is classified as "senior" (not "very senior"), and, therefore, would be barred from communicating or meeting with any EOP employee, the President, and Vice President for 1 year. Since he is not "very senior", unlike me, he would be able to communicate or meet with non-EOP senior officials and employees outside of the EOP. However, restrictions under the Senior Appointee pledge, discussed below, will limit the scope of permissible non-EOP communications/appearances by "senior" employees like John Emerson.

By contrast, Counsel has determined that Kevin O'Keefe is neither a "senior" nor a "very senior" employee and, therefore, sections 207 (c) and (d) would not be applicable to him as long as his communication with or appearances before EOP employees don't concern matters that he participated in personally and substantially while at the EOP.

By way of another example, the bar contained in section 207 would apply to Eli Segal only with respect to communications or appearances before his agency. Thus he would be able to appear before or communicate with anyone in the EOP other than on matters which pertain to his agency (National Service).

Restrictions under the President's Senior Appointee pledge:

In addition to section 207 of 18 U.S.C., there is a 5 year ban imposed by the President's "Senior Appointee pledge," ("pledge") which you initiated. It applies to all Assistants to the President, to Deputy Assistants to the President earning $100,000 or more and to other full time non EOP, non-career Presidential, Vice Presidential or Agency head appointees whose basic rate of pay is at or above Level V of the Executive Schedule (currently $108,200).

The language basically tracks that of section 207 and, therefore, it can be argued that the 5 year ban under the pledge, must be applied as if section 207 required a 5 year, rather than a 1 year, bar.

There are 2 ways of dealing with this. One would be to reduce the 5 year period in the pledge to 1 year or, in the alternative, interpret it so as not to apply to personnel who are shifted to political campaigns or political committees. The latter is probably the preferable route.

According to Beth Nolan, the ethics expert in Counsel's office, there have been prior, but, to date, unadopted, proposals to amend section 207 so as to make it not applicable to personnel who are being transferred from federal employment to a campaign committee. This exception was again unsuccessfully sought in the last Congress. Whether we want to again seek such an exception, needs to be discussed, and I will take it up with Leon.

In addition to being 4 years longer, the pledge is broader than sections 207 (c) and (d) in connection with EOP employees (but not in connection with non EOP federal employees). Under the pledge, an EOP employee is prohibited from communicating with/appearing before any employee of the EOP and, in addition, any non EOP department/agency where the former EOP employee was personally and substantially involved in the ongoing oversight of, or significant ongoing decision-making in the department's/agency's budget, programs or personnel actions.

Thus, for example, even though under section 207, John Emerson, as a "senior" employee, would be permitted to communicate with/appear before non EOP departments/agencies, under the pledge, he would be prohibited from doing so for any department/agency for which he had responsibility (for example, an agency for which he had responsibility for selecting personnel) while he was an EOP employee.

Similarly, Eli Segal, as a former senior EOP employee, is subject to the pledge regarding communications/meetings with EOP officials (for 5 years after he terminated service with the EOP).

According to Ms. Nolan, section 207 as well as the pledge would apply to someone like Secretary Brown, in connection with his communicating with or appearing before his former agency (the Commerce Department) on behalf of another person (i.e., the Re-elect) as well as individuals appointed to executive level positions (primarily Senate-confirmed appointees) which basically include the top 5 levels of Cabinet and other agencies. For example, under section 207, he would be barred for 1 year after leaving Commerce from communicating with/appearing before any other Secretary/Administrator of any department/agency and the first 4 or so levels below them. Thus, he may well be greatly hampered in his efforts, were you and he to decide that he should become Chair of the Re-elect Committee.

Finally, with respect to Senator Dodd, were he to remain a Member of the Senate as well as becoming Chair of the DNC, he may communicate with/appear before any employee in the Executive branch. He may not, however, be compensated for his work on behalf of the DNC and he may not use his Congressional staff for DNC-related activities. See attached 12 December 1994 memo to me from Kathleen M. Whalen of the Counsel's office.

You, Leon, Erskine and I should discuss this overall situation at your convenience.

cc: Erskine Bowles
Maggie Williams
Jack Quinn

THE WHITE HOUSE

WASHINGTON

~~Confidential~~

December 12, 1994

MEMORANDUM FOR HAROLD ICKES
ASSISTANT TO THE PRESIDENT AND
DEPUTY CHIEF OF STAFF

FROM: KATHLEEN M. WHALEN KMW
ASSISTANT COUNSEL TO THE PRESIDENT

SUBJECT: Potential Service by Senator Dodd as Chair of the Democratic National Committee

This responds to your question whether Senator Christopher Dodd may serve as Chair of the Democratic National Committee (DNC), while continuing to serve as a Senator. Provided that he is not compensated for his services to the DNC and that his congressional staff members do not engage in representational activities on behalf of the DNC, Senator Dodd may assume the position of DNC Chair while serving as a Senator.

A conflict statute prohibits an employee or officer of the executive, legislative, or judicial branch, whether or not for compensation, from acting "as agent or attorney for anyone before any department, agency, court, court-martial, officer, or civil, military, or naval commission in connection with any covered matter in which the United States is a party or has a direct and substantial interest. 18 U.S.C. § 205(a). This statute specifically does not apply to a **Member of Congress**, the President, or the Vice President. However, it would apply to members of Senator Dodd's staff. Therefore, staff members would not be permitted to engage in representational activities on behalf of the DNC.

Another conflict statute prohibits **Members of Congress**, as well as officers or employees of the executive, legislative, or judicial branch, from accepting compensation for seeking, receiving, or accepting "any compensation for any representational services, as agent or attorney or otherwise, rendered or to be rendered either personally or by another." 18 U.S.C. § 203(a). Thus, Senator Dodd may serve as DNC Chair, provided that he is not compensated for such services.

Attached is a Senate Ethics Committee Interpretive Ruling (No. 359, dated January 3, 1983) indicating that it is appropriate under Senate rules for a Senator to serve as the General Chairman of a national political party committee. While the opinion states that the Senator could accept compensation for such services, section 203 discussed above would not permit compensation for representational activities. Because representational activities are not easily divisible from other committee activities for which a Senator presumably could be compensated, it would be best for Senator Dodd not to be compensated at all for his service as DNC Chair.

If you have any further questions about the scope of Senator Dodd's participation as DNC Chair, please call me at 6-7900.

cc: Abner J. Mikva

INTERPRETATIVE RULING NO. 359

Date Issued : January 3, 1983
Applicable Rules : 34, 37

QUESTION CONSIDERED:

Does the Senate Code of Official Conduct prohibit a Senator from serving as the compensated General Chairman of a national political party committee?

Ruling:

The Committee held that the Code of Official Conduct does not prohibit a Senator from serving as General Chairman or receiving reasonable compensation commensurate with the services rendered to the party. Additionally, the Committee concluded that Senate Rule 34 (Title I of the Ethics in Government Act of 1978, as amended) requires the Senator to make an annual disclosure of the receipt of outside income aggregating $100 or more from any one source during a calendar year, and reimbursements to cover travel and related expenses and aggregating $250 or more from any one source during a calendar year.

Facts:

A Senator has been requested to serve as a General Party Chairman, a position which would include the following duties: to provide advice and guidance to the party's National Committee and to its other officers and staff; and to coordinate the activities of the party's National Committee with those of the party's Senatorial Committee, the Congressional Committee, and any committee or committees organized to secure the election of the party's candidates for the Presidency or Vice Presidency of the United States.

Discussion:

While the Committee found that no provision of the Code of Conduct specifically addressed the questions raised by the ruling request, it concluded that two provisions must be considered.

Paragraph 2 of Rule 37 (Conflict of Interest) provides a general admonition against engaging in non-Senate activities which interfere with the conscientious performance of Senate duties. While the Committee will customarily offer its comments when asked, it has been the Committee's policy to place upon the Member primary responsibility for determining whether the activity he intends to engage in presents a conflict of interest and to caution him that he has an on-going responsibility to avoid conflicts of interest and the appearance thereof. Thus, while the Committee found that no inherent conflicts of interest appeared to be raised by the Senator's service as General Chairman, the Senator would nonetheless want to remain sensitive to the possibility that some conflict might arise and, if that should occur, to take appropriate action.

As to the acceptance of compensation for services rendered as General Chairman, paragraph 5 of Rule 37 provides: "No Member, officer, or employee of the Senate compensated at a rate in excess of $25,000 per annum and employed for more than ninety days in a calendar year shall (a) affiliate with a firm, partnership, association, or corporation for the purpose of providing professional services for compensation; (b) permit that individual's name to be used by such a firm, partnership, association, or corporation; or (c) practice a profession for compensation to any extent during regular office hours of the Senate office in which employed. For the purposes of this paragraph 'professional services' shall include, but not be limited to, those which involve a fiduciary relationship."

The type of services that the drafters of the Code of Conduct intended to prohibit were those of a professional nature, involving a fiduciary duty to outside commercial or business organizations, which on their face were likely to present conflicts between Senate duties and outside responsibilities. The Committee therefore concluded that this provision was not intended to be applicable to services provided as General Chairman of a political party.

Great about
the Delaware
car pts ruling

THE PRESIDENT HAS SEEN 12/19

THE WHITE HOUSE

WASHINGTON

DECEMBER 16, 1994 94 DEC 16 P7:31

MEMORANDUM TO THE PRESIDENT

FROM: KATHLEEN MCGINTY

CC: LEON PANETTA

RE: OEP WEEKLY REPORT

Governors Meet with EPA on Clean Air Act

EPA met with Governors from several states (VT, NJ, WI, DE, WV) to discuss ways in which we can work together to solve mutual problems with the Clean Air Act without having to face the uncertainty of potential legislative adjustments in the 104th Congress. The meeting was productive because agreements were made in two problematic areas. One agreement adjusted the timing on conformity rules, making it easier for the states to comply while still meeting EPA standards. The other agreement allowed cities which are in compliance with the CAA to pursue lesser inspection and maintenance (I/M) programs, while getting additional reductions from other options outlined in the CAA. EPA and the states also experienced a willingness to continue to work together on similar common sense approaches on other clean air issues.

Reinventing Regulation

This week OEP chaired the first meeting of the Environment, Energy, and Natural Resources Working Group of the Vice President's reinventing regulation initiative. The working group will conduct a policy review that will range from the nitty gritty of specific rules and regulations to a broader examination of the regulatory system itself. The working group will identify significant reforms that will maintain or increase protection of public health and the environment, while reducing costs to the private sector and state and local government.

Summit of the Americas

Reaction to the Miami Summit has been quite positive. U.S. NGOs are pleased with U.S. leadership and with the concrete environmental actions contained in the Summit initiatives. Many NGOs remain concerned about how the Administration and Congress will resolve the trade-environment issue, especially regarding Chile's accession to NAFTA. The CONCAUSA signing received extensive and very favorable television coverage in Central America.

I have prepared a Summit follow-up strategy, detailing implementation plans and quarterly progress reports for CONCAUSA and Summit initiatives on sustainable energy, biodiversity, and pollution prevention. The strategy also calls on Under Secretary Wirth to coordinate U.S. preparations for the 1996 Summit Conference on Sustainable Development in Bolivia.

San Francisco Bay and Delta Agreement

On December 15, 1994, the Federal government and the State of California signed an agreement on a comprehensive, coordinated package of actions to protect the San Francisco Bay and Delta while strengthening the state's long-term economic health. Business leaders, the Governor, as well as agriculture, urban, and environmental interests joined Federal officials in endorsing the package of actions which will protect the aquatic ecosystem.

The agreement calls for a comprehensive, ecosystem approach to solving issues in the Bay/Delta -- one that integrates Endangered Species Act requirements with the need for economic growth. The agreement sets the stage for better cooperation and coordination between the Federal government and the state as well as other stakeholders.

As noted in the attached articles, the press on this agreement has been very good. The Departments of the Interior and Commerce and the Environmental Protection Agency did an excellent job in making this happen.

White House Conference on Environmental Technology

On Tuesday I participated in a conference on environmental technology attended by 800 people from major companies who develop, finance and use environmental technology, as well as Federal and state environmental officials, academics and representatives from environmental non-profits. At the main roundtable discussion chaired by the Vice President, the participants -- despite their wide differences in perspective -- came to a great degree of agreement about the reform of environmental laws. They all agreed that we should: 1) move forward, not backward on environmental protection; 2) that the government should set environmental performance standards and enforce them vigorously; and 3) allow industry flexibility in achieving the goal. In short, these businesses have a much more sophisticated understanding of what they need than most of the people debating these issues in Congress -- and we will be working to get them engaged in that debate.

Contract With America

As you know, we are working with the agencies and through the process George Stephanopoulos is running in order to compile information about the true impacts of the Contract's regulatory roll-back provisions, as well as how to talk about them. We believe the Contract provides an opening that we can exploit to paint Republicans as the party that would gut health and environmental standards, while we can be the people who will stand up to prevent that from happening.

Of course, we will also work next week to prepare a longer-term, comprehensive strategy to use environmental issues to our political advantage.

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Don Baer
Worth reading

THE WALL STRE

THE PRESIDENT HAS SEEN

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VOL. CCXXIV NO. 116 ★★★ EASTERN EDITION 12/19 WEDNESDAY, DECEMB

Elite Theory

Have Liberals Ignored 'Have-Less' Whites At Their Own Peril?

Anger in a Tennessee Town Unmasks Deep Divisions, Trouble for Democrats

Mud on the Glass-Tower Set

By DENNIS FARNEY
Staff Reporter of THE WALL STREET JOURNAL

MUNFORD, Tenn. – Listen to the angry, anxious voices of white voters here and you can hear the splintering sound of something even bigger than last month's Republican landslide.

It is the sound of the American middle class–rending apart and lashing out.

The middle class, long the balance wheel of American society, is beginning to fissure along fault lines of income, values and lifestyle. It is cleaving into the have-mores – "the glass-tower people," Labor Secretary Robert Reich calls them – and the have-lesses. The glass-tower people are generally college-educated, economically ascendant and comfortable with cultural diversity and change; indeed, they prosper precisely because of their ability to manage and adapt to these forces. But the have-lesses are generally undereducated, trapped in unrewarding and sometimes dead-end jobs, economically and socially vulnerable. They constitute a beleaguered subculture: un-chic, un-minority and, in their opinion, unheard. Liberals, they believe, seem able to muster sympathy for every group – feminists, gays, welfare mothers–except theirs.

In fact, they have a great deal to say – and their message signals class war-

GREAT DIVIDES

What's News—

* * *

Business and Finance

CONSUMER SPENDING and wholesale prices rose in November, suggesting the economy is still growing fast. Retail sales jumped 1.2% while wholesale prices gained 0.5%. The reports pushed short-term interest rates higher on the expectation that the Federal Reserve will lift rates again, and the difference between short- and long-term Treasury bond yields narrowed sharply – usually a warning of an economic slowdown.

(Articles on Pages A2, C1 and C19)

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Orange County officials announced plans for an "orderly" liquidation of the remaining risky securities in its investment pool, and several firms, including Merrill Lynch, expressed interest as potential buyers.

(Article on Page A3)

* * *

Intel is offering new Pentium chips to computer users who demand replacements but the company continues to refuse to publicly offer to replace the flawed chips with no questions asked. Meanwhile, IBM and Intel are wrangling over who will pay to replace the chips in IBM machines.

(Article on Page A3)

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B.A.T Industries, seeking to settle the FTC's effort to block its acquisition of American Tobacco, has agreed to shed an American Tobacco factory and some cigarette brands, according to people familiar with the case.

(Article on Page A3)

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World-Wide

* * *

GEPHARDT JUMPED ahead of Clinton with his own proposed tax break.

As the president prepared to speak to the nation tomorrow, the Missouri Democrat grabbed the initiative away from Clinton by proposing a tax break for families earning less than $75,000. Gephardt, a Missouri Democrat who will be House minority leader in the new Congress, presented an economic agenda intended to counter tax breaks included in the Republican "Contract With America." Meanwhile, Clinton was weighing a new tax break that would help middle-income families pay for college and other post-secondary education. (Articles in Column 1 and on Pages B4 and A2)

The scramble to offer tax relief comes in response to last month's GOP landslide, which underscored the anger and anxieties of middle-class voters.

* * *

Russian aircraft and rockets blasted a village and other Chechen positions, and columns of troops and tanks moved to surround the capital of the defiant Caucasus region. The crisis in Chechnya appeared to be rushing toward a violent showdown over the capital, Grozny. (Article on Page A10)

* * *

Muslim leaders met in Morocco and said they would consider a new strategy to defy the U.N. arms embargo of Bosnia. A resolution submitted to the Islamic summit in Casablanca declares that the ban on arms for the mainly Muslim Bosnian government is void, and that the various Muslim nations will now act on that basis.

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An American Eagle plane crashed in North Carolina, killing at least 13 people. The commuter plane, which was carrying 20 people, went down as it was approaching the Raleigh-Durham International Airport. The flight originated in Greensboro, N.C.

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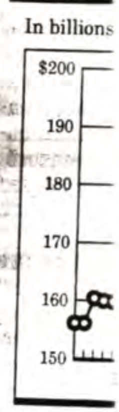

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Scenes From the Politics of American Culture

LAST OF A SERIES

fare with the glass-tower people and the whole complex of values the glass-tower people hold. Listen:

"The working man, he ain't got a chance," bursts out a bitter Sidney Tracy, walking his dog on the main street of this little town north of Memphis. After 25 years in the food-processing business, the 49-year-old Mr. Tracy has just lost his job as a lab technician. He lays much of the blame on President Clinton. "Clinton said he was for the working man. But he went up there and did everything for blacks and gays."

Carl Biggs, 33, a telephone-service technician, recently lost his job, too. That forced him to plunge into the brave new world of entrepreneurship: He is now the proprietor of a doughnut and snack shop here. Go out on Highway 51 during morning rush hour, he says with a pained smile. Half the vehicles have a woman driver, headed for work in Memphis. "You just know that has got to emasculate a die-hard, big-ego, male chauvinist. Men have got to have a scapegoat . . . and Clinton is just perfect for everybody's ailment." That's pretty much how he sees things himself; he voted Republican for every office but one this time, and doubts he will be voting much for Democrats from now on.

"Everything [Democratic liberals] do, everything they want to do, is against us," maintains David Elston, a 49-year-old maintenance man for an electric cooperative. "Work and pay taxes – that's all they want from us."

Blue-Collar Rage

White males like these, each of whom voted Republican last month, were the single most decisive factor in the national Democratic rout. Here in Tennessee, they blew away three-term Democratic incumbent Jim Sasser as well as Jim Cooper, the Democratic candidate for an unexpired Senate term. For good measure, they elected a Republican governor and provided swing votes that helped Republicans capture two Democratic House seats. "The big story of the election is the hostility among blue-collar men who haven't gone to college," concludes Democratic pollster Geoffrey Garin.

White men weren't the only factor. Almost as striking, says Mr. Garin, was a 10-percentage-point drop nationally in support for Democrats among white women, who have customarily been more sympathetic to Democratic causes. Like men, "they feel the world is changing on them and that nobody in high places seems to care," he says.

Similarly, Republican pollster Neil Newhouse couched his post-election analysis in terms of "angry" white men and "ambivalent" white women. White women as a group remain more sympathetic than white men toward the president and what he is trying to do; indeed, they split 47% to 47% in a Newhouse post-election poll when asked whether Washington should change direction or continue the president's policies. (White men wanted change by a decisive 66%-to-32% margin.)

Gulf of Mistrust

softening its controversial stock-option proposal by letting companies simply disclose employee stock-option costs in footnotes to financial reports, rather than force them to deduct the cost of the options from profit.

(Article on Page A2)

* * *

AT&T's campaign to win back long-distance customers is starting to cut into MCI's share of the market. AT&T executives told analysts that more than 300,000 customers moved to AT&T last month, most from MCI.

Sprint agreed to form a "strategic alliance" with Telefonos de Mexico, Mexico's national phone company.

(Articles on Page A4)

* * *

Turner Broadcasting has proposed acquiring NBC in a transaction that would give NBC's parent, GE, a 35% stake in the combined company, people familiar with the plan said. But any deal faces major obstacles.

(Article on Page B8)

* * *

The FDIC may move to sharply reduce the premium paid by banks for federal insurance on deposits.

(Article on Page B4)

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Bank of New York tapped Thomas Renyi to succeed J. Carter Bacot as chairman and chief executive when Bacot retires in three years.

(Article on Page B2)

* * *

An FDA panel voted against recommending approval of Rhone-Poulenc Rorer's cancer drug, Taxotere, for advanced breast and lung cancer, saying more studies were needed.

(Article on Page B5)

* * *

Grupo Financiero Serfin, Mexico's third-largest banking group, plans a major restructuring, including $290 million in new reserves for bad loans.

(Article on Page A10)

* * *

Markets–

Stocks: Volume 307,103,250 shares. Dow Jones industrials 3715.34, off 3.03; transportation 1371.89, off 9.08; utilities 181.72, up 0.07.

Bonds: Lehman Brothers Treasury index 5124.93, up 69.28.

Commodities: Oil $16.91 a barrel, unchanged. Dow Jones futures index 150.34, off 1.68; spot index 143.45, off 1.34.

Dollar: 100.20 yen, up 0.25; 1.5718 marks, off 0.0007.

Sen. D'Amato said he will let his timetable for new Whitewater hearings slip beyond the late-January, early-February target he had been discussing. D'Amato is the incoming Senate Banking Committee chairman. (Article on Page B4)

* * *

A study of Persian Gulf veterans points away from the idea of a single cause of their illnesses, the Pentagon reported. The government is setting up two treatment centers for undiagnosed ailments.

* * *

Former Sen. Paul Tsongas is circulating a memorandum proposing a third party which would be headed by someone with "moral authority," such as retired Gen. Colin Powell. Tsongas sought the Democratic nomination for president in 1992.

* * *

The Michigan Supreme Court ruled that the state's ban on assisted suicide passes constitutional muster. The court also said that providing people with the means to kill themselves doesn't constitute murder.

* * *

President Aristide ordered a sharp reduction in the size of Haiti's military, to 1,500 soldiers from the 7,000-member force that existed before his return in October. His government also announced plans to form a panel to oversee the balloting.

* * *

The government is investigating possible fraud among some companies that supply incontinence devices to nursing homes. Officials are examining suspected fraudulent marketing and illegal billing by suppliers of such devices. (Article on Page B5)

* * *

A former congressman agreed to plead guilty to three felony charges, including writing checks with insufficient funds at the now-defunct House Bank, the Justice Department said. Carl "Chris" Perkins, a Kentucky Democrat who served four terms in Congress, faces a maximum penalty of 40 years in prison and a $1.5 million fine.

* * *

A genetically engineered squash gained government approval. The crookneck squash, produced by Upjohn's Asgrow Seed Co., resists two common plant diseases and is said to be the first genetically engineered food to carry such disease resistance.

* * *

A meat industry complaint was rejected by a Texas judge, thwarting an effort to halt a testing program for E. coli bacteria. The American Meat Institute and grocers' associations had challenged the Agriculture Department testing program. A number of deaths in the Pacific Northwest in early 1993 were linked to the bacteria.

* * *

Police in three parts of France arrested 42 people and seized records they hope will solve the mystery of a doomsday cult and the October deaths of 53 disciples. Twenty of those arrested were released later.

TODAY'S CONTENTS

THE INDEX TO BUSINESSES APPEARS ON PAGE B2

THREE SECTIONS

CORPORATE Focus

GROOMING PROFITS: With futuristic hair dryers and stylish toothbrushes, Gillette Co. aims at markets blew away three-term Democratic incumbent Jim Sasser as well as Jim Cooper, the Democratic candidate for an unexpired Senate term. For good measure, they elected a Republican governor and provided swing votes that helped Republicans capture two Democratic House seats. "The big story of the election is the hostility among blue-collar men who haven't gone to college," concludes Democratic pollster Geoffrey Garin.

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Gulf of Mistrust

White homemakers, however, differed sharply from career women. They also emphatically wanted change, by a 54%-to-34% margin. Many women, like men, feel "forgotten," says Mr. Newhouse. As they see it, "affirmative action is helping minorities and the rich are getting richer," but nobody is looking out for them.

But something beyond politics happened last month — and something beyond economics, too, although economic anxiety

Please Turn to Page A8, Column 1

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(Article on Page A10)

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TODAY'S CONTENTS

THE INDEX TO BUSINESSES APPEARS ON PAGE B2

THREE SECTIONS

to ricochet for a while in Republican circles.

To be sure, Cato has had some backfires. After Mr. Crane ridiculed the U.S. role in the Gulf War, his donors withdrew some $750,000. One of them, former Treasury Secretary William Simon, is still steamed: "I was brought up in an era when people lined up behind their president and their leaders."

But Mr. Crane did not back down. And new donors, such as Coca-Cola, Citibank, Shell Oil, Philip Morris and Toyota, have since filled the gaps. The new Republican leaders on Capitol Hill claim to be bomb throwers and Cato aims to keep them well supplied. There is Cato's new plan for the privatization of Social Security, for example.

"I think that is going to be a real winner politically," predicts Mr. Crane.

Elite Theory: Some Think Liberals Have Ignored A Class of 'Have-Less' Whites at Their Own Peril

Continued From First Page

was its catalyst. What happened was cultural backlash against a professional and managerial "knowledge class," cosmopolitan in outlook, that claims to speak for places like Munford but, as Munford sees it, speaks mostly to itself and for itself. Politicians are only the most visible symbol of this class — and one of the few members of it that ordinary people can reach out and topple. But the same gulf estranges Middle America from lobbyists and bankers, from consultants and artists, from journalists and academicians — from a whole class that has come to dominate the nation's internal dialogue.

It is unlikely the backlash is over — a point of great glee to Republican conservatives now brimming with ideas on how to dismantle much of what they consider to be the failed notions of American liberalism. There is a sense, shared by some of the most acute social observers of our time, that an era — political, cultural and historical — may be coming to an end.

Author Gore Vidal, for example, was asked at a National Press Club appearance days before the election who would be a leading character if he wrote a book about this period in American history. He replied, only half-jokingly: "Rush Limbaugh, I suppose." Then, taking a broader historical view, he added: "This is a twilight time, you know. . . . There's a smell of the Weimar Republic in the air now; something is going to happen."

Something did. Reading the election results, Labor Secretary Reich concluded that the nation had just witnessed "the revolt of the anxious class." He explained in a post-election address: "We are on the way to becoming a two-tiered [middle class] composed of a few winners and a larger group left behind, whose anger and disillusionment is easily manipulated. Today the targets of rage are immigrants, welfare mothers, government officials, gays and an ill-defined 'counter-culture.' As the middle class continues to erode, who will be the targets tomorrow?"

Christopher Lasch, author and social critic, ventures a suggestion in a book to be published posthumously next month. The target, he writes, will be "upper-middle-class liberals" and the whole complex of values they hold. The great liberal blind spot, he suggests, is "their inability to grasp the importance of class differences in shaping attitudes toward life."

In "The Revolt of the Elites," Mr. Lasch sets forth a provocative thesis. He argues that the same upper-middle-class elites "who control the international flow of money and information . . . and thus set the terms of public debate" have paradoxically "lost faith in the values, or what remains of them, of the West." In a reversal of historical roles, Middle Americans now perform the social function once assumed by elites: They are society's conservative force, clinging to tradition and serving as a brake on potentially destabilizing social experiments.

To the upper-middle class, Mr. Lasch continues, Middle Americans "are at once absurd and vaguely menacing — not because they wish to overthrow the old order but precisely because their defense of it appears so deeply irrational that it expresses itself, at the higher reaches of its intensity, in fanatical religiosity, in a repressive sexuality that occasionally erupts into violence against women and gays, and in a patriotism that supports imperialist wars and a national ethic of aggressive masculinity."

But the upper-middle class ignores Middle America at its peril. Whatever its faults, "middle-class nationalism [provides] a common ground, common standards, a common frame of reference without which society dissolves into nothing more than contending factions . . . a war of all against all."

Part of a Pattern

The previous stories in this series have explored a gathering traditionalist backlash against the central tenets shared, almost unconsciously, by the upper-middle class, a backlash that culminated in last month's political upheaval.

Article one examined the controversial educational theories of feminist Peggy McIntosh, associate director of the Wellesley College Center for Research on Women. She believes that the curricula of American schools — indeed, many aspects of American society — should be restructured to "become more inclusive." This would entail acknowledging "colossal unseen dimensions" of "unearned advantage, or privilege," race, gender and class among them. She uses white skin privilege and male privilege as prime examples of what she considers to be unearned advantage, but says both are intertwined with class — a factor, she adds, that Americans have traditionally been reluctant to discuss.

Article two traced the erosion of an idea — a secular faith, really — that has sustained and undergirded the American experiment from the beginning. This is the faith in progress through reason. One name for this faith, which germinated during the Renaissance and reached full flower just in time to inform the thinking of America's Founding Fathers, is secular humanism. Now the emerging field of chaos theory is shaking secular humanism to its foundations — and with it, a confidence that verged on hubris. History, once confidently viewed as something that rational man could bend to his liking, is increasingly viewed as an irrational force unto itself. And history, once viewed as progressing neatly to ever-higher stages, is increasingly viewed as not necessarily "progressing" toward anything.

The third article examined the phenomenon of middle-class, moderate support that proved pivotal to the passage of antigay rights measures in places like Austin, Texas, and Cincinnati. It suggested that Middle America sees gay rights as more complex and problematic issue than liberals, who are typically gay-rights champions; that while moderates value tolerance, including for gays, they have become alarmed over demands by some gay-rights activists that homosexuality not merely be tolerated, but affirmed as a healthy and normal lifestyle. It also demonstrated how the religious right and conservatives leverage this concern into an argument that gays are merely another special-interest group seeking "special rights" — an argument that has proved persuasive in times of economic anxiety.

The past election can be seen as a reflection of — and a reaction to — all these forces.

Differing Views

It could be argued that the ballot-box results represent a lashing out against the theories of Peggy McIntosh and many liberals — theories that depict men as holding "unearned advantages" over many women and minorities. Ms. McIntosh begs to differ: The results aren't a contradiction of her analysis, but a "confirmation that privilege systems exist and efforts to alter them have created poignant difficulties" for those who, wittingly or not, have benefited from them. "Sharing of power is hard, especially for those who thought the turf was all theirs."

But there is another way of viewing the world. Working white men like Sidney Tracy don't see themselves as privileged. They see themselves as victims. And if the

Roll Call: Nonprofits' Property Is Target of Tax-Hungry Towns

Continued From First Page

the past year have filed suits challenging institutions' rights to escape local property taxes. Some states — Pennsylvania, California, New York — have begun forcing nonprofits to meet stricter rules to prove that all of their operations advance a charitable purpose.

For example, in 1992 Erie County, Pa., took Hamot Medical Center to state court and won $900,000 in annual property taxes.

National YMCA officials say 15 Y's in the U.S. have had their tax-exempt status challenged in local and state courts in the past five years. "Even though many may retain their tax-free status with changes, it's expensive to fight such challenges," says Mr. Hall. "Our five-year court battle has cost $400,000."

Asking for Rules

Some nonprofits, aware of rising public sentiment, are trying a pre-emptive de-world is viewed in terms of *economic class*, rather than in terms of gender and skin color, they are victims.

Labor Secretary Reich laid out the stark statistics. Last year, the top fifth of the nation's households took home nearly half (48%) of the nation's total income; the bottom four-fifths shared the other half. He noted that working men who lack college degrees have been particularly hard-hit. "This group, which includes nearly three out of four working men, has seen its economic prospects shrivel . . . and has suffered a 12% decline in average real incomes since 1979."

With real incomes falling, with their jobs in jeopardy, ordinary people actually feel what scholars only talk about: The ground is shifting beneath their feet; the old promises, the old assumptions, aren't working any more. Looking back on the election, University of Kansas environmental historian Donald Worster, who was featured in the second article, sees evidence of a great disillusionment.

"Somehow, it isn't adding up," he says. "I'm struck by how we seem to be running faster and faster after a set of ideas that don't seem to be working any more . . . basically, the whole cluster of material values that have helped define Western culture for centuries."

But although the voters lashed out, there were limits to their anger. Despite recent setbacks in Austin and Cincinnati, the antigay backlash sputtered out, at least for this year. What began as a conservative drive to put antigay resolutions on the ballots in 10 states dwindled to two as failed petition drives and court challenges derailed the other attempts. Voters in those two states, Oregon and Idaho, then rejected the initiatives by thin margins, 51.5% to 48.5% and 50.4% to 49.6%, respectively. (One Florida county, Alachua, did vote to delete protections for homosexuals from an antidiscrimination ordinance.)

To gay-rights forces, the results were a double message, at once reassuring and cautionary. "Voters won't support 'special rights,' but voters do support 'fairness,'" concludes Tim McFeeley, executive director of the Washington-based Human Rights Campaign. A lot depends upon the way the issue is framed.

President Clinton framed the issue badly when he made acceptance of gays in the military one of the very first issues his administration tackled, Mr. McFeeley now believes. This sent a jarring signal to voters preoccupied with other issues like jobs and crime. "They asked, why is Clinton, after 12 years of Republican rule, spending his first month doing this? In retrospect, I think the people were right."

This town, population about 2,300, is a good place to examine the anxiety and the anger that roil middle-class white voters. The Munford area voted better than three-to-one against incumbent Democratic Sen. Sasser. The town is a bifurcated community — two distinct communities in one, really. But each threw the Democrats out.

The old, original Munford remains blue-jeans, plaid shirt and pickup country. Its archetypical resident is a middle-aged white man driving a pickup truck. Two billboards up Highway 51 neatly encapsulate its religious fundamentalist, assertively masculine character. The first asks: "Hurting? God Cares." The second advertises a guns and ammo shop.

This Munford is anxious about the future — and bristling with anger. "I'm an educated white male and I don't stand a chance," says Richard Robinson, 32 years old, out of work and living with his aunt, Beverly Cox, in a mobile home outside town. "The people who've got it best are uneducated women with kids." The future? Ms. Cox, 43, and just getting along on welfare and part-time work, doesn't see much of one. "America isn't America any more," she says bitterly.

Alongside the old Munford a new one is springing up just as fast as contractors can build $100,000-plus houses. These new developments are heavily populated by retired military personnel and by whites who have fled Memphis. The new Munford is considerably more hopeful about the future, but only marginally more sympathetic to the poor.

It is, in fact, fed up with being made to feel guilty about them.

"A lot of people just want the American dream and not to be ashamed of it," says Curtis Taylor, 36, a Navy officer who did two tours in the Persian Gulf. He works for the Navy by day, works as a Firestone salesman by night and, in addition, is completing a master's degree. "But somehow," he says with heavy irony, "it's my fault that people are on welfare."

Janice Cheston, a 45-year-old homemaker living in the same development, voted Republican to draw the line against what she sees as a too-liberal Clinton agenda, including efforts to boost the number of women in the military. Although she favors equal pay for equal work, she doesn't consider herself a feminist. "Some of them go too far, like being for equality in the military," she says. More broadly, she is worried about a liberal drift in society as a whole. "I don't know if we'll get change for the better," she says. "I just don't want it to get any worse."

What the two Munfords ultimately have in common is an erosion of faith. It is a faith that Americans have traditionally claimed as their birthright: the faith that tomorrow will be better than today. Few here take that for granted any more.

Carl Biggs, the snack-shop proprietor, finds himself selling doughnuts now—hardly the thing he expected to be doing when he graduated from high school a decade and a half ago. "You know it's funny," he says as he bustles around in his apron, preparing for his noontime customers. "We used to vote Democratic for family values, to protect the common man. Now, it seems like it's just the opposite."

Trinity Industries Acquisition

DALLAS — **Trinity Industries** Inc.'s Transit Mix Concrete & Materials Co. unit completed the previously announced acquisition of 29 plants from **Lafarge** Corp. for about $30 million.

Intel Corp. Still Balks At Replacing Pentium Without Questions

Continued From Page A3

about this thing," Mr. Barrett said. "I guess we've been behind the power curve in facing that."

But crisis-management experts say the company has hurt its image by focusing on technical arguments. "Intel needs to evaluate what its consumers are saying about the problems, and not just offer engineering facts to uphold the credibility of its Pentium chip," said Chuck Pettis, a principal with Floathe Johnson, an ad agency in Kirkland, Wash. Mr. Pettis wrote the book "Technobrands," which in part chronicles the "Intel Inside" advertising campaign that made the brand a household name.

Intel hasn't made any moves to create ads to address the controversy or hold up its $80 million Pentium ad campaign. "You need to respond aggressively anytime there is even the perception that a perfect product is damaged," said Tom Davis, executive vice president of Corporate Response Group Inc., a Washington-based firm specializing in crisis management.

As Mr. Grove concedes, Intel couldn't immediately give all consumers new Pentiums in any case. More than four million flawed Pentiums are likely to be sold this year. The company will keep making the original chip until the end of the first quarter, as it struggles to boost production of the improved version.

Intel could certainly afford a total recall. Eli Sayegh, an analyst at Hancock Institutional Equity Services, puts the total cost of such a move at between $400 million and $800 million. The estimate assumes about eight million chips replaced, including products already shipped and chips built but not shipped, and a manufacturing cost of $50 to $100 each.

Mr. Sayegh figures the potential blow to earnings would be between 62 cents a share and $1.25, compared with his 1994 earnings estimate of $5.91 a share on revenue of $11.3 billion. For the first nine months of 1994, Intel earned $1.92 billion, or $4.37 a share, on revenue of $8.29 billion.

Such estimates exclude some factors. So far, for example, the company hasn't been offering any labor cost for replacing the chips, though computer makers might press for reimbursement at some point. If Intel had to dedicate most of its production to replacement chips, Mr. Sayegh notes, the shift might make it tough to meet demand for new sales.

Mr. Grove said it is too early to give any detailed post-mortem of any mistakes the company may have made. "I don't think Intel has to change its essential culture," he added. "This is the best microprocessor ever."

—Fara Warner in New York contributed to this article.

SPECIAL SCHEDULING REQUESTS
HONORARY CHAIR, HONORARY PATRON, HONORARY MEMBERSHIP

Today's Date: December 16, 1994

94 DEC 17 P4:47

Date of Request:	11/03/1994
Request for:	POTUS/FLOTUS
Type of Request:	Honorary Chairmen
Requestor Name:	Mrs. Ann Richardson
Title:	Chairman
Organization:	Second Genesis, Inc. 7910 Woodmont Avenue Suite 500 Bethesda, Maryland 20814-3048
Contact Tel. #:	301/656-1545
Event Date:	3/25/1995
Event Description:	Annual Gala Benefit
Notes:	Second Genesis is a drug treatment program. The annual gala is a major source of funding for the group. The request came through Elliot Richardson. Carol Rasco, Leon Panetta, and Cheryl Mills have all signed off on it. We accepted last year on behalf of the President only.

Recommendations:

MW ______ JP Yes ______ EB ______

Second Genesis, Inc.

residential therapeutic communities
Maryland/Virginia/Washington, D.C.
7910 Woodmont Avenue, Suite 500
Bethesda, Maryland 20814-3048
(301)656-1545 Fax:(301)656-9313
Sidney Shankman, M.D.
Executive Director
Alan M. Rochlin, Ph.D.
Deputy Executive Director

25 YEARS Rebuilding Shattered LIVES 1969-1994

November 3, 1994

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

Dear Mr. President:

I write on behalf of Second Genesis, a highly successful program that helps addicts reclaim their drug-shattered lives.

I first heard of Second Genesis when a friend of mine asked me to help her find an effective program to help her daughter who was addicted to heroin, overcome her addiction. A call to the National Institute on Mental Health suggested Second Genesis. My friend's daughter had to work hard to cure herself, but she recieved a lot of support and encouragement from staff and other residents. A year later she graduated from Second Genesis free of heroin and of all the negative behaviors that go with addiction.

As is true of all but a very few of those who graduate from Second Genesis, she has never gone back to her old negative and addictive way of life, lives happily with her husband and two daughters, and works with her husband in a business he founded.

Since that young woman graduated, hundreds of people have gone to Second Genesis to help them rebuild their drug-shattered lives. Many of those graduates act as Ambassadors for treatment, encouraging others to turn their lives around at Second Genesis.

For 15 years, I have been a staunch advocate for the incredibly successful treatment program of Second Genesis. This past year my efforts and those of our benefactors have been intensified as we struggle to raise crucial treatment dollars in an economy whose resources are stretched. We take great pride in representing an organization that continues to provide such practical, effective and vital care for so many in a cost-effective manner.

One of their major sources of funding is the annual Second Genesis Gala Benefit, to be held this year on March 25, 1995 at the JW Marriott Hotel in Washington, D.C.

We would be deeply honored if you and Mrs. Clinton would agree to be the Honorary Chairmen of this fundraising event that will help Second Genesis reach more people in need of treatment. Your commitment to Second Genesis symbolizes for our benefactors the nation's encouragement and support of treatment to combat drug abuse.

The residents, staff and I remain indebted to you for your words of hope and support for Second Genesis, and your dedication to ending drug abuse. We hope you will join us as we prepare for a spectacular benefit by serving as the Honorary Chairmen for 1995. Once again, all of us thank you very much for your kind consideration.

Sincerely,

Anne Richardson

Mrs. Elliot L. Richardson
Chairman, Second Genesis Advisory Board

Sir Eugene Epstein
Lady Marlene Epstein
Penn Oak
1238 Wrightstown Road
Newtown, Pennsylvania 18940
(215) 968-2200

94 DEC 14 P5:04

Podskind

Mr.John Podestra
Office of Presidential Corres.
White House
Washington D.C. 20500
December 13th 1994

Dear John;

Please have Bill Clinton propose a "National Hot Line" with a toll free 800 number.This would give the President immediate feed back from the populous. I propose that when a question requiring public input is presented that the general public should be given 48 hours to respond by calling a toll free 800 number and punching in their social security number which will eliminate duplication .Their response will immediately give the President the necessary feed-back to go to the next step. Bill needs to take aggressive actions immediately in order to preserve his Presidency.

Gene Epstein
A Republican that believes that Bill Clinton wants to do a great job for everyone.

Sincerely

Gene Epstein

WAKE

UP!

URGENT

WILLIAM J. CLINTON,PRESIDENT
JOHN PODESTA
OFFICE PRES.CORRES.
THE WHITE HOUSE
WASHINGTON D.C. 20050

DONT MISS THIS OPPORTUNITY TO FORGE AN ALLIANCE WITH THE REPUBLICANS ON ONE SUBJECT.......A TAX CREDIT TO EMPLOYERS WHO HIRE UNEMPLOYED PEOPLE EQUIVILANT TO THE AMOUNT THEY ARE RECEIVING IN UNEMPLOYMENT.

PRESIDENT CLINTON WILL APPEAR TO HAVE A TOTAL HANDLE ON THE ECONOMY AND SHOW THAT GRIDLOCK IS DEAD.

EVEN THOUGH BUSINESS ACTIVITY HAS INCREASED EMPLOYERS ARE NOT RE-HIRING FORMER EMPLOYEES PREFERING TO 'WAIT' UNTIL IT IS NECESSARY.IN ORDER TO REPLENISH THOUSANDS UPON THOUSANDS OF JOBS NATIONWIDE WE MUST ENCOURAGE EMPLOYERS TO RE-HIRE THOSE LAID OFF BY OFFERING TAX INCENTIVES.

ISSUE A TAX CREDIT (TO THE FORMER EMPLOYER) based upon the THE FULL AMOUNT OF THE FORMER EMPLOYEES WEEKLY UNEMPLOYMENT COMPENSATION AS LONG AS THAT EMPLOYEE IS RE-HIRED AND RE-TRAINED .

THE TAX CREDIT SHOULD BE FOR A SIX MONTH PERIOD AT THE FULL AMOUNT (I.E. if employee received $250.00 per week for unemployment compensation then the employer should receive $250.00 times six months as a credit)

THE FOLLOWING SIX MONTHS THE TAX CREDIT SHOULD BE ISSUED AT TWO THIRDS
OF THE SAME FORMULA (I.E. two thirds of $250.00 or $166.00 per week) for a six month period

THE FINAL TWELVE MONTHS THE EMPLOYERS SHOULD RECEIVE ONE THIRD

WHAT WILL THIS ACCOMPLISH?

THE EMPLOYEE WILL BE RE-HIRED AND HOPEFULLY RE-TRAINED THUS BEING REMOVED FROM THE UNEMPLOYMENT ROLLS

THE EMPLOYER WILL BE ENCOURAGED TO RE-HIRE EMPLOYEES NOW AS HIS/HER BUSINESS IS IMPROVING INSTEAD OF WAITING LONGER AND LONGER.

THE FEDERAL GOVERNMENT WILL RECEIVE TAXES FROM THE RE-HIRING

MORE DOLLARS ARE BEING PUT BACK INTO THE ECONOMY TO CONTINUE AN ECONOMIC REBOUND

ONE PROVISO SHOULD BE THAT THE EMPLOYER'S BENEFIT WILL CEASE IF HE/SHE

Philanthropist gives idea for prosperity

Gene Epstein, the Wrightstown resident who made money as an automobile dealer and now is a philanthropist, got a letter recently from the nation's capital. Epstein, a Republican, voted Democratic last November.

The letter said, "I hope you've recovered from the shock of voting for a Democrat. I'm not sure I've recovered from the shock of having been voted for. Thanks."

The letter was signed, "Bill Clinton."

Epstein, since, has followed developments. He sent a letter this week to the Oval Office as well as to Bucks County Congressman James Greenwood. In the letter, he offers a suggestion to increase economic activity.

Epstein said even though the economic recovery seems to be under way, employers are not rehiring former employees. Employers prefer to wait.

Epstein doesn't think the nation's

Joe Halberstein

leaders have the luxury of waiting to see how the recovery progresses.

"We need to replenish the thousands upon thousands of jobs nationwide. We must encourage employers to rehire those laid off by offering tax credits."

Epstein's suggestion is novel. It is unique.

"I would issue a tax credit to former employers based upon the full amount of the former employee's weekly unemployment compensation as long as that employee is rehired and retrained."

He also would encourage new small businesses to go to the unemployment rolls to find their workers, rather than "steal" them from an existing firm.

That way, they, too, would earn the tax credit and put someone back to work who needs a job.

Epstein says if the former employee is getting $250 a week in unemployment compensation, the rehiring or new employer would get a $250 per week tax credit based upon a six-month test.

"The following six months, the tax credit should be issued at two-thirds of the same formula. The final 12 months the employer would receive a one-third tax credit."

Epstein says the tax credit should accomplish these objectives.

■ The employee will be rehired and retrained. This removes him or her from the unemployment rolls.

■ The employer will be encouraged to rehire employees now as his or her business is improving, instead of waiting.

■ The federal government will receive taxes from the rehiring.

■ More dollars will be put back into the economy to continue the rebound.

Epstein said the plan would have a proviso that benefits to the employer cease if an existing employee is displaced to rehire a former employee.

Epstein's plan seems to have as much merit as the myriad of others proposed so far, both by Democrats and Republicans in Washington, D.C. As people return to work, they pay taxes. As more tax revenues accrue to the federal government, more can be done, especially in the realm of reducing the deficit.

Prosperity is a self-feeding circle. The more people who are getting a portion of it, the larger the circle becomes.

Wonder if Epstein's idea would be an answer to those on welfare? Give a tax credit to employers for the total worth of food stamps and welfare checks and start retraining men and women who need to work for a better way of life.

Joe Halberstein's column appears Monday, Tuesday, Thursday and Friday.