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THE CHAIRMAN

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February 27, 1995

MEMORANDUM FOR THE PRESIDENT

FROM: LAURA D. TYSON Laura D. Tyson

SUBJECT: Crime Study

Attached is a copy of the crime study that was discussed in this morning's Weekly Economic Briefing.

Attachment:a/s

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EYES ONLY

BUSINESS, CONSUMER, AND REGIONAL ROUNDUP

FOMC Sees Continued Growth, Small Uptick in Inflation. Fed Chairman Alan Greenspan testified this week that he and his fellow members of the Federal Open Market Committee expect real GDP growth to slow from 4 percent in 1994 to a more sustainable pace of between 2 and 3 percent this year. Growth at that rate should be fast enough, in their view, to hold the unemployment rate in the neighborhood of 5-1/2 percent. At the same time, they expect consumer price inflation to edge up only slightly, to between 3 and 3-1/2 percent. (On all three counts, the Fed's outlook is similar to the Administration's recently published forecast.) Greenspan also emphasized the uncertainties inherent in making monetary policy: "Events will rarely unfold exactly as we foresee them, and we need to be flexible—to be willing to adjust our stance as the weight of new information suggests it is no longer appropriate." In a speech delivered a few days earlier, Vice Chairman Alan Blinder sounded an even more cautious note. Blinder said he sees the macroeconomic risks currently as roughly balanced between inflation and recession. He reaffirmed his belief that last year's preemptive strike on inflation was the proper policy move, but went on to say that "... when you embark on a course like that, you should know when to stop and be prepared to make a preemptive strike against recession as well."

Proof That Adding Police Reduces Crime. It seems obvious that increasing the number of police on the streets should reduce the number of serious crimes committed. But real world data seem to show just the opposite: Cities with the highest crime rates also have the most police per capita. What's going on? The perverse association between crime rates and police intensity reflects the fact that high crime rates cause cities to put lots of police on the streets—not that having lots of police induces additional crime. A new study published by the National Bureau of Economic Research isolates the effect of police on crime by exploiting the fact that police staffing rises much more in election years (both mayoral and gubernatorial) than in non-election years. The conclusion: In large cities, each additional sworn officer reduces the societal costs of crime by at least $100,000 per year.

Employers Cast a Vote of No-Confidence in Educational System. A new nationwide survey of 3,000 private firms with 20 or more employees reveals that, in interviewing candidates for non-supervisory positions, companies pay little attention to an applicant's formal educational experience. When asked to rank 11 factors according to their importance in hiring decisions, employers listed the top three as the applicant's "attitude" (easily the most important factor), communication skills, and previous work experience. Least important to employers were the applicant's academic credentials—grades, school attended, and teacher recommendations. These results contrast with the pattern in Japan, where employers screening job candidates weigh academic performance heavily.

NBER WORKING PAPER SERIES

USING ELECTORAL CYCLES IN POLICE HIRING TO ESTIMATE THE EFFECT OF POLICE ON CRIME

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Working Paper No. 4991

NATIONAL BUREAU OF ECONOMIC RESEARCH
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USING ELECTORAL CYCLES IN POLICE HIRING TO ESTIMATE THE EFFECT OF POLICE ON CRIME

ABSTRACT

Previous empirical studies have typically uncovered little evidence that police reduce crime. One problem with those studies is a failure to adequately deal with the simultaneity between police and crime: while police may or may not reduce crime, there is little doubt that expenditures on police forces are an increasing function of the crime rate. In this study, the timing of mayoral and gubernatorial elections is used to identify the effect of police on crime. This paper first demonstrates that increases in the size of police forces disproportionately occur in mayoral and gubernatorial election years, a relationship that had previously gone undocumented. After controlling for changes in government spending on other social programs, there is little reason to think that elections will be otherwise correlated with crime, making elections ideal instruments. Using a panel of large U.S. cities from 1970-1992, police are shown to reduce crime for six of the seven crime categories examined. Each additional police officer is estimated to eliminate eight to ten serious crimes. Existing estimates of the costs of crime suggest that the social benefit of reduced crime is approximately $100,000 per officer per year, implying that the current number of police is below the optimal level.

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Crime is a major social and economic issue in the United States. The cost of crime to victims is estimated at approximately $200 billion per year (Miller, Cohen, and Rossman 1993). The indirect costs of crime are also substantial. Government outlays on the criminal justice system totaled $74 billion in 1990, including $32 billion on police protection. Private expenditures on self-protection are on the same order of magnitude.

Following the seminal contribution of Becker (1968), a large literature has addressed issues of criminal behavior and sanctions (e.g., Stigler 1970, Ehrlich 1973, Witte 1980, Myers 1983, McCormick and Tollison 1984, Andreoni 1991). One of the most surprising empirical results in this literature is the repeated failure to uncover evidence that an increase in the number of police reduces the crime rate. Of the twenty-two studies surveyed by Cameron (1988) that attempt to estimate a direct relationship between police and crime using variation across cities, eighteen find either no relationship or a positive (i.e. incorrectly signed) relationship between the two.[1]

There are many reasons to suspect that existing estimates of the relationship between police and crime are biased against finding that police reduce crime. The primary source of bias is the clear simultaneity between police and crime rates (Fisher and Nagin 1978).[2] If more

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[1] In addition to cross-sectional studies, there are two other sources of evidence. Quasi-experimental evidence from a study performed in Kansas City in the early 1970's found no statistically significant difference in crime when the number of police assigned to fifteen different patrol beats were varied (Kelling et al. 1974). Analysis of police on the New York subway system in the 1960's suggests that an increased police presence reduces the number of robberies slightly, but at an extremely high taxpayer cost per crime eliminated (Wilson 1983). Also, Tauchen et al. (1993) find a deterrent effect of police resources in an analysis that combines individual-level information on arrests with aggregate information on police.

[2] In fact, in a recent survey of the effect of police on crime, Sherman (1992) dismisses studies of the level of police resources based on cross-sectional variation in a footnote due to this

police are hired when crime is increasing, a positive correlation between police and crime can emerge, even if police reduce crime. The 1994 Crime Bill provides a good case study. In response to opinion polls ranking crime as the number one problem facing the country, a crime bill authorizing funding for an additional 100,000 police officers was passed into law.

Similarly, the presence of unobserved heterogeneity across cities will impart an upward bias on cross-sectional estimates of police effectiveness. Cities that have a high level of underlying criminality are likely to have both high crime rates and large police forces. Detroit, for instance, has twice as many police officers per capita as Omaha, and a violent crime rate over four times as high, but it would be a mistake to attribute the differences in crime rates to the presence of the police.

A final source of bias against finding that police reduce crime is the use of *reported* crimes rather than *actual* crimes in empirical studies, due to the lack of availability of the true measure. Victimization surveys find that only thirty-eight percent of all crimes are reported to the police. Even for a serious crime such as robbery, reporting rates are only 54.5 percent.[3] As the police presence increases, reporting rates may rise if the perceived likelihood of a crime being solved increases. Furthermore, police officers have a great deal of discretion in choosing whether or not to make arrests in many cases such as domestic disputes. It is possible that the likelihood of arrest for a given incident decreases with the officer's workload, which may in turn be a function of the level of police staffing.

criticism, instead focusing on policing strategies.

[3] Definitions of the crime categories used in this study, the same as those employed by the FBI in gathering Uniform Crime Reports, are presented in the appendix.

This paper develops a methodology that goes well beyond the existing literature on the topic in dealing with the first two sources of bias: simultaneity and unobserved heterogeneity.[4] The primary innovation of the paper is the way in which it deals with the simultaneity between police and crime. In order to identify the effect of police on crime, a variable is required that is correlated with changes in the police force, but does not belong directly in the crime "production function." The instruments employed in this paper are the timing of mayoral and gubernatorial elections.

Section II of this paper documents an electoral cycle in police force staffing that was previously unrecognized in the literature. Increases in the size of police forces in large cities are disproportionately concentrated in mayoral and gubernatorial election years. For instance, the mean percentage change in sworn police officers for the cities in my sample is 2.6% in gubernatorial election years, 2.2% in mayoral election years, and only 0.4% in non-election years. That relationship persists after controlling for a variety of demographic, socio-economic and economic factors.

If elections are to serve as valid instruments, then they must be uncorrelated with crime, except through variables that are included in the equation explaining crime. The most obvious ways in which elections might systematically affect the crime rate (other than through changes in the police force) are through electoral cycles in other types of social spending, or through politically induced fluctuations in economic performance. Consequently, spending on education and public welfare programs are included in the equations, as are state unemployment rates.

[4] Unfortunately, data restrictions make it impossible to adequately address the bias from changes in reporting behavior in the current analysis. To the extent that reporting bias in present, the results of this paper understate the effectiveness of police.

Having controlled for those factors, it seems plausible to argue that election timing will be otherwise unrelated to crime. Tests of overidentifying restrictions support that claim.

The second source of bias in estimates of police effectiveness, unobserved heterogeneity in underlying criminality across cities and over time, is dealt with in three ways. First, concerns over differences across cities are eliminated by including city-fixed effects in all specifications so that the parameters are identified only using within-city variation over time. Secondly, city-level trends are also included to account for the fact that some cities have become more dangerous over time, while others have not. These city-level trends explain a substantial portion of the variance in crime rates. Furthermore, their inclusion has a large effect (in the predicted direction) on estimates of police effectiveness, lending support to the claim that the number of police responds to rising and falling crime rates in a city. Third, socio-economic and demographic controls are included in the analysis to capture variation in a city's population over time. These controls included the percent of the population that is black, the percent of female headed households, and the percent of the population between the ages of 15 and 24 (the age group most likely to engage in criminal activities).

The results of the paper, based on a panel of 59 large cities over the period 1970-1992,[5] suggest that sworn police officers reduce crime, and the magnitude of that reduction is both substantively important and statistically significant. Point estimates are negative for six of the seven crime categories examined (murder and non-negligible manslaughter, forcible rape, assault, robbery, burglary, larceny, and motor vehicle theft). Larceny is the only crime that has

[5] These cities represent all U.S. cities with directly elected mayors and a population of over 250,000 at some point in the time period analyzed.

an unexpected (but statistically insignificant) positive sign. The elasticities of crime with respect to the number of sworn officers range from 0.06 to -1.23 across the various crimes. Civilian employees of police forces, in contrast, appear to have a negligible effect on reported crime.

Estimated at the means of the data, each additional sworn police officer reduces the number of crimes across the various categories by eight to ten per year. Using estimates of the costs of crime to victims developed by Cohen (1988) and Miller, Cohen, and Rossman (1993), the value to society of eliminating those crimes is approximately $90,000-$130,000 per officer per year, suggesting that the current number of police officers in large cities is below the socially optimal level.

While the particular focus of this paper is on the issue of police and crime, the methodology employed here, namely the use of political variation to identify the effects of public policies, may prove to be of much broader applicability. Because public policies emerge from a political process, electoral cycles and differences in political institutions are logical instruments for public policy changes. To the extent that the timing of elections and political institutions are relatively fixed, such instruments may provide a more plausibly exogenous source of variation than either cross-sectional or time-series analyses.

The outline of the paper is as follows. Section I summarizes the data set used in the analysis. The second section demonstrates a positive correlation between changes in the size of the police force and both city mayoral races and gubernatorial elections. Section III presents the estimates of the effect of police on crime using the variation in police staffing due to electoral cycles to identify the parameters. Section IV attempts to place a social value on the reduction in crime, and considers the public policy implications of the results. Section V offers a brief conclusion.

Section I: The Data

The data used are a panel of 59 U.S. cities, with observations running from 1970-1992. These cities represent all U.S. cities satisfying two criteria: (i) the city population exceeds 250,000 at some point in the time period analyzed, and (ii) the mayor is directly elected. Because mayoral elections are critical to identifying the model, six cities (Cincinnati, Virginia Beach, Norfolk, Wichita, Santa Ana, and Colorado Springs) that satisfy the population cut-off, but do not have direct election of mayors, are excluded from the sample.

Data on crime are taken from the Uniform Crime Reports published by the FBI, and are available annually on a city-level basis for seven types of crime: murder and nonnegligent manslaughter, forcible rape, assault, robbery, burglary, larceny, and motor vehicle theft. Precise definitions of the crimes are presented in the appendix. Data on the number of police, both sworn officers and civilians employees, are also taken from the FBI Uniform Crime Reports. Sworn officers carry a gun and have the power of arrest; civilian employees do not.

Summary statistics on police and crime for the cities in the sample, expressed in values per 100,000 population, are presented in Table 1. Overall, there is slightly less than one reported crime per ten individuals, the majority of which are relatively minor property crimes.[6] Violent crime rates for the cities in the sample are more than twice as high as for the nation as

[6] In fact, this number greatly understates the true crime rate for two reasons. First, less than half of all crimes are reported to the police. Secondly, when multiple offenses occur in the commission of a single crime, the FBI only records the most serious of these offenses. Thus, if a robber kills someone in the process of a hold-up, and then steals a car to flee the scene, only the murder would be included in the FBI statistics.

a whole; property crimes per capita are almost twice as frequent in these cities. One notable feature of the data on reported crime is the wide variation across cities. The crime rates for an individual crime category often vary by orders of magnitude across cities. While some of this variation is probably attributable to differences in crime definitions and reporting, the variation is nonetheless striking.[7] There are almost 300 police per 100,000 population, approximately 80% of whom are sworn officers.

Figure 1 shows the time series (in per capita terms) of violent crime, property crime, and sworn officers for the cities in the sample. In each case, the 1970 value of the category is indexed as 100. Violent crime has seen the greatest increase, more than doubling in these cities between 1970 and 1992. Until the mid 1980's, violent crime and property crime tracked each other fairly closely. Since that time, violent crime has steadily increased, while property crime has flattened.[8] The number of sworn officers has grown less rapidly than crime rates.

In addition to the data on police and crime, a number of demographic, government spending, and economic variables are included in the regressions. Ideally, those variables would be available at

the city-level on an annual basis. Unfortunately, the data limitations with respect to city-level data necessitate a number of compromises. While city populations are available annually, the only convenient data source for the percent of a city's population that is black and the percent

[7] Glaeser, Sacerdote, and Scheinkman (1994) undertake an in-depth analysis of this issue.

[8] Victimization surveys, unlike the reported crime statistics used in this analysis, show a declining trend in crime rates per capita (for the nation as a whole). Unfortunately, more disaggregated data on victimization is not available. For an extensive discussion of crime data in the United States, see O'Brien (1985).

living in female headed households is the decennial census. Consequently, a linear interpolation of those variables is made for non-census years. Since demographic variables tend to evolve slowly, this may serve as a reasonable approximation. The data on the percentage of the population between the ages of 15 and 24 used in this paper is also linearly interpolated from the decennial census, and suffers from the further defect that it is defined at the SMSA rather than city level.

Data on government spending for education and public welfare programs has a different complication. While annual city government outlays on such programs are available, less than ten percent of total state and local expenditures on both of those categories originate at the city level.[9] State outlays, however, are not broken down according to the city that receives the money. Therefore, the spending variables that are employed in this paper are combined state and local outlays per capita (in 1992 dollars) on a particular category in a given state and year. While this variable misses some of the city-level variation, it is assumed that any mayoral election cycles in such spending will be small since city budgets for such activities are also small. Finally, annual state unemployment rates are used to control for economic fluctuations. Summary statistics for the various control variables described above are presented in Table 2.

Section II: Mayoral and Gubernatorial Election Cycles in Police Staffing

There are many reasons to suspect a link between elections and the timing of changes in the size of city police forces, particularly in big cities. First, crime is a critical political issue

[9] In 1992, only eight of the fifty-nine cities in the sample spent an appreciable amount on education. Local school boards are typically financed independently from city governments.

in these cities, and has been since the crime rate began to rise in the early 1960s. Crime consistently ranks among the most important issues facing the nation in opinion surveys, and is frequently *the* most critical issue when the economy is performing well. Given the importance of crime as a political issue, incumbents will have incentives to increase the police force in advance of elections, either in hopes of actually reducing crime, or simply to demonstrate that they are "tough on crime."[10]

For mayors, especially, police are an ideal target for political manipulation since police departments are organized at the city level with only a few exceptions.[11] That both gives ultimate decision-making authority on police issues to the mayor, and also means that credit or blame concerning police performance are easily traced to the mayor by voters. Furthermore, the high rate of turnover among police officers (who can typically retire after 20 years with a full pension) and the ease of altering the size of an incoming class of cadets makes both upward and downward shifts in the size of the police force easy to accomplish. In contrast, a city's economic performance is largely outside the control of the mayor. For that reason, it is not clear that voters hold mayors responsible for a city's economic situation; Chubb (1988) finds that even governors bear little responsibility for the state economy in the eyes of voters.

While the motives of incumbent governors are likely to be similar to those of incumbent mayors, the mechanism by which governors might affect levels of city police staffing are less straightforward since the state government does not typically directly hire local police. State

[10] Monkkonen (1992) details various other political uses of urban police forces over the last century, although no mention is made of election cycles in police staffing.

[11] In recent years, a few cities have formed a joint force with surrounding communities. Nashville, for instance, shares its police force with Davidson County.

governments do, however, provide substantial local aid to city governments (representing more than 20 percent of general revenues for large cities), as well as a more limited amount of intergovernmental grants tied specifically to local law enforcement. Besley and Case (1994) document gubernatorial election cycles for a range of fiscal variables. Although intergovernmental grants is not among the categories Besley and Case (1994) examine, the existence of cycles in intergovernmental grants would not be implausible in light of their other results.

Empirically, changes in the size of police forces do indeed tend to mirror the political cycle in large cities. A simple comparison of the mean percentage change in the number of police officers in the sample across election and non-election years reflects this pattern (standard deviations in parentheses):

	%Δ Overall Police	%Δ Sworn Officers	%Δ Civilian Employees
Gubernatorial Election Year (N=349)	2.8 (0.3)	2.6 (0.3)	4.5 (1.1)
Mayoral Election Year (N=402)	2.8 (0.3)	2.2 (0.3)	5.1 (1.0)
No Election (N=629)	0.7 (0.2)	0.4 (0.2)	2.2 (0.9)

Overall, police forces grow by 2.8 percent on average (with a standard error of 0.3) in

either gubernatorial or mayoral election years, but only 0.7 percent (with a standard error of 0.2) in non-election years.[12] Dividing police forces between sworn officers and civilians reveals similar patterns for both categories, although the standard errors on civilian employees are much larger.

Figure 2 provides a year-by-year comparison of increases in sworn officers for cities with elections in a given year (either mayoral or gubernatorial) and cities without elections.[13] While there is substantial year-to-year variability in the average change in the number of sworn officers, cities with elections in the current year exhibit higher rates of increase (or smaller decreases) in 20 of the 23 years. If changes in sworn officers are independent across cities and are unrelated to the timing of elections, the likelihood that cities holding elections would have higher rates of increase in 20 of 23 cases is less than one in 4,000.[14]

Another way of examining the robustness of the relationship between sworn officers and elections is to analyze the data on a city-by-city basis. A full list of cities, along with information on mean changes in sworn officers in gubernatorial, mayoral, and non-election years is provided in the Appendix. Excluding Washington D.C., which does not have gubernatorial elections, 43 of the 58 cities in the sample have higher mean rates of increase in gubernatorial

[12] Approximately 3% of the observations in the sample have both mayoral elections and gubernatorial elections in the same year. Consequently, there is a small amount of double-counting in these simple averages. The patterns are unaltered if such observations are discarded.

[13] Throughout the paper the analysis will tend to focus on sworn officers rather than civilian police employees. This is partly because of an a priori expectation that sworn officers will have a greater impact on crime, and partly because empirically the link between elections and sworn officers is stronger.

[14] Of course, changes in police forces across cities are not truly independent since grants from state to local governments will tend to covary for cities in the same state.

election years compared to years in which there are neither gubernatorial or mayoral elections. If cities represent independent observations, the odds of this pattern are less than one in 5,000 if elections do not affect police hiring. 39 of the 59 cities have greater mean increases in sworn officers in mayoral election years versus non-election years (with one tie). Again assuming independence across cities, the likelihood of this pattern is less than one in 150 if mayoral elections have no affect on police staffing.

Those simple averages, of course, do not take into account possible correlation between the timing of elections and other factors that might influence growth of the police force, such as the state of the economy. It is also possible that election cycles in police staffing exhibit a more complicated structure than simply being high in election years and low in non-election years. Different patterns may also emerge in cities that have two year mayoral terms rather than four year terms.

To incorporate those possibilities, the relationship between police and elections is modeled more formally as follows:

$$P_{it} = E_{it}\theta + X_{it}\delta + \gamma_t + \lambda_i + v_{it} \qquad (1)$$

where P_{it} is the percent change in the relevant police staffing category for city i in year t, E is a matrix of indicator variables corresponding to the years of the mayoral and gubernatorial election cycle, and X is a matrix of covariates.

Table 3 presents three sets of regression estimates of equation (1) corresponding to

overall police, sworn officers, and civilian police employees. The regressions in Table 3 allow a different intercept for each year of the election cycle for both mayoral and gubernatorial elections. The effect of mayoral election years is also allowed to vary according to whether the mayor's term is two or four years. All election coefficients are relative to the relevant omitted category, which in each case is the year directly following an election. Year indicators are included in the regressions, removing any national-level shocks to police hiring. City-fixed effects are also included; therefore the parameters are identified using only within-city variation over time.

A strong relationship between election years and police hiring continues to hold for overall police and sworn officers after controlling for the other factors. For instance, sworn officers are estimated to increase by an additional 1.3% in mayoral election years (relative to the year after the election) in cities with two year mayoral terms. For cities with four year mayoral terms, sworn officers increase by an extra 1.0 percent in election years, and also exhibit some tendency towards greater than average growth in the year prior to an election year. The individual mayoral election year coefficients are only marginally statistically significant, but are jointly significant at the .05 level in both columns (1) and (2). The largest electoral effects are for gubernatorial election years, in which sworn officers increase by an additional 3.0 percent. There is some evidence that sworn officers also increase disproportionately two years before gubernatorial elections, although there is not a strong election cycle rationalization for such a result.[15]

[15] Following Besley and Case (1994), who find differential tax and fiscal behavior by incumbent governors conditional on the presence of binding term limits, I divided governors between those constrained from seeking re-election and those who are not constrained. While

While the election coefficients are positive for civilian police employees, the estimates are both individually and jointly statistically insignificant due in part to imprecise estimates. That result is not surprising. To the extent that only sworn officers have a direct impact on crime, one would expect that political manipulation of police departments would be concentrated on sworn officers.

The other variables in the regression are generally statistically insignificant and carry coefficients that are substantively small. The exception to that pattern is the state unemployment rate, which has a statistically significant negative coefficient in columns (1) and (2). For each percentage point increase in unemployment, the predicted growth rate in the police force declines by over three-tenths of a percentage point.

Section IV: Estimating the Effect of Police on Crime

The preceding section demonstrates a correlation between elections and changes in the police force. In order for election timing to serve as an instrument to identify the effect of police on crime, it must also be the case that elections are validly excluded from the crime "production function." The primary reason that such an exclusion might be invalid would be a failure to control for other variables that are both correlated with crime and also affected by electoral cycles. In particular, spending on public welfare or education might fall into that category since such spending may have effects on criminal activities by changing the opportunity sets of potential criminals. It is also possible that state and local elections induce economic

there was some evidence in the raw data that unconstrained governors induce more extreme cycles in police hiring, the restriction of identical behavior could not be rejected in the specifications shown in Table 3.

fluctuations akin to the political business cycle observed at the national level (Alesina and Sachs 1988). In estimating a relationship between police and crime, therefore, controls are included for state and local spending on both public welfare and education, as well as state unemployment rates. Having controlled for such factors, election cycles would appear to be plausible instruments.

Another potential source of upward bias in estimating a relationship between police and crime is unobserved heterogeneity across cities and over time. Three steps are taken to deal with such heterogeneity. First, city-level fixed effects are included in all specifications. Thus, the coefficients are identified using only within-city variation over time, lessening concern over the possible omission of explanatory variables that systematically vary across cities, and also avoiding the problem of non-comparability of reported crime statistics across cities (O'Brien 1985). Second, city-level trends are included to account for the fact that large changes in the underlying criminality of a given city can occur over time. Per capita crime in Jersey City increased by over 250% between 1970 and 1992. In contrast, San Jose saw a 30% decrease in per capita crime over the same period. For all of the crime categories examined, the city trends are jointly statistically significant at the .01 level, as are the city-fixed effects. Finally, year dummies and demographic controls are included in the analysis to further capture variation in a city's situation over time.

The effect of police on crime is allowed to enter both contemporaneously and with a one-year lag.[16] From a theoretical perspective, increases in the police force may affect crime with a lag. Police reduce crime either via deterrence (preventing the commission of the initial crime

[16] Inclusion of longer lags did not substantially alter the findings.

due to an increased likelihood of being caught), or through incapacitation (catching repeat offenders so they cannot commit future crimes). If there are lags in the response of criminal behavior to the probability of being caught, the deterrence effect will not be immediate. Similarly, the benefits of incapacitation are realized for as long as the offender is in jail. On a purely practical level, another reason for including lagged changes in the police force is the staggered nature of the available data. Data on reported crimes are collected on a calendar year basis, whereas the size of the police force is a snapshot as of October 31st.[17] As a consequence, if changes in the police force occur shortly before October 31st, there is little opportunity for those changes to affect crime in the current year.

The impact of police on crime is estimated using two-stage least squares, treating the police variables as endogenous and the other right-hand side variables as exogenous. The particular form of the equations to be estimated are as follows:

$$C_{it} = P_{it}\beta + X_{it}\eta + t\theta_i + \gamma_t + \lambda_i + \epsilon_{it} \tag{2}$$

$$P_{it} = E_{it}\phi_i + X_{it}\delta + \gamma_t' + \lambda_i' + t\omega_i + \epsilon_{it}' \tag{3}$$

where C_{it} is the (logged) number of crimes in a given category in city i in year t, P is a matrix of (logged) contemporaneous and lagged sworn and civilian police staffing variables, X is a

[17] The fact that the size of the police force is reported as of October 31st is quite fortuitous for this analysis since most mayoral elections and all gubernatorial elections occur in early November.

matrix of covariates, and E is a matrix of election year indicators. Equations 2 and 3 also include year dummies, city-fixed effects, and city-level trends. The effect of police on crime is identified via the election year indicator variables that are included in the first stage equation (equation 3), but excluded from the second stage (equation 2).

In the empirical estimation, the effect of mayoral elections on police staffing is allowed to vary across cities and the effect of gubernatorial elections is allowed to vary across states. In other words, mayoral elections in Miami are allowed to have a different effect on changes in the police force than mayoral elections in Chicago, but every mayoral election in Miami is assumed to have the same effect on the police force. Gubernatorial elections are constrained to have the same effect on police in San Jose and San Francisco, but can have different effects across states. A priori, there is no reason to believe that different mayors or governors have either equal incentives or equal capability to manipulate the police force for political purposes. Further justification for allowing the effects of elections to vary across cities is that the restriction of equal ϕ's across all cities in equation 3 is rejected at the .01 level for sworn officers.

There are both advantages and disadvantages to using such a large set of instruments. Allowing election cycles to vary by city exploits the available information more efficiently, leading to smaller standard errors than would be obtained with a more limited set of instruments. A second benefit of allowing electoral effects to vary by city is that it generates a large number of testable overidentifying restrictions. One cost of having so many instruments is that it may lead to estimates that are biased in the same direction as those obtained using OLS. If the *true* relationship between elections and the police force is identical across all cities, then allowing that relationship to vary by city will tend to pick up "bad" variation: cities that exhibit strong electoral fluctuations in police under that scenario will tend to be the cities that (by chance) had increases in criminality in election years.[18] In the limit, where there is a separate instrument for each observation in the data set, two stage least squares is identical to OLS. A second drawback of having so many instruments is that convergence to asymptotic properties occurs slowly when the correlation between the instruments and the variables that are instrumented for is low (Staiger and Stock 1993). While that critique is unlikely to apply to the estimated coefficients on sworn police officers, where elections are good predictors of staffing changes, it may be quite relevant to the estimates on civilian employees where the explanatory power of electoral cycles is much lower.

Table 4 presents the results of two stage least squares estimation of equation (2) for each of the seven individual crime categories. In all specifications, feasible generalized least squares is used to take into account heteroskedasticity across cities. For simplicity, only the sum of the coefficients on current and lagged changes in police (as well as the appropriate standard errors) are reported. Since the dependent variable and the police variables are both in logs, those sums represent the estimated elasticity of crime for each category with respect to sworn and civilian police employees respectively.

The first row of Table 4 presents the estimated elasticity of various types of crime to sworn police officers. The point estimates range from 0.06 to -1.23. The estimated elasticities

[18] Experimentation with reduced sets of instruments did not reveal any systematic tendency for the 2SLS estimates to move further away from the OLS estimates.

are negative for six of the seven crime categories.[19] Only larceny carries a positive (but statistically insignificant) coefficient. For three crime categories (murder, robbery, and motor vehicle theft), the estimates are statistically significant at the .05 level. The coefficient for rape is statistically significant at the .10 level.

In contrast to sworn officers, civilian employees appear to have little systematic effect on crime, although this result must be interpreted with caution given the poor performance of the instruments in the first stage. The estimated elasticities are evenly distributed between positive and negative signs. Interestingly, the two crime categories where civilian police have the largest negative impact are burglary and larceny, the least serious of the offenses included in the analysis, and precisely the crimes where increases in sworn officers had little impact.

Because the election cycle variables that serve as instruments are allowed to vary by city, the specifications in Table 4 are overidentified, allowing for a test of the exogeneity of the extra instruments. To test those restrictions, the residuals from the second stage regression of TSLS are regressed on all of the exogenous variables included in the specification, as well as the full set of election-cycle instruments. The test statistic for the validity of the overidentifying restrictions is computed as $N*R^2$ where N is the number of observations and R^2 is the unadjusted R-squared from the regression of the residuals on the exogenous variables and the instruments. That test statistic is distributed χ^2 with degrees of freedom equal to the number of

[19] A similar pattern holds when looking at the contemporaneous and once-lagged effects of sworn officers individually, rather than at the sum of those values. For all of the crime categories except murder and larceny, the contemporaneous and once-lagged coefficients are both negative and of similar magnitudes. For murder, the contemporaneous effect of sworn officers is .03 (with a standard error of .25), whereas the lagged effect is -.66 (with a standard error of .24). For larceny, the contemporaneous effect is slightly positive, while the lagged effect is slightly negative. Both estimates are statistically insignificant.

overidentifying restrictions, in this case 208. For all seven categories, the test statistic is well within conventional bounds. The highest value of the test statistic, obtained for murder, is significant at only the .25 level. The inability to reject the overidentifying restrictions reinforces the intuition that election cycles are a reasonable choice of instrument.

The other coefficients in Table 4 are also of interest, although the results are mixed. In six of the seven specifications, the estimated elasticity of crime with respect to population is positive, although generally less than one. The restriction implied by estimating the relationship between police and crime in per capita terms is easily rejected for all of the crime categories.[20]

The percentage of the population that is black is generally negatively correlated with crime, while the percentage of female headed households has a generally positive effect on crime. Because of the extremely high positive correlation between those variables ($\rho=.86$), however, it is somewhat difficult to interpret those coefficients separately. The percentage of the population between the ages of 15 and 24 has the expected positive sign for all crimes except rape and murder. A one standard deviation change in that variable (1.5 percentage points) translates into an increase of more than 10% in the number of robberies and motor vehicle thefts, and an increase in excess of 5% for burglaries and larcenies.

Spending on public welfare programs carries a small negative coefficient across all of the specifications, implying that increased public welfare spending reduces crime. In contrast, education spending per capita has a positive effect in crime. One explanation for this result is

[20] Estimating equation (2) in per capita terms is equivalent to imposing the restriction that $\beta_5=1-\beta_1-\beta_2-\beta_3-\beta_4$. (To see this, impose that restriction on equation (2), subtract ln(population) from both sides, and rearrange terms to obtain a per capita regression.)

that educational spending is serving as a proxy for the age distribution of the population.

Changes in the unemployment rate appear to have a substantial effect on crimes where monetary gain is the primary motivation (robbery, burglary, larceny, and motor vehicle theft), but have little effect on "crimes of passion." A one percentage point increase in the unemployment rate leads to a jump of more than one percent in the larceny, and burglary rates. Those elasticies are generally larger than those obtained using national-level time-series data (Cantor and Land 1985, Devine et al. 1988). Evaluated at the 1992 sample means, a one percentage point increase in unemployment leads to an additional 106 reported crimes per year per 100,000 population.

In order to understand how the estimates of police impact are affected by the inclusion of city-level trends and instrumenting, Table 5 presents crime-by-crime estimates of the police coefficients from three different specifications. The first specification, presented in rows 1 and 4, includes all of the variables in Table 4 except for city-level trends, and does not instrument with the election cycle. The second specification, in rows 2 and 5, is identical to the first specification except that city-level trends are added. The final specification also instruments using the election variables, and is thus identical to that presented in Table 4. If unobserved heterogeneity and simultaneity are present, the coefficients should become more negative moving down the columns.

Focusing first on the top three rows corresponding to sworn officers, the effects of controlling for city-level trends and instrumenting are dramatic. In the simplest specification, all seven of the point estimates on sworn officers carry an unexpected positive sign, and the estimates are statistically significant at the .05 level in six of the seven cases. Adding city trends to control for unobserved variation in cities over time has a large effect on the estimates. Comparing rows 1 and 2, the point estimates are more negative for every crime category in the latter. Five of the seven estimates now have the predicted negative sign. The point estimates are statistically significant at the .05 level for three crimes (robbery, burglary, and motor vehicle theft), and are statistically significant at the .10 level for both murder and rape. Instrumenting in row 3 leads to further declines in the coefficients in five of the seven categories (but also results in standard errors approximately three times larger than those of the other specifications). It therefore appears that both unobserved heterogeneity and endogeneity of police increases have contributed to the failure of previous studies to uncover negative effects of sworn officers on crime. The effects on civilian police employees in Table 5 are much less dramatic. Adding city-level trends has no systematic effect on the coefficients. Instrumenting does tend to make the estimates more negative.

One possible criticism of the estimates presented thus far is the relatively poor data quality for many of the covariates included in Table 4. A logical question to consider, therefore, is whether the negative relationship between sworn officers and crime is an artifact of the data problems or the particular specification employed. Table 6 re-estimates equation (2) omitting all of the covariates except for city population. It is reassuring that the estimates are virtually identical for all of the crime categories except murder and rape, where the effect of sworn officers remains negative, but is reduced. As before, tests of the overidentifying restrictions are well-within accepted limits, supporting the validity of the instruments, even when no factors are controlled for in the crime equation except for year dummies, city-fixed effects, and city trends.

The negative relationship between sworn officers and crime is robust to two further

alterations to the specification (tabular results are not provided, but full estimates are available from the author on request). First, instrumenting using only gubernatorial elections or only mayoral elections, rather than both, does not systematically affect the estimates, but does increase the standard errors. Second, inclusion of changes in *other* crimes as an explanatory variable in the regressions has little effect on the estimated effect of police. One might expect that changes in other crimes will better reflect changes in the underlying criminality of a city than will the crude demographic controls included in this analysis. While the coefficients on other crimes are generally positive as expected, the relationship between sworn officers and crime is unaltered.

Section V: Implications of the Estimated Effects of Police on Crime for Public Policy

While the estimates of the previous section suggest a negative relationship between sworn police officers and crime, those elasticities alone are not sufficient to determine the appropriate policy prescription. A thorough analysis of the public policy question requires careful consideration of at least four further issues. First, one must make an assumption concerning the ability of the police to affect unreported crimes. As long as criminals do not "specialize" in either reported or unreported crime, then the effect of police is likely to be similar across the two classes of crimes. In favor of that argument, a criminal does not know in advance whether a crime will be reported. It may be, however, that unreported crimes systematically differ from reported crimes (e.g., spousal assault tends to be reported less frequently than assaults at bars). If that is the case, an increased police presence may not have a large effect on unreported crimes. Secondly, a valuation must be placed on the social cost of crime. Ideally, that social cost would include not only the value of stolen property, but also the substantial psychic costs of crime, as well as the marginal costs of precautionary actions taken to avoid being a victim of crime (e.g., home security systems, car alarms, or avoiding Central Park after dark).[21] Third, some consideration must be given to the social value of police activities that are not related to reductions in the subset of crimes considered in this paper. Less than a quarter of all arrests are for crimes included in this analysis. Among the criminal activities not included in this paper that impose substantial social costs are driving under the influence, drug-related activities, arson, fraud, and vandalism. Moreover, police spend only half of their time on crime related activities (Greene and Klockars 1991). Finally, one must assess the degree to which the estimates of this paper continue to be biased against finding effects of police due to changes in reporting behavior.[22]

While an exhaustive analysis of those four issues goes beyond the scope of this paper, it is nonetheless possible to derive rough estimates of a lower bound on the social benefits associated with increasing police staffing. The estimates that follow do not take into account any reporting bias, nor do they include any benefits of police activities except those related to the

[21] One might also consider what social weight is given to the monetary gain and/or utility of the criminal from committing the crime.

[22] Empirical studies of the importance of the reporting bias range widely. Craig (1987) finds the elasticity of crime reporting with respect to the clearance rate(arrests/reported crimes) to be 0.60, with a standard error of 0.31, using data on Baltimore neighborhoods that combines information from the National Crime Survey and data from the Baltimore police department. Levitt (1994), in contrast, finds little or no evidence that reporting rates are a function of the number of police using victimization survey data from 26 cities. Levitt (1994) also examines changes in the ratio of murders to other crimes as the number of police changes. Under the assumption that murders are always reported, but the reporting rate of other crimes varies with the number of police, that ratio might be expected to be a declining function of the number of police. No evidence of such a decline is uncovered.

seven crimes analyzed in this paper. Efforts are made, however, to deal with the other issues. Estimates of the number of crimes reduced by an additional police officer are presented under two alternative scenarios. In the first scenario, police are assumed to have no impact on the rate of unreported crimes. The second set of estimates assumes that the effect of police on unreported crime is identical to the effect on reported crime. The truth is likely to fall somewhere in between those two alternatives. In measuring the costs of crime, estimates provided by Cohen (1988) and Miller, Cohen, and Rossman (1993) are utilized. Those papers attempt to capture monetary costs of crime (medical bills, property loss, lost productivity) and quality of life reductions due to pain and suffering. To gauge the quality of life reductions, jury awards in civil suits, excluding punitive damages, are estimated for a wide range of injuries. Those awards are then mapped to the distribution of injuries associated with the various crime categories. These cost estimates do not include the costs of additional preventative measures taken by victims, lifestyle changes associated with the marginal crime, costs to employers, or legal costs, and therefore may understate the true costs of crime.

Table 7 presents estimates of the impact of adding one additional sworn officer. The values in Table 7 are based on the estimated elasticities from Table 4, and are computed at the sample means. Column (1) is the impact of an additional officer on reported crime. Column (2) reflects the combined decrease in reported and unreported crimes, assuming that the effect of police is identical across reported and unreported crimes. Estimates of the reporting rate for each crime are based on the National Crime Survey (U.S. Department of Justice 1992).

As column (1) demonstrates, an additional sworn police officer is estimated to reduce the number of reported crimes by approximately eight per year. While the bulk of this reduction is due to fewer auto thefts, each officer also reduces the number of reported robberies by 1.6 per year, eliminates 0.6 assaults, and prevents a rape every eight years and a murder every twenty years. The number of reported larcenies, based on the estimates in Table 4, are actually projected to increase. When the potential effects of police on *unreported* crime is also included (column 2), the number of crimes eliminated per officer per year increases only slightly, to approximately ten. Adding unreported crimes has a relatively minor effect on crimes eliminated since most of the crimes for which sworn officers are found to be effective have high reporting rates.

Columns (3) and (4) are the Cohen (1988) and Miller, Cohen, and Rossman (1993) estimates of the monetary and quality of life losses due to crime.[23] For violent crimes, the bulk of the costs are associated with quality of life reductions. For property crimes, the costs are almost exclusively monetary. Column (5) combines the information in the first four columns to provide an estimate of the social value of the reduction in crime. The first value in column (5) is based only on the decrease in reported crimes in column (1); the second value is derived from the sum of columns (1) and (2). The reduction in robberies provides the greatest social

[23] The Miller, Cohen, and Rossman (1993) estimates, which update Cohen (1988), are available for rape, robbery, and assault only. The Cohen (1988) estimates are therefore used for burglary, larceny, and auto theft. I diverge from Miller, Cohen, and Rossman (1993) in the determination of the cost of a murder. According to their estimates, the cost per murder (adjusted to 1992 dollars) is over $2.7 million. Over $700,000 of that value is for lost productivity. Following Schelling (1989), however, I do not include that value since the victim would have been the primary consumer of that lost productivity, and therefore it is not clear that society loses on net. The value Miller, Cohen, and Rossman (1993) assign to lost quality of life from per murder, almost $2 million in 1992 dollars, similarly seems too high. Therefore, I (somewhat arbitrarily) assign a quality of life reduction of $400,000 for each murder. It is, of course, straightforward to calculate social benefits to crime reductions under alternative valuations that the reader deems more appropriate.

benefit. Each robbery eliminated has a social benefit of $17,800. Including only the change in reported robberies (1.6) yields a social benefit of $28,700 per officer; when the possible effect on unreported robberies is also included the social value roughly doubles. Reductions in the number of auto thefts also make a substantial contribution to social welfare -- on the order of $22,500 to $30,100 for an additional officer per year. Reduced murders represent a substantial social benefit of roughly $20,000 per officer per year. The other violent crime categories (rape and assault) also make substantial contributions. The impact of burglary and larceny, however, is minor.

Summing across all seven categories, the estimated social benefit of each additional officer is approximately $90,000 to $130,000.[24] Given that an additional police officer will receive a salary of approximately $40,000, and impose non-salary overhead costs of a roughly equal magnitude,[25] the number of sworn officers in large cities appears to be slightly below the optimal levels. In all likelihood, the estimates above understate the true social value of police due to changes in reporting behavior, the focus on a limited subset of crimes, and the omission of important components of the overall costs of crime, further reinforcing the conclusion that

[24] To get a rough estimate of the precision of the social cost estimates, standard errors were computed assuming that the costs per crime were exact and that the estimates of the effect of police on the different crime categories were uncorrelated. Both of those assumptions will lead the computed standard errors to understate the true values. The estimated standard error on the social benefits to an additional police officer are $17,900 when only reported crimes are included, and $29,200 when both reported and unreported crimes are included.

[25] Donohue and Siegelman (1994) report that there were 812,000 state and local police employees in 1990, and total salary expenditure for this group was $33.4 billion in 1990, for an average salary of $41,000. The shadow cost of raising public funds should also be included in the calculation of the overall cost of an additional police officer.

there are too few police in large cities.[26]

Given that public welfare spending also appeared to reduce crime in Table 4, it is worth examining the cost-effectiveness of increasing public welfare spending in reducing crime. The mean level of public welfare spending per capita in the sample is $255. A one percent increase in public welfare spending for a city with a population of 100,000 would cost $255,000. Using the estimated elasticities from Table 4 and the estimates of the cost of crime to victims, the total social value of reduced crime is approximately $39,000. Thus, while public welfare spending does not appear cost-beneficial in terms of crime reduction alone, this channel should not be ignored in a broader consideration of the benefits of public welfare spending.[27]

Section VI: Conclusions

Previous studies have found little systematic evidence that increasing the size of a city's police force lowers the crime rate. By controlling more effectively for unobserved differences across cities and eliminating the simultaneity between police and crime through the use of the timing of mayoral and gubernatorial elections, this paper does uncover evidence that police reduce crime. Estimates of the social costs of crime suggest that current levels of police staffing

[26] Another consideration that is ignored in this cost-benefit analysis is the possible change in prison costs associated with the increase in the number of police. As McCormick and Tollison (1984) demonstrate, however, the effect of increasing the number of police on the number of arrests is ambiguous. When the likelihood of detection increases, a greater fraction of the crimes committed result in arrests, but some crimes that would previously have been committed are now successfully deterred and therefore do not lead to arrests. In McCormick and Tollison's data on fouls in the ACC basketball tournament, the number of fouls (arrests) drops substantially when the number of officials (police) is increased.

[27] For a thorough analysis of the possible cost-benefit tradeoff implied by a variety of educational and labor market interventions, see Donohue and Siegelman (1994).

in large cities are below the optimal level. Caution is warranted, however, in extrapolating the findings of this paper to a broader sample of cities. The cities analyzed here have far higher levels of criminal victimization than the nation as a whole; it is likely that the benefits of additional officers will be more limited in a broader sample of cities. The analysis of this paper suggests a number of avenues for future research. The most obvious shortcoming of the current work is the reliance on reported crime statistics. While individual-level victimization data is available, the absence of geographic indicators precludes a straightforward analysis of the relationship between police staffing and victimization. The lack of consensus in existing estimates of the magnitude of the reporting bias (Craig 1987, Levitt 1994) suggests that further work in this area is warranted. A second issued deserving more attention is the extent to which crime spills over between central cities and surrounding suburbs. The analysis presented here focuses exclusively on central cities. It is possible, however, that at least some of the decrease in crime in central cities associated with increased police staffing represents a geographical spillover of crime rather than a true reduction.

The finding that city police hiring is affected by the timing of elections adds to the short, but growing, literature documenting the effects of politics on economic decision-making (e.g., Rogoff 1990, Besley and Case 1994, Poterba 1994). This paper goes beyond those previous works, however, by using the political budget cycle as a source of exogenous variation to identify the value of public expenditures. The approach taken in this paper could in theory be applied to a wide range of public policies at all levels of government, and is likely to lead to more reliable estimates than studies based on either cross-sectional or time-series variation.

Table 1: Summary Statistics
(All Values per 100,000 residents except population)

Variable	Mean	Standard Deviation	Minimum	Maximum
Population	716,692	1,030,250	85,000	7,896,000
Total Crimes	8,902	2,586	3,105	20,690
Violent Crimes	1,162	684	103	4,353
Murder	19	12	0.7	81
Rape	68	31	4	199
Assault	521	353	42	2,386
Robbery	554	377	26	2,338
Property Crimes	7,740	2,584	3,105	20,690
Burglary	2,307	732	600	4,994
Larceny	4,364	1,403	550	10,003
Motor Vehicle Theft	1,069	693	165	5,369
Overall Police	294	110	79	910
Sworn	237	99	70	781
Civilian	57	27	5	176

Notes: All variables except population are per 100,000 residents. The sample used is a set of 59 large U.S. cities with directly elected mayors. Data on crimes and police from *Uniform Crime Reports* published by the FBI. For a breakdown of the data by city, see the appendix.

Table 2: Summary Statistics for Demographic, Economic, and Spending Controls

Variable	Mean	Standard Deviation Within-City	Standard Deviation Across Cities	Minimum	Maximum
% Black	23.0	2.3	18.1	0.1	78.2
% Female Headed Households	14.9	1.0	4.3	5.6	31.9
% Age 15-24	17.2	1.5	17.2	11.5	25.4
Public Welfare Spending Per Capita (1992 dollars)	255.2	56.8	126.0	33.5	847.7
Education Spending Per Capita (1992 Dollars)	765.2	79.7	122.9	445.9	1193.4
State Unemployment Rate	6.5	1.8	2.0	2.0	15.5

Notes: Summary statistics are for the 59 large U.S. cities included in the sample for the years 1970-1992. Data on % Black and % Female Headed Household are city-level data interpolated from the decennial census. % Age 15-24 is defined at the SMSA level, and is also based on decennial census. Spending data is combined state and local government spending on an annual basis, and is defined at the state level. See text for further description of data sources.

Table 3: The Election Cycle as a Predictor of Changes in the Police Force

Variable	(1) %Δ Total Police	(2) %Δ Sworn Officers	(3) %Δ Civilian Employees
Mayoral Election Timing			
Election Year (2-year Term)	.014 (.007)	.013 (.007)	.018 (.020)
Election Year (4-year Term)	.008 (.005)	.010 (.004)	.000 (.018)
Year Before Election (4-year terms only)	.005 (.005)	.007 (.004)	-.006 (.018)
Two Years Before Election (4-year terms only)	-.002 (.005)	-.001 (.004)	-.003 (.018)
Gubernatorial Election Timing			
Election Year	.026 (.008)	.030 (.008)	.015 (.037)
Year Before Election (4-year terms only)	-.002 (.005)	-0.001 (.005)	-.009 (.021)
Two Years Before Election (4-year terms only)	.004 (.008)	.015 (.008)	-.034 (.033)
%Δ City Population	.030 (.059)	.005 (.053)	.119 (.214)
Δ(% Black)	-.013 (.009)	-.014 (.009)	-.014 (.023)
Δ(% Female Head)	.014 (.018)	.018 (.016)	-.088 (.080)
State Unemployment Rate	-.331 (.136)	-.347 (.131)	-.413 (.503)
Δ(% Age 15-24 in SMSA)	3.131 (2.392)	2.92 (2.16)	9.638 (10.351)
Year Effects?	Yes	Yes	Yes
City Effects?	Yes	Yes	Yes
Significance of Mayoral Election Years?	.05	.02	.67
Significance of All Election Years?	<.01	<.01	.82
R-Squared	.22	.21	.07

Notes: Sample includes 59 large U.S. cities with directly elected mayors, 1970-1992. Number of observations is 1,275. The omitted election year category in all cases is the year following an election. The effects of elections on police staffing are constrained to be equal across all cities. White heteroskedasticity-consistent standard errors in parentheses.

Table 4: The Effect of Increased Police on Crime
Instrumenting with Election Cycles and Including Covariates

	Murder	Rape	Assault	Robbery	Burglary	Larceny	Vehicle Theft
ln Sworn Officers	-.63 (.30)	-.46 (.25)	-.28 (.26)	-.67 (.26)	-.11 (.20)	.06 (.17)	-1.23 (.29)
ln Civilian Police	.05 (.08)	.03 (.06)	-.03 (.07)	.06 (.07)	-.07 (.06)	-.13 (.06)	.00 (.07)
ln City Population	.69 (.19)	.56 (.14)	-.04 (.16)	.44 (.15)	.19 (.10)	.30 (.09)	1.09 (.16)
% Black	-.025 (.008)	-.027 (.007)	.001 (.008)	-.011 (.008)	-.014 (.006)	.007 (.005)	-.051 (.008)
% Female Headed Households	.042 (.020)	.049 (.016)	-.021 (.017)	-.000 (.017)	-.009 (.013)	.017 (.011)	.070 (.018)
% Age 15-24 in SMSA	-2.73 (3.10)	-10.05 (2.24)	2.34 (2.67)	6.75 (2.57)	4.19 (1.78)	5.23 (1.40)	7.40 (2.62)
ln Public Welfare Spending Per Capita	-.08 (.05)	-.11 (.04)	-.14 (.04)	-.11 (.04)	-.07 (.03)	-.07 (.03)	-.15 (.05)
ln Education Spending Per Capita	.41 (.12)	.25 (.09)	.08 (.10)	.38 (.11)	.33 (.08)	.03 (.06)	.60 (.11)
State Unemployment Rate	-2.65 (0.54)	-1.84 (0.44)	-1.22 (0.49)	.11 (.47)	2.34 (0.34)	1.30 (0.29)	.52 (.51)
City-Fixed Effects?	Yes	Yes	Yes	Yes	Yes	Yes	Yes
City Trends?	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Year Dummies?	Yes	Yes	Yes	Yes	Yes	Yes	Yes

Notes: Dependent variable is the natural log of the named crime category. Police variables, city population, and spending variables are also in natural logs; therefore coefficients on those variables are interpreted as elasticities. The police coefficients are the sum of the coefficients on contemporaneous and once-lagged police. The sample covers the period 1970-1992 for 59 large U.S. cities with directly elected mayors. City-fixed effects, city trends, and year dummies included in all regressions. Number of observations is 1,314. Standard errors in parentheses. All specifications were estimated using FGLS to allow for heteroskedasticity across cities. All regressions are instrumented using interactions between city dummies and indicator variables for the year of the mayoral and gubernatorial election cycle.

Table 5: Progression of the Estimated Impact of Police on Crime as Controls for Unobserved City Characteristics and Endogeneity are Introduced

	Murder	Rape	Assault	Robbery	Burglary	Larceny	Vehicle Theft
Sworn Officers							
City-Fixed Effects, Year Dummies, and Demographic Controls Only	.03 (.07)	.30 (.07)	.51 (.08)	.32 (.07)	.33 (.05)	.27 (.04)	.27 (.08)
All of the Above and City Trends	-.18 (.10)	-.13 (.08)	.05 (.09)	-.29 (.08)	-.18 (.06)	.04 (.05)	-.37 (.09)
All of the Above and Instrument with Elections	-.63 (.30)	-.46 (.25)	-.28 (.26)	-.67 (.26)	-.11 (.20)	.06 (.17)	-1.23 (.29)
Civilian Police Employees							
City-Fixed Effects, Year Dummies & Demographic Controls Only	.07 (.03)	.10 (.03)	.16 (.03)	.09 (.03)	.02 (.02)	.02 (.02)	.00 (.03)
All of the Above and City Trends	.12 (.03)	.05 (.03)	.05 (.03)	.16 (.03)	-.02 (.02)	-.01 (.03)	.05 (.03)
All of the Above and Instrument with Elections	.05 (.08)	.03 (.06)	-.03 (.07)	.06 (.07)	-.07 (.06)	-.13 (.06)	.00 (.07)

Notes: All coefficients in table are elasticities. The sample is 59 large U.S. cities with directly elected mayors, for the period 1970-1992. Number of observations is 1,314. Within each police staffing category (i.e. sworn and civilian), each row represents coefficients from a different regression with varying levels of controls. Standard errors in parentheses. All specifications were estimated using FGLS, allowing for heteroskedasticity across cities. Elasticities in the bottom row of each category are the coefficients reported in Table 4.

Table 6: The Effect of Increased Police on Crime
Instrumenting with Election Cycles; No Socio-Economic Controls

	Murder	Rape	Assault	Robbery	Burglary	Larceny	Vehicle Theft
Sworn Officers	-.34 (.29)	-.29 (.24)	-.38 (.25)	-.62 (.25)	-.11 (.20)	.05 (.16)	-1.28 (.29)
Civilian Police	.03 (.09)	.02 (.07)	-.02 (.06)	.09 (.07)	-.07 (.06)	-.13 (.05)	.00 (.07)
City Population	.75 (.19)	.61 (.15)	.03 (.16)	.47 (.15)	.23 (.11)	.31 (.09)	1.15 (.17)
City-Fixed Effects?	Yes	Yes	Yes	Yes	Yes	Yes	Yes
City Trends?	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Year Dummies?	Yes	Yes	Yes	Yes	Yes	Yes	Yes

Notes: Dependent variable is the natural log of the named crime category. Police variables, city population, and spending variables are also in natural logs; therefore coefficients on those variables are interpreted as elasticities. The police coefficients are the sum of the coefficients on contemporaneous and once-lagged police. The sample covers the period 1970-1992 for the 59 largest U.S. cities with directly elected mayors. City-fixed effects, city trends, and year dummies included in all regressions. Number of observations is 1,314. Standard errors in parentheses. All specifications were estimated using FGLS, allowing for heteroskedasticity across cities. All regressions are instrumented using interactions between city dummies and indicator variables for the year of the mayoral and gubernatorial election cycle.

Table 7: Estimated Impact On Crime From Adding One Sworn Police Officer
(Evaluated At Sample Means)

	Change in Reported Crimes	Change in Total Crime (Assumes Same Elasticity for Unreported Crimes)	Cost Per Crime: Monetary	Cost Per Crime: Quality of Life	Social Benefit of Reduced Crime
Murder	-0.05	-0.05	$17,000	$400,000	$20,800
Rape	-0.13	-0.19	9,800	40,800	6,600 - 9,600
Assault	-0.6	-1.3	1,800	10,200	7,400 - 16,000
Robbery	-1.6	-2.9	2,900	14,900	28,700 - 51,900
Burglary	-1.1	-2.3	1,200	400	1,700 - 3,600
Larceny	1.1	4.0	200	0	(-200) - (-800)
Auto Theft	-5.6	-7.5	4,000	0	22,500 - 30,100
Total	-7.98	-10.24	---	---	87,500 - 131,200

Notes: Based on estimates of elasticity of crime with respect to sworn police officers from Table 4 (full controls and election year instruments). Values in table are computed using sample means in 1992. Estimates of reporting rates for each type of crime are based on Criminal Victimization in the United States, 1991 (Wash, DC: U.S. Dept. of Justice, 1992), p. 102. With the exception of the quality of life reduction per murder, estimates of the social costs of crime are from Cohen (1988) and Miller, Cohen, and Rossman (1993), adjusted to 1992 dollars. The first value in the final column applies the cost of crime to the reduction in reported crimes only; the second value in the final column applies the cost of crime to the estimated change in both reported and unreported crimes.

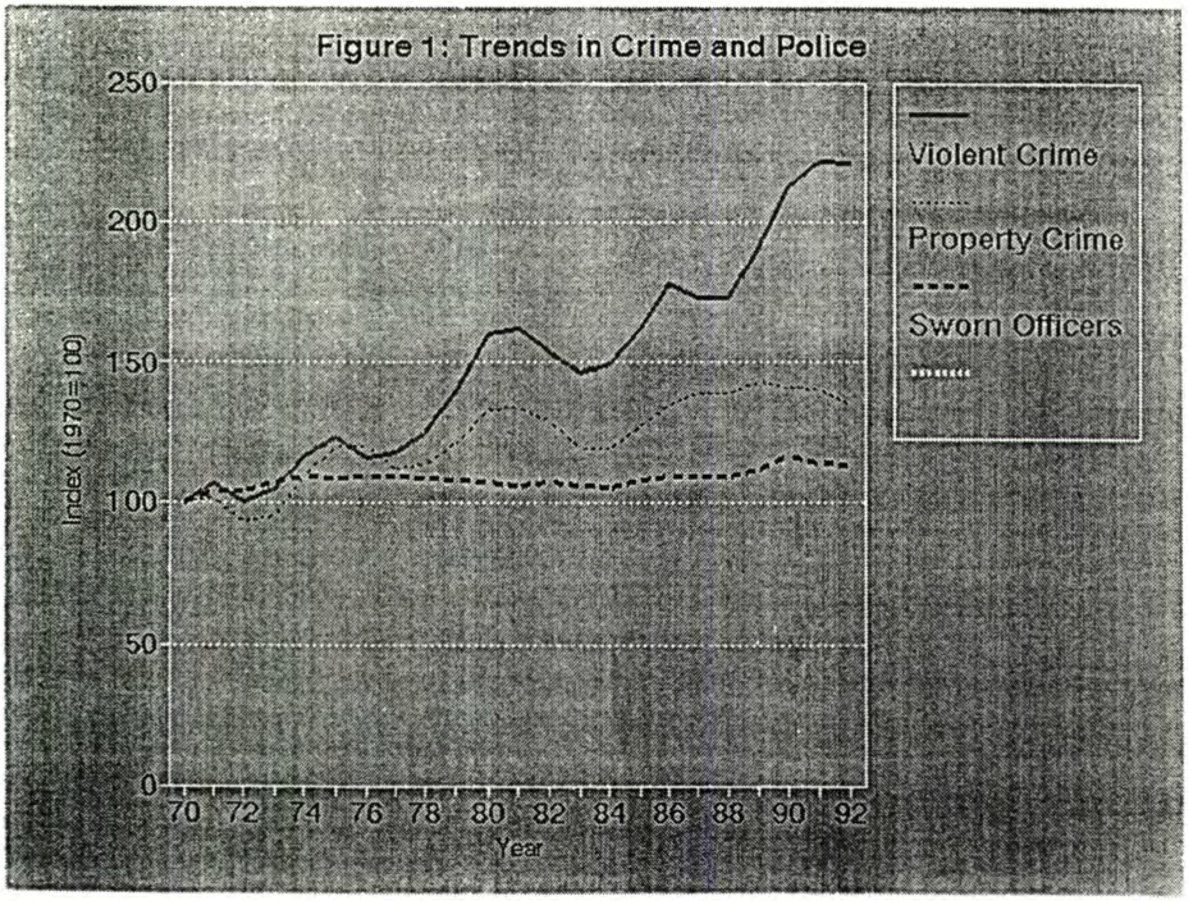
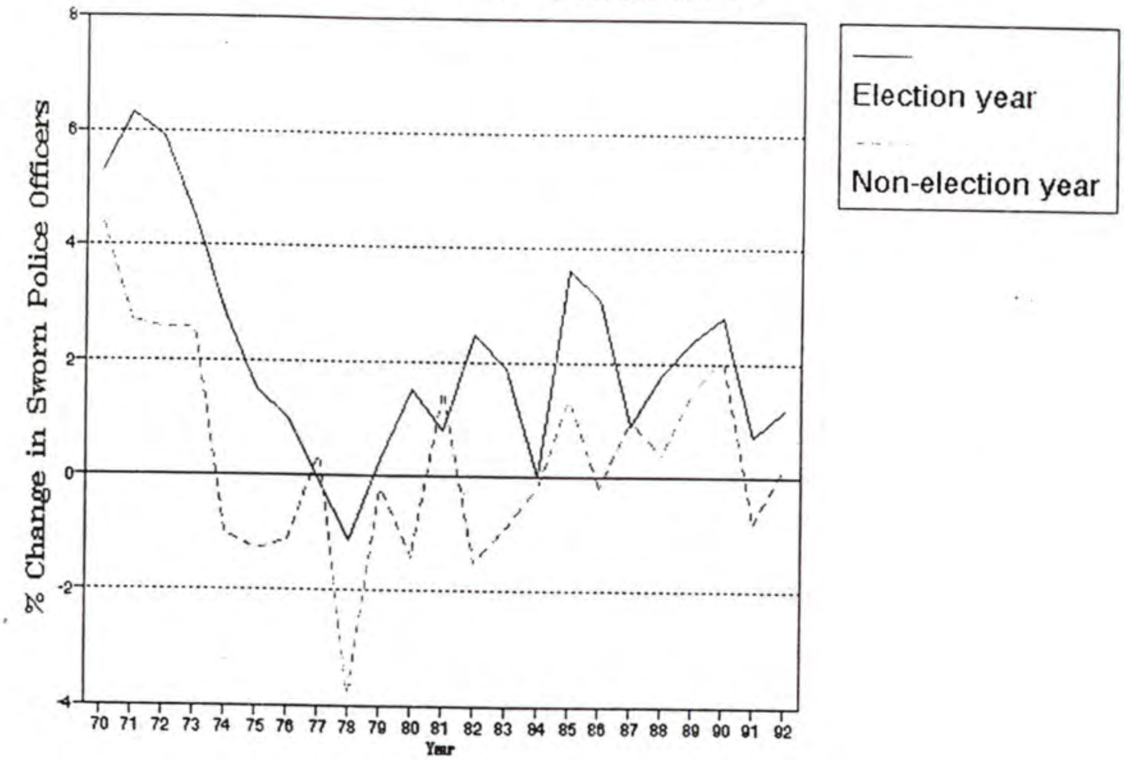


Fig. 2: Yearly Changes in Sworn Police
Election Years vs. Non-Election Years



Appendix: Data for Cities in Sample

City	Mayor's Term	Violent Crimes Per 100,000	Property Crimes Per 100,000	Annual %Δ Crime	Police Per 100,000	%ΔSworn Gov. Elec.	%ΔSworn Mayor Elec.	%ΔSworn No Elec.
Akron	4yrs	704	6,544	3.6	204	1.2	0.6	-0.3
Albuquerque	4yrs	971	8,151	0.7	255	2.6	6.3	3.3
Anaheim	2yrs	535	6,953	-0.1	186	3.2	2.1	3.0
Arlington	2yrs	424	6,389	0.5	153	8.1	7.2	5.6
Atlanta	4yrs	2,417	10,634	3.5	369	2.3	4.8	2.2
Austin	3yrs	498	8,067	2.7	219	7.4	3.5	1.9
Baltimore	4yrs	2,031	6,974	1.3	460	-1.1	-1.7	0.0
Birmingham	4yrs	1,209	8,235	3.2	286	3.1	0.2	2.3
Boston	4yrs	1,839	9,208	1.7	436	9.4	-9.8	-1.8
Buffalo	4yrs	1,033	6,222	3.4	333	-1.5	-5.1	-2.3
Charlotte	2yrs	1,264	8,199	2.6	246	2.1	3.4	4.3
Chicago	4yrs	1,165	6,316	2.5	475	-0.5	2.7	-1.6
Cleveland	4yrs	1,468	6,880	0.4	362	-1.5	3.5	-3.8
Columbus	4yrs	781	7,516	1.5	250	1.7	3.5	2.8
Corpus Christi	2yrs	662	7,751	2.2	176	3.1	3.0	0.9
Dallas	2yrs	1,437	10,401	1.6	293	4.1	3.0	0.8
Denver	4yrs	906	8,780	-0.7	319	4.0	1.1	-0.0
Detroit	4yrs	2,139	9,071	0.3	437	0.7	10.6	-6.5
El Paso	2yrs	680	6,715	2.1	188	2.7	6.2	-0.4
Fort Worth	2yrs	1,118	10,311	3.1	242	2.4	5.0	-1.6
Fresno	4yrs	918	10,126	1.4	210	0.9	6.8	1.9
Honolulu	4yrs	250	5,865	1.2	252	2.3	4.5	3.7
Houston	2yrs	940	7,529	1.3	265	6.2	5.3	2.5
Indianapolis	4yrs	887	5,647	1.6	258	1.1	1.4	-0.6
Jacksonville	4yrs	1,079	7,079	2.8	275	5.8	4.3	2.3
Jersey City	4yrs	1,271	6,102	4.4	416	4.5	4.5	-1.4
Kansas City	4yrs	1,602	8,341	2.3	360	0.3	4.3	0.5
Los Angeles	4yrs	1,632	7,250	0.7	320	1.9	2.6	-0.1
Louisville	4yrs	766	5,488	0.5	284	2.3	-1.6	0.0
Memphis	4yrs	1,058	6,861	3.8	243	2.5	-0.9	2.0
Mesa	2yrs	420	6,510	2.0	181	9.4	11.7	7.9
Miami	4yrs	2,577	10,567	2.3	329	2.5	4.3	0.4

Appendix: Data for Cities in Sample

City	Mayor's Term	Violent Crimes Per 100,000	Property Crimes Per 100,000	Annual %Δ Crime	Police Per 100,000	%ΔSworn Gov. Elec.	%ΔSworn Mayor Elec.	%ΔSworn No Elec.
Milwaukee	4yrs	580	6,051	3.4	360	-0.4	1.2	0.7
Minneapolis	4yrs	1,102	8,417	2.3	225	-0.1	1.8	0.3
Nashville	4yrs	857	6,044	3.1	245	3.6	2.1	4.2
Newark	4yrs	2,709	8,736	1.8	431	11.4	-2.6	-6.0
New Orleans	4yrs	1,419	7,140	1.4	321	4.5	-2.0	-1.0
New York	4yrs	1,902	6,594	0.7	441	2.8	1.0	1.0
Oakland	4yrs	1,753	10,318	0.2	267	-2.6	-2.6	2.1
Oklahoma City	4yrs	845	8,160	3.3	217	6.3	6.3	2.6
Omaha	4yrs	655	5,743	1.4	201	2.0	1.2	0.5
Phoenix	4yrs	797	8,889	0.3	264	3.5	5.6	3.4
Philadelphia	4yrs	942	4,162	2.8	469	1.9	-2.9	-0.8
Pittsburgh	4yrs	1,100	5,939	1.2	319	-2.4	-0.8	-2.1
Portland	4yrs	1,521	10,557	1.3	240	3.2	1.5	-0.9
Sacramento	4yrs	1,018	9,147	1.1	247	2.9	0.4	2.6
Saint Louis	4yrs	2,181	10,235	1.2	507	-0.9	-0.7	-1.1
Saint Paul	4yrs	756	6,883	0.9	233	-2.8	1.2	3.3
Saint Petersburg	2yrs	1,209	7,254	1.9	257	5.2	2.4	-0.6
San Antonio	2yrs	582	8,213	2.5	181	7.6	0.5	1.5
San Diego	4yrs	676	6,927	1.6	199	7.1	4.3	1.7
San Francisco	4yrs	1,454	7,959	-0.0	333	-1.2	0.9	1.8
San Jose	4yrs	497	6,083	-1.6	167	7.1	7.1	3.5
Seattle	4yrs	1,026	9,488	1.6	285	1.7	0.0	1.6
Tampa	4yrs	1,868	10,444	4.0	300	7.1	0.3	0.0
Toledo	2yrs	728	7,408	1.4	211	-2.6	2.8	-5.2
Tucson	4yrs	695	8,938	2.7	218	3.9	4.3	4.5
Tulsa	2yrs	741	7,076	2.1	214	2.2	2.1	1.7
Washington DC	4yrs	1,890	7,101	0.2	739	---	-2.2	-1.8

Definitions of the Uniform Crime Reports Crime Categories

Murder and Nonnegligent Manslaughter
The willful killing of one human being by another. Deaths caused by negligence, attempts to kill, assaults to kill, suicides, accidental deaths, and justifiable homicides are excluded. Justifiable homicides are limited to the killing of a felon. Traffic fatalities are excluded.

Forcible Rape
The carnal knowledge of a female forcibly and against her will. Included are rapes by force and attempts or assaults to rape. Statutory offenses (no force used -- victim under age of consent) are excluded.

Robbery
The taking or attempting to take anything of value from the care, custody, or control of a person or persons by force, or threat of force, or violence, and/or by putting the victim in fear.

Aggravated Assault
An unlawful attack by one person upon another for the purpose of inflicting severe or aggravated bodily injury. This type of assault usually is accompanied by the use of a weapon or by means likely to produce death or great bodily harm. Simple assaults are excluded.

Burglary
The unlawful entry of a structure to commit a felony or a theft. Attempted forcible entry is included.

Larceny
The unlawful taking of property from the possession of another. Examples are thefts of bicycles or automobile accessories, shoplifting, pocket-picking, or the stealing of any property or article which is not taken by force and violence or by fraud. Attempted larceny is included. Embezzlement, "con" games, forgery, and worthless checks are excluded.

Motor Vehicle Theft
The theft or attempted theft of a motor vehicle.

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3/1 JW

cc: John Broderick
T Schirrmacher

Sample

Whittemore letter

THE WHITE HOUSE

WASHINGTON

February 21, 1995

Ms. Suzanne Whittemore
695 Old Homestead Highway
East Swanzey, New Hampshire 03446

Dear Suzanne:

Thank you for writing to me. I appreciate your kind words and your support for national service.

I'm very pleased to hear that your son's AmeriCorps experience has been so positive. The National Service program has long been a dream of mine, and I have been deeply inspired by the dedication of our AmeriCorps members. These young people represent America at its best, tackling our country's most difficult problems at the grass roots level. As they participate in projects all over the country, they are reinforcing America's deepest values: community, responsibility, and opportunity.

Best wishes to you and your family.

Sincerely,

Bill Clinton

From nobody@razorback.arc.nasa.gov Thu Jan 12 16:08:30 1995
Received: by WhiteHouse.Gov (5.65/fma/mjr-120691);
id AA15094; Thu, 12 Jan 95 16:08:30 -0500
Received: from razorback.arc.nasa.gov/128.102.252.1 via smap
Received: by razorback.arc.nasa.gov (8.6.8/1.35)
id VAA16128; Thu, 12 Jan 1995 21:03:08 GMT
Date: Thu, 12 Jan 1995 21:03:08 GMT
Message-Id: <199501122103.VAA16128@razorback.arc.nasa.gov>
Subject: Inbound-White_House_WWW_MAIL => PRESIDENT
Reply-To: swhittemore@keene.edu
From: swhittemore@keene.edu
Comments: Forwarded from White House WWW.
Keywords: WWW-Correspondence; PRESIDENT; Express congratulations, thanks, or condolences; Social Issues; Private Citizen
Apparently-To: PRESIDENT

Remote host:
Remote IP address: 158.65.9.151
Server protocol: HTTP/1.0

[Sender information]

PERSONAL-NAME:	Suzanne Whittemore
EMAIL-ADDRESS:	swhittemore@keene.edu
ORGANIZATION:	
RELATIONSHIP:	
STREET-ADDRESS:	695 Old Homestead HWY
CITY:	East Swanzey
STATE-PROVINCE:	New Hampshire
ZIPCODE:	03446
COUNTRY:	

[Message information]

RECIPIENT:	PRESIDENT
PURPOSE:	Express congratulations, thanks, or condolences
TOPIC:	Social Issues
AFFILIATION:	Private Citizen
SUBJECT:	AMERICORP

[Message content follows]

Dear President Clinton - I am writing to express my gratitude for the AMERICORP Program. My son (age 19) is involved with a group in New Hampshire. The program is with the Student Conservation Agency and is based on Mount Monadnock. His first year of c
ollege was an academic loss and he seemed so lost. What a joy to see the passion and purpose in his eyes now! He is clearing trails, building bridges, doing carpentry work, search and rescue on the mountain, working in the community kitchen, etc, etc. H
ow wonderful to have an alternative to the military or MacDonalds for those people not ready for college. He has a much clearer view of who he is and what he wants to do - and college is part of his future - his choice not just what he thinks he should b

e doing. So - THANKS again. These are the programs that have positive impact - a combination of "my government helping me as I help myself and those around me."

THE WHITE HOUSE

Mark Gearan

John Broderick

Broderick + Dean

707 Chestnut St

Box 1420

Manchester, NH

03105

Terry Shumaker

214 N. Main St

Box 1415

Concord, NH

03302-1415

Good Idea

THE WHITE HOUSE

WASHINGTON

February 27, 1995

The Honorable Jack Valenti
President and Chief Executive Officer
Motion Picture Association of America, Inc.
1600 Eye Street, N.W.
Washington, D.C. 20006

Dear Jack:

Thank you so much for your letter recommending Lew Wasserman for the Presidential Medal of Freedom.

I agree that Lew has made enormous contributions to our nation. This spring, I expect to be considering some additional awards of the Medal, and I will certainly give careful thought to your special recommendation of Lew for this very high honor.

It's always good to hear from you, and I hope we can get together again soon.

Sincerely,

Bill

3/1

Medal of Freedom

MOTION PICTURE ASSOCIATION
OF AMERICA, INC.
1600 EYE STREET, NORTHWEST
WASHINGTON, D.C. 20006
(202) 293-1966
FAX (202) 452-9823

JACK VALENTI
PRESIDENT
AND
CHIEF EXECUTIVE OFFICER

January 17, 1995

Dear Mr. President

Let this be a formal recommendation to you that you and Mrs. Clinton present the Presidential Medal of Freedom to Lew Wasserman, Chairman and Chief Executive Officer of MCA/Universal.

Lew is now in his 81st year and is the longest serving chief executive of a major U.S. corporation having served in that capacity for 48 years.

I do believe I do not have to catalog for you the greatness of this man, not only to our industry but to this nation as well. If ever a man defined the word "patriot" it is Lew Wasserman.

I'm attaching some background information. I do hope, Mr. President, that you would find this recommendation suitable, appropriate and in the long term interest of our country.

Thank you.

Sincerely,

Jack

The President
The White House
Washington, DC

HAND DELIVERED

R P B RESEARCH TO PREVENT BLINDNESS • 598 Madison Ave., New York, NY 10022-1614
(212) 752-4333

LEW R. WASSERMAN - BIOGRAPHY

Lew R. Wasserman, Chairman of the Board and Chief Executive Officer of MCA Inc., was born on March 15, 1913, in Cleveland, Ohio.

MCA's founder, Dr. Jules Stein, frequently credited Mr. Wasserman as the financial genius who piloted the corporation to phenomenal success in the entertainment industry. The two were close friends and business associates, a relationship that dates to 1936 when Mr. Wasserman joined MCA. He became its President and Chief Executive Officer ten years later, and, upon Dr. Stein's death in 1981, was elected Chairman, continuing his role as CEO.

He lives in Beverly Hills with his wife, Edie, the former Edith T. Beckerman, whom he married on July 5, 1936. They have a daughter, Lynne Wasserman, and two grandchildren, Carol and Casey.

Mr. Wasserman is a Trustee of the Ronald Reagan Presidential Foundation; a Trustee of the Carter Presidential Center, the Lyndon Baines Johnson Foundation and the John F. Kennedy Library. Additionally, he is a Trustee of the Jules Stein Eye Institute; Chairman of the Research to Prevent Blindness Foundation and President of the Hollywood Canteen Foundation.

Formerly, he was the Founding President of the Center Theatre Group at the Los Angeles Music Center; Trustee of the Los Angeles Olympic Organizing Committee (LAOOC); Chairman and Trustee of the LAOOC Liquidating Trust; Director of the Amateur Athletic Foundation of Los Angeles and Chairman of its Finance Committee.

He is a recipient of the Jean Hersholt Humanitarian Award from the Academy of Motion Picture Arts and Sciences. Mr. Wasserman also holds Honorary Doctoral Degrees from Brandeis University and New York University. He is an Honorary Trustee of the John F. Kennedy Center for the Performing Arts.

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RPB RESEARCH TO PREVENT BLINDNESS • 598 Madison Ave., New York, NY 10022-1614
(212) 752-4333

LEW R. WASSERMAN

CHAIRMAN, RESEARCH TO PREVENT BLINDNESS (RPB)

Lew R. Wasserman, Chairman of Research to Prevent Blindness (RPB), has been a dominant force in promoting eye research since he became a charter member of its Board of Trustees in 1960. Under his leadership, RPB has become acknowledged as the world's foremost voluntary organization in support of eye research. He along with RPB founder, Dr. Jules Stein, Mary Lasker, and their associate Trustees, determined at an early date that the creation of a National Eye Institute (NEI), within the National Institutes of Health, should be a major priority on the nation's health care agenda. Consequently, RPB initiated and spearheaded the movement which led to the establishment of the NEI in 1968.

He was among the first of a small group of leaders to whom Dr. Stein looked for advice in the founding of RPB. Mr. Wasserman organized RPB's first appeal for financial support in 1961 and raised two million dollars for eye research, the first substantial amount of money ever contributed specifically for a nationwide research attack on blindness.

Mr. Wasserman became President of RPB in 1976, a post he held until his election to Chairman in 1982, following Dr. Stein's death. He continues the tradition of dynamic stewardship that has characterized RPB's progress for decades, exerting major influence in developing programs which have channeled more than $115 million into eye research. He and his wife, Edie, have also contributed generously from their personal resources to help assure the vitality of RPB's programs.

Both the American Medical Association (1992) and the American Academy of Ophthalmology (1985) have accorded Mr. Wasserman their highest awards for a non-physician. He received a Special Commendation in 1988 by the Association of University Professors of Ophthalmology in recognition of generous leadership provided to the national effort in vision research.

****

THE PRESIDENT HAS SEEN
2-28-95

Holes

records. In that case, an INS form must be mailed to an INS field office, where a more detailed manual review takes place.

"It's that simple," Shirley Milton, a senior recruiter for Ogden Services in Arlington, Va., said after demonstrating the system. The company contracts with the federal government for janitorial and security jobs.

"I don't think it's any different than if you went somewhere and they punched in your Social Security number."

In its first phase of operation, the INS said, the system identified 236 unauthorized workers, while verifying 2,220 non-citizens as eligible to work.

(EDITORS: OPTIONAL TRIM BEGINS HERE)

Roger Manuel, human resources manager for Brown & Root,
a Houston engineering and construction company, said the system has helped identify illegal workers who were hired after presenting what looked to be authentic work papers.

"It's worked very well," Manuel said. "But as a taxpayer and as an individual, I would much rather see us spend the money to enforce the current immigration laws on the books. What good will it do us to identify another 10,000 (illegal workers), because they just go down the street and work for someone else."

The computerized system is also in use at El Gallo Giro Corp. in Huntington Park, Calif.; Culinary Foods and Lakewood Engineering and Manufacturing in Chicago; ADEMCO
Manufacturing in Syosset, N.Y.; Modern Italian Bakery in Oakdale, N.Y.; another branch of Ogden Services in New York City, and Griffin & Brand in McAllen, Texas.

(OPTIONAL TRIM ENDS HERE)

Rick Swartz, a Washington lawyer who advises several pro-immigration interests, said that expanding the verification system will only drive further underground the hiring of illegal workers in the United States.

Disreputable employers, he said, will thwart the system's effectiveness by not using it.

"They just won't pick up the phone," said Swartz, who said the only way the system can be fortified is with a national identification card, which the INS insists won't happen.

"If there's no card, how does the employer know that the person standing in front of them belongs to the Social Security number he presents?" Swartz asks.

The National Council of La Raza said the INS data bank is often so incomplete and unreliable that it discourages employers from even attempting to hire minorities.

"Lots of times when they hire Asians or Latinos, the damn data is not in the data base, and so they think these people are difficult to hire," Munoz said. "You don't have to check U.S. citizens. You only have to check people who are not citizens, and that makes them more of a pain in the neck to hire."

But INS Commissioner Doris Meissner last week hailed the pilot verification system as "feasible, workable, and user efficient."

"It verified that 2,200 alien workers were eligible to work, allowing them to earn a living while allaying employers' fears about non-compliance with the law," Meissner said.

(EDITORS: STORY MAY END HERE)

Clinton is asking lawmakers to boost the INS budget by $1 billion next year, and Republicans in Congress have pledged to produce an immigration bill that toughens work site verification procedures by springtime. The president wants to add INS inspectors who would visit companies with histories of employing illegal workers.

"If we're going to control our borders we have to have some method of keeping illegal immigrants out of the work place," said Jim Dorcy, director of special projects for the Federation for American Immigration Reform, which favors restrictions on immigration. "And as far as Big Brother government goes, we surrender more rights in this country applying for credit or getting a home loan than this will ever come to."

Republicans urge tough sanctions against Colombia By Christopher Marquis Knight Ridder Newspapers

WASHINGTON Seeking a confrontation with Colombia over drug-trafficking, Senate Republicans are prodding President Clinton to impose tough economic sanctions against it.

A staff report prepared for the Senate Foreign Relations Committee says Clinton should decertify Colombia's efforts in the battle against narcotics traffickers based on a "deplorable" performance last year.

The report asserts that the government of Colombia has not demonstrated the political will to pursue major traffickers, has failed to revamp a lenient plea-bargaining system and has tolerated widespread corruption.

"The result is what many observers have long feared: a narco-democracy," said the report, submitted to Sen. Jesse Helms, the committee's GOP chairman, and Sen. Claiborne Pell, ranking minority member.

A copy of the report was released to The Miami Herald two days before Clinton is required to certify to Congress that key drug-producing nations are taking strong steps to stem the flow of narcotics into the United States.

The Senate report differs from the administration's own reporting on Colombia this year by focusing anew on allegations that the victorious campaign of President Ernesto Samper received money from drug traffickers.

The Senate report urged Clinton to fully decertify Colombia, which would cut off all U.S. aid that is not related to humanitarian or anti-drug programs and would require the United States to oppose any loans from multilateral development banks.

The State Department has privately urged Clinton to issue a national interest waiver for Colombia that would maintain aid and cooperation even as it rebukes the nation for a performance deemed unacceptable.

QUESTIONS ABOUT ALEXANDER
by Jack W. Germond and Jules Witcover

NASHVILLE, Tenn. -- There are a some questions about Lamar Alexander as he enters the competition for the Republican presidential nomination.

Is he smooth and polished or just slick? Is he "focused" on the campaign ahead, as his friends like to say, or is he obsessed with winning? Most to the point, is he conservative enough for the Republican Party in the age of Newt Gingrich or is he a closet moderate trying to reinvent himself?

The one thing that is clear about Alexander is that he is a candidate being taken far more seriously within the political community than his asterisk showing in public opinion polls might suggest. Some Democratic professionals, for example, consider him the single most menacing threat to President Clinton among the Republicans now in the field.

On paper, the 54-year-old Alexander lacks the party credentials to match Senate Majority Leader Bob Dole. Nor does he have a claim on a particular constituency of

Republicans similar to that Sen. Phil Gramm may have on the hard-line far right of the party.

But as a former two-term governor of Tennessee and cabinet secretary, he has political credentials every bit as strong as three of the last four men elected to the presidency -- Jimmy Carter, Ronald Reagan and Bill Clinton. And he has a running start organizationally in both Iowa and New Hampshire.

His greatest asset at this point, however, may be the single-minded determination he has displayed. He began his de facto campaign almost immediately after the 1992 election and has assembled a formidable group of professionals to run his operation and fund-raisers to make it possible.

But candidates win nominations and elections by using clear messages to establish their identities with voters as national leaders. And here Alexander still has miles to go.

The notion that he may be too moderate for his party is probably the single most imposing obstacle for him to overcome in the months ahead. He is delivering a devoutly conservative message -- that many functions of the federal government should be either abolished or returned to the states -- but his image as a moderate persists.

To some degree, this is a question of his associations and history. He is another protege of former Sen. Howard H. Baker Jr., whom he served as a young staff assistant 25 years ago before spending two years as a junior member of the Nixon White House staff. He served two years under George Bush running the Department of Education he now says he would eliminate. He spent several years as president of the University of Tennessee, not the kind of career stop usually associated with the far right.

Some of Gramm's supporters are quick to identify Alexander as a taxer because he raised sales and gasoline taxes as governor. Alexander replies that he balanced his budget for eight years and made his state more attractive to industry with reforms of the school system and better roads. But that won't be good enough for those conservatives who see any tax as anathema.

Alexander also has a problem with the abortion issue. He describes himself as pro-life, but he doesn't support a constitutional amendment to forbid abortion and he frequently says he would like to keep the federal government out of the issue entirely. That may be an attractive position in a general election, but it raises eyebrows among the extreme cultural conservatives in his party.

Alexander has spent most of the last year trying to establish his conservatism by urging not only that federal programs be dismantled or moved out of Washington but also that Congress should be put on a part-time basis. ``Cut their pay and send them home" has been the slogan.

That message sounds a little different to Republicans now that they control Congress, however. And Alexander has yet to find an equally crowd-pleasing formulation to define his candidacy other than to keep repeating that he is the only candidate out there now who doesn't live in Washington, which hardly qualifies as enough of a platform even in today's political climate.

So it may be true that Alexander has his work cut out for him. But it would be foolhardy to write off anyone with his skills, personal force and, most of all, drive.

When he walked into a press conference here, a reporter asked him jokingly if he intended to play the piano as he often does at social occasions, to which he replied: ``If that's what I have to do, I'll do it." To those who know Lamar Alexander, that was no joke.

Thomas W. Kelley

cc
WH
Sumner
M. Tier
gave a club

February 21, 1995

The Honorable Bill Clinton
President of The United States
The White House
1600 Pennsylvania Avenue
Washington, D.C. 20500

Dear Mr. President,

I cannot begin to tell you how much fun it was for me to be in that great "group" last week. You were very gracious to let me be such an integral part of such a neat experience. The only regret that I have, is that we were not able to "work" on your game a little more. You could very easily be a single digit player, unfortunately, golf is a game that takes a lot of practice. It is, however, very rewarding when the hard work pays off in a well executed shot, or even a low round.

Enclosed is a new driver that I think will enable you to hit the ball a little straighter, and maybe even a little further! The shaft is matched for a player of above average ability and fast hand speed. Sometimes I noticed that the driver you were using did not seem to "keep up" with your hand speed, letting the ball go right. Anyway, try it out and I hope it helps you shave a few strokes off your score.

Would like to play w/ WJC

I have given my phone numbers to Kelly Crawford in case you need to "fill" a game sometime. I am very flexible and would love to come see you in Washington. We also have a home at The Country Club of North Carolina at Pinehurst, a great place to get away for a quiet round of golf. Any place, any time, just let me know, I would love to be there.

Again, thank you for allowing me to be a part of such a great day. It was a real honor for me to have been there and been a part of it. Hope you enjoy the driver!

Warm regards,

Tom

811 Avenue of Autos ▪ Fort Wayne, IN 46804 ▪ (219) 434-4700

THE PRESIDENT

2-27-95

Dear Tom —

Thanks for your letter and the great driver. I played 27 holes with it Sat! — I'd like to play with you and we'll try to set it up — I enjoyed our visit on the course. Thanks again. Sincerely

Bill Clinton

Thomas W. Kelley
811 Avenue of Autos
Fort Wayne, Indiana 46804

THE WHITE HOUSE

WASHINGTON

February 27, 1995

The Honorable Jack Valenti
President and Chief Executive Officer
Motion Picture Association of America, Inc.
1600 Eye Street, N.W.
Washington, D.C. 20006

Dear Jack:

Thank you so much for your letter recommending Lew Wasserman for the Presidential Medal of Freedom.

I agree that Lew has made enormous contributions to our nation. This spring, I expect to be considering some additional awards of the Medal, and I will certainly give careful thought to your special recommendation of Lew for this very high honor.

It's always good to hear from you, and I hope we can get together again soon.

Sincerely,

Bill

Good Idea

cc Staff Sec
Medal of Freedom
file

MOTION PICTURE ASSOCIATION
OF AMERICA, INC.
1600 EYE STREET, NORTHWEST
WASHINGTON, D.C. 20006
(202) 293-1966
FAX (202) 452-9823

JACK VALENTI
PRESIDENT
AND
CHIEF EXECUTIVE OFFICER

January 17, 1995

Dear Mr. President

Let this be a formal recommendation to you that you and Mrs. Clinton present the Presidential Medal of Freedom to Lew Wasserman, Chairman and Chief Executive Officer of MCA/Universal.

Lew is now in his 81st year and is the longest serving chief executive of a major U.S. corporation having served in that capacity for 48 years.

I do believe I do not have to catalog for you the greatness of this man, not only to our industry but to this nation as well. If ever a man defined the word "patriot" it is Lew Wasserman.

I'm attaching some background information. I do hope, Mr. President, that you would find this recommendation suitable, appropriate and in the long term interest of our country.

Thank you.

Sincerely,

Jack

The President
The White House
Washington, DC

HAND DELIVERED

R P B RESEARCH TO PREVENT BLINDNESS • 598 Madison Ave., New York, NY 10022-1614
(212) 752-4333

LEW R. WASSERMAN - BIOGRAPHY

Lew R. Wasserman, Chairman of the Board and Chief Executive Officer of MCA Inc., was born on March 15, 1913, in Cleveland, Ohio.

MCA's founder, Dr. Jules Stein, frequently credited Mr. Wasserman as the financial genius who piloted the corporation to phenomenal success in the entertainment industry. The two were close friends and business associates, a relationship that dates to 1936 when Mr. Wasserman joined MCA. He became its President and Chief Executive Officer ten years later, and, upon Dr. Stein's death in 1981, was elected Chairman, continuing his role as CEO.

He lives in Beverly Hills with his wife, Edie, the former Edith T. Beckerman, whom he married on July 5, 1936. They have a daughter, Lynne Wasserman, and two grandchildren, Carol and Casey.

Mr. Wasserman is a Trustee of the Ronald Reagan Presidential Foundation; a Trustee of the Carter Presidential Center, the Lyndon Baines Johnson Foundation and the John F. Kennedy Library. Additionally, he is a Trustee of the Jules Stein Eye Institute; Chairman of the Research to Prevent Blindness Foundation and President of the Hollywood Canteen Foundation.

Formerly, he was the Founding President of the Center Theatre Group at the Los Angeles Music Center; Trustee of the Los Angeles Olympic Organizing Committee (LAOOC); Chairman and Trustee of the LAOOC Liquidating Trust; Director of the Amateur Athletic Foundation of Los Angeles and Chairman of its Finance Committee.

He is a recipient of the Jean Hersholt Humanitarian Award from the Academy of Motion Picture Arts and Sciences. Mr. Wasserman also holds Honorary Doctoral Degrees from Brandeis University and New York University. He is an Honorary Trustee of the John F. Kennedy Center for the Performing Arts.

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RPB RESEARCH TO PREVENT BLINDNESS • 598 Madison Ave., New York, NY 10022-1614
(212) 752-4333

LEW R. WASSERMAN

CHAIRMAN, RESEARCH TO PREVENT BLINDNESS (RPB)

Lew R. Wasserman, Chairman of Research to Prevent Blindness (RPB), has been a dominant force in promoting eye research since he became a charter member of its Board of Trustees in 1960. Under his leadership, RPB has become acknowledged as the world's foremost voluntary organization in support of eye research. He along with RPB founder, Dr. Jules Stein, Mary Lasker, and their associate Trustees, determined at an early date that the creation of a National Eye Institute (NEI), within the National Institutes of Health, should be a major priority on the nation's health care agenda. Consequently, RPB initiated and spearheaded the movement which led to the establishment of the NEI in 1968.

He was among the first of a small group of leaders to whom Dr. Stein looked for advice in the founding of RPB. Mr. Wasserman organized RPB's first appeal for financial support in 1961 and raised two million dollars for eye research, the first substantial amount of money ever contributed specifically for a nationwide research attack on blindness.

Mr. Wasserman became President of RPB in 1976, a post he held until his election to Chairman in 1982, following Dr. Stein's death. He continues the tradition of dynamic stewardship that has characterized RPB's progress for decades, exerting major influence in developing programs which have channeled more than $115 million into eye research. He and his wife, Edie, have also contributed generously from their personal resources to help assure the vitality of RPB's programs.

Both the American Medical Association (1992) and the American Academy of Ophthalmology (1985) have accorded Mr. Wasserman their highest awards for a non-physician. He received a Special Commendation in 1988 by the Association of University Professors of Ophthalmology in recognition of generous leadership provided to the national effort in vision research.

****

I can't, can I? isn't it already full

President's note --
'I can't, can I?
isn't it already full'

THE WHITE HOUSE

WASHINGTON

Mr. Nash,
The original letter is being held in John Podesta's ofc. pending your answer. Pls let us know.
Thanks.

February 27, 1995

The Honorable M. Larry Lawrence
American Ambassador
Bern, Switzerland

Dear Larry:

I received your letter recommending Dan McKinnon for the Commission on the Roles and Capabilities of the U.S. Intelligence Community. I always appreciate your insight and I've shared your letter with Bob Nash and asked him to give it careful consideration. Many thanks.

Sincerely,

Bill

cc: Bob NASH

M. Larry Lawrence
Ambassador of the United States of America

Bern, February 2, 1995

Dear Mr. President:

I would like to submit as a nomination to the Commission that is going to study the CIA, its mission in the future, and how it should be structured the name of Dan McKinnon, President of North American Airlines.

Dan has worked in Washington in the past and was the Agency Director closing out the Civil Aviation Board. He also did a series of projects for the CIA under Director Casey. One of those projects reorganized the recruitment and employment procedures. The Agency awarded the Agency Seal Medallion, its highest civilian award, in recognition for his activities. He also worked in several other areas: as a former naval aviator who traveled the world and the operator of one of the few successful airlines since deregulation has come into effect.

I have known Dan since he was a child as a friend of his father, who was the Democratic United States Congressman from San Diego in the late 1940's and early 1950's, who only left politics when he lost the race for the Senate in the early 1950's.

I would appreciate his being given consideration for this appointment, and believe he will be a credit to our country if he were to be so honored.

Cordially,

M. Larry Lawrence
Ambassador

Contact Information for
Mr. Dan McKinnon, President, North American Airlines
Bldg. 75, N. Hanger Rd., JFK International Airport
Jamaica, NY 11430 - fax: (718) 995-3372

The President
The White House
Washington, D.C. 20500-2000

Why Fear Debt?

By Robert Heilbroner

It is doubtful that the balanced-budget amendment, which the Senate votes on today, would be effective, even if ratified. The reason is there are many ways of placing expenditures outside the budget — Social Security, for example. What is not doubtful is that the real cause for worry is a balanced, not an unbalanced, budget.

Here's why: Deficit spending is legitimate when it is used to protect the future well-being of the nation.

Though one hears much about "living beyond our means," very few people can concisely define deficit spending. In fact, it means one and only one thing: borrowing. A deficit refers to the amount the Government has borrowed. If there is no borrowing, there cannot be a deficit. That introduces a ray of light into the darkness, for it makes us ask whether there might be circumstances in which the Government *ought* to borrow.

Suppose a law enjoined households from any borrowing. That would cut down gambling losses, but it would also prevent families from buying houses by taking out mortgages. Similarly, a prohibition on all business borrowing might eliminate a few extravagances, but it would cripple private investment. In the same way, a blanket injunction against Federal borrowing might cause the Government to eliminate waste, but it also would make much public investment impossible.

That would mean goodbye to such improvements as bridges, tunnels, highways, public-health research centers and other undertakings that would normally be considered public-sector business but could not be financed by taxation, because, as is the case with mortgages and business capital expenditures, the outlay is too large to be charged against one year's income.

What about the Federal debt?

We hear pious declarations about the need to remove the burden of our profligacy from the shoulders of our innocent children. I often wonder how my own children would feel if they opened my safe deposit box at my death to find it stuffed with Government debt — bonds. Would my heirs feel I had burdened them unfairly, as they transferred the bonds to their own safe deposit boxes?

In a word, whatever its problems — and a debt, like all borrowing, always poses financial management considerations — a national debt also serves a vital purpose. It provides the only asset in which households, insurance companies, corporations, banks and, not least, pension funds, including Social Security, can invest whatever assets need to be placed in the least risky of all financial instruments.

The illogic of balanced budgets.

Do not forget, there is no income-producing investment other than Government securities that enjoys the power of the Government to assure that it will be redeemed at full face value.

Obviously, these arguments are not an excuse for Government profligacy any more than the legitimacy of consumer or corporate debt is an excuse for mindless private borrowing. But these arguments do suggest that the Government needs to depict its borrowing in a more understandable way. Specifically, it should have what it does not now have: a formal capital budget in which its expenditures for investment are identified. Such an accounting method would reassure the anxious public that at least an identifiable part of the "deficit" represents borrowing for purposes that most would approve.

Since there is no such accounting system, all public borrowing is deemed to be the work of the devil — when, properly understood, it may be crucial to the future strength and vitality of the nation. □

Robert Heilbroner, an economist, is author, most recently, of "Visions of the Future: The Distant Past, Yesterday, Today, Tomorrow."

THE PRESIDENT HAS SEEN
2-28-95

Laura
Let's discuss
This at next
Meeting —
B.

Supreme Court to Decide Case On Bias Against Legal Aliens

THE PRESIDENT HAS SEEN
2-28-95

By LINDA GREENHOUSE
Special to The New York Times

WASHINGTON, Feb. 27 — The Supreme Court agreed today to decide whether a Reconstruction-era civil rights law, originally intended to protect the legal rights of former slaves, also bars discrimination against aliens.

While the issue reaches the Court in the context of the refusal by an insurance company to write homeowner's insurance for people who are not American citizens, the case could have considerably broader implications.

The United States Chamber of Commerce and a coalition of large employers told the Court that an interpretation of the 1866 law as barring employment discrimination against aliens would force employers to violate that law every time they complied with a 1986 law that makes it a crime to hire aliens who lack documents authorizing them to work in the United States.

The question the Court agreed to decide covers only private and not governmental discrimination against aliens, so the case is not likely to affect such governmental measures as California's Proposition 187, which bars illegal aliens from public school, welfare benefits and non-emergency health care. The California measure is being challenged principally on constitutional grounds; Supreme Court precedents have given aliens a protected status within the 14th Amendment's guarantee of equal protection.

But the Constitution does not govern purely private behavior like employment or ordinary commercial transactions, which are covered by a number of modern and century-old civil rights laws.

In the case the Court accepted today, the law at issue is the Civil Rights Act of 1866, which is usually referred to as Section 1981, after its numerical listing in the United States Code. The law gives "all persons" the same right to "make and enforce contracts as is enjoyed by white citizens."

The United States Court of Appeals for the Fourth Circuit, in Richmond, ruled last year that this law could be invoked by an Australian

Does a law intended to protect former slaves also protect noncitizens?

citizen, a legal resident of the United States, who was refused a homeowner's policy on his Baltimore house by the Government Employees Insurance Company, a subsidiary of the Geico Corporation. The company told the man, Vincent P. Duane, that it did not write homeowner's insurance for noncitizens.

Mr. Duane sued in Federal District Court for an injunction and damages. Geico asked that the suit be dismissed on the ground that Section 1981 applied only to discrimination on the basis of race. Both the District Court and the appellate court ruled that the law also bars discrimination against aliens. Those courts' rulings made no distinction between aliens in the United States legally or illegally.

The case has not yet gone to trial, reaching the Supreme Court on the purely legal issue of the law's scope.

In its appeal, Geico v. Duane, No. 94-1139, the company argues that Congress has never indicated a belief that private discrimination against aliens was illegal. The debate over the Immigration Reform and Control Act of 1986, which made it illegal for employers to hire undocumented aliens while at the same time protecting some legal aliens against job-related discrimination, proceeded on the assumption that no laws existed on the subject, the company's brief said.

The notion that Section 1981 already prohibited discrimination against aliens "is an astonishing proposition," the brief said, "because Congress has legislated for more than a century without identifying or implementing any such national policy."

Mr. Duane argued in his brief that to interpret Section 1981 as not applying to discrimination against noncitizens, the Court would have to ignore the law's literal language, which guarantees to all the rights enjoyed by "white citizens."

In 1987, the United States Court of Appeals for the Fifth Circuit, in New Orleans, ruled that Section 1981 did not apply to aliens; the Supreme Court considered that decision but ultimately did not review it.

Also today, the Court heard arguments in a Federal criminal case that raises the question of whether the Government has jurisdiction under the racketeering law to prosecute a crime involving a single small company with operations essentially confined to one state.

Last year the United States Court of Appeals for the Ninth Circuit, in San Francisco, overturned the racketeering conviction of a former Federal prosecutor who used the proceeds of narcotics dealing to finance the operation of a gold mine in Alaska.

The Racketeer Influence and Corrupt Organizations Act, the Federal law usually known as RICO, makes it a crime to invest income from racketeering activity in "any enterprise which is engaged in, or the activities of which affect, interstate or foreign commerce." The Ninth Circuit ruled in this case that the Government had failed to prove that the gold mine had more than an "incidental" effect on interstate commerce.

The ruling was startling because since the New Deal, the Federal courts have placed few if any constraints on the authority of Congress to regulate and define interstate commerce. In its appeal of that 1994 ruling, U.S. v. Robertson, No. 94-251, the Government is urging the Court to rule that any "perceptible and identifiable" impact on interstate commerce is sufficient to provide jurisdiction.

In this case, the gold mine used supplies from outside Alaska and its owner, the defendant, traveled in and out of the state, Miguel A. Estrada, an Assistant Solicitor General, told the Court.

Justice Sandra Day O'Connor asked, "Is there any business enterprise in America that wouldn't be covered" by the commerce power?

"As a practical matter, I cannot think of any business in America that wouldn't be covered," Mr. Estrada replied. He added that "in our economy in this day and age, I can't think of anything that is likely to happen in the real world" that would not have implications for interstate commerce.

The Justices appeared essentially to agree with the Government's lawyer, although one member of the Court, Justice Antonin Scalia, said in frustration at one point, "If that's what we've said, maybe we should unsay it."

Later, addressing Glenn S. Warren, the defendant's lawyer, Justice Scalia did not appear to hold out much hope that the mountain of precedent arrayed against him was about to tumble down. "You don't have a single case in which 'affecting commerce' has been interpreted by this Court as you wish us to interpret it here," Justice Scalia told Mr. Warren in a disappointed tone.

But a second interstate commerce case the Court is considering during this term may present more problems for the Government. In early November, the Court heard arguments in U.S. v. Lopez, No. 93-1260, which challenges the constitutionality of a 1990 law that made it a crime to possess a gun within 1,000 feet of a school. A Federal appeals court declared the law unconstitutional as going beyond the Government's authority to regulate interstate commerce. Today, nearly four months after the argument, that case is apparently still under active consideration, as several questions about it from the bench indicated.

To Carrasco
Av Aulwa

THE NEW YORK TIMES, TUESDAY, FEBRUARY 28, 1995

THE WALL STREET JOURNAL TUESDAY, FEBRUARY 28, 1995

Four Drug Firms Could Gain $1 Billion Under GOP Nutrition-Program Revision

By HILARY STOUT
Staff Reporter of THE WALL STREET JOURNAL

WASHINGTON – Four pharmaceutical companies stand to gain as much as a billion dollars under a Republican bill that overhauls federal nutrition programs for children and pregnant women.

The companies sell infant formula to the Women, Infants and Children (WIC) program, a federal initiative that provides formula as well as milk, beans, rice and other nutritious foods to poor children and to pregnant and breast-feeding women. Since 1989 the companies have been required by law to enter into a competitive bidding process in order to sell formula to WIC, resulting in rebates to the government that are expected to reach $1.1 billion this year.

A bill that cleared the House Economic and Educational Opportunities Committee on a party-line vote last week would turn the WIC program over to states in the form of a "block grant," and with it repeal the cost-containment competitive-bidding measure. An amendment to restore it was defeated by the committee. The legislation now moves to the House floor for consideration.

The four companies, the only domestic makers of infant formula – Ross Laboratories, a unit of **Abbott Laboratories**; Mead Johnson, a unit of **Bristol-Myers Squibb** Co.; Wyeth-Ayerst, a unit of **American Home Products** Corp.; and Carnation Co., a U.S. subsidiary of the Swiss conglomerate **Nestle SA**–fought the competitive-bidding measure fiercely when it came before Congress in the late 1980s. Until then, they were collecting retail prices for the infant formula they sold to WIC.

Sen. Patrick Leahy of Vermont, the senior Democrat on the Senate Agriculture Committee and the lawmaker who led the effort to enact the cost-containment measures, threatened to filibuster the bill yesterday if it reaches the Senate. "It is really obscene," Sen. Leahy said. "The most conservative of people should, if being truthful, like the competitive bidding. . . . It's just rank hypocrisy."

If the bill reaches the Senate floor, Sen. Leahy continued, "I've spent 20 years building bipartisan coalitions and working on nutrition programs. If it's necessary to discuss my whole 20 years' worth of experience in real time, I'll do it."

In 1993, the latest year for which figures are available, the WIC program spent $1.46 billion on infant formula but received $935 million in rebates. That cut the overall cost of providing formula to $525 million, nearly a two-thirds reduction. Moreover, the states, which administer the program, were allowed to use the rebates to add more people to the WIC program.

The action on WIC comes as a liberal-leaning research group, the Center on Budget and Policy Priorities, released a study questioning the continuing effectiveness of some of the infant-formula rebates. The center's analysis found that in the last year, despite the cost-containment requirements, the cost of infant formula purchased through WIC has almost doubled in many states.

Since last March, the study said, 17 state WIC programs have signed rebate contracts with at least one of the major formula manufacturers. Under those agreements, the average net cost of a 13-ounce can of concentrated infant formula was 60 cents, compared with a 32-cent average price under rebate contracts signed during the previous 15 months, the study said.

The Federal Trade Commission has been investigating the infant formula makers' rebate and pricing practices, and at least one state, Florida, has filed suit against the manufacturers.

China Sets Its Sights on Joining WTO After Averting Trade War With U.S.

By MARCUS W. BRAUCHLI
And CRAIG S. SMITH
Staff Reporters of THE WALL STREET JOURNAL

HONG KONG – Having retreated from the brink of a trade war with the U.S., China is about to renew its campaign to join the World Trade Organization, diplomats and analysts predict.

After agreeing over the weekend to open its market to U.S. movies, music and software, Beijing reportedly is planning to lower many tariffs soon and hold wide-ranging trade talks in Paris this week with the industrial world's Organization for Economic Cooperation and Development.

"These sorts of things would put China suddenly in a very good light for joining the WTO," says Richard Burn, a China business consultant in Hong Kong. He says Chinese officals have told him they will lower duties on a wide range of imports, possibly on March 1.

Entering the WTO is a priority for Beijing, even though China was turned down for founding membership when the body succeeded the General Agreement on Tariffs and Trade Jan. 1. At the time, WTO members argued that China's market was too closed for it to comply with the trade body's membership standards. It also was embroiled in a trade dispute with the U.S.

That dispute was settled over the weekend when Beijing's negotiators agreed to Washington's demands that it beef up protection of so-called intellectual-property rights, such as copyrights, patents and trademarks. China also agreed to open its market for intellectual property such as movies. Free trade in such products is a major part of the WTO treaty.

The agreement "gives them a little momentum," says a Western diplomat. But U.S. trade officials emphasize that China's accession to the WTO wasn't in any way connected to the agreement reached with Beijing over the weekend.

Deputy U.S. Trade Representative Charlene Barshefsky, who negotiated the pact, said that while the agreement is "WTO compatible," there were no "secret pledges" tying the agreement to China's WTO application.

Indeed, substantial barriers remain. For instance, China has long argued that it should be admitted as a developing country, allowing it time to bring its trading practices up to WTO standards. Despite U.S. opposition to Beijing's stance, it hasn't changed, says Wang Zhengang, an official at China's Ministry of Foreign Trade and Economic Cooperation.

"I think it's going to be another difficult negotiation," said Douglas Henck, head of Aetna Life & Casualty Co.'s Asian insurance operations.

"Once this nice warm feeling subsides, everyone will get back to the sheer realities of China's behavior as a member of the international trading community," added Warren Williams, a Hong Kong-based China trade consultant. He noted that China has agreed, for example, that only published trade regulations can be enforced. But businessmen are regularly hampered by rules they are told exist but that they can't see.

A bigger issue is tariffs. China's trade partners argue that Beijing keeps many of its markets closed by imposing high duties on imports. Beijing says the high tariffs are necessary to nurture its developing industries. The country has already shown some willingness to bend on the issue. During its push for WTO membership in December, for example, it slashed duties on some goods for a year. Now, another unilateral tariff reduction may be in store, but diplomats say reductions must be permanent to count at the WTO negotiating table.

THE PRESIDENT HAS SEEN
2-28-95

Leon / GS
can we do something
w/ this?
B

GOP Governors to Push for Food Stamp Grants

By Judith Havemann
Washington Post Staff Writer

Republican governors will urge House leaders today not to break their promise in the "Contract With America" to replace the food stamp program with direct cash payments to the states, according to Gerald Miller, director of the Michigan Department of Social Services.

House Republican leaders, yielding to month-long pressure from farm state legislators, abandoned plans Friday to abolish the $27 billion-a-year food stamp program and replace it with a block grant to the states.

"This is a very, very, very big problem for us," said Miller. "I can't tell you how many 'verys.' "

Michigan Gov. John Engler (R), the GOP governors' chief negotiator with Congress on welfare issues, and Massachusetts Gov. William F. Weld (R) have scheduled meetings with House leaders at 6 p.m. today to argue that all main welfare programs must be included in a reform proposal before the system can be fundamentally altered.

"If your commitment is to reform welfare, you've got to include food stamps . . . to really change behavior," Miller said. The food stamp program automatically increases if a family's income goes down; therefore, if a state reduces cash welfare payments to a client who refuses to work, the person's food stamp benefits rise.

House Agriculture Committee Chairman Pat Roberts (R-Kan.) argued that the food stamp program should be saved as a "safety net for people who are truly needy." The food stamp program was one of more than 300 that Republicans originally planned to turn over to the states under welfare reform.

Measures to abolish Aid to Families with Dependent Children (AFDC), the main welfare program, and the National School Lunch Act and replace them with block grants are moving swiftly through the House. But welfare legislation must overcome many hurdles in the full House and Senate and be signed by President Clinton before it can become law.

Vermont Gov. Howard Dean (D), chairman of the National Governors' Association, said at a breakfast meeting with reporters that "it disturbs me greatly that the leadership cuts their block grant for the school lunch program but protects food stamps, which has a lot of problems, because the lobbyists tell them to leave it alone."

Dean released figures compiled by the Department of Agriculture that showed that no state would receive as much school lunch money during the next five years under the Republican plan as it would under current law. The District would lose $27 million, Maryland $146 million, and Virginia $84 million.

Health and Human Services Secretary Donna E. Shalala, in a speech to the American Public Welfare Association, said the GOP plan is "not real welfare reform." She said the bill would cost governors a projected $18 billion over five years. "We do not agree that reducing support will give you the kind of flexibility you need," she said.

The association, made up of state officials who administer welfare programs, agreed yesterday to lobby for relief from some of the federal restrictions proposed in the block grant bills. The organization took no position on block grants, but said if the grants became law, they should be phased in over two years. The bills before the House would take effect next October, the start of fiscal 1996.

GAO Says Tax Refund Delays May Grow

IRS Anti-Fraud Effort Needs More Time to Bear Fruit, Agency Says

By Albert B. Crenshaw
Washington Post Staff Writer

The Internal Revenue Service's efforts to combat fraud, which have held up refunds to more than a million taxpayers so far this year, may in fact not be tough enough, the General Accounting Office said yesterday.

Refunds for such items as the earned income tax credit may have to be held up until as late as May, when patterns of fraud can be determined, the congressional watchdog agency said.

"I think [the IRS] may have to go beyond where they are" in screening returns and delaying refunds, Jennie S. Stathis, GAO director of tax policy, told a House Ways and Means oversight subcommittee hearing. Her agency has power to make recommendations but not to impose its views.

At the same time, she said, the IRS remains unable to deal with the rising flood of ... Taxpayers have less than a 50-50 chance of having their calls answered, and only 13 percent of 1,100 GAO calls were answered during a test this year.

The GAO also criticized the agency's tax systems modernization program, saying the agency is modernizing some old computer systems in ways that will leave them unable to communicate with new systems when they are developed.

The refund delays have arisen because the agency, in a departure from the past, is checking all Social Security numbers on every return and rejecting returns where there are mismatches between names and numbers. In addition, it is running returns, especially those seeking refundable credits, through computerized screening systems to try to detect anything suspicious.

Suspicious returns are put on hold, and in many cases the refundable por... for further investigation. If the refund is approved it is sent as a paper check to the taxpayer rather than as a direct deposit to the taxpayer's bank.

Financial institutions that make "refund anticipation loans" count on direct deposits for easy repayment and have sued the IRS over the change.

IRS Commissioner Margaret Milner Richardson, also testifying, told the panel that about 8 percent of refunds will be delayed. "We regret that for some taxpayers, perfectly legitimate refunds will be delayed this year" because of the program, she said, but fraud reduction is a major agency goal this year.

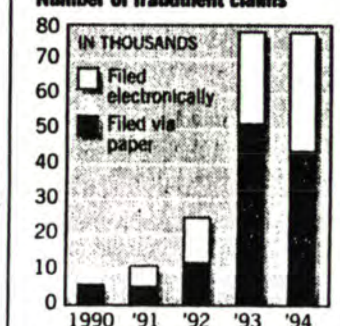
The two agencies reported that refund fraud is rising sharply, though the increase may in part be due to better detection. For 1990, 5,713 returns claiming $17.1 million in fraudulent refunds were detected; ... $160.5 million, the agencies said.

Stathis said refundable credits "are a particular problem" because they represent a direct payment from the government. "The earned income tax credit puts the IRS in the role of a wel-

THE FRAUD FACTOR

A General Accounting Office report says the escalation of fraudulent income tax returns justifies the IRS's tougher checking system.

Number of fraudulent claims



SOURCE: General Accounting Office

THE WASHINGTON POST

THE PRESIDENT HAS SEEN
2-28-95

cc: VP for our [illegible]

Leon/Erskine

Sue [illegible]

THE NEW YORK TIMES, TUESDAY, FEBRUARY 28, 1995

On My Mind

A. M. ROSENTHAL

The Road Not Taken

See them smile and toast each other before their little Chinese Communist and American flags. The negotiators from Beijing and Washington are celebrating their happy day of commercial accord.

And why not? They have done their job well. The Americans said that unless the Communists stopped stealing United States intellectual property like movies, compact disks and computer software, Washington would retaliate with sanctions on more than $1 billion of Chinese exports to the U.S.

Being no fools, the Communists, after making all kinds of horrible faces, gave in at the last moment — as predictable from the first moment. That is, the first moment that the Clinton Administration showed that this time it really meant its warnings, really.

So maybe the rest of us should be toasting each other too, because Beijing and Washington have shown we were right — that on important disputes between the two countries the Chinese Communists would give ground in the face of economic pressure from the United States.

But we do not toast. We see the road not taken. We know where it might have led had Mr. Clinton had the courage, if not of his conviction then at least of his promises.

We asked the President to use tariff pressure against Communist China to persuade Beijing to lessen the use of its three key instruments of rule: torture, imprisonment and slave labor. No revolution was demanded, no abdication by the Communists, just that they display restraint in practicing their theology of force as government.

Mr. Clinton agreed but broke his word. There are two reasons to bring all this up — and again tomorrow and tomorrow.

One is simply that Chinese are still tied to torture boards in political cells and made to work in factories based on slave labor, and Tibetans are still beaten, arrested, deported from their own land. Of all Americans who should continue to fight for China, none have a greater obligation than those who voted for Bill Clinton. The second reason we will deal with in a moment.

Soon after taking office, he signed an executive order: If the Communists did not lessen oppression in China and occupied Tibet by spring 1994, the U.S. would raise some tariffs on Beijing's exports to the U.S.

It was sensible to believe it would work. It was simple decency to try. Economic pressure had been carried out, effectively, against the Soviet Union and South Africa.

And for Communist China, the U.S. was and is an essential customer. Beijing sells us four times as much as it buys, runs a $30 billion trade profit with the U.S. and counts on our technology to strengthen and smarten its huge war machine.

Last year, up to almost the last moment, top members of the Administration said Mr. Clinton would never go back on his executive order.

But as they spoke, the China lobby — American businesses operating in China — had already gotten to Mr. Clinton. The President, knowing his executive order was not fulfilled, just tore it up. What's more, he said he did not want to hear about human rights anymore as a China-trade issue. When he turned, he whirled all the way round. State Department officials who had said he would never do such a thing, what could you be thinking of, meekly changed their public minds, as did a sad collection of Democratic senators.

Clinton's failure in China.

Now, the State Department report on human rights shows that oppression is as pervasive and cruel as when Mr. Clinton made his promise, and when he broke it.

That second reason to remember: Political appeasement and economic strengthening of dictatorships are related and contagious diseases.

Politically and morally there is a connecting line between forgetting the tortured in the Chinese cells, sales of high-tech military equipment to the Chinese by America, Europe and Israel, European pressure to lift the embargoes against Saddam Hussein and Fidel Castro, and Russian contracts with Iran for nuclear plans.

The democracies cannot destroy all tyrannies. But they should not empower them. Yet they do, they do.

Maybe, after the President betrayed himself and human rights pledges last year, the political bosses of the gulag in Beijing's Politburo offices raised happy little toasts of their own. I think so. □

THE PRESIDEN

2.28.95

To VP

for our lunch discussion

B.

Yet Again, Baseball Talks On

Reinsdorf Shows Up At Arizona Meeting

By Mark Maske
Washington Post Staff Writer

SCOTTSDALE, Ariz., Feb. 27—Baseball's labor talks resumed here today, as representatives of the team owners and striking major league players attempted to generate some momentum in negotiations following their cordial set of meetings last week in Milwaukee.

Milwaukee Brewers owner Bud Selig, the game's acting commissioner, met with Major League Baseball Players Association chief Donald Fehr and special mediator W.J. Usery this morning to establish a schedule for the proceedings. Beginning this afternoon, five representatives from each side got together, apparently with plans to discuss the core economic issues of the dispute.

The parties apparently continued to meet into the evening at the Gainey Ranch, a private development at which Fehr's parents and Selig have homes.

But the most intriguing development of the day perhaps was the ap-

See BASEBALL, E2, Col. 3

THE WASHINGTON POST
TUESDAY, FEBRUARY 28, 1995

Baseball Talks Back Underway

BASEBALL, From E1

pearance made by another Scottsdale resident, Chicago White Sox chairman Jerry Reinsdorf. Reinsdorf, like Selig, has kept his distance from these negotiations. But union officials believe that Reinsdorf plays a central role behind the scenes in plotting the owners' strategy, and they've been convinced throughout this bitter labor dispute that Reinsdorf has been intent upon breaking the union by orchestrating this confrontation.

Reinsdorf had lunch today with National League President Leonard Coleman, then said he had no plans to participate in the negotiations. "I live here," Reinsdorf said. "It would be rude for me not to come by and say hello."

Last week, Selig and other ownership representatives were in Milwaukee participating in what was said to be an unusually civil set of discussions with Fehr and union attorney Lauren Rich. But even at that sensitive point in the proceedings, Reinsdorf publicly assailed Fehr in an interview with the Chicago Sun-Times. He accused Fehr of misleading the players, and said that the union chief has a "pathological hatred" of the owners.

The timing of Reinsdorf's remarks made those on both sides of the dispute wonder. Some baseball people have speculated that it was a plot by Selig and Reinsdorf to irritate Fehr and ruin any chance of a settlement. Others guessed that Selig had split with Reinsdorf and now desperately wants to reach a compromise with the players, and Reinsdorf lashed out because he was unhappy about that.

Today Reinsdorf said: "It just happened. There was no timing. It was not planned. I just said what I had to say. For the last four years, Don and Gene [Orza, the union's second-ranking official] have been saying what they thought of me. What's wrong with me one time saying something?"

Boston Red Sox general partner John Harrington, the chairman of the owners' bargaining committee, says there must be a settlement by Sunday if the season is to start on time—on April 2—with the major league players on the field. The strike is 6½ months old, and the owners plan to play the spring training and regular season schedules with teams of replacement players if the major leaguers haven't returned to work.

Meanwhile, National Labor Relations Board spokesman Dave Parker said today that NLRB general counsel Fred Feinstein hopes the agency can complete its investigation of the players' latest unfair labor practices charges against the owners by early next week.

When the owners implemented a salary cap system in December, the union responded by imposing a freeze on players signing contracts with major league teams. The two sides filed unfair labor practices charges against each other with the NLRB in December. Early this month, the owners, under pressure from the NLRB, agreed to withdraw the salary cap.

The players said they'd end their signings freeze. But the owners responded by revoking individual teams' rights to negotiate with and sign players. The union maintained that violated the owners' agreement with the NLRB, and filed new and amended charges. Feinstein issued a stern warning to the owners. If the NLRB chooses to issue a complaint against the owners, it could pursue attempt to restore the status quo—meaning putting the sport's old economic system back in place, with clubs having the right to sign players.

Fehr says the union would consider ending the strike under those circumstances, and have the players on the field while negotiations continue. But an end to the strike under those conditions probably would result in the owners locking out the players.

FCC Probes NBC Decision To Drop Fox Complaint

Agency Investigating Whether Deal Was Made

By Paul Farhi
Washington Post Staff Writer

Federal officials are studying whether NBC's decision to drop a complaint against rival Fox Broadcasting Co. earlier this month was a result of an improper "greenmail" arrangement between the companies, government sources said yesterday.

The Federal Communications Commission is looking into the circumstances surrounding a deal in which Fox's parent, News Corp., agreed to distribute NBC-owned programming via News Corp.'s Star TV satellite service in Asia. NBC and Fox announced the satellite deal on the same day NBC said it was dropping an FCC petition challenging News Corp.'s ownership of Fox.

Asked to comment on the FCC inquiry, NBC and Fox officials said they were confident that the commission would find no wrongdoing.

The FCC established rules in 1990 to prohibit one company from paying another to drop a license challenge. The rules were put in place to stop a then-legal practice known as greenmail in which a competitor for a broadcast station license made a payment of some kind to a challenger for the challenger's agreement to end its bid.

NBC in November had filed a petition asking the FCC to investigate whether News Corp., an Australian company, and its chairman, Rupert Murdoch, had acquired the original six Fox stations in 1986 in violation of a ban on alien ownership of U.S. TV stations. The NAACP already had made similar allegations, but the NBC petition prompted an expanded FCC investigation and generated renewed media attention.

NBC and Fox executives said yesterday that NBC's decision to drop its challenge was motivated by several factors, including a desire to present a united front in lobbying Congress. NBC also said it had accomplished its initial goals—compelling the FCC to open a proceeding to clarify its rules about foreign ownership. In a filing to the commission last week, NBC said "neither NBC nor its principals will re-

See NBC, C4, Col. 4

NBC, From C1

ceive any money or other consideration in exchange for the withdrawal of its petitions." FCC officials, however, wonder if the satellite deal in effect was a "consideration." NBC denies that it was, calling it simply a "resumption of normal business relations."

Both firms said yesterday discussions about the satellite venture were suspended when NBC filed its petition last fall, and were resumed once it became clear that NBC was withdrawing it. Both companies said they had not been contacted by the FCC but weren't surprised by the inquiry.

One broadcast industry executive commented yesterday, "The FCC feels ripped off by NBC. They [NBC] raised the issue to a crescendo and then they slacked off. One of Fox's Washington representatives, Peggy Binzel, said yesterday, "As far as we're concerned, we want peace with NBC so we can cooperate in Washington to get regulatory relief for broadcasters so that they can compete with the phone companies that are about to be let into our business."

Murdoch said his company never misled federal regulators when it got approval to buy the six TV stations that became the Fox broadcast network in 1986. Speaking at a news conference, Murdoch said a Columbia University law professor hired by Fox to review its decade-old filings concluded that News Corp. had made all Krelevant disclosures to the FCC.

THE PRESIDENT HAS SEEN
2.28.95

VP

Lets discuss
this Thursday —

BC

THE PRESIDENT HAS SEEN
2-28-95

THE WHITE HOUSE

WASHINGTON

February 28, 1995

MR. PRESIDENT:

The attached are letters to Senators Hatfield and Byrd concerning certain DOD rescissions -- in particular, regarding the TRP program and the Nunn-Lugar Threat Reduction program.

The letters have been approved by Leon, Pat Griffin and Alice Rivlin. We are advised that they need to be sent to the Hill this afternoon.

Todd Stern

Leon

call Mr. McRae-

EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

THE PRESIDENT HAS SEEN
2.28.95

February 28, 1995

95 FEB 28 P4:15

MEMORANDUM TO THE PRESIDENT

THROUGH: Leon E. Panetta

FROM: Alice M. Rivlin, Director

SUBJECT: Attached letters to Senators Byrd and Hatfield

The Senate Appropriations Committee is marking up the Department of Defense supplemental rescission bill on Thursday, March 2, 1995.

It would be helpful if you signed the attached letters to Senators Byrd and Hatfield addressing our concerns about the House passed version of the bill.

THE WHITE HOUSE

WASHINGTON

Honorable Robert C. Byrd
Ranking Member
Committee on Appropriations
United States Senate
Washington, D.C. 20510

Dear Senator Byrd:

I am very concerned about the House version of H.R. 889, the Emergency Supplemental Appropriations and Rescissions for the Department of Defense to Preserve and Enhance Military Readiness Bill, FY 1995.

The bill not only would add $670 million for unrequested activities that would be more appropriately funded through reprogrammings, it would cut programs important to our military strategy and defense planning for the next century.

The Technology Reinvestment Project (TRP) plays a critical role in our ability to deploy advanced technology on the future battlefield. The TRP is a critical element in our effort to bring America's successful commercial high-technology industry into the defense market, strengthening and broadening our national security base. Our defense technological edge into the next century depends on a sustained commitment to the TRP.

The Nunn-Lugar Comprehensive Threat Reduction program enhances our security in a uniquely cost-effective way. Funds proposed for rescission would enable us to ensure that Russian strategic rocket forces personnel do not become a source of instability and to create new market opportunities for industries that were the backbone of the Soviet nuclear threat.

The Administration believes that the $2.5 billion that is included in Title I of H.R. 889 as emergency funding under P.L. 101-508, the Budget Enforcement Act of 1990 (BEA), is not required to be offset. For this and other reasons, I oppose House action to rescind $1.4 billion of funding for non-DoD programs to finance, in part, the supplemental appropriations for the Defense Department.

I look forward to working with you and the Senate on these matters.

Sincerely,

Bill Clinton

THE WHITE HOUSE

WASHINGTON

Honorable Mark O. Hatfield
Chairman
Committee on Appropriations
United States Senate
Washington, D.C. 20510

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I look forward to working with you and the Senate on these matters.

Sincerely,

Bill Clinton

[redacted]

THE WHITE HOUSE
WASHINGTON

M McCurry

See me re:
Jim Blanchard
friendly papers

[redacted]

B

THE PRESIDENT HAS SEEN
2/28/95

[redacted]

[redacted]

THE WHITE HOUSE
WASHINGTON

Chron

[illegible]

[illegible]

4/30 NYC
Edgar Bronfman
50th

[redacted]

THE PRESIDENT HAS SEEN
2/28/95

[redacted]

THE PRESIDENT HAS SEEN

lton Friedman

1/2

ublic Schools: Make Them Private

ur elementary and secondary educational system needs to be radically reconstructed. That d arises in the first instance from the defects of current system. But it has been greatly reined by some of the consequences of the technological and political revolutions of the past few decades. se revolutions promise a major increase in world put, but they also threaten advanced countries with ous social conflict arising from a widening gap veen the incomes of the highly skilled (cognitive :) and the unskilled.

radical reconstruction of the educational system the potential of staving off social conflict while at same time strengthening the growth in living ndards made possible by the new technology and increasingly global market. In my view, such a cal reconstruction can be achieved only by privatiz- a major segment of the educational system—i.e., enabling a private, for-profit industry to develop will provide a wide variety of learning opportuni- and offer effective competition to public schools. h a reconstruction cannot come about overnight. It vitably must be gradual.

The most feasible way to bring about a gradual yet stantial transfer from government to private enter- e is to enact in each state a voucher system that bles parents to choose freely the schools their dren attend. I first proposed such a voucher system years ago.

Many attempts have been made in the years since adopt educational vouchers. With minor exceptions, one has succeeded in getting a voucher system pted, thanks primarily to the political power of the ool establishment, more recently reinforced by the tional Education Association and the American deration of Teachers, together the strongest politi- lobbying body in the United States.

) The Deterioration of Schooling

The quality of schooling is far worse today than it s in 1955. There is no respect in which inhabitants a low-income neighborhood are so disadvantaged as the kind of schooling they can get for their children. e reason is partly the deterioration of our central ies, partly the increased centralization of public ools—as evidenced by the decline in the number of ool districts from 55,000 in 1955 to 15,000 in 92. Along with centralization has come—as both use and effect—the growing strength of teachers' ions. Whatever the reason, the fact of deterioration elementary and secondary schools is not disputable. The system over time has become more defective it has become more centralized. Power has moved m the local community to the school district to the te, and to the federal government. About 90 rcent of our kids now go to so-called public schools, ich are really not public at all but simply private fiefs marily of the administrators and the union officials.

We all know the dismal results: some relatively good vernment schools in high-income suburbs and com- nities; very poor government schools in our inner es with high dropout rates, increasing violence, er performance and demoralized students and chers.

These changes in our educational system have rly strengthened the need for basic reform. But have also strengthened the obstacles to the kind weeping reform that could be produced by an tive voucher system. The teachers' unions are rly opposed to any reform that lessens their own er, and they have acquired enormous political and cial strength that they are prepared to devote to ting any attempt to adopt a voucher system. The t example is the defeat of Proposition 174 in ornia in 1993.

(2) The New Industrial Revolution

A radical reconstruction of our educational system has been made more urgent by the twin revolutions that have occurred within the past few decades: a technological revolution—the development, in particular, of more effective and efficient methods of communication, transportation and transmission of data; and a political revolution that has widened the influence of the technological revolution.

The fall of the Berlin Wall was the most dramatic event of the political revolution. But it was not necessarily the most important event. For example, communism is not dead in China and has not collapsed. And yet beginning in 1976, Premier Deng initiated a revolution within China that led to its being opened up to the rest of the world. Similarly, a political revolution took place in Latin America that, over the course of the past several decades, has led to a major increase in the fraction of people there who live in countries that can properly be described as democracies rather than military dictatorships and that are striving to enter open world markets.

The technological revolution has made it possible for a company located anywhere in the world to use resources located anywhere in the world, to produce a product anywhere in the world, to be sold anywhere in the world. It's impossible to say, "this is an American car" or "this is a Japanese car," and the same goes for many other products.

The possibility for labor and capital anywhere to cooperate with labor and capital anywhere else had dramatic effects even before the political revolution took over. It meant that there was a large supply of relatively low-wage labor to cooperate with capital from the advanced countries, capital in the form of physical capital, but perhaps even more important capital in the form of human capital—of skills, of knowledge, of techniques, of training.

Before the political revolution came along, this international linkage of labor, capital and know-how had already led to a rapid expansion in world trade, to the growth of multinational companies and to a hitherto unimaginable degree of prosperity in such formerly underdeveloped countries in East Asia as the "Four Tigers." Chile was the first to benefit from these developments in Latin America, but its example soon spread to Mexico, Argentina and other countries in the region. In Asia, the latest to embark on a program of market reform is India.

The political revolution greatly reinforced the technological revolution in two different ways. First, it added greatly to the pool of low-wage, yet not necessarily unskilled labor that could be tapped for cooperation with labor and capital from the advanced countries. The fall of the Iron Curtain added perhaps a half-billion people and China close to a billion, freed at least partly to engage in capitalist acts with people elsewhere.

Second, the political revolution discredited the idea of central planning. It led everywhere to greater confidence in market mechanisms as opposed to central control by government. And that in turn fostered international trade and international cooperation.

These two revolutions offer the opportunity for a major industrial revolution comparable to that which occurred 200 years ago—also spread by technological

ed in education. We know how the telephone indu has been revolutionized by opening it to compet on; how fax has begun to undermine the post monopoly in first-class mail; how UPS, Federal E: press and many other private enterprises have tran formed package and message delivery and, on th strictly private level, how competition from Japan ha transformed the domestic automobile industry.

The private schools that 10 percent of children no attend consist of a few elite schools serving high cost a tiny fraction of the population, and ma mostly parochial nonprofit schools able to compe with government schools by charging low fees mac possible by the dedicated services of many of th teachers and subsidies from the sponsoring instit tions. These private schools do provide a superi education for a small fraction of the children, but th are not in a position to make innovative changes. F

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THE WASHINGTON POST
SUNDAY, FEBRUARY 19, 1995

developments and freedom to trade. In those 200 years, world output grew more than in the preceding 2000. That record could be exceeded in the next two centuries if the peoples of the world take full advantage of their new opportunities.

2/2

(3) Wage Differentials

The twin revolutions have produced higher wages and incomes for almost all classes in the underdeveloped countries. The effect has been somewhat different in the advanced countries. The greatly increased ratio of low-cost labor to capital has raised the wages of highly skilled labor and the return on physical capital but has put downward pressure on the wages of low-skilled labor. The result has been a sharp widening in the differential between the wages of highly skilled and low-skilled labor in the United States and other advanced countries.

If the widening of the wage differential is allowed to proceed unchecked, it threatens to create within our own country a social problem of major proportions. We shall not be willing to see a group of our population move into Third World conditions at the same time that another group of our population becomes increasingly well off. Such stratification is a recipe for social disaster. The pressure to avoid it by protectionist and other similar measures will be irresistible.

(4) Education

So far, our educational system has been adding to the tendency to stratification. Yet it is the only major force in sight capable of offsetting that tendency. Innate intelligence undoubtedly plays a major role in determining the opportunities open to individuals. Yet it is by no means the only human quality that is important, as numerous examples demonstrate. Unfortunately, our current educational system does little to enable either low-IQ or high-IQ individuals to make the most of other qualities. Yet that is the way to offset the tendencies to stratification. A greatly improved educational system can do more than anything else to limit the harm to our social stability from a permanent and large underclass.

There is enormous room for improvement in our educational system. Hardly any activity in the United States is technically more backward. We essentially teach children in the same way that we did 200 years ago: one teacher in front of a bunch of kids in a closed room. The availability of computers has changed the situation, but not fundamentally. Computers are being added to public schools, but they are typically not being used in an imaginative and innovative way.

I believe that the only way to make a major improvement in our educational system is through privatization to the point at which a substantial fraction of all educational services are rendered to individuals by private enterprises. Nothing else will destroy or even greatly weaken the power of the current educational establishment—a necessary precondition for radical improvement in our educational system. And nothing else will provide the public schools with the competition that will force them to improve in order to hold their clientele.

No one can predict in advance the direction that a truly free-market educational system would take. We know from the experience of every other industry how imaginative competitive free enterprise can be, what new products and services can be introduced, how driven it is to satisfy the customers—that is what we that, we need a much larger and more vigorous private enterprise system.

The problem is how to get from here to there. Vouchers are not an end in themselves; they are a means to make a transition from a government to a market system. The deterioration of our school system and the stratification arising out of the new industrial revolution have made privatization of education far more urgent and important than it was 40 years ago.

Vouchers can promote rapid privatization only if they create a large demand for private schools to constitute a real incentive for entrepreneurs to enter the industry. That requires first that the voucher be universal, available to all who are now entitled to send their children to government schools, and second that the voucher, though less than the government now spends per pupil on education, be large enough to cover the costs of a private profit-making school offering a high-quality education. If that is achieved there will in addition be a substantial number of families that will be willing and able to supplement the voucher in order to get an even higher quality of education. As in all cases, the innovations in the "luxury" product will soon spread to the basic product.

For this image to be realized, it is essential that no conditions be attached to the acceptance of vouchers that interfere with the freedom of private enterprisers to experiment, to explore and to innovate. If this image is realized, everybody, except a small group of vested interests, will win: parents, students, dedicated teachers, taxpayers—for whom the cost of the educational system will decline—and especially the residents of central cities, who will have a real alternative to the wretched schools so many of their children are now forced to attend.

The business community has a major interest in expanding the pool of well-schooled potential employees and in maintaining a free society with open trade and expanding markets around the world. Both objectives would be promoted by the right kind of voucher system.

Finally, as in every other area in which there has been extensive privatization, the privatization of schooling would produce a new, highly active and profitable private industry that would provide a real opportunity for many talented people who are currently deterred from entering the teaching profession by the dreadful state of so many of our schools.

This is not a federal issue. Schooling is and should remain primarily a local responsibility. Support for free choice of schools has been growing rapidly and cannot be held back indefinitely by the vested interests of the unions and educational bureaucracy. I sense that we are on the verge of a breakthrough in one state or another, which will then sweep like a wildfire through the rest of the country as it demonstrates its effectiveness.

To get a majority of the public to support a general and substantial voucher, we must structure the proposal so that (1) it is simple and straightforward so as to be comprehensible to the voter, and (2) guarantees that the proposal will not add to the tax burden in any way but will rather reduce net government spending on education. A group of us in California has produced a tentative proposition that meets these conditions. The prospects for getting sufficient backing to have a real chance of passing such a proposition in 1996 are bright.

The writer, a senior research fellow at the Hoover Institution in Stanford, Calif., won the Nobel Prize for Economics in 1976.

113

VP

FYI — B.

THE PRESIDENT HAS SEEN

2/28/95

SPECIAL SCHEDULING REQUESTS
HONORARY CHAIR, HONORARY PATRON, HONORARY MEMBERSHIP

Today's Date: February 27, 1995

Date of Request:	2/16/1995
Request for:	POTUS/FLOTUS
Type of Request:	Honorary Hosts
Requestor Name:	Mr. Steven J. Nissen
Title:	Executive Director
Organization:	Public Counsel 601 South Ardmore Avenue Los Angeles, California 90005
Contact Tel. #:	213/385-2977
Event Date:	4/17/1995
Event Description:	25th Anniversary William O. Douglas Award Dinner
Notes:	Public Counsel is the nation's largest pro bono law office. The group will honor Ambassador Mickey Kantor at the dinner. The request was sent through Tom Epstein in Political Affairs.

Recommendations:

MW _______ JP Refer to 1st Lady's office EB _______

THE BUSINESS COUNCIL

Sent

888 Seventeenth Street, N.W.
Washington, D.C. 20006
Telephone: (202) 298-7650
FAX: (202) 785-0296

THE PRESIDENT HAS SEEN
2/25/95

February 23, 1995

The Honorable Bill Clinton
President of the United States
The White House
Washington, DC 20500

Should we send Speech to him?

Dear Mr. President,

Thank you so much for joining us last evening.

Your commitment to engaging in an ongoing dialogue with the business community is greatly appreciated by the membership. Your presence always makes our program a success.

We look forward to working with you and the Congress to build a more competitive America.

Sincerely,

Ed Woolard

Edgar S. Woolard, Jr.

Don't know — Ed call me
John

THE WHITE HOUSE
WASHINGTON

95 FEB 27 P10:51

OFFICE OF THE STAFF SECRETARY

Fax Transmittal Sheet

TO: Secretary Cisneros

Fax Number: 708-1993 **Phone Number:**

FROM: John Podesta

SUBJECT: President's note to the Secretary

DATE: 2.27.95

NUMBER OF PAGES (including cover sheet): 3

MESSAGE:

THE WHITE HOUSE
WASHINGTON

DATE: 02/27/95

NOTE FOR: SECRETARY HENRY CISNEROS

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

Information ☒

Action ☒

Please see President's note --

'This is good but we need to make sure
it happens & I'd like to be involved
in announcing

Pls keep me informed.

B'

Thank you.

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

cc: Kitty Higgins

THE PRESIDENT HAS SEEN

2/27/95

To Sec. Cisneros

This is good

but we need to

make sure it happens

& I'd like to be involved

in announcing CBSS

Pls keep me informed

B.

Mr. President: This is what Los Angeles is doing with their Empowerment Zone grant. After the early unhappiness, there is alot of excitement now

LOS ANGELES TIMES FEB 20 1995

Ambitious Bank Plan Would Aid Poor Areas

■ **Economics:** L.A. seeks federal and private funds for lending institution to help start or expand businesses in distressed neighborhoods.

By JEAN MERL
TIMES STAFF WRITER

B1

Say you run an industrial metal-treating company that employs 120 people. You want to expand your operations in one of Los Angeles' poorest neighborhoods. But you need to borrow $2 million for the plant and equipment, and the project doesn't pencil out if you have to pay the going interest rates.

Under a plan being developed at City Hall, you could turn to the Los Angeles Community Development Bank, a Clinton Administration-backed program that would combine federal grants and loan guarantees with private funds to form a potentially huge lending pool—half a billion dollars or more. The funds would be used to start new businesses and help existing ones expand, creating jobs and boosting the economies of the city's most depressed communities.

Mayor Richard Riordan, a successful venture capitalist who made business revitalization a big part of his campaign for office in 1993, said he views the proposed bank as "a powerful new tool of job creation and economic development" in distressed areas.

Rushing to meet a March 9 deadline to get a formal application to the U.S. Housing and Urban Development Department, city officials have been hammering out their proposal in workshops with finance and business representatives in the mayor's City Hall conference room. A public hearing on the development bank proposal is scheduled for 6 p.m. Wednesday at Manual Arts High School, 4131 S. Vermont Ave., in South-Central Los Angeles.

Many details have yet to be worked out,

Please see BANK, B6

but the proposal basically goes like this: The bank would provide loans—probably at least some at low interest rates—loan guarantees, investment capital, grants and technical assistance. The funds would be available to small and medium-sized businesses, community-based organizations and developers who want to locate or expand in a 20-square-mile zone stretching from Pacoima through Watts.

Other of the bank's funds also could be used in neighborhoods outside the zone that have poverty rates of 20% or higher. Interest on loans made by the bank would be put toward funding social services in the project areas, city officials working on the bank proposal said.

The bank would not take deposits, provide checking accounts or offer any other services that would require a state or federal charter, and would cooperate rather than compete with other financial institutions in the targeted communities. With the help of commercial lenders and smaller, nonprofit organizations, it would concentrate on amassing an unprecedented amount of funds in areas traditionally hard pressed for capital.

"There is no other such institution of this magnitude for providing venture and working capital," Deputy Mayor Mary Leslie, Riordan's chief economic adviser, told a City Council committee meeting last week. "It's in its own league."

The federal start-up money for the bank would come in part from the $100 million Economic Development Initiative grant the Clinton Administration promised Los Angeles as a "consolation prize" for leaving the city out of a more generous "empowerment zone" package of business tax breaks and social services grants. The bank would get another $100 million in federal loan guarantees for the neighborhoods included in the city's unsuccessful empowerment zone bid.

In addition, the city will seek yet another $200 million in loan guarantees that could be used in the zone or in other distressed communities. By teaming up with Los Angeles County, which also received a promise of grants and loans, the city could pump a total of $430 million in federal aid into economic development efforts.

City officials expect participation from private lenders to leverage the bank's funds into a much larger pool. Already, Riordan said last week, the proposed bank has commitments from Bank of America, First Interstate and Wells Fargo, and he said officials of several pension funds also are interested in joining the effort.

Community development banks have worked well in other areas, most notably in Chicago, where the South Shore Bank has been operating for more than two decades. It was cited by President Clinton as a model when he shepherded federal legislation last year to encourage investment in the nation's crumbling urban cores. But the concept seems especially suited to the Riordan Administration, which clearly prefers economic development to social services as the tool of choice for revitalizing troubled neighborhoods.

Reaction to the development bank proposal has ranged from enthusiasm to concerns about its risks, where its investments would be made and the degree of benefit it could provide.

Most troubling to some council members is the provision that the city use its future federal social services block grants as collateral to guarantee the loans. The Community Development Block Grant is pumping $83.6 million into struggling neighborhoods this fiscal year, and that amount is expected to rise to almost $97 million for the coming annual budget cycle.

"We cannot afford to mortgage our future—it is bad public policy," said Councilman Mark Ridley-Thomas, whose 8th District includes South-Central Los Angeles.

Henry

cc Press office
Rahm
Semple
Hirsh

THE WHITE HOUSE

WASHINGTON

February 18, 1995

Michael P. Hirsh, M.D.
Director
Division of Pediatric Surgery
Pediatric Trauma/Critical Care
Allegheny General Hospital
320 East North Avenue
Pittsburgh, Pennsylvania 15212-4772

Dear Dr. Hirsh:

Thank you for writing to me and sending the article about Michael Wallace. I share your frustration about the amount of gun violence in our society and the physical and emotional impact it has on so many young people in America.

Be assured that I am fighting hard to keep the assault weapons ban intact along with all the other essential elements in last year's crime bill. Your support means a lot to me, and I hope that you will also share your concerns with others.

I am grateful for your involvement in this important issue, and I'm glad you took the time to write.

Sincerely,

Bill Clinton

SAMPLE

AGH
ALLEGHENY GENERAL HOSPITAL

320 East North Ave
Pittsburgh, Pennsylvania 15212-4
412-359-3

Division of Pediatric Surgery
412/359-6866

February 2, 1995

President William J. Clinton
The White House
1600 Pennsylvania Avenue
Washington, DC 20500

Dear President Clinton:

I am the Director of the Pediatric Trauma Center at Allegheny General Hospital. I have enclosed a copy of an article in the Pittsburgh Post-Gazette that appeared several weeks ago. The picture of the patient with whom I am standing is a young 14 year old who was in a drive-by shooting on the way home from high school. The weapon involved was an AK47 assault rifle. The metal hardware that you see protruding from his foot represented a very heroic effort on the part of our Orthopedic/Plastic/Trauma Surgeons to save the limb. You may note the sadness in both of our faces because young Michael Wallace, the patient in questions, had just been told he'd have to wear the device for another 8 months. After that time frame we still won't be sure what level of function he'll regain in that leg.

This AK47 attack made quite a bit of local news for some of the right reasons; it represented an assault weapon that had been used on a child, but also because the attack occurred on the block of Pittsburgh Mayor Tom Murphy's house. I hope this information might fortify you in the upcoming struggle to fight off those who would repeal the ban on assault weapons. I urge you to continue your good work. I would like to thank you on behalf of countless victims of such attacks that will be spared what our patient is going through. Because of the courage of leaders, like yourself and the lawmakers you mentioned in your State of the Union Address, perhaps trauma centers like mine will be able to devote more of our efforts to prevention of such tragedies in the future.

Thanks for caring.

Sincerely,

Michael P. Hirsh

Michael P. Hirsh, M.D.
Director, Div. of Pediatric Surgery
Pediatric Trauma/Critical Care

MPH/ds

PITTSBURGH POST-GAZETTE
January 15, 1995

The healing process

Bullets wound kids' spirits, too, doctors realize

By Ellen M. Perlmutter
Post-Gazette Staff Writer

Two months after his lower left leg was nearly blown off in a drive-by shooting, Michael Wallace, 15, was sure the doctors at Allegheny General Hospital would finally remove the shiny pins sticking out of it.

Shot with an AK-47 after stepping off a school bus near his Manchester home in October, Wallace, then 14, wanted to return to ninth grade at Perry Traditional Academy and to his favorite sport, basketball.

But as he sat in his wheelchair facing the stark X-rays tacked onto the light box, the orthopedic surgeon revealed that that it would be another eight months before his leg healed enough for him to discard his crutches.

"We're surprised the leg is still on," Dr. Barry Riemer said, turning to the boy's father, Michael Wallace Sr.

The teen stared at the floor. He was crushed.

Until this summer, the doctor might simply have sent Wallace home after his appointment to deal with his feelings on his own. But after his visit with Riemer, Wallace spent time with social worker Barbara Schultz, and later talked with child psychologist Sally Kush, both of whom encouraged him to discuss his disappointment.

In its treatment of young trauma victims, Allegheny General has been providing a kind of one-stop shop in follow-up care to focus on rehabilitating a child's spirit as well as his body.

Pediatrician Michael P. Hirsh, who set up the clinic in July, said doctors needed a more effective way of treating young victims, particularly after they began seeing a marked increase in patients under 14 coming in with gunshot wounds.

Of the 202 cases in 1993, the pediatric trauma unit treated four patients with gunshot wounds; last year, the number of cases rose to 262, including 14 gunshot wounds. Two of those patients died.

The numbers were not surprising, considering that of 185 teen-age deaths in Allegheny County from 1989 to 1993, 140 were attributed to violence, according to the county Health Department.

While the new program deals with all children treated in the trauma unit, doctors have found that the new system is particularly effective in dealing with victims of violent crime.

"We realized how important it is for these kids to get intensive counseling and follow-up, to make it easy for them to get this," said Hirsh, director of pediatric surgery.

"You fix the bone, but we're all thinking about how these kids can weather the storm," he said.

Hirsh and his colleague, Matt Masiello, director of the pediatric intensive care unit, had already become active participants in the North Side's Parents Against Violence group. This was created after an emotional town meeting in October 1993 with then-U.S. Sen. Harris Wofford and U.S. Attorney General Janet Reno.

"We sat and listened to what was then a shock to hear," Hirsh said. "People felt that they had been abandoned by the medical community."

John Beale/Post-Gazette

Dr. Michael P. Hirsh talks with 15-year-old Michael Wallace about the pins that will have to remain in his legs for a while longer. Doctors at Allegheny General Hospital are helping young victims of violent crimes deal with the trauma.

Twelve years ago, as a resident at Columbia Presbyterian Medical Center in New York City, Hirsh vowed to practice pediatrics in hard-hit urban communities after his best friend was shot and killed in a mugging near the hospital.

Across town, Children's Hospital has designed a trauma prevention program for kindergartners and first- and second-graders.

"We're trying it out in 80 to 100 [elementary] classrooms," said Dr. James Lynch, director of the Benedum Pediatric Trauma Program.

In the past three years, the Children's trauma unit has been averaging about 20 gunshot wound cases a year, he said.

Other hospitals in the area send most of their pediatric trauma cases to Allegheny General and Children's.

"We don't see the numbers dropping," Lynch said. "Until you get guns out of the wrong hands, you're not going to see a drop."

For now, doctors realize that young gunshot victims aren't going to stop coming, no matter how careful parents are.

"My son never went out," said Lisa Jordan, whose son, David, 14, was shot in the chest and arm near his Northview Heights home in September.

"He was the type to stay inside, but he got to know this girl, and he started going over to see her. She was his friend."

SEE TRAUMA, PAGE C-2

TRAUMA FROM PAGE C-1

But one day, a number of children were at her house, and things got out of hand. Jordan said the girl got a gun. It went off, hitting her son. Police ruled the incident an accident.

David was in Allegheny General's pediatric trauma unit for three days.

"The doctors, they were great. They were concerned about him," said Jordan, 35. "They made it easy for us when he had to go back to the hospital."

David has returned to the eighth grade at Allegheny Middle School, but Jordan is considering sending him to live with his father in Tallahassee, Fla.

"I want my kids to be able to go to the basketball court and not be afraid. David ducks when he hears something. He has nightmares now and then. He looks like he's OK, really, but I'm scared for him. I don't want him to go outside anymore," Jordan said.

"There is a heightened sense of vulnerability," Paul Polinko, clinical social worker at Children's, said of young gunshot victims. "We proceed through the world as if we're safe, but then that veil is torn. It punctures any sense of being safe that you may have."

For now, Michael Wallace has not had to deal with outside safety because he is confined to his house. He has been keeping up with his school work with a tutor.

He looks forward to his checkups at Allegheny General, where he has been treated in the past for juvenile diabetes, an ailment he has had since he was 8.

Dr. Deborah Rotenstein, an endocrinologist, was the first doctor to see Wallace at his latest appointment.

"So, how are you doing?" Rotenstein asked him as he sat with his father, who had just gotten off his overnight shift for a cleaning company.

"I could be doing better," Wallace responded.

Talking with him evenly but firmly about his medical condition, Rotenstein emphasized the importance of keeping a food diary as well as of giving himself insulin shots.

They also discussed how he was doing, generally.

"He busted a hole in the wall when he got mad the other day," the boy's father said.

"If you get real mad, real aggravated, you've got to deal with thos feelings," Rotenstein said.

She said she would have th physical therapy department sen weights home with him so he coul do upper-body workouts.

He nodded.

Then, just before she left the room, Rotenstein turned to her patient.

"Hey, come here," she said. They hugged each other.

"It's a lot of information for hin to absorb," Hirsh said later. "He's going to have ups and downs. His privacy is gone, and that's hard for a teen-ager."

Wallace's parents believe though, that the trauma clinic treatment has helped their son, and them, cope with his recuperation.

"It makes it so much easier for him," said his mother, Kathy Williamson.

"Michael didn't think he could take eight more months of this. That's a lot to ask. But he understands now. He has us to talk to, and he has the doctors and nurses to talk to. That helps a lot."

Sample

cc VP

Dell letter

THE WHITE HOUSE

WASHINGTON

February 21, 1995

Twyla Dell
President
ECO Kansas City
9844 Georgia Avenue
Kansas City, Kansas 66109

Dear Twyla:

Thank you so much for your thoughtful letter regarding the Council on Sustainable Development.

I share your enthusiasm for the goals of the council, and I agree that we must continue our efforts to preserve our global environment. As you know, promoting responsible environmental stewardship and sustainable economic growth is one of my Administration's highest priorities.

I look forward to your continued involvement. Working together, we can achieve our objectives for sustainable development.

Sincerely,

Bill Clinton

SAMPLE

ECO KANSAS CITY

ECOnomy And **ECO**logy • Two Sides Of The Same Coin
9844 Georgia Avenue • Kansas City, KS 66109 913 • 299 • 4441 / (Fax) 913 • 299 • 4474

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

January 20, 1995

Dear Mr. President:

January 12th and 13th I attended the President's Council on Sustainable Development in Chattanooga. I was thrilled with what I saw and heard. After becoming inured to so much verbal savagery that passes for political dialogue in this country, I could hardly believe the level of discussion I witnessed. All participants were cogent, clear, supportive and enthusiastic toward the subject at hand. It was the highest kind of discussion on the most necessary kinds of issues. The fact that whether we should become sustainable was *not* debated was a great relief. The fact that we were actually setting goals for 25 years out to achieve some level of sustainability was an even greater relief. The fact that representatives of the highest levels of industry and government and non-governmental agencies had come together in harmonious dialogue to further our understanding of and connection to the planet was nothing less than inspiring. When I returned and was describing the event to my staff, I got a lump in my throat and tears in my eyes in gratitude for having once in my life witnessed the kind of high-minded dialogue our democratic systems ought to produce.

This is one of the finest programs of your presidency. If even a fraction of the goals are accomplished we will be the better for it. You should feel proud of the work the Council has done. My compliments to all of them and to executive director Molly Olson and her staff. The event was an honor to witness. I am sure the rest of the process will be equally rewarding. Please hold fast to seeing these goals announced and spread to the people for implementation. That act could be our finest hour as a democracy.

For a restored Earth,

Twyla Dell

Twyla Dell
President

cc: Molly Olson

THE WHITE HOUSE
WASHINGTON

DATE: 02/27/95

TO: LEEANN INADOMI

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

Please prepare a Presidential response ASAP and return it to my office.

Thanks.

DIANNE FEINSTEIN
CALIFORNIA

United States Senate

WASHINGTON, DC 20510-0504

95 FEB 27 P 7: 16

FAX COVER SHEET

DATE: February 27, 1995

TO: President Bill Clinton

FROM: Senator Dianne Feinstein
331 Hart Senate Office Building
Washington, D.C. 20510
202/224-9650

# of Pages (including cover sheet): 5

Comments: Here is the material I promised in support of Long Beach Naval Shipyard. Please keep it off the list!

STEPHEN HORN
38TH DISTRICT, CALIFORNIA

WASHINGTON OFFICE:
129 CANNON HOUSE OFFICE BUILDING
WASHINGTON, DC 20515
(202) 225-6676

DISTRICT OFFICE:
4010 WATSON PLAZA DRIVE
SUITE 160
LAKEWOOD, CA 90712
(310) 425-1336

Congress of the United States
House of Representatives
Washington, DC 20515–0538

COMMITTEE:
TRANSPORTATION AND INFRASTRUCTURE
SUBCOMMITTEES:
SURFACE TRANSPORTATION
WATER RESOURCES AND ENVIRONMENT

COMMITTEE:
GOVERNMENT REFORM AND OVERSIGHT
SUBCOMMITTEE:
CHAIRMAN:
GOVERNMENT MANAGEMENT, INFORMATION, AND TECHNOLOGY

February 22, 1995

The Honorable William Perry
Secretary
Department of Defense
The Pentagon
Washington, D.C. 20301-0001

Dear Secretary Perry,

Various rumors have suggested that the Navy has placed the Long Beach Naval Shipyard on its list of bases recommended for closure in the 1995 base closure round. Should these rumors be true, we believe that decision:

- would be contrary to the interests of the U.S. Navy and the Department of Defense.
- and, would ignore alternative scenarios which would preserve critical shore infrastructure, as well as save money.

Internal Navy capacity figures show that closure of LBNSY:

- would leave the most excess capacity -- measured by either CORE requirements or workload requirements -- in the Navy compared to other closure scenarios, and
- would actually violate workload capacity requirements for non-nuclear work.

We question whether the closure of LBNSY would violate the legal requirement to perform 60 percent of depot work in the public sector. Additionally, it appears that the Navy is considering the effect of a closure of LBNSY on the regional need to perform ship repair work -- instead of merely an overall basis which has little practical relationship with real ship repair and overhaul needs. That would seem to be a flawed approach.

Moreover, history has proven that once a shipyard is closed, it is lost to the Navy forever -- no matter if the shipyard is turned over to private concerns or "mothballed." Thus, it is essential that the U.S. Navy and the Department of Defense consider the long-term ramifications of a closure decision. Should Long Beach be closed, the Navy will lose the <u>only</u> facility able to perform the full range of repairs on every type of ship in its inventory.

As such, rather than outright closure of a shipyard such as Long Beach -- which is situated only 83 nautical miles from 70 percent of the Navy's Pacific surface fleet and has the only carrier-capable drydock south of Puget Sound -- it may make more sense to examine other closure scenarios that more adequately address the need to reduce the Navy's excess capacity. For instance, closure of Long Beach would reduce excess capacity by only 23 percent. In contrast, closure of the Norfolk Naval Shipyard would reduce excess capacity by 69 percent. Measured against core capacity and predicted workload requirements, the closure of Norfolk would leave a mere 25 percent excess capacity in the CORE category and 2 percent in the predicted workload category. Moreover, closure of Long Beach does nothing to reduce capacity in the category which is most in excess -- nuclear.

Alternatively, we suggest the Navy examine a scenario which would realign both Long Beach and Pearl Harbor to "Regional Maintenance Centers." By removing the overhead operations of both shipyards to Puget Sound, and making cutbacks in personnel to the level needed to service a minimum of assigned workload, the Navy would preserve critical infrastructure in two locations, while also realizing large cost savings. Moreover, the costs associated with closing a shipyard would not have to be borne in this extremely tight budget environment, but could be spread out over a much longer period of time. While we believe that Long Beach Naval Shipyard should remain in its current status, we also feel that the above scenario is one both the Navy, the Department of Defense and the Base Closure and Realignment Commission should consider.

The case for the retention of the Long Beach Naval Shipyard -- in either its present condition or a realigned one -- is enhanced if the Navy and the Department of Defense seriously study the cost savings associated with homeporting nuclear carriers at Long Beach instead of in San Diego.

- Preliminary cost figures for the homeporting of these carriers in San Diego range up to $740 million, depending on whether or not a carrier-capable drydock is constructed.

- In contrast, the military construction costs of homeporting a nuclear carrier in Long Beach are approximately $25 million. While it may seem unorthodox to homeport carriers at a Naval Shipyard, it should be remembered that entire facilities of the former Long Beach Naval Station have been retained by the shipyard. Thus, there are more than sufficient housing, morale/recreation/welfare facilities, berthing, etc. to homeport these carriers in Long Beach. Moreover, the cost of maintenance dredging is entirely paid for by the Port of Long Beach, which maintains more than sufficient depths for a nuclear aircraft carrier.

Because of geography, we can understand the Navy's desire to retain the Pearl Harbor Naval Shipyard. We must point out, however, that the facility:

- has been consistently ranked lower on the military value scale than Long Beach,

- is a much higher-cost facility than Long Beach, and

- has been shown to be unable to perform certain types of repair.

There are compelling strategic considerations which apply to Long Beach, especially its location next to the largest homeport concentration in the U.S. Navy. This is all the more relevant if the questionable financial security of the San Diego private shipyards -- which, though less capable than Long Beach, are as dependent on Navy work as are public shipyards -- is considered.

The scenario we propose would seem to afford the Navy and the Department of Defense an opportunity to retain both Long Beach and Pearl Harbor at a lower cost than currently incurred, while avoiding the short-term costs of a closure decision. Combined with the homeporting of carriers in Long Beach, the Navy may even realize significant cost savings with this scenario.

From the conversations we have had up to this point, we are left concerned that the Navy has not thoroughly considered all conceivable options in its base closure recommendation process. We hope that our suggestions will be thoroughly evaluated.

Sincerely,

NYT 2/26/95

Latest Series of Base Closings A New Setback for California

By JAMES STERNGOLD
Special to The New York Times

LOS ANGELES, Feb. 25 — With its long ailing economy finally rebounding, the news that California could lose more than 6,000 jobs with the proposed closing of two of its military bases was met this week with dismay but not alarm. After all, some economists said, the state is expected to add as many as 400,000 new jobs during 1995.

But the picture looks considerably darker from the perspective of the ill-prepared communities next to the bases, where the closings could prove devastating. That is especially true of Long Beach, the big port at the southern end of Los Angeles County, which is suffering from a deep post-cold war hangover. It already has one of the highest unemployment rates of any urban area in the country because of previous cuts by the military industry.

Indeed, the latest bad news merely confirms the view that the economy of this once prosperous, blue-collar community is in for a wrenching change in its whole economic structure.

Long Beach is expected to lose its Naval Shipyard and 3,100 jobs along with it. That would complete the closing of a series of Navy installations that employed 16,100 people just four years ago and would come on top of the loss of tens of thousands of jobs in factories that once manufactured jet fighters and missiles.

The other proposed closing is of an Army transportation base in Oakland, where more than 2,000 jobs would be lost. Oakland has also suffered deeply in the state's stubborn recession.

The proposals have spurred frantic rescue efforts and dark warnings that the beleaguered residents could become fierce opponents of the Clinton Administration less than two years away from a Presidential election.

"Don't forget, this state has a lot of votes," said Louis Rodriguez, president of the union local that represents most of the Long Beach base's workers. "People here are not going to forget what this government has done to them again and again. Everyone is uncertain, and the uncertainty is making them angry."

The 3,100 jobs that are threatened at the shipyard would mean the loss of $175 million in direct annual wages and another $280 million in spending for base operations, according to the Navy. The jobs pay about $14 to $15 an hour, Mr. Rodriguez said.

Sixty percent of the jobs are held by minorities, so the blow would fall heaviest on the black, Asian and Hispanic members of this community. Long Beach already has an unemployment rate of well over 10 percent, according to Jerry Miller, head of the city's economic development bureau, and it has been struggling to find a new economic engine in international trade and tourism.

Over the past few years, the McDonnell Douglas Co. has cut 30,000 of the 45,000 jobs from its factories in Long Beach.

The Clinton Administration is expected to make the official announcement on Tuesday of its plans to close about two dozen major bases around the country. A number of those bases are in the New York region, but the states of some powerful politicians, like Senator Bob Dole of Kansas, were spared.

Since California receives more military spending than any other state, it has absorbed the lion's share of the downsizing in recent years. The impact of the immediate job losses could be worsened by what economists call the multiplier effect.

In the last round of base closings announced in 1991, California lost 22 bases.

Once those jobs are gone and spending is reduced, total losses could amount to as many as 12,000 jobs statewide, said Tom K. Lieser, an economic forecaster at the University of California at Los Angeles. "That is why when the losses are concentrated in one or two areas it can be very painful," he added.

THE PRESIDENT HAS SEEN
2-27-95

Mr President
[illegible]

February 15, 1995

President Bill Clinton
The White House
Pennsylvania Avenue
Washington, D.C.

Dear Bill:

I wanted to let you know that it is my great pleasure to serve your administration tomorrow by offering testimony before the Senate Committee on small businesses (testimony attached).

My remarks will be reminiscent of the Business War Stories panel at Renaissance where we first met. I am pleased to be able to testify on behalf of the Small Business Administration and its critical role of allowing entrepreneurs' dreams to come true; thereby, returning to the economy a huge multiple on the taxpayers' investment.

My best to you and Hillary.

Warmest regards,

Robert Giaimo

Bob Giaimo

Enclosure

cc w/ testimony
to E. Bowles

11806 ROCKVILLE PIKE, ROCKVILLE, MD 20852

DINER 301-770-4166 EXECUTIVE OFFICE 301-770-0333 FAX 301-770-2832

Senate Testimony
Bob Giaimo
Founder, President and Chief Executive Officer
Silver Diner Development, Inc.
February, 1995

The SBA has been a key element to my success in building three small businesses into significant companies. Throughout my business career, I have been the recipient of three SBA assisted loans. The first one was when I was 18 years old, the second helped launch a business which was ultimately sold to a Fortune 10 company and the third and current 504 loan is for a business which we hope to build into a national, public company. Although there were no net expenditures on the part of the government, the result of SBA's support throughout my business career has been the creation of over 5,000 jobs as well as the payment of over $10,000,000 in payroll taxes.

- My first venture was the opening of a Blimpie's franchise while I was a freshman at Georgetown University. I was, to my knowledge, the youngest person to incorporate a company in the District of Columbia; in fact, since I was younger than 21, none of the lawyers were sure there was a precedent and this certainly made the banks nervous. The SBA's 7A Loan Guarantee was critical to the start-up of my first business venture.

- Blimpie's was a four year stint which began during my freshman year in college and concluded during my senior year. Over these four years, our Georgetown Blimpie's became the number one store in the Blimpie's chain, cumulatively employing over 300 people with gross sales exceeding $500,000 annually.

- In 1974, I, again, received assistance from SBA with the opening of the first American Cafe as I completed my senior year at Georgetown.

- American Cafe literally altered America's dining with the first introduction of American cuisine, including croissant sandwiches, as well as the introduction of the first American gourmet carry-out. Both concepts were extremely successful, especially on Capitol Hill.

- The American Cafe's SBA 7A loan guarantee was a key factor to American Cafe's inception. Banks were simply not an option for a guy with a dream and a start-up company.

- One advantage of working with the SBA is that they taught me how to generate detailed Business Plans -- a skill which allowed me to raise several millions of dollars of capital for my companies over the years.

- They provided me with all necessary literature, and at 21 years old, the opportunity to continue the pursuit of my American dream. As you can imagine, at that age, I did not have a great deal of business experience but I had a vision for a concept that I knew would be successful. The SBA *taught me* the "business side" of success.

- As a result of my involvement in the SBA program, I was able to recruit many investors, including a venture capital firm based in New York which were very impressed with the due diligence which the SBA had taught me to include in my Business Plan.

- Two years later, in 1976, I sought to expand the American Cafe concept as well as building a central kitchen located in Washington D.C. which would allow for expansion of additional units. SBA's 7A loan guarantee, which at this stage totaled $1M, was once again critical to getting us through this juncture in our company's development.

- Over the course of ten years, the American Cafe grew from a start-up to a company employing over 1,000 people annually and grossing over $20MM in annual sales. In 1986, I sold the company to W.R. Grace. At the time of this sale, we had a payroll of approximately $6 Million with payroll taxes, including the employees' share, of approximately $1.5M annually.

- In 1988, with the vision of solving the problem of where to eat when you want something fast, that tastes good and is good for you at a reasonable price, I launched the Silver Diner concept, opening the first of four restaurants in Rockville, Maryland in 1989 and the second in Laurel, Maryland in 1990.

- In 1991, we hit a wall which might have shut down further expansion since the banks, at that time, were, for all intents and purposes, closed in terms of small business loans. After I had tried dozens of lending sources, I ultimately contacted Kathleen Strawhacker who heads up Virginia Asset Financing and informed me of SBA's 504 program. Kathleen believed in our vision and exhaustively sourced close to 100 institutions in order to find a suitable bank for our loan. We arrived at Zions National Bank in Utah which turned out to be the closest bank willing to provide the **permanent financing** to make a small business loan in the banking environment of the time.

- **The construction financing** for Potomac Mills was equally difficult and required Citibank to guarantee the loan from Zions National Bank. Even with Citibank as the guarantor, we were not able to find a local bank to do the construction loan. Kathleen Strawhacker, Bob Pincus (President, Franklin Bank) and myself had to get creative which led to the formation of a consortium of five banks in order to make a $2M loan. Kathleen and 504 worked six months through the weekends and the Christmas holiday to get this loan done against impossible odds. It was this $750,000 504 loan that allowed us to open our third unit, Potomac Mills, in 1991 and be able to grow despite the hostile environment for small business development. Potomac Mills has been a great success and a breakthrough in our existence as a restaurant chain.

- I was fortunate to be awarded the 1993 Entrepreneur of the Year in the Retail Category. This is an annual event hosted by Ernst & Young and the "Washington Business Journal". Our ability to grow in the face of adversity for small businesses was a key factor in receiving this award.

- We have subsequently added our fourth diner, in Towson, Maryland, and successfully raised $5MM in equity from some of the leading financial institutions in America. All of this would not have been possible without the assistance of SBA along the way at critical junctions.

- The Silver Diner today has embarked on a regional expansion program with annual growth per year of 50%. Our long term objective is to become a national, publicly-held company. Our vision is to build a Silver Diner on every Main Street in America.

- In 1994, the Silver Diner employed over 350 people, paying $4,800,000 in payroll and generating employment taxes exceeding $1,100,000.

I can honestly say that without the SBA, I would not be where I am today (someone who has the privilege to head up a successful business which is growing each and every day). Besides offering employment opportunities, the American Cafe and Silver Diner have spawned a number of businesses from the many people who have used the companies as an apprenticeship for starting their own business. I believe Small Business is the engine of entrepreneurship, job creation, business growth, and new ideas in America. SBA allows people with dreams, often unproven, to translate those dreams into realities which positively affect lives in the process.

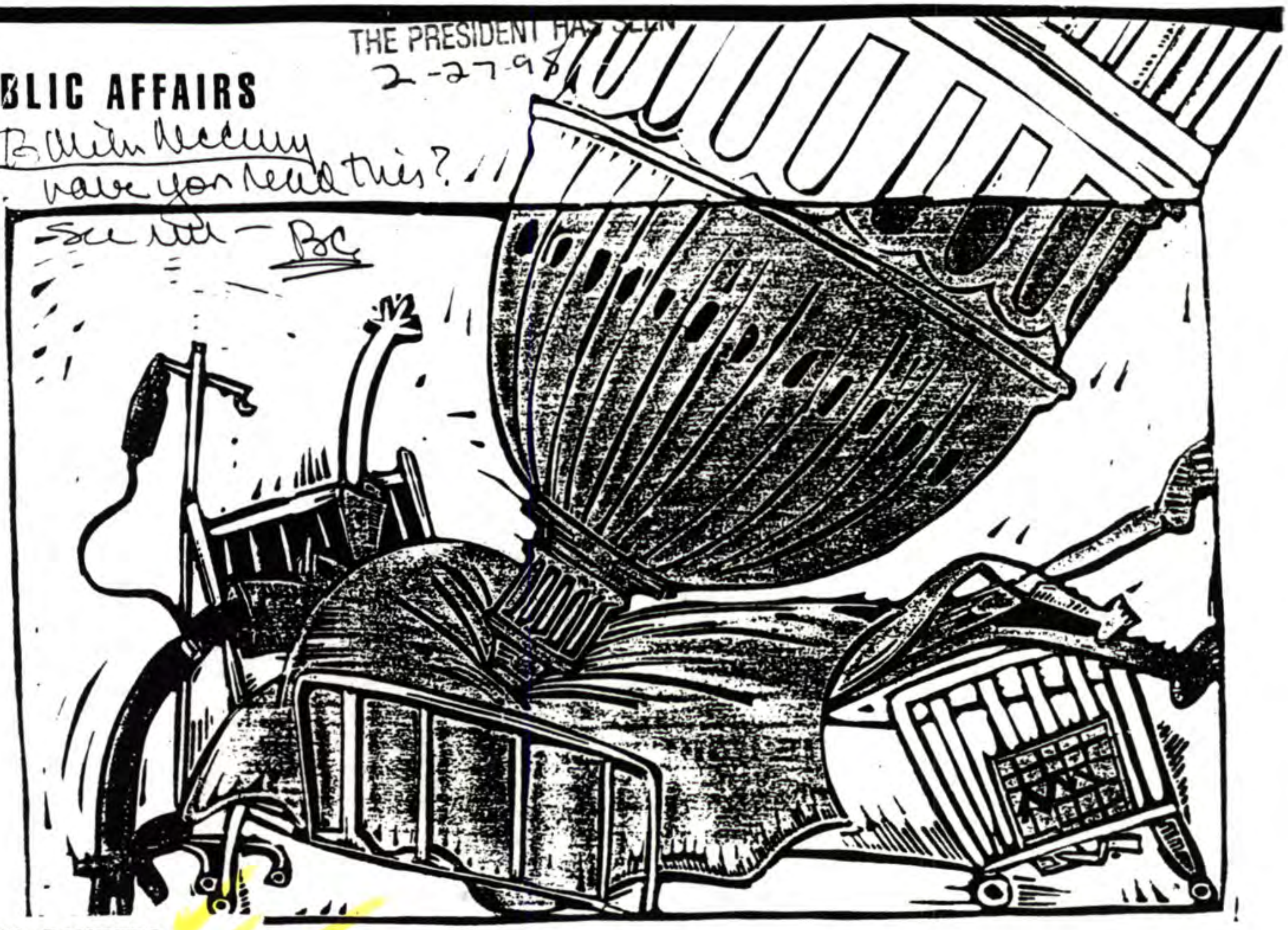
The key point to be emphasized is that the money for the SBA loans came from private lenders (not government funds) but the loans never would have been made without the critical SBA guarantees. In fact, the nominal cost to the government of our most recent 504 loan ($5,000) has more than made up in the direct fees we paid the government for these loans.

The SBA loans, therefore, are not government handouts but the best example of a public and private partnership where private capital gets multiplied as a result of government incentives. The SBA programs have contributed to the economy and tax base a huge multiple of what it has cost the government. It allows the dreams of people like myself to come true.

THE PRESIDENT HAS SEEN
2-27-98

PUBLIC AFFAIRS

B Mike McCurry
have you read this?
See note — BC



TO: LEON PANETTA
HAROLD ICKES
ERSKINE BOWLES

A Triumph of Misinformation

Most of what everyone "knows" about the demise of health-care reform is probably wrong—and, more important, so are the vague impressions people have of what was really in the Clinton plan

by James Fallows

BY the time the Clinton health-care-reform plan was abandoned, in September, everyone knew how terrible it was. It had been hatched in secret by an egghead team that knew a lot about policy details but had no grasp of political reality. The Administration had wasted time and missed deadline after deadline for presenting the plan to Congress, causing the plan to miss its best opportunity for passage—during the President's brief honeymoon period, in 1993. The scheme was fatally overcomplicated. The proposed legislation, 1,342 pages long, was hard for congressmen to read and impossible for anyone except the plan's creators, Hillary Rodham Clinton and Ira C. Magaziner, to understand.

The Clinton plan would have imposed sweeping changes on one seventh of the national economy, with consequences far greater than Congress could possibly consider before casting a rushed vote. It represented a regulation-minded, top-down, centralized approach at a time when the world was moving toward decentralization and flexibility—and when the supposed health crisis was solving itself anyway. The more people learned about this plan, the less they liked it, and it finally died a natural and well-deserved death.

Or so goes the conventional wisdom, as relayed in countless newspaper and magazine postmortems of the health-care struggle. The critiques were usually accompanied by veiled jabs at Hillary Clinton—what will she do with her time now that health care's gone?—and outright ridicule of Magaziner, who was portrayed as the smartest person with the dumbest plan since Robert McNamara and the Vietnam War.

But suppose that what everyone knows is wrong. This happens all the time in politics. Barely a year ago, for example, everyone in Washington knew that Congress was absolutely certain to pass a health-care program by now. The leaders of the Administration's health-care-reform effort, Hillary Clinton and Magaziner, believe that everyone is wrong again now. I heard them elaborate this view in September and October, during a series of

Illustrations by Randall Enos

"No one understood this, but the average American patient would have had more choice under the Clinton plan than they now will."

long background conversations. "Background" means that I agreed to check with them on any material I wanted to quote directly. The gist of their views, however, was on the record. It is no surprise that they view the reform plan as something other than an overcomplicated bureaucratic nightmare. The surprise is how much more convincing their version of reality is than the prevailing one.

These conversations began at Magaziner's suggestion. He and I were friends in graduate school, more than twenty years ago, and he was obviously betting that I'd listen to him more sympathetically than other reporters would. I am biased, in that I like and respect Magaziner. But until these meetings I had had no contact with him during his time as health czar, and I have not always agreed with his ideas. (His worst achievement: helping bring a no-requirements curriculum to Brown University, when he was the student-body president in 1969.) In this case the facts seem to be on his side.

Let's consider each count in the conventional bill of indictment against the Clinton-Magaziner plan.

FIRST count: *The plan was hatched in secret.* During the 1992 presidential campaign Bill Clinton talked frequently about his interest in health-care reform and gave a signal about the reform approach he preferred. In a speech in September he recommended "competition within a budget." To the health-care cognoscenti this indicated an approach different from the main Republican and Democratic proposals of the time.

The most familiar Democratic approaches were "single-payer" and "play-or-pay." Single-payer, which was endorsed during the 1992 Democratic primaries by Senator Robert Kerrey, of Nebraska, meant a Canadian-style or Medicare-style system. Private doctors and hospitals would provide care, but the government would take over all medical payments, financing them with a big new medical tax. All Americans would be covered. Play-or-pay, supported by many Democrats, required companies either to buy health insurance for their workers or to pay into a public fund, which would insure workers not covered by their companies. People who were not working would not be insured. An approach popular among Republicans relied on new tax breaks to encourage people to buy health insurance on their own. Some politicians from both parties endorsed a "managed competition" scheme, separate from all these.

Clinton's reference to "competition within a budget" fit a proposal laid out in the fall of 1992 by Paul Starr, a Princeton professor, in a short book called *The Logic of Health Care Reform*. This book came closer than any other document to anticipating the ultimate shape of the Clinton-Magaziner bill.

In Starr's plan, which was a variation on a managed-competition scheme, all Americans would be covered—even if they were out of work, even if they had "preexisting conditions." The cost of coverage would be paid mainly by companies, which would contribute to the insurance premiums for each of their workers. The government would subsidize coverage for those who were unemployed or worked for small firms. Private insurance companies would offer coverage, as they do now, but the government would "manage" the way they competed for business. Each company would come up with a list of standard benefits, which it would have to offer at the same price to all customers. That is, the insurers could not turn down people who were already sick, or charge fifty-five-year-old applicants more than thirty-year-olds. Each year people could compare the offers and choose the plan they liked best—including a fee-for-service plan that let them go to their family doctor. From the customer's point of view, the system would work like the "open enrollment" policy at many corporations, in which employees can choose a new health plan each year. The government would set an overall limit on the amount of money that could be spent on medical care each year, while giving insurance companies and health plans latitude to spend the money as they thought best. This limit was the "budget" in Clinton's reference to "competition within a budget."

With numerous changes of detail and emphasis, the plan that Starr explained in his book and that Clinton alluded to in his campaign became the plan the Clinton-Magaziner task force unveiled in 1993. The most important difference lay in what was meant by "within a budget": the bill that Clinton presented would have limited total spending not directly, by fiat, but indirectly, by limiting the amount that insurance premiums could rise each year. The process of working out these details and emphases kept Magaziner and some 500 task-force members busy round the clock during the Administration's first few months.

ACCORDING to today's conventional wisdom, these meetings doomed the reform effort before it really began, for it was here that Magaziner and his fellow nerds cooked up their unrealistic schemes. But did the process seem weird, secretive, and isolated at the time? Yes, but in only one limited and revealing way.

On matters of substance, the task force went out of its way to hear a variety of views. Most members of the task force were policy or budget officials borrowed from other parts of the government, but the group also included outside scholars and experts, plus several doctors and nurses. There were no representatives of organized outside interests—no delegate from the American Medical Association, no one from the Pharmaceutical Manufacturers of America—but the task force met frequently with outside groups and above all with senators, representatives, and their staffs. By early May, *Congressional Quarterly* reported, the task force had met with 572 separate organizations. "We had a couple of hundred meetings with the congressional leadership and individual members," Magaziner says now. "People were saying that it was the biggest outreach effort ever in laying the groundwork for a bill."

Indeed they were saying so. A *Congressional Quarterly* headline on May 22 read, "CLINTON TASK FORCE ALL EARS ON THE SUBJECT OF OVERHAUL." The article said,

> Most members of Congress give the president high marks for laying the political groundwork necessary for his proposal to get the careful considera-

tion of both parties. . . . Clinton has been playing the health-care issue with an eye to keeping everyone at the table, at least at the outset.

In late September of 1993, when Hillary Clinton appeared before five congressional committees in three days to explain the rationale behind the bill, not a single legislator complained about "closed" or "secretive" deliberations: not Robert Dole, not Robert Packwood, not John Danforth—Republican senators who all later came out against the bill. Senator John Breaux, of Louisiana, a conservative Democrat who supported a competing reform plan, praised Hillary Clinton for the "truly remarkable" consultations the task force had carried out.

So when did the task force become "secretive"? Complaints inevitably arose when Magaziner and his assistants stopped soliciting outside advice and started announcing decisions. Those who disagreed felt that they hadn't been listened to. "Some people say they were excluded because in this case we didn't agree with them," Hillary Clinton told me. "But I think that a fair assessment is that we listened to everybody—and then made recommendations based on what we thought made the most sense."

The larger problem was with the one group that truly was excluded from the deliberations—the Washington press and, by extension, the public in whose interest it is supposed to act. During the brusque early weeks of the Clinton Administration, when George Stephanopoulos was walling reporters out of the White House press office and the Administration thought it could use talk shows to take its message directly to the public, over the heads of the daily press, Magaziner was told by the White House communications office that he and his associates should not talk to reporters about what ideas they were considering for the new bill. Instead they were supposed to refer all queries to the communications office. This didn't stop leaks, of course, but it gave Magaziner a lasting reputation among reporters as a man who liked to operate in the dark. Hillary Clinton is known within the Administration for a combative attitude toward the press. But she now says that the news blackout on emerging details of the health bill was a major mistake.

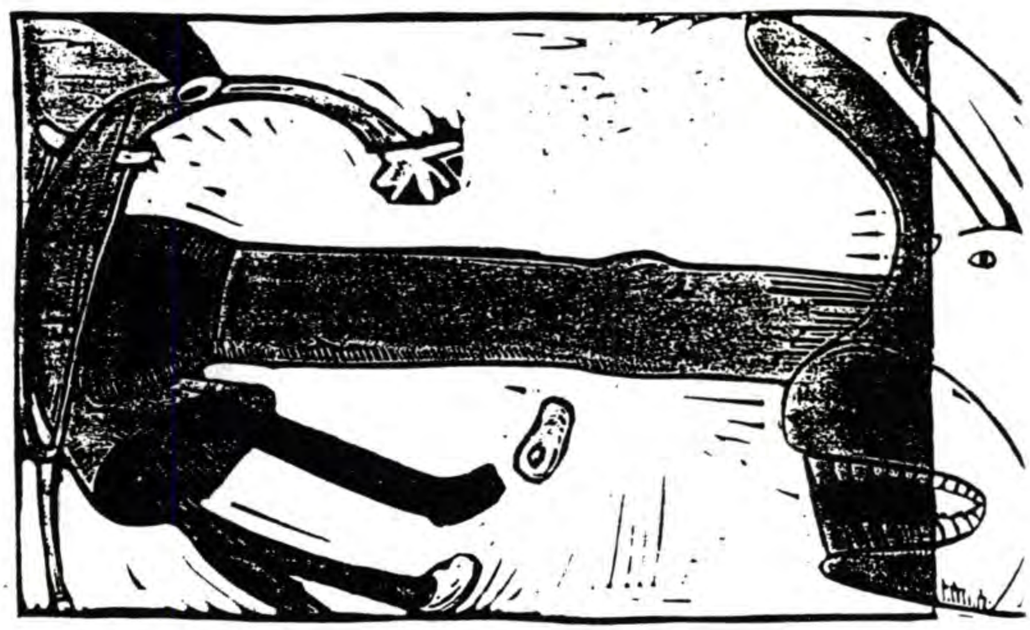
"Even though we had a process unlike any other that has drafted a bill," she told me, "—more open, more inclusive—we got labeled as being secretive because of . . . our failure to understand that we should be more available to the press along the way. That was something we didn't do well. . . . We were not aware of how significant it is to [shape] the inside story in Washington, in order to make the case . . . for whatever your policy is."

Secrecy toward reporters was stupid. But reporters are now acting as if it were something worse: closed-mindedness about ideas.

SECOND count: *The plan was politically naive.* Everyone now knows that the health-care reformers drew up their master plan without taking the slightest interest in what most Americans thought or felt. In reality, though, the plan suffered because the Administration was too attentive to shifting political moods.

Even before Inauguration Day, Magaziner was churning out memos about the right way to pitch the plan to editorialists and interest groups, about the likely Republican arguments and how to rebut them, about the connection between a health-care bill and a re-election campaign in 1996. Week in and week out his memos to Bill and Hillary Clinton contained head counts of likely Senate and House votes—who was leaning, who could be pressured and pushed. In his conversations with me Magaziner seemed to spend half his time sizing up the legislators he had had to deal with: Senator X was in thrall to Bob Dole because of personal problems. Congressman Y had to start out opposing the bill because of donations from Interest Group Z.

Two fundamental decisions about the plan had much less to do with policy than with judgments of political reality. One involved handling the single-payer challenge. A Canadian-style single-payer system has two big virtues. It is simple to administer, since doctors, hospitals, and patients no longer have to worry about dozens of insurance companies with scores of different payment plans. The single-payer approach also guarantees that everyone in the country has medical coverage. But Clinton was dead set against a single-payer plan, arguing that it would require sweeping new taxes and would, in effect, abolish the entire medical-insurance industry. This left the political problem of how to deal with the hundred or so members of the House who supported some kind of single-payer plan.



Without them, no health bill of Clinton's could possibly pass.

Congress also contained a large number of supporters of market-reform and managed-competition plans. The main advantage of such plans is that they change the incentives of medical practice so that doctors, patients, and hospitals are more conscious of costs when making medical decisions. To get a plan passed, Clinton had to show that it would reform the medical market.

"We had to try to bridge the chasm" between these groups in drawing up the plan, Magaziner told me. "If we were serious about universal coverage, we felt, then the single-payer people would buy off even if they didn't like managed competition. We felt we were doing enough of the market reforms that the reform people would buy off too. And, by the way, we also thought that that was the best policy."

But by June of 1993 one of the main market-reform legislators, Representative Jim Cooper, of Tennessee, made clear that he wouldn't buy off. He recommended seeing to insurance reforms first and getting around to universal coverage in a few years. The single-payer group, of course, was not going to agree to that. "At that point," Magaziner said, "we knew that the only way we could try to bridge the chasm was to start a little bit left of center and try to negotiate toward the center."

"Left of center" meant proposing a benefits package a little more generous than what the Administration really wanted, setting the employer's share of total costs a little bit higher, making the limits on insurance premiums a little bit tighter. When the Republican Party lost interest in negotiating, this strategy became a liability, because it made the Clinton plan look more extreme than it was meant to be.

The other purely political calculation concerned sales strategy. Throughout his campaign Bill Clinton had emphasized the overall cost of medical care as a central evil of the U.S. system. Americans spend about twice as much money per capita on medical care as people in other developed nations, with results that are not twice as good. Whenever he was asked about cutting the budget deficit or taming the entitlements monster, Clinton said that the first and most important step was to control health-care costs. This approach won the support of business, since health-insurance costs had for years been rising faster than any other business expense. (From 1948 to 1990, Paul Starr points out, business spending on health coverage rose by an average of 15.6 percent a year.) Through most of 1993, while the plan was being developed and unveiled, major business groups like the U.S. Chamber of Commerce and the National Association of Manufacturers supported its general outlines and accepted even its "employer mandates," which would require companies to pay most of the cost of coverage for their employees. But by the summer of 1994 the Administration was selling the plan mainly as a matter of fairness and security. Its slogan was "Health Care That's Always There."

In theory the Administration could have kept stressing both aspects of its plan—that it would make individuals more secure while reducing the strain on business. The peculiar logic of health-care economics, as revealed in most other developed countries and in American group-care systems, is that when everyone is covered, it becomes easier to control overall costs.

The Administration's political experts, however, recommended a more streamlined sales approach. Clinton's pollster, Stanley Greenberg, produced results in 1993 showing that no one believed that a government health-care plan could ever save money. Although opinion polls taken through the end of 1993 showed that most people supported the idea behind Clinton's plan (once pollsters explained what the idea was), most people also believed that the plan would drive costs up, not down. Therefore the more the Administration emphasized its cost-control themes, the less believable it would become. "The polls showed that people will trust the government to guarantee them security," Magaziner told me. "They will not believe that the government can control costs."

As Republican opposition to the bill increased in 1994, Democratic strategists decided that "security" would be a more effective, partisan rallying theme. "You have to mobilize people, and it's hard to mobilize people around words like 'cost containment' or 'universal coverage,'" Hillary Clinton told me. "So if we didn't convince the middle class that universal coverage meant *them*, we wouldn't get the political support. . . . If you talked about how they could lose their job, how they are one divorce or one pre-existing condition away from losing coverage, then perhaps they would get engaged." By the end of the struggle this sales approach made the Administration even more vulnerable to Republican charges that it was putting out a bighearted, softheaded, typically liberal plan.

One other enormously important, and almost purely political, decision sealed the fate of the bill. Magaziner and Hillary Clinton had hoped to present the bill to Congress a few months after the Inauguration, in the spring of 1993. Thanksgiving had nearly come before they were actually ready to present a finished bill. That delay had little or nothing to do with the nuances of policy. It had everything to do with political necessity—and of a sort that everyone knew was sensible at the time.

Hillary Clinton now says that the news blackout on emerging details of the health-care-reform bill was a major mistake.

THIRD count: *"The First Lady's whiz-kids wasted precious months."* This was how *The Economist* stated the next objection. Rather than getting busy and presenting the plan when the Administration still had a dewy glow, the health team sat around until it was too late.

The Administration's original strategy was to rush the health plan through as part of its first budget-reconciliation bill. That would have meant having detailed health proposals ready by April at the latest, and the task force had been geared toward meeting that deadline. The genius of this approach, little noticed by the public, is that it would have allowed the health plan to pass with a simple majority vote.

Congressional politics has quietly moved into the "supermajority" system that Lani Guinier was widely denounced for seeming to recommend. In theory it takes fifty-one votes to get a bill through the Senate. In reality it takes sixty votes to end a filibuster, so Bill Clinton knew that the Senate's forty-plus Republicans could stop nearly any legislation they chose.

They could not stop budget bills. These come to the floor under rules that limit debate, and with only a fifty-one-vote majority required for passage. So if the health-care plan could be made part of the budget bill, the Administration could get it acted on quickly, with enough of its own party's votes to see it through.

The Senate's majority leader, George Mitchell, endorsed this strategy, but its de facto parliamentarian, Robert Byrd, objected, scuttling the plan. The Administration then decided that it would introduce the health-care plan as soon as the budget bill passed. But passage was the rub. The budget bill, with its big deficit-reduction package, was seen by everyone in Washington as a major early test of the Administration's strength. (The struggle over the bill is the subject of Bob Woodward's book *The Agenda*.)

The budget fight dragged on much longer than Bill Clinton had hoped or planned. As it became obvious that the final budget vote would be very close (on August 6 it finally passed the Senate 51–50, with Vice President Al Gore casting the deciding vote), the Administration wanted to avoid any extraneous controversy that might affect it. Clinton had been scheduled to make the final decisions about the health-care plan in late May. Because of fears that leaks about his choices would complicate the budget vote, the decisions were put off—a delay that had ripple effects lasting the rest of the year. Without Clinton's decisions, the task force could not prepare detailed legislation; without legislation, it could not start negotiations with congressmen and their staffs. Without final choices on what would be in the package, it could not prepare budget estimates; without those estimates, the Treasury and the Congressional Budget Office could not vet the plan.

By the fall the budget fight was over—but then NAFTA became the issue of the moment. Clinton had been scheduled to spend most of the month of October traveling and speaking about the health-care plan. As he was flying to his first event, a labor convention in California, news came that U.S. soldiers had been killed in Somalia. Clinton flew back to Washington after his speech and spent most of the month dealing with Somalia and NAFTA; he canceled all the other health-care events.

Despite the delays and missteps, when the President finally unveiled the plan, in September of 1993, it seemed to have a good chance. "The reviews are in and the box office is terrific," the political analyst William Schneider wrote just after it was presented. "President Clinton's health care reform plan is a hit. . . . The more people read and hear about the plan, the more they seem to like it."

Six weeks after the Inauguration, Magaziner had written a memo to Bill and Hillary Clinton saying that if health-care-reform legislation was not presented and passed immediately, it probably could not be passed during "your first term." With Republican midterm gains in Congress, it now appears that this prediction will be borne out. But the delay was neither negligent nor intentional. It is a reminder of how quickly events spin out of a President's control, and how rare it is for him to be able to advance his own agenda rather than respond to someone else's emergency.

FOURTH count: *The plan had delusions of grandeur.* Now we move to the substance of the plan, which has been described as a regulatory rat's nest, a nightmare of overambitious social engineering, and a sweeping solution where modest reforms would do.

The reality is that very little in this plan was new or unprecedented, and that it was barely more complex or comprehensive than most other plans.

According to the peculiar logic of health-care economics, when everyone is covered, it becomes easier to control overall costs.

When people complained that the plan was grandiose, they had three features in mind: universal coverage (everyone would be insured, whether working or not), community rating (everyone in a given region would pay the same premium for coverage, regardless of age or pre-existing conditions), and employer mandates (forcing businesses to cover much of the insurance cost).

All these ideas have been part of the health-care-reform debate for years. Universal coverage and community rating sound like bleeding-heart concepts, but they are based on tough economic reasoning. The idea behind both is that piecemeal reform of a health-care system can be worse than no reform at all.

The fairness argument for universal coverage is obvious. Even people who are poor deserve care when they are sick or hurt. This is why every developed nation except the United States offers universal care. The economic argument has become almost as familiar. Even people without health insurance ultimately receive treatment, when they show up in emergency wards; hospitals cover the cost by padding charges for everyone else. This backhanded form of coverage is neither economically efficient nor humane. As recently as the fall of 1993 Bob Dole was saying that universal coverage was a "non-negotiable goal of reform."

Community rating is a closely related idea. Every health-care-reform scheme in America is concerned with holding down costs. In most businesses market competition does the job, but competition in the health-insurance area often works in a perverse way. Insurance companies have tended to compete not by improving the incentives, habits, and nature of medical treatment—which in the long run is the only way to limit expenses—but by becoming choosier about whom they will insure. If they can limit their coverage to young, healthy people and rule out those who are already sick, then they can offer coverage at a lower price, without having done anything to improve the efficiency of care.

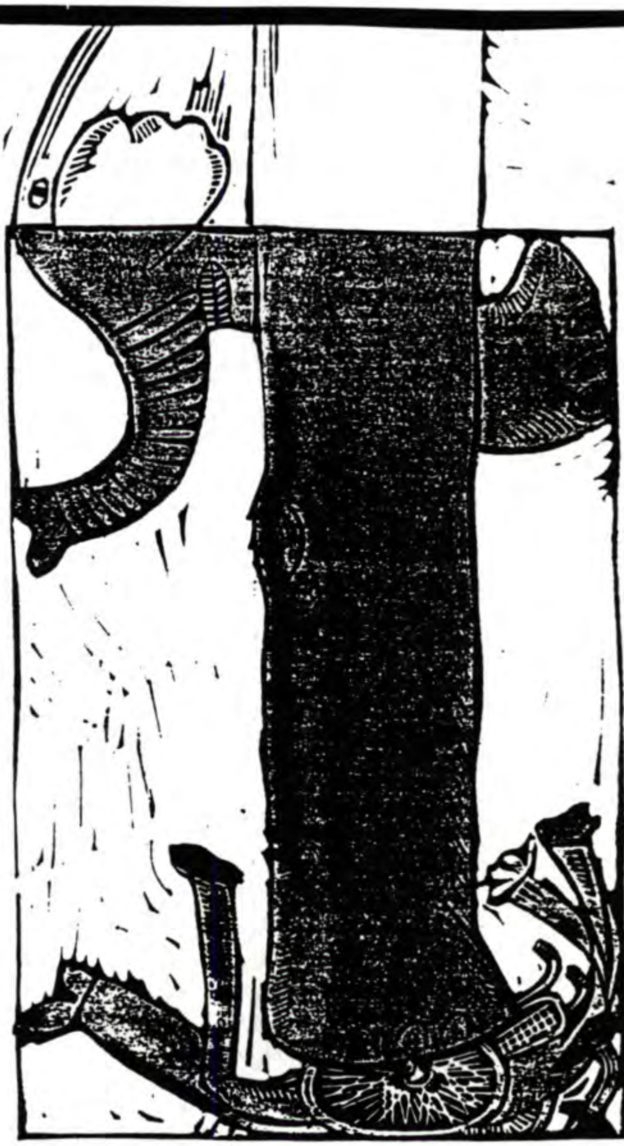
This is what has happened to the health-insurance business in the past generation. In the old days Blue Cross offered coverage to everyone in the same geographic area at the same price. Now younger, healthier people can get cheaper coverage—which many of them skip anyway, figuring they don't need it—while prices rise for those most likely to need care. Fewer of them can afford to buy it, more must take advantage of the cruel and inefficient fallback of emergency-room coverage, and overall costs keep going up. The young, healthy people eventually become old and sick, and are caught too.

This cycle is known as adverse selection, and it has been talked about in the health-care-reform business for years. Community rating is the main response. It is designed to average each person's medical costs over the course of his or her whole life and to make sure that people have coverage at the times of their lives when it's most necessary. In proposing community rating the Clinton team was hardly making waves.

Even the part of the plan that sounded strangest and most radical, its "mandatory alliances," is already familiar to millions of Americans under a different name. Anyone who works for a big company or a state or federal agency knows about the open-enrollment system for selecting health insurance. The company or agency negotiates with HMOs, insurance companies, and local medical networks that want to offer coverage to its employees. Once a year employees choose which plan they want. The employer then deducts money from their paychecks, adds its own share, and passes the money on to the medical providers.

This, with small variations, is also how the task force's mandatory alliances would have worked. They would have taken bids from insurance companies, HMOs, and other health providers and then let each household choose the plan it liked best. Each provider would have been required to set a price for a standard benefits plan, so that customers could make easy price comparisons among the offerings. The alliances would not, as has often been assumed, have tried to provide medical care themselves, through big new government clinics.

The most ominous-sounding aspect of the new alliance system was its "mandatory" nature. Everyone would have been obliged to choose and buy a standard benefits plan from an alliance. (Contrary to repeated claims by opponents of the bill, people would have been free to buy any extra coverage they wanted, or get any additional treatment from any doctor they chose, as long as they did it with their own money. Employers would also have been free to offer additional coverage.) The health-care task force argued that the alliances had to be mandatory in order to create the community-rating effect. Otherwise, young, healthy people would stay out of the system, and the pernicious cycle of adverse selection would begin. An exception was made for employees of very large companies, who would still have been able to buy through their own firms' open-enrollment plans. The reasoning was that a General Motors or an AT&T had a work force large and diverse enough to constitute a community-rating pool all by itself. Everyone would have been forced into a pool one way or another.



Some health-care-reform plans have no mandatory component. Several versions of managed competition, for instance, would set up alliances like those in the Clinton bill but not require anyone to buy from them. It is virtually impossible, though, to achieve universal coverage without some element of compulsion. (Medicare offers universal coverage for those over sixty-five, but everyone who works is compelled to pay a Medicare tax.) Moreover, Magaziner argued, for most people the mandatory system would in practice mean more choice and freedom than they now enjoy.

When he ran a small business in Rhode Island, Magaziner said, he covered all health-insurance costs for his employees but could give them only two plans to choose from. Handling the bidding and paperwork for a broad range of plans would have been impossible. "If there had been an alliance, I could have paid my dues to the alliance and let people choose among all the plans." The alliances in the Clinton bill would have been required to offer customers a choice among all plans that met basic certification requirements. In big cities a dozen or more plans might be available. The minimum offering would be three kinds of coverage, including at least one fee-for-service plan that would permit a family to stay with the independent doctor it had been using.

After the plan was withdrawn, Uwe Reinhardt, an economist at Princeton University, told *The New York Times*, "No one understood this, but the average American patient would have had more choice under the Clinton plan than they now will. If you work for a particular company, your choice of HMOs is whatever that company offers you." Some critics argued that the Clinton plan would destroy the market for coverage beyond the plan's basic benefits, and that as a result people would find it difficult to buy as much coverage as they might like. But that is different from the widespread belief that extra coverage would be against the law—and for most people the range of choice would probably be broader under Clinton's plan.

Far from concocting a system that would look and feel radically different from what Americans were accustomed to, the task force believed that it was changing the surface of health care as little as possible while altering its underlying economic structure. The alliance system, despite its strange name, was meant to look familiar to people who already had coverage. The employer-mandate system of finance, in which companies would bear most of the health-insurance costs, reflected the fact that 90 percent of the people who now have insurance (excluding those on Medicare) get it through their employer. The employer mandate is a de facto tax but a well-established one, and a familiar concept in health-policy circles. Many Republicans, including Robert Packwood and Richard Nixon (!), have over the years endorsed employer-mandate plans.

Indeed, none of the individual elements of the Clinton plan was a shocking new entrant into the health-care debate. The plan's system for controlling expenditures, through premium caps that limited how fast the cost of basic coverage could rise, departed from Paul Starr's recommendations. But it closely resembled a plan offered by a group of congressional moderates that included the Republican senators John Danforth and Nancy Kassebaum.

To say that the resulting package of proposals was "too complex" is like saying that an airplane's blueprint is too complicated. The Medicare system is complex. So is every competing health-care-reform plan. Most of the 1,342 pages of Clinton's Health Security Act (which I have read) are either pure legal boilerplate or amendments to existing law. Conventional wisdom now holds that the sheer bulk of the bill guaranteed its failure. The NAFTA bill was just as long, and so was the crime bill that passed last summer. If the health bill had been shorter and had not passed, everyone would know that any proposal so sketchy and incomplete never had a chance.

FIFTH count: *It was a coercive approach to one seventh of the economy—and to a problem that was solving itself.*

Much of the problem for the plan seemed, at least in Washington, to come not even from mandatory alliances but from an article by Elizabeth McCaughey, then of the Manhattan Institute, published in *The New Republic* last February. The article's working premise was that McCaughey, with no ax to grind and no preconceptions about health care, sat down for a careful reading of the whole Clinton bill. Appalled at the hidden provisions she found, she felt it her duty to warn people about what the bill might mean. The title of her article was "No Exit," and the message was that Bill and Hillary Clinton had proposed a system that would lock people in to government-run care. "The law will prevent you from going outside the system to buy basic health coverage you think is better," McCaughey wrote in the first paragraph. "The doctor can be paid only by the plan, not by you."

To say that the resulting package of proposals was "too complex" is like saying that an airplane's blueprint is too complicated.

George Will immediately picked up this warning, writing in ***Newsweek*** that "it would be illegal for doctors to accept money directly from patients, and there would be 15-year jail terms for people driven to bribery for care they feel they need but the government does not deem 'necessary.'" The "doctors in jail" concept soon turned up on talk shows and was echoed for the rest of the year.

These claims, McCaughey's and Will's, were simply false. McCaughey's pose of impartiality was undermined by her campaign as the Republican nominee for lieutenant governor of New York soon after her article was published. I was less impressed with her scholarly precision after I compared her article with the text of the Clinton bill. Her shocked claim that coverage would be available only for "necessary" and "appropriate" treatment suggested that she had not looked at any of today's insurance policies. In claiming that the bill would make it impossible to go outside the health plan or pay doctors on one's own, she had apparently skipped past practically the first provision of the bill (Sec. 1003), which said,

> Nothing in this Act shall be construed as prohibiting the following:
> (1) An individual from purchasing any health care services.

It didn't matter. The White House issued a point-by-point rebuttal, which *The New Republic* did not run. Instead it published a long piece by McCaughey attacking the White House statement. The idea of health policemen stuck.

So did the idea that one seventh of the national economy would be transformed overnight. Of the vast American commerce in health care, more than 40 percent is already paid for by the federal government, mainly through Medicare. Under the Clinton plan the rest of the money would still go through most of the insurance companies, HMOs, doctors, hospitals, and laboratories that are receiving it now.

THE final element in the conventional wisdom is that this cumbersome, flawed plan was in any case unnecessary, because the health-care problem was going away. Medical costs rose by "only" 5.9 percent in 1993—yet that was more than twice as fast as wage growth and almost twice as fast as the overall inflation rate. Over the past several decades medical costs have risen about three percent faster than the overall inflation rate; in 1993 the gap was 2.9 percent.

"There is no persuasive evidence that we are in either a stabilized or an improving health-care-financing environment," Hillary Clinton told me. "In fact, many of the problems will only continue to get worse. The problems that middle-class Americans care the most about—like what doctor they can see—will likely become appreciably worse, because many will be forced into managed care over which they have no say. Employers will make those decisions. They will pay more for fewer benefits. How deeply this sinks in and how much it motivates political action, I don't know."

IF this plan did not perish because it had been designed in intolerable secrecy, or because its designers knew nothing about politics, or because it was full of unacceptable new ideas, or because it was so much more complex than any predecessors, then what happened to it?

The Administration's view, for which, again, there is ample evidence, is that it went down because of two zero-sum games, one political and one economic. Health-care reform became a battle in which some would win and others would lose—and Clinton lost.

Through most of 1993 the Republicans believed that a health-reform bill was inevitable, and they wanted to be on the winning side. Bob Dole said he was eager to work with the Administration and appeared at events side by side with Hillary Clinton to endorse universal coverage. Twenty-three Republicans said that universal coverage was a given in a new bill.

In 1994 the Republicans became convinced that the President and his bill could be defeated. Their strategist, William Kristol, wrote a memo recommending a vote against any Administration health plan, "sight unseen." Three committees in the House and two in the Senate began considering the bill in earnest early in the year. Republicans on several committees had indicated that they would collaborate with Democrats on a bill; as the year wore on, Republicans dropped their support, one by one, for any health bill at all. Robert Packwood, who had supported employer mandates for twenty years, discovered that he opposed them in 1994. "[He] has assumed a prominent role in the campaign against a Democratic alternative that looks almost exactly like his own earlier policy prescriptions," the *National Journal* wrote. Early last summer conservative Democrats and moderate Republicans tried to put together a "mainstream coalition" supporting a plan without universal coverage, without employer mandates, and without other features that Republicans had opposed. In August, George Mitchell, the Democratic Party's Senate majority leader, announced a plan that was almost pure symbolism—no employer mandates, very little content except a long-term goal of universal coverage. Led by Bob Dole and Newt Gingrich, Republicans by September were opposing any plan. "Every time we moved toward them, they would move away," Hillary Clinton says.

"We always knew that in the end people's trust of the President and First Lady would be crucial," Ira Magaziner says. "The debate was going to be complicated, and that trust factor was very important." Whitewater eroded the trust factor. The President looked beatable, and he lost.

Economic factors counted too. Doctors had fought bitterly against Medicare in the early 1960s, but for the most part they sat this battle out. If they weren't controlled by the government, they would be controlled by insurance companies, which in some ways were worse. But other interest groups had more to lose. Health-insurance agents would be put out of business. Health-insurance companies could have their premiums capped. For-profit hospitals thought they would lose money. Manufacturers of medical equipment thought that market growth might slow. Large businesses that did not already offer health care for workers knew the employer mandate would cost them money. (These were mainly corporations like PepsiCo and General Mills, which own restaurant chains whose part-time workers are uninsured.)

During the 1992 campaign the Clinton war room excelled at answering negative charges immediately, before damaging impressions could set in. But even flatly untrue attacks on the health plan went unanswered—direct-mail campaigns saying that everyone would have to go to a government clinic, daily doses of misinformation from Rush Limbaugh, TV advertisements fanning McCaughey-style fears of jail terms for people who wanted to stick with their family doctor. Last March *The Wall Street Journal* found that a panel of citizens preferred the provisions of the Clinton plan to the main alternatives—when each plan was described by its contents alone. But when pollsters explained that the preferred group of provisions was in fact "the Clinton plan," most members of the panel changed their minds and opposed it. They knew, after all, that Clinton's plan could never work.

THE WHITE HOUSE
WASHINGTON

Senator Dale Bumpers
Senator David PRYOR

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-FYI

cc Dale Bumpers
D Pryor

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PUBLIC AFFAIRS

To Mike McCurry
have you read this?
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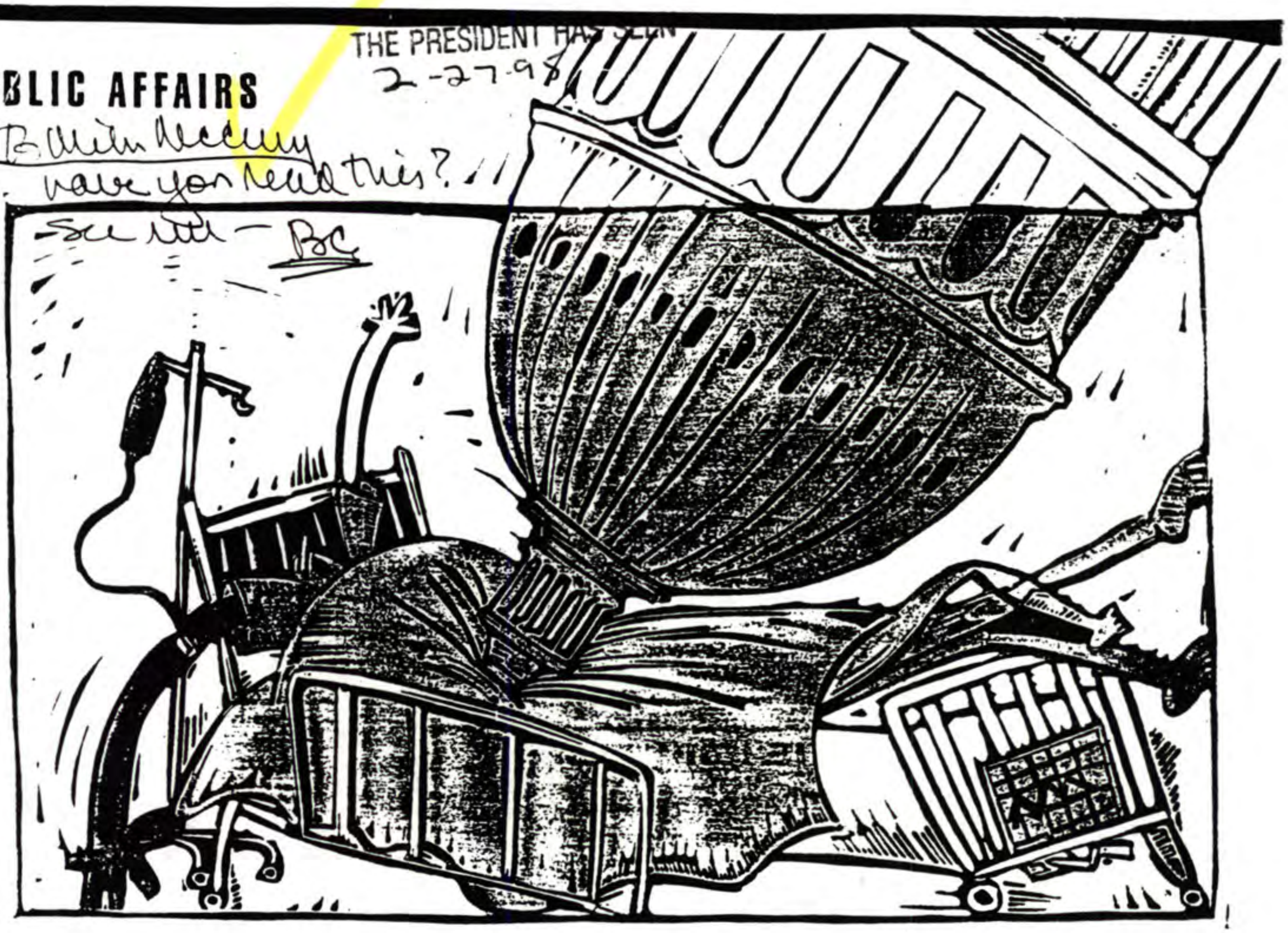


A Triumph of Misinformation

Most of what everyone "knows" about the demise of health-care reform is probably wrong—and, more important, so are the vague impressions people have of what was really in the Clinton plan

by James Fallows

BY the time the Clinton health-care-reform plan was abandoned, in September, everyone knew how terrible it was. It had been hatched in secret by an egghead team that knew a lot about policy details but had no grasp of political reality. The Administration had wasted time and missed deadline after deadline for presenting the plan to Congress, causing the plan to miss its best opportunity for passage—during the President's brief honeymoon period, in 1993. The scheme was fatally overcomplicated. The proposed legislation, 1,342 pages long, was hard for congressmen to read and impossible for anyone except the plan's creators, Hillary Rodham Clinton and Ira C. Magaziner, to understand.

The Clinton plan would have imposed sweeping changes on one seventh of the national economy, with consequences far greater than Congress could possibly consider before casting a rushed vote. It represented a regulation-minded, top-down, centralized approach at a time when the world was moving toward decentralization and flexibility—and when the supposed health crisis was solving itself anyway. The more people learned about this plan, the less they liked it, and it finally died a natural and well-deserved death.

Or so goes the conventional wisdom, as relayed in countless newspaper and magazine postmortems of the health-care struggle. The critiques were usually accompanied by veiled jabs at Hillary Clinton—what will she do with her time now that health care's gone?—and outright ridicule of Magaziner, who was portrayed as the smartest person with the dumbest plan since Robert McNamara and the Vietnam War.

But suppose that what everyone knows is wrong. This happens all the time in politics. Barely a year ago, for example, everyone in Washington knew that Congress was absolutely certain to pass a health-care program by now. The leaders of the Administration's health-care-reform effort, Hillary Clinton and Magaziner, believe that everyone is wrong again now. I heard them elaborate this view in September and October, during a series of

> *"No one understood this, but the average American patient would have had more choice under the Clinton plan than they now will."*

long background conversations. "Background" means that I agreed to check with them on any material I wanted to quote directly. The gist of their views, however, was on the record. It is no surprise that they view the reform plan as something other than an overcomplicated bureaucratic nightmare. The surprise is how much more convincing their version of reality is than the prevailing one.

These conversations began at Magaziner's suggestion. He and I were friends in graduate school, more than twenty years ago, and he was obviously betting that I'd listen to him more sympathetically than other reporters would. I am biased, in that I like and respect Magaziner. But until these meetings I had had no contact with him during his time as health czar, and I have not always agreed with his ideas. (His worst achievement: helping bring a no-requirements curriculum to Brown University, when he was the student-body president in 1969.) In this case the facts seem to be on his side.

Let's consider each count in the conventional bill of indictment against the Clinton-Magaziner plan.

FIRST count: *The plan was hatched in secret.* During the 1992 presidential campaign Bill Clinton talked frequently about his interest in health-care reform and gave a signal about the reform approach he preferred. In a speech in September he recommended "competition within a budget." To the health-care cognoscenti this indicated an approach different from the main Republican and Democratic proposals of the time.

The most familiar Democratic approaches were "single-payer" and "play-or-pay." Single-payer, which was endorsed during the 1992 Democratic primaries by Senator Robert Kerrey, of Nebraska, meant a Canadian-style or Medicare-style system. Private doctors and hospitals would provide care, but the government would take over all medical payments, financing them with a big new medical tax. All Americans would be covered. Play-or-pay, supported by many Democrats, required companies either to buy health insurance for their workers or to pay into a public fund, which would insure workers not covered by their companies. People who were not working would not be insured. An approach popular among Republicans relied on new tax breaks to encourage people to buy health insurance on their own. Some politicians from both parties endorsed a "managed competition" scheme, separate from all these.

Clinton's reference to "competition within a budget" fit a proposal laid out in the fall of 1992 by Paul Starr, a Princeton professor, in a short book called *The Logic of Health Care Reform*. This book came closer than any other document to anticipating the ultimate shape of the Clinton-Magaziner bill.

In Starr's plan, which was a variation on a managed-competition scheme, all Americans would be covered—even if they were out of work, even if they had "pre-existing conditions." The cost of coverage would be paid mainly by companies, which would contribute to the insurance premiums for each of their workers. The government would subsidize coverage for those who were unemployed or worked for small firms. Private insurance companies would offer coverage, as they do now, but the government would "manage" the way they competed for business. Each company would come up with a list of standard benefits, which it would have to offer at the same price to all customers. That is, the insurers could not turn down people who were already sick, or charge fifty-five-year-old applicants more than thirty-year-olds. Each year people could compare the offers and choose the plan they liked best—including a fee-for-service plan that let them go to their family doctor. From the customer's point of view, the system would work like the "open enrollment" policy at many corporations, in which employees can choose a new health plan each year. The government would set an overall limit on the amount of money that could be spent on medical care each year, while giving insurance companies and health plans latitude to spend the money as they thought best. This limit was the "budget" in Clinton's reference to "competition within a budget."

With numerous changes of detail and emphasis, the plan that Starr explained in his book and that Clinton alluded to in his campaign became the plan the Clinton-Magaziner task force unveiled in 1993. The most important difference lay in what was meant by "within a budget": the bill that Clinton presented would have limited total spending not directly, by fiat, but indirectly, by limiting the amount that insurance premiums could rise each year. The process of working out these details and emphases kept Magaziner and some 500 task-force members busy round the clock during the Administration's first few months.

ACCORDING to today's conventional wisdom, these meetings doomed the reform effort before it really began, for it was here that Magaziner and his fellow nerds cooked up their unrealistic schemes. But did the process seem weird, secretive, and isolated at the time? Yes, but in only one limited and revealing way.

On matters of substance, the task force went out of its way to hear a variety of views. Most members of the task force were policy or budget officials borrowed from other parts of the government, but the group also included outside scholars and experts, plus several doctors and nurses. There were no representatives of organized outside interests—no delegate from the American Medical Association, no one from the Pharmaceutical Manufacturers of America—but the task force met frequently with outside groups and above all with senators, representatives, and their staffs. By early May, *Congressional Quarterly* reported, the task force had met with 572 separate organizations. "We had a couple of hundred meetings with the congressional leadership and individual members," Magaziner says now. "People were saying that it was the biggest outreach effort ever in laying the groundwork for a bill."

Indeed they were saying so. A *Congressional Quarterly* headline on May 22 read, "CLINTON TASK FORCE ALL EARS ON THE SUBJECT OF OVERHAUL." The article said,

> Most members of Congress give the president high marks for laying the political groundwork necessary for his proposal to get the careful considera-

tion of both parties. . . . Clinton has been playing the health-care issue with an eye to keeping everyone at the table, at least at the outset.

In late September of 1993, when Hillary Clinton appeared before five congressional committees in three days to explain the rationale behind the bill, not a single legislator complained about "closed" or "secretive" deliberations: not Robert Dole, not Robert Packwood, not John Danforth—Republican senators who all later came out against the bill. Senator John Breaux, of Louisiana, a conservative Democrat who supported a competing reform plan, praised Hillary Clinton for the "truly remarkable" consultations the task force had carried out.

So when did the task force become "secretive"? Complaints inevitably arose when Magaziner and his assistants stopped soliciting outside advice and started announcing decisions. Those who disagreed felt that they hadn't been listened to. "Some people say they were excluded because in this case we didn't agree with them," Hillary Clinton told me. "But I think that a fair assessment is that we listened to everybody—and then made recommendations based on what we thought made the most sense."

The larger problem was with the one group that truly was excluded from the deliberations—the Washington press and, by extension, the public in whose interest it is supposed to act. During the brusque early weeks of the Clinton Administration, when George Stephanopoulos was walling reporters out of the White House press office and the Administration thought it could use talk shows to take its message directly to the public, over the heads of the daily press, Magaziner was told by the White House communications office that he and his associates should not talk to reporters about what ideas they were considering for the new bill. Instead they were supposed to refer all queries to the communications office. This didn't stop leaks, of course, but it gave Magaziner a lasting reputation among reporters as a man who liked to operate in the dark. Hillary Clinton is known within the Administration for a combative attitude toward the press. But she now says that the news blackout on emerging details of the health bill was a major mistake.

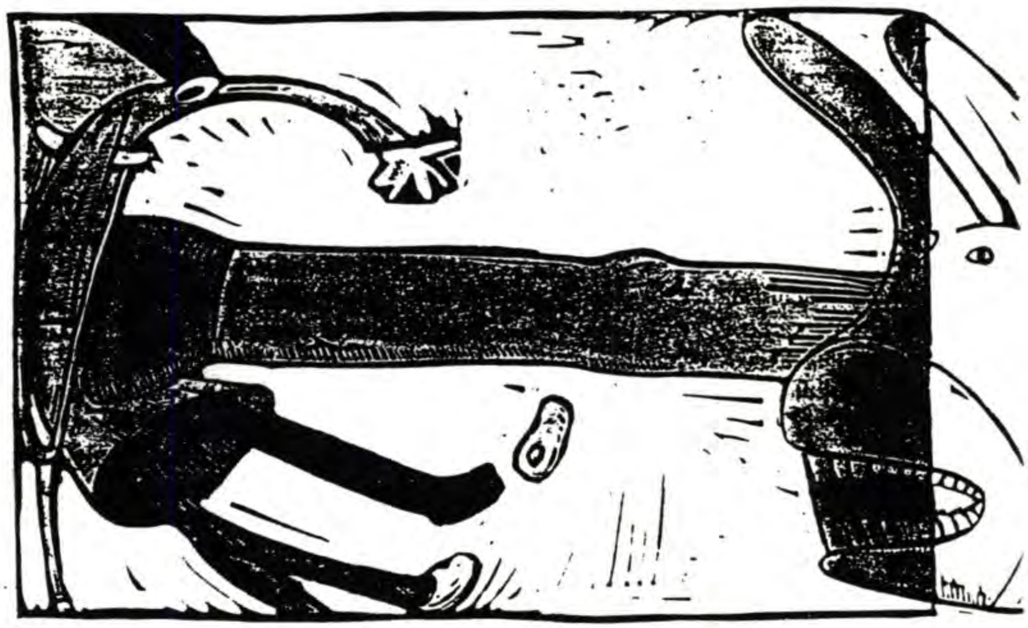
"Even though we had a process unlike any other that has drafted a bill," she told me, "—more open, more inclusive—we got labeled as being secretive because of . . . our failure to understand that we should be more available to the press along the way. That was something we didn't do well. . . . We were not aware of how significant it is to [shape] the inside story in Washington, in order to make the case . . . for whatever your policy is."

Secrecy toward reporters was stupid. But reporters are now acting as if it were something worse: closed-mindedness about ideas.

SECOND count: *The plan was politically naive*. Everyone now knows that the health-care reformers drew up their master plan without taking the slightest interest in what most Americans thought or felt. In reality, though, the plan suffered because the Administration was too attentive to shifting political moods.

Even before Inauguration Day, Magaziner was churning out memos about the right way to pitch the plan to editorialists and interest groups, about the likely Republican arguments and how to rebut them, about the connection between a health-care bill and a re-election campaign in 1996. Week in and week out his memos to Bill and Hillary Clinton contained head counts of likely Senate and House votes—who was leaning, who could be pressured and pushed. In his conversations with me Magaziner seemed to spend half his time sizing up the legislators he had had to deal with: Senator X was in thrall to Bob Dole because of personal problems, Congressman Y had to start out opposing the bill because of donations from Interest Group Z.

Two fundamental decisions about the plan had much less to do with policy than with judgments of political reality. One involved handling the single-payer challenge. A Canadian-style single-payer system has two big virtues. It is simple to administer, since doctors, hospitals, and patients no longer have to worry about dozens of insurance companies with scores of different payment plans. The single-payer approach also guarantees that everyone in the country has medical coverage. But Clinton was dead set against a single-payer plan, arguing that it would require sweeping new taxes and would, in effect, abolish the entire medical-insurance industry. This left the political problem of how to deal with the hundred or so members of the House who supported some kind of single-payer plan.



Without them, no health bill of Clinton's could possibly pass.

Congress also contained a large number of supporters of market-reform and managed-competition plans. The main advantage of such plans is that they change the incentives of medical practice so that doctors, patients, and hospitals are more conscious of costs when making medical decisions. To get a plan passed, Clinton had to show that it would reform the medical market.

"We had to try to bridge the chasm" between these groups in drawing up the plan, Magaziner told me. "If we were serious about universal coverage, we felt, then the single-payer people would buy off even if they didn't like managed competition. We felt we were doing enough of the market reforms that the reform people would buy off too. And, by the way, we also thought that that was the best policy."

But by June of 1993 one of the main market-reform legislators, Representative Jim Cooper, of Tennessee, made clear that he wouldn't buy off. He recommended seeing to insurance reforms first and getting around to universal coverage in a few years. The single-payer group, of course, was not going to agree to that. "At that point," Magaziner said, "we knew that the only way we could try to bridge the chasm was to start a little bit left of center and try to negotiate toward the center."

"Left of center" meant proposing a benefits package a little more generous than what the Administration really wanted, setting the employer's share of total costs a little bit higher, making the limits on insurance premiums a little bit tighter. When the Republican Party lost interest in negotiating, this strategy became a liability, because it made the Clinton plan look more extreme than it was meant to be.

The other purely political calculation concerned sales strategy. Throughout his campaign Bill Clinton had emphasized the overall cost of medical care as a central evil of the U.S. system. Americans spend about twice as much money per capita on medical care as people in other developed nations, with results that are not twice as good. Whenever he was asked about cutting the budget deficit or taming the entitlements monster, Clinton said that the first and most important step was to control health-care costs. This approach won the support of business, since health-insurance costs had for years been rising faster than any other business expense. (From 1948 to 1990, Paul Starr points out, business spending on health coverage rose by an average of 15.6 percent a year.) Through most of 1993, while the plan was being developed and unveiled, major business groups like the U.S. Chamber of Commerce and the National Association of Manufacturers supported its general outlines and accepted even its "employer mandates," which would require companies to pay most of the cost of coverage for their employees. But by the summer of 1994 the Administration was selling the plan mainly as a matter of fairness and security. Its slogan was "Health Care That's Always There."

In theory the Administration could have kept stressing both aspects of its plan—that it would make individuals more secure while reducing the strain on business. The peculiar logic of health-care economics, as revealed in most other developed countries and in American group-care systems, is that when everyone is covered, it becomes easier to control overall costs.

The Administration's political experts, however, recommended a more streamlined sales approach. Clinton's pollster, Stanley Greenberg, produced results in 1993 showing that no one believed that a government health-care plan could ever save money. Although opinion polls taken through the end of 1993 showed that most people supported the idea behind Clinton's plan (once pollsters explained what the idea was), most people also believed that the plan would drive costs up, not down. Therefore the more the Administration emphasized its cost-control themes, the less believable it would become. "The polls showed that people will trust the government to guarantee them security," Magaziner told me. "They will not believe that the government can control costs."

As Republican opposition to the bill increased in 1994, Democratic strategists decided that "security" would be a more effective, partisan rallying theme. "You have to mobilize people, and it's hard to mobilize people around words like 'cost containment' or 'universal coverage,'" Hillary Clinton told me. "So if we didn't convince the middle class that universal coverage meant *them*, we wouldn't get the political support. . . . If you talked about how they could lose their job, how they are one divorce or one pre-existing condition away from losing coverage, then perhaps they would get engaged." By the end of the struggle this sales approach made the Administration even more vulnerable to Republican charges that it was putting out a bighearted, softheaded, typically liberal plan.

One other enormously important, and almost purely political, decision sealed the fate of the bill. Magaziner and Hillary Clinton had hoped to present the bill to Congress a few months after the Inauguration, in the spring of 1993. Thanksgiving had nearly come before they were actually ready to present a finished bill. That delay had little or nothing to do with the nuances of policy. It had everything to do with political necessity—and of a sort that everyone knew was sensible at the time.

Hillary Clinton now says that the news blackout on emerging details of the health-care-reform bill was a major mistake.

THIRD count: *"The First Lady's whiz-kids wasted precious months."* This was how *The Economist* stated the next objection. Rather than getting busy and presenting the plan when the Administration still had a dewy glow, the health team sat around until it was too late.

The Administration's original strategy was to rush the health plan through as part of its first budget-reconciliation bill. That would have meant having detailed health proposals ready by April at the latest, and the task force had been geared toward meeting that deadline. The genius of this approach, little noticed by the public, is that it would have allowed the health plan to pass with a simple majority vote.

Congressional politics has quietly moved into the "supermajority" system that Lani Guinier was widely denounced for seeming to recommend. In theory it takes fifty-one votes to get a bill through the Senate. In reality it takes sixty votes to end a filibuster, so Bill Clinton knew that the Senate's forty-plus Republicans could stop nearly any legislation they chose.

They could not stop budget bills. These come to the floor under rules that limit debate, and with only a fifty-one-vote majority required for passage. So if the health-care plan could be made part of the budget bill, the Administration could get it acted on quickly, with enough of its own party's votes to see it through.

The Senate's majority leader, George Mitchell, endorsed this strategy, but its de facto parliamentarian, Robert Byrd, objected, scuttling the plan. The Administration then decided that it would introduce the health-care plan as soon as the budget bill passed. But passage was the rub. The budget bill, with its big deficit-reduction package, was seen by everyone in Washington as a major early test of the Administration's strength. (The struggle over the bill is the subject of Bob Woodward's book *The Agenda*.)

The budget fight dragged on much longer than Bill Clinton had hoped or planned. As it became obvious that the final budget vote would be very close (on August 6 it finally passed the Senate 51–50, with Vice President Al Gore casting the deciding vote), the Administration wanted to avoid any extraneous controversy that might affect it. Clinton had been scheduled to make the final decisions about the health-care plan in late May. Because of fears that leaks about his choices would complicate the budget vote, the decisions were put off—a delay that had ripple effects lasting the rest of the year. Without Clinton's decisions, the task force could not prepare detailed legislation; without legislation, it could not start negotiations with congressmen and their staffs. Without final choices on what would be in the package, it could not prepare budget estimates; without those estimates, the Treasury and the Congressional Budget Office could not vet the plan.

By the fall the budget fight was over—but then NAFTA became the issue of the moment. Clinton had been scheduled to spend most of the month of October traveling and speaking about the health-care plan. As he was flying to his first event, a labor convention in California, news came that U.S. soldiers had been killed in Somalia. Clinton flew back to Washington after his speech and spent most of the month dealing with Somalia and NAFTA; he canceled all the other health-care events.

Despite the delays and missteps, when the President finally unveiled the plan, in September of 1993, it seemed to have a good chance. "The reviews are in and the box office is terrific," the political analyst William Schneider wrote just after it was presented. "President Clinton's health care reform plan is a hit. . . . The more people read and hear about the plan, the more they seem to like it."

Six weeks after the Inauguration, Magaziner had written a memo to Bill and Hillary Clinton saying that if health-care-reform legislation was not presented and passed immediately, it probably could not be passed during "your first term." With Republican midterm gains in Congress, it now appears that this prediction will be borne out. But the delay was neither negligent nor intentional. It is a reminder of how quickly events spin out of a President's control, and how rare it is for him to be able to advance his own agenda rather than respond to someone else's emergency.

FOURTH count: *The plan had delusions of grandeur.* Now we move to the substance of the plan, which has been described as a regulatory rat's nest, a nightmare of overambitious social engineering, and a sweeping solution where modest reforms would do.

The reality is that very little in this plan was new or unprecedented, and that it was barely more complex or comprehensive than most other plans.

According to the peculiar logic of health-care economics, when everyone is covered, it becomes easier to control overall costs.

When people complained that the plan was grandiose, they had three features in mind: universal coverage (everyone would be insured, whether working or not), community rating (everyone in a given region would pay the same premium for coverage, regardless of age or pre-existing conditions), and employer mandates (forcing businesses to cover much of the insurance cost).

All these ideas have been part of the health-care-reform debate for years. Universal coverage and community rating sound like bleeding-heart concepts, but they are based on tough economic reasoning. The idea behind both is that piecemeal reform of a health-care system can be worse than no reform at all.

The fairness argument for universal coverage is obvious. Even people who are poor deserve care when they are sick or hurt. This is why every developed nation except the United States offers universal care. The economic argument has become almost as familiar. Even people without health insurance ultimately receive treatment, when they show up in emergency wards; hospitals cover the cost by padding charges for everyone else. This backhanded form of coverage is neither economically efficient nor humane. As recently as the fall of 1993 Bob Dole was saying that universal coverage was a "non-negotiable goal of reform."

Community rating is a closely related idea. Every health-care-reform scheme in America is concerned with holding down costs. In most businesses market competition does the job, but competition in the health-insurance area often works in a perverse way. Insurance companies have tended to compete not by improving the incentives, habits, and nature of medical treatment—which in the long run is the only way to limit expenses—but by becoming choosier about whom they will insure. If they can limit their coverage to young, healthy people and rule out those who are already sick, then they can offer coverage at a lower price, without having done anything to improve the efficiency of care.

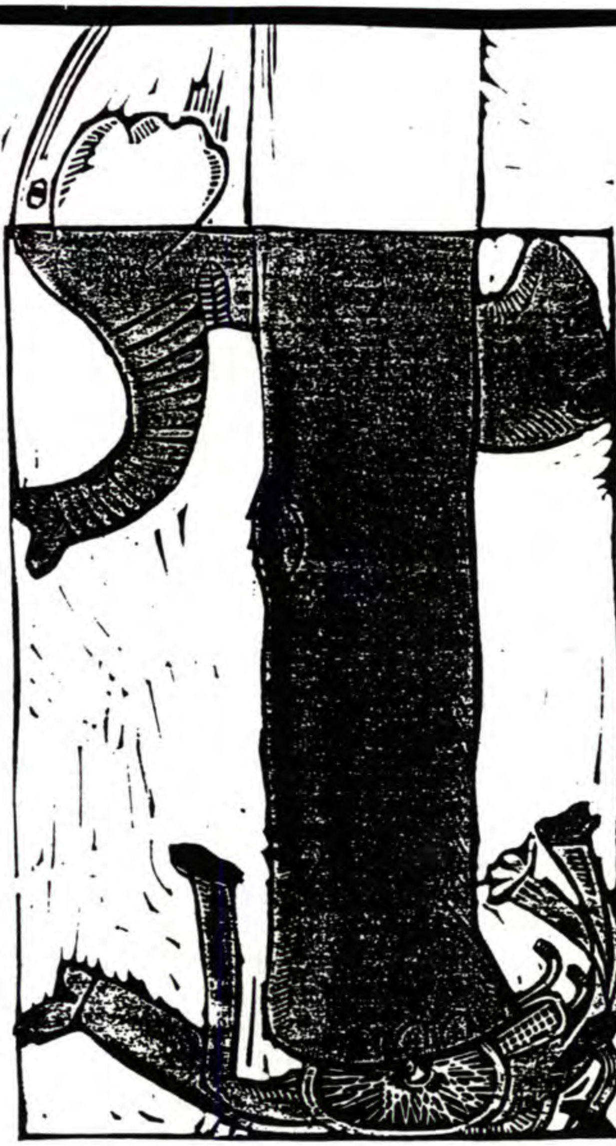
This is what has happened to the health-insurance business in the past generation. In the old days Blue Cross offered coverage to everyone in the same geographic area at the same price. Now younger, healthier people can get cheaper coverage—which many of them skip anyway, figuring they don't need it—while prices rise for those most likely to need care. Fewer of them can afford to buy it, more must take advantage of the cruel and inefficient fallback of emergency-room coverage, and overall costs keep going up. The young, healthy people eventually become old and sick, and are caught too.

This cycle is known as adverse selection, and it has been talked about in the health-care-reform business for years. Community rating is the main response. It is designed to average each person's medical costs over the course of his or her whole life and to make sure that people have coverage at the times of their lives when it's most necessary. In proposing community rating the Clinton team was hardly making waves.

Even the part of the plan that sounded strangest and most radical, its "mandatory alliances," is already familiar to millions of Americans under a different name. Anyone who works for a big company or a state or federal agency knows about the open-enrollment system for selecting health insurance. The company or agency negotiates with HMOs, insurance companies, and local medical networks that want to offer coverage to its employees. Once a year employees choose which plan they want. The employer then deducts money from their paychecks, adds its own share, and passes the money on to the medical providers.

This, with small variations, is also how the task force's mandatory alliances would have worked. They would have taken bids from insurance companies, HMOs, and other health providers and then let each household choose the plan it liked best. Each provider would have been required to set a price for a standard benefits plan, so that customers could make easy price comparisons among the offerings. The alliances would not, as has often been assumed, have tried to provide medical care themselves, through big new government clinics.

The most ominous-sounding aspect of the new alliance system was its "mandatory" nature. Everyone would have been obliged to choose and buy a standard benefits plan from an alliance. (Contrary to repeated claims by opponents of the bill, people would have been free to buy any extra coverage they wanted, or get any additional treatment from any doctor they chose, as long as they did it with their own money. Employers would also have been free to offer additional coverage.) The health-care task force argued that the alliances had to be mandatory in order to create the community-rating effect. Otherwise, young, healthy people would stay out of the system, and the pernicious cycle of adverse selection would begin. An exception was made for employees of very large companies, who would still have been able to buy through their own firms' open-enrollment plans. The reasoning was that a General Motors or an AT&T had a work force large and diverse enough to constitute a community-rating pool all by itself. Everyone would have been forced into a pool one way or another.



Some health-care-reform plans have no mandatory component. Several versions of managed competition, for instance, would set up alliances like those in the Clinton bill but not require anyone to buy from them. It is virtually impossible, though, to achieve universal coverage without some element of compulsion. (Medicare offers universal coverage for those over sixty-five, but everyone who works is compelled to pay a Medicare tax.) Moreover, Magaziner argued, for most people the mandatory system would in practice mean more choice and freedom than they now enjoy.

When he ran a small business in Rhode Island, Magaziner said, he covered all health-insurance costs for his employees but could give them only two plans to choose from. Handling the bidding and paperwork for a broad range of plans would have been impossible. "If there had been an alliance, I could have paid my dues to the alliance and let people choose among all the plans." The alliances in the Clinton bill would have been required to offer customers a choice among all plans that met basic certification requirements. In big cities a dozen or more plans might be available. The minimum offering would be three kinds of coverage, including at least one fee-for-service plan that would permit a family to stay with the independent doctor it had been using.

After the plan was withdrawn, Uwe Reinhardt, an economist at Princeton University, told *The New York Times*, "No one understood this, but the average American patient would have had more choice under the Clinton plan than they now will. If you work for a particular company, your choice of HMOs is whatever that company offers you." Some critics argued that the Clinton plan would destroy the market for coverage beyond the plan's basic benefits, and that as a result people would find it difficult to buy as much coverage as they might like. But that is different from the widespread belief that extra coverage would be against the law—and for most people the range of choice would probably be broader under Clinton's plan.

Far from concocting a system that would look and feel radically different from what Americans were accustomed to, the task force believed that it was changing the surface of health care as little as possible while altering its underlying economic structure. The alliance system, despite its strange name, was meant to look familiar to people who already had coverage. The employer-mandate system of finance, in which companies would bear most of the health-insurance costs, reflected the fact that 90 percent of the people who now have insurance (excluding those on Medicare) get it through their employer. The employer mandate is a de facto tax but a well-established one, and a familiar concept in health-policy circles. Many Republicans, including Robert Packwood and Richard Nixon (!), have over the years endorsed employer-mandate plans.

Indeed, none of the individual elements of the Clinton plan was a shocking new entrant into the health-care debate. The plan's system for controlling expenditures, through premium caps that limited how fast the cost of basic coverage could rise, departed from Paul Starr's recommendations. But it closely resembled a plan offered by a group of congressional moderates that included the Republican senators John Danforth and Nancy Kassebaum.

To say that the resulting package of proposals was "too complex" is like saying that an airplane's blueprint is too complicated. The Medicare system is complex. So is every competing health-care-reform plan. Most of the 1,342 pages of Clinton's Health Security Act (which I have read) are either pure legal boilerplate or amendments to existing law. Conventional wisdom now holds that the sheer bulk of the bill guaranteed its failure. The NAFTA bill was just as long, and so was the crime bill that passed last summer. If the health bill had been shorter and had not passed, everyone would know that any proposal so sketchy and incomplete never had a chance.

FIFTH count: *It was a coercive approach to one seventh of the economy—and to a problem that was solving itself.*

Much of the problem for the plan seemed, at least in Washington, to come not even from mandatory alliances but from an article by Elizabeth McCaughey, then of the Manhattan Institute, published in *The New Republic* last February. The article's working premise was that McCaughey, with no ax to grind and no preconceptions about health care, sat down for a careful reading of the whole Clinton bill. Appalled at the hidden provisions she found, she felt it her duty to warn people about what the bill might mean. The title of her article was "No Exit," and the message was that Bill and Hillary Clinton had proposed a system that would lock people in to government-run care. "The law will prevent you from going outside the system to buy basic health coverage you think is better," McCaughey wrote in the first paragraph. "The doctor can be paid only by the plan, not by you."

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George Will immediately picked up this warning, writing in *Newsweek* that "it would be illegal for doctors to accept money directly from patients, and there would be 15-year jail terms for people driven to bribery for care they feel they need but the government does not deem 'necessary.'" The "doctors in jail" concept soon turned up on talk shows and was echoed for the rest of the year.

These claims, McCaughey's and Will's, were simply false. McCaughey's pose of impartiality was undermined by her campaign as the Republican nominee for lieutenant governor of New York soon after her article was published. I was less impressed with her scholarly precision after I compared her article with the text of the Clinton bill. Her shocked claim that coverage would be available only for "necessary" and "appropriate" treatment suggested that she had not looked at any of today's insurance policies. In claiming that the bill would make it impossible to go outside the health plan or pay doctors on one's own, she had apparently skipped past practically the first provision of the bill (Sec. 1003), which said,

> Nothing in this Act shall be construed as prohibiting the following:
> (1) An individual from purchasing any health care services.

It didn't matter. The White House issued a point-by-point rebuttal, which *The New Republic* did not run. Instead it published a long piece by McCaughey attacking the White House statement. The idea of health policemen stuck.

So did the idea that one seventh of the national economy would be transformed overnight. Of the vast American commerce in health care, more than 40 percent is already paid for by the federal government, mainly through Medicare. Under the Clinton plan the rest of the money would still go through most of the insurance companies, HMOs, doctors, hospitals, and laboratories that are receiving it now.

THE final element in the conventional wisdom is that this cumbersome, flawed plan was in any case unnecessary, because the health-care problem was going away. Medical costs rose by "only" 5.9 percent in 1993—yet that was more than twice as fast as wage growth and almost twice as fast as the overall inflation rate. Over the past several decades medical costs have risen about three percent faster than the overall inflation rate; in 1993 the gap was 2.9 percent.

"There is no persuasive evidence that we are in either a stabilized or an improving health-care-financing environment," Hillary Clinton told me. "In fact, many of the problems will only continue to get worse. The problems that middle-class Americans care the most about—like what doctor they can see—will likely become appreciably worse, because many will be forced into managed care over which they have no say. Employers will make those decisions. They will pay more for fewer benefits. How deeply this sinks in and how much it motivates political action, I don't know."

IF this plan did not perish because it had been designed in intolerable secrecy, or because its designers knew nothing about politics, or because it was full of unacceptable new ideas, or because it was so much more complex than any predecessors, then what happened to it?

The Administration's view, for which, again, there is ample evidence, is that it went down because of two zero-sum games, one political and one economic. Health-care reform became a battle in which some would win and others would lose—and Clinton lost.

Through most of 1993 the Republicans believed that a health-reform bill was inevitable, and they wanted to be on the winning side. Bob Dole said he was eager to work with the Administration and appeared at events side by side with Hillary Clinton to endorse universal coverage. Twenty-three Republicans said that universal coverage was a given in a new bill.

In 1994 the Republicans became convinced that the President and his bill could be defeated. Their strategist, William Kristol, wrote a memo recommending a vote against any Administration health plan, "sight unseen." Three committees in the House and two in the Senate began considering the bill in earnest early in the year. Republicans on several committees had indicated that they would collaborate with Democrats on a bill; as the year wore on, Republicans dropped their support, one by one, for any health bill at all. Robert Packwood, who had supported employer mandates for twenty years, discovered that he opposed them in 1994. "[He] has assumed a prominent role in the campaign against a Democratic alternative that looks almost exactly like his own earlier policy prescriptions," the *National Journal* wrote. Early last summer conservative Democrats and moderate Republicans tried to put together a "mainstream coalition" supporting a plan without universal coverage, without employer mandates, and without other features that Republicans had opposed. In August, George Mitchell, the Democratic Party's Senate majority leader, announced a plan that was almost pure symbolism—no employer mandates, very little content except a long-term goal of universal coverage. Led by Bob Dole and Newt Gingrich, Republicans by September were opposing any plan. "Every time we moved toward them, they would move away," Hillary Clinton says.

"We always knew that in the end people's trust of the President and First Lady would be crucial," Ira Magaziner says. "The debate was going to be complicated, and that trust factor was very important." Whitewater eroded the trust factor. The President looked beatable, and he lost.

Economic factors counted too. Doctors had fought bitterly against Medicare in the early 1960s, but for the most part they sat this battle out. If they weren't controlled by the government, they would be controlled by insurance companies, which in some ways were worse. But other interest groups had more to lose. Health-insurance agents would be put out of business. Health-insurance companies could have their premiums capped. For-profit hospitals thought they would lose money. Manufacturers of medical equipment thought that market growth might slow. Large businesses that did not already offer health care for workers knew the employer mandate would cost them money. (These were mainly corporations like PepsiCo and General Mills, which own restaurant chains whose part-time workers are uninsured.)

During the 1992 campaign the Clinton war room excelled at answering negative charges immediately, before damaging impressions could set in. But even flatly untrue attacks on the health plan went unanswered—direct-mail campaigns saying that everyone would have to go to a government clinic, daily doses of misinformation from Rush Limbaugh, TV advertisements fanning McCaughey-style fears of jail terms for people who wanted to stick with their family doctor. Last March *The Wall Street Journal* found that a panel of citizens preferred the provisions of the Clinton plan to the main alternatives—when each plan was described by its contents alone. But when pollsters explained that the preferred group of provisions was in fact "the Clinton plan," most members of the panel changed their minds and opposed it. They knew, after all, that Clinton's plan could never work.