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POTENTIAL IMPACT OF REGULATORY MORATORIUM

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Potential Impact of Regulatory Moratorium

Index of Rules

DEPARTMENTS AND EXECUTIVE AGENCIES

Department of Agriculture

Meat and Poultry Inspection Efforts

Improved Poultry Inspection

Department of Commerce

Shrimp Harvesting

Fisheries Management

Department of Health and Human Services

Seafood Safety

Department of Housing and Urban Development

Noncitizen Housing Requirements

Preference for Elderly Families, Reservation for
Disabled Families in Section 8 Housing

Continuation of Federal Home Loan Mortgage Corporation and
Federal National Mortgage Association Housing Goals

Community Development Block Grants Economic Dev. Guidelines

Avoiding Homeowner Foreclosure

Reducing FHA Fund Losses

Increasing Home Ownership Opportunities for First Time Buyers

Department of Energy

Energy Efficient Appliances

Alternative Fuel Providers

Department of Interior

Cruise Ship Access to Glacier Bay, Alaska

Indian Self Determination and Self Governance

Forestry Regulations (Sales of Forest Products)

Landowner Relief Under Spotted Owl Regulation

Department of Labor

Family and Medical Leave

Procedure for Removal of Local Labor Organization Officers

Logging Safety

Safe Practices for Diesel Equipment in Underground Coal Mines

Reducing Exposure to Tuberculosis in the Workplace

Worker Exposure to Cancer Causing Agents

Worker Exposure to Reproductive and Developmental Risks

Department of Transportation

Motor Vehicle Safety Standards for Passenger Car Brake Systems

Standardizing Regulations for Domestic Shipments of Hazardous Waste

Great Lakes Protection

Airworthiness Directives

Standardization of Aviation Rules

Airport Rates and Charges

Commuter Airline Safety Standards

Head Impact Protection

Prevention of Oil Spills

Airline Crew Assignments

Flight Attendant Duty Period Limitations and Rest Requirements

Department of the Treasury

Government Securities Large Position Reporting Requirements

Alcoholic Beverage Labeling

Department of Veterans Affairs

Compensation for Certain Undiagnosed
Illnesses For Persian Gulf Veterans

Environmental Protection Agency

Agreement Establishing Water Quality Standards for S.F. Bay Delta

Standards for Nuclear Waste Disposal

Pesticide Regulation Flexibility

Reducing Toxic Air Emissions

Lead Poisoning Prevention

Cleanup at Uranium Processing Sites

INDEPENDENT AGENCIES

Consumer Product Safety Commission

Flammability Standard for Upholstered Furniture

Federal Communications Commission

Personal Communications Systems Auctions

Emergency Broadcast System

Cable Rate Restructuring

Video Dial Tone

Caller ID

Federal Election Commission

Personal Use of Campaign Funds by a Federal Candidates

Public Financing for Presidential Candidates

Political Campaign Disclaimers

Federal Energy Regulatory Commission

Lower Electric Rates

Utility Rate Recovery

Nuclear Regulatory Commission

Cleanup of Nuclear Facilities

Recovery of License Fees

ISSUE: MEAT AND POULTRY INSPECTION EFFORTS (DEPT. OF AGRICULTURE)

STATES AFFECTED: All states that produce or process meat and poultry products.

Rule: Meat and poultry inspection processes must be updated, improved, and strengthened to reduce the incidences of foodborne illnesses and death, such as occurred in Washington outbreak of e.coli-contaminated ground beef. USDA is in the process of assessing the feasibility of implementation of alternative inspection methods, that make greater use of science and technology in plant inspections of meat and poultry. Rules will be needed for testing for heat-resistant pathogens in egg products that can cause serious illnesses. Rules will facilitate USDA's ability to review and evaluate foreign countries' inspection systems to assure safe and wholesome imports and access for U.S. exports. Rules will be necessary to improve the microbiological activities in inspection. USDA is also working with the Food and Drug Administration (FDA) and the Department of Transportation (DOT) to assure food safety in transport.

Beneficiary of the Rule: All consumers of meat and poultry products, and especially those individuals that are particularly vulnerable to food-related illnesses, such as children and the elderly. Also, U.S. producers benefit from being able to promote and export meat and poultry products that are recognized globally as safe and wholesome.

Impact of S. 219: Meat, poultry, and egg products inspection will make little progress to keep up with scientific and technological advances, if S. 219 is enacted. The ability to identify problems before crises occur, such as putting a HACCP-preventive system in place, and improve plant procedures, will go a long way toward restoring public confidence in a multi-billion industry, but will require regulations to implement these needed changes. USDA would also be unable to pursue its pathogen reduction program, carrying inspection all the way back to live animals, to reduce the incidence of outbreaks such as salmonella, e.coli, listeria, and campylobacter.

ISSUE: **IMPROVED POULTRY INSPECTION (DEPT. OF AGRICULTURE)**

STATES AFFECTED: Poultry processing states, including Delaware, Maryland, Virginia, the Southeast, and California

Rule: A new system of post-mortem inspection for all poultry will be implemented.

Beneficiary of the Rule: All consumers of U.S. poultry and poultry products.

Impact of S. 219: Estimated losses to the economy from foodborne illnesses related to poultry are approximately \$1 billion annually. This rule can help reduce such losses, by implementing innovative techniques to assure that poultry is free of visible contamination, and requiring plants to adopt an approved antimicrobial treatment. Current post-mortem inspections would be replaced with a single system in which two inspectors would staff each poultry processing line and examine carcasses for disease and visible contamination. Without this rule, poultry inspection systems will continue to be vulnerable to microbial contamination.

ISSUE: SHRIMP HARVESTING (DEPT. OF COMMERCE)

STATES AFFECTED: Alabama, Mississippi, Florida, Louisiana, Texas

Rule: This rule increases the domestic quota for royal red shrimp harvested in the Exclusive Economic Zone (EEZ) of the Gulf of Mexico and eliminates foreign fishing for royal red shrimp in that area.

Beneficiary of Rule: American fishermen in the states listed above are the primary beneficiaries of this rule. The effect of this rule is to increase the amount of shrimp that can be harvested in the region by American fishermen and eliminate foreign fishing.

Impact of S. 219: Passage of S. 219 would limit the amount of shrimp available for harvest, thereby adversely affecting local fishing industries that are already distressed, raising the price of royal red shrimp for consumers, and continuing foreign fishing in the EEZ's.

Date: Final Rule published 12/28/94, 59 FR 66787

ISSUE: FISHERIES MANAGEMENT (DEPT. OF COMMERCE, NATIONAL MARINE FISHERIES SERVICE)

STATES AFFECTED: All states with fisheries

Rule: These rules restrict the number of fish that commercial fishermen can catch in certain fisheries each year. They are based on scientific data and are designed to allow for the maximum take of fish while, at the same time, preventing depletion of fish stocks. Depletion has been a serious problem in many fisheries around the country.

Beneficiary of the Rule: All fishermen and the consuming public.

Impact of S. 219: Many of these management specifications were published after November 20, 1994. A moratorium could suspend these specifications, potentially allowing unlimited fishing in these fisheries, which could lead to long-term decline in the number of fish available for future fishing.

**ISSUE: SEAFOOD SAFETY (DEPT. OF HEALTH AND HUMAN
SERVICES/FOOD AND DRUG ADMINISTRATION)**

STATES AFFECTED: All

Rule: FDA is proposing regulations to utilize Hazard Analysis Critical Control Point (HACCP) principles as the most effective way to ensure the safe processing and importing of fish and fishery products. HACCP is a preventive system of hazard control that can be used by food processors and importers.

Beneficiary of the Rule: Consumers and the seafood industry. Consumers will benefit from safer products and will gain additional health benefits by substituting seafood products in place of other meats higher in fat and cholesterol. The seafood industry will benefit from increased consumer confidence in safer seafood products and more uniform inspection procedures.

Impact of S. 219: Unless this rule is included in a health and safety exception, passage of S. 219 will prevent the implementation of a final rule. Consumption of seafood may continue to decrease if consumers lack confidence in the safety of seafood products.

Date: Proposed Rule published January 28, 1995. Final Rule slated for publication summer 1995.

ISSUE: **NONCITIZEN HOUSING REQUIREMENTS (DEPT. OF HOUSING AND URBAN DEVELOPMENT)**

STATES AFFECTED: **All**

Rule: This rule would restrict HUD housing assistance to U.S. citizens, nationals, and certain categories of legal immigrants.

Beneficiary of Rule: Citizens and legal immigrants that will be deprived of limited available housing assistance.

Impact of S. 219: U.S. citizens and legal immigrants would be deprived of the limited housing assistance offered by HUD, and instead, this housing could be available to illegal immigrants.

Date: Final rule submitted to OMB 12/30/94

**ISSUE: PREFERENCE FOR ELDERLY FAMILIES, RESERVATION FOR
DISABLED FAMILIES IN SECTION 8 HOUSING (DEPT. OF HOUSING
AND URBAN DEVELOPMENT)**

STATES AFFECTED: All

Rule: This rule amends HUD's Section 8 regulations to improve the system of occupancy preferences by including preferences for elderly families and disabled families. Prior to 1992, the term "elderly person" was defined to include "persons with disabilities," including non-elderly persons with disabilities. "Persons with disabilities" has been defined to include persons with alcohol and drug abuse problems. Prior to this rule, housing designated for the elderly was required to admit non-elderly persons with disabilities. This rule implements controversial legislation strongly favored by elderly persons and strongly opposed by persons with disabilities and their advocates.

Beneficiary of the Rule: Elderly persons. The prior legislation allowed that housing designated for elderly was required to admit non-elderly persons with disabilities. This new rule allows project owners to restrict housing for elderly only.

Impact of S. 219: The suspension of this rule would leave project owners unable to restrict their projects to elderly-only residents. Not allowing this rule to take effect would directly affect the quality and availability of housing for the elderly and disabled persons, who vehemently expressed their opinions during the comment period.

Date: Published December 21, 1994, making final the interim rule published May 3, 1994.

ISSUE: CONTINUATION OF FEDERAL HOME LOAN MORTGAGE CORPORATION AND FEDERAL NATIONAL MORTGAGE ASSOCIATION HOUSING GOALS (DEPT. OF HOUSING AND URBAN DEVELOPMENT)

STATES AFFECTED: All

Rule: By statute, HUD is required to establish housing goals to direct the purchase of mortgages by Freddie Mac and Fannie Mae on housing for low and moderate income families, housing located in central cities, housing located in rural and underserved areas, and housing meeting the needs of low-income families and very low-income families. In October 1993, HUD established these goals for 1993 and 1994. This rule extended into 1995 the 1994 housing goals pending the issuance of a more comprehensive final rule.

Beneficiary of the Rule: Very low to moderate income families in central cities and rural areas and other underserved areas.

Impact of S. 219: A moratorium could put a halt to Fannie Mae and Freddie Mac's meeting housing goals set by HUD in accordance with the law and in recognition of the responsibilities of Fannie Mae and Freddie Mac under their Charter Acts. The needs of moderate, low, and very low-income families would not be served, and the opportunities for such families to purchase homes would be greatly reduced.

Date: Published as Final Rule November 30, 1994.

ISSUE: COMMUNITY DEVELOPMENT BLOCK GRANTS ECONOMIC
DEVELOPMENT GUIDELINES (DEPT. OF HOUSING AND URBAN
DEVELOPMENT)

STATES AFFECTED: All

Rule: This rule establishes guidelines to assist Community Development Block Grant (CDBG) recipients evaluate and select economic development opportunities for CDBG funds. The rule also makes changes for the use of CDBG funds for economic development.

Beneficiary of the Rule: State and local communities who receive CDBG funds. The rule reduces administrative burdens on the recipients and focuses on assisting residents of low and moderate income neighborhoods.

Impact of S. 219: State and local governments will have limited use of CDBG funds for economic development which will adversely affect the communities served by these state and local governments.

Date: Published as Final Rule January 5, 1995

ISSUE: AVOIDING HOMEOWNER FORECLOSURE (DEPT. OF HOUSING AND URBAN DEVELOPMENT)

STATES AFFECTED: All

Rule: This rule establishes a program to use pre-foreclosure sales as a means of assisting qualified mortgagors in avoiding foreclosure of their FHA-insured mortgages, and in saving HUD money. In a successful pre-foreclosure sale, neither foreclosure nor conveyance of the property back to HUD occurs. A third party buys the home from a defaulting mortgagor at fair market value (with certain adjustments, as approved by the Secretary), which is less than the owner's outstanding indebtedness at the time of sale. Section 1064 of the McKinney Homeless Assistance Amendments Act of 1988 (Pub. L. 100-628) amended section 204(a) of the National Housing Act (12 U. S. C. 1710(a)) to authorize HUD to pay a claim to a lender equal to the difference between the fair market sale price and the outstanding indebtedness.

Beneficiary of the Rule: Middle and low income Americans holding mortgages, HUD, and the Federal government. Generally, a successfully completed pre-foreclosure sale benefits the mortgagor, who avoids the stigma of foreclosure on his or her credit record, and also benefits HUD, which can expect to save by not paying foreclosure-related costs. HUD also saves on maintenance costs and marketing expenses for properties which would otherwise be conveyed to HUD following foreclosure.

Impact of S. 219: Mortgagors who are threatened with foreclosure could be adversely affected by S. 219. Also, the expenses of foreclosure will be a drain on the FHA fund.

Date: An interim rule was published on September 30, 1994, but under HUD's own "sunset" policy, the rule will expire. A final rule is needed.

ISSUE: REDUCING FHA LOSSES (DEPT. OF HOUSING AND URBAN DEVELOPMENT)

STATES AFFECTED: All

RULE: This rule would set forth HUD's policies and procedures for the sale of HUD-held single family mortgages. HUD is proposing to sell a large portion of its single family mortgages, including both performing and nonperforming mortgages, without recourse and without FHA insurance. HUD is proposing to sell these mortgages to reduce losses to the FHA fund, decrease its inventory of single family mortgages, and improve the servicing of these mortgages.

HUD proposes to conduct a program of regular sales of HUD-owned single family mortgages. During the first twelve months following the effective date of the sales program, HUD intends to sell approximately 40,000 performing and nonperforming mortgages totaling approximately \$2.0 billion.

BENEFICIARY OF THE RULE: The private mortgage servicing industry and taxpayers. This rule will reduce losses to the FHA fund. In addition, HUD believes that transferring servicing functions to the private sector will greatly improve the servicing of these mortgages; private sector servicers will have more resources to apply to servicing mortgages and greater flexibility in servicing practices.

IMPACT OF S. 219: Losses to the FHA fund will continue, and the private sector will also lose as a result of the loss of business that could be gained through the transferring of servicing functions.

Date: Proposed rule not yet published.

ISSUE: INCREASING HOME OWNERSHIP OPPORTUNITIES FOR FIRST-TIME BUYERS (DEPT. OF HOUSING AND URBAN DEVELOPMENT)

STATES AFFECTED: All

Rule: This interim rule implements Section 244 of the National Housing Act ("the Act"), which authorizes the Secretary of HUD to enter into risk-sharing agreements for single family mortgages held by the Government Sponsored Enterprises (GSEs) of the FNMA and FHLMC

Such risk-sharing agreements increase homeownership opportunities in areas not adequately served by other FHA single family programs. Therefore, the program is limited to home purchases by first-time moderate income homebuyers (i.e., with family income not exceeding 115 per cent of median area income) who have received pre-purchase counseling under counseling arrangements approved by HUD. Furthermore, GSEs must target their purchases of mortgages for risk-sharing to under-served markets, including central cities and selected census tracts to be designated by HUD.

Beneficiary of the Rule: First-time homebuyers and GSEs.

Impact of S. 219: Negatively impacted would be first-time, middle class homebuyers that would benefit from the homeownership opportunities offered by this rule, and central city areas that would lose the benefit of stabilizing or increasing their population of middle class homeowners.

Date: A proposed rule is expected to be published this Spring.

ISSUE: ENERGY EFFICIENT APPLIANCES (DEPT. OF ENERGY)

STATES AFFECTED: All

Rule: These rules would revise current standards to eliminate inefficient consumer appliances from the market and encourage industry to explore ways to improve product performance, such as informal negotiated rulemaking procedures to gain input from industry and other interested parties.

Beneficiary of the Rule: American consumers. The use of energy efficient appliances will reduce the amount of money spent by consumers on electricity.

Impact of S. 219: S. 219 would constrain the agency's ability to continue using innovative approaches to improve the energy efficiency of household appliances, which will ultimately result in decreased utility bills for the American taxpayer. Along with the new energy efficiency testing procedures, these rules support the introduction of new technology into the market and enhance the desirability of U.S. exports. The significant greenhouse gas emissions reductions associated with higher home appliance efficiency standards would be delayed or lost. The moratorium would stop agency rulemaking innovations that have improved the quality of analysis and have saved taxpayer money.

ISSUE: ALTERNATIVE FUEL PROVIDERS (DEPT. OF ENERGY)

STATES AFFECTED: All, especially California

Rule: These actions would implement Congressionally imposed alternative fueled vehicle acquisition requirements that automatically become effective by operation of law. These statutory requirements apply to certain alternative fuel providers and some State government fleets. The proposed rules would provide guidance necessary for affected entities to determine whether and to what extent the statutory requirements apply; procedures for administrative remedies; and a program of marketable credits to reward those who voluntarily acquire vehicles early or in excess of mandated requirements.

Beneficiary of the Rule: Alternative fuel providers, American farmers, and the environment.

Impact of S. 219: If the legislation is approved, the application of the Congressionally imposed requirements remains in question. This could result in fewer number of alternative fueled vehicles being placed into service, impeding efforts to improve the environment. Moreover, business plans developed to comply with this rule would be thrown into confusion, resulting in wasted time and money.

**ISSUE: CRUISE SHIP ACCESS TO GLACIER BAY (DEPT. OF
INTERIOR/NATIONAL PARK SERVICE)**

STATES AFFECTED: Alaska

Rule: The Department of Interior recently decided to allow increased vessel traffic in Glacier Bay. New vessel management plan regulations are planned to implement this policy decision.

Beneficiary of the Rule: Travelers to Glacier Bay, area businesses, and cruise ship industry.

Impact of S. 219: A moratorium could delay the implementation of this new policy, which could reduce the number of potential cruise ship passengers, and could diminish trade to businesses in the area.

Date: These rules are planned for publication in 1995.

**ISSUE: INDIAN SELF DETERMINATION, INDIAN SELF-GOVERNANCE
(DEPT. OF INTERIOR/BUREAU OF INDIAN AFFAIRS)**

STATES AFFECTED: All

Rule: These regulations will implement amendments to the Indian Self-Determination and Educational Assistance Act and will be designed to enhance the capability of tribes to assume and operate Bureau of Indian Affairs and non-Bureau of Indian Affairs programs which are currently staffed and managed by federal agencies. These rules will allow tribes to contract for the management of activities and funding of federally run programs.

Beneficiary of the Rule: Tribes, the government, and all Americans. Tribal consultations in anticipation of negotiated rulemaking are underway.

Impact of S. 219: A moratorium could delay the removal of obstacles that make tribal assumption and operation of programs more difficult. These rules contemplate the downsizing and streamlining of Bureau of Indian Affairs processes, which could be delayed if S. 219 passes. In addition, these regulations will offer the opportunity for non-Bureau of Indian Affairs agencies to streamline their operations by contracting with tribes for participation in the management or assuming the management of program activities.

Date: Regulations to be published in 1995 after Tribal consultation and negotiation are completed.

ISSUE: FORESTRY REGULATIONS (DEPT. OF INTERIOR/BUREAU OF INDIAN AFFAIRS)

STATES AFFECTED: All

Rule: These regulations streamline the payment of timber monies to Tribes by eliminating the requirement that all payments must go through the U.S. Treasury. In addition, forest management deductions may be deposited directly to tribal accounts at local banks without first having to go through Treasury. Finally, the forestry education program is expanded by these regulations.

Beneficiary of the Rule: All Tribes. These regulations were jointly written by the Bureau of Indian Affairs and affected Tribal Governments, enhancing a government-to-government partnership. This new regulation will allow deletion of two current sets of regulations.

Impact of S. 219: A moratorium could delay the publication of these rules. As a result, improvement of Bureau of Indian Affairs processes could be halted, and Tribes could suffer from a less efficient process. In addition, Tribes could lose money by being unable to take advantage of having their monies in interest bearing accounts sooner.

Date: Rules to be published in 1995.

ISSUE: LANDOWNER RELIEF UNDER SPOTTED OWL REGULATION (DEPT. OF INTERIOR/FISH AND WILDLIFE SERVICE)

STATES AFFECTED: Washington, California

Rule: This rule lifts existing spotted owl incidental take restrictions on millions of acres of non-federal forest land in California and Washington. This rule would dramatically reduce the present level of protection for an owl from thousands of acres of forest land down to only 70 acres. The rule also allows for the first of its kind small landowner exemption. This exemption provides that a landowner with less than 80 acres of forest land would drop out of the spotted owl restrictions altogether except for the core area surrounding a nesting site.

Beneficiary of the Rule: Landowners in the affected areas, the timber industry.

Impact of S. 219: The Fish and Wildlife Service plans to provide a lengthy opportunity for public comment and to finalize the relief proposal by fall 1995. A moratorium could put a halt to implementing the proposed relief, resulting in the continued operation of Endangered Species restrictions on millions of acres of forest land, including the land of small landowners.

Date: Final rule to be published fall of 1995.

**ISSUE: FAMILY AND MEDICAL LEAVE ACT REGULATIONS
(DEPT. OF LABOR)**

STATES AFFECTED: All

Rule: The regulations implement the Family and Medical Leave Act of 1993 which allows eligible employees to take up to 12 weeks of unpaid leave a year for the birth of a child, adoption of a child, or to care for a seriously ill relative.

Beneficiary of the rule: Both employers and employees benefit from the clarification and guidance provided in the final rules, including, for example, clarification of what a "serious health condition" is.

Impact of S. 219: Without the final rules, uncertainties raised by the law and the interim regulations would remain.

Date: Final rules were published on January 6, 1995 and will become effective on April 6, 1995.

ISSUE: PROCEDURE FOR REMOVAL OF LOCAL LABOR ORGANIZATION OFFICERS (DEPT. OF LABOR)

STATES AFFECTED: All

Rule: The rule deleted language in current regulations which gave the Secretary of Labor enforcement authority concerning complaints from labor organization members about the failure of a local union to follow its officer removal procedures. The rule was proposed to bring regulatory language into conformance with Department practice.

Beneficiary of the rule: Labor organizations and their members benefit from the rule since it clarifies the scope of the Secretary's authority to remove union officers and eliminates inconsistencies.

Impact of S. 219: The moratorium would delay an opportunity to clarify regulatory obligations and reduce regulatory burdens.

Date: The final rule was published on December 21, 1994, with an effective date of January 20, 1995.

ISSUE: LOGGING SAFETY (DEPT. OF LABOR/OCCUPATIONAL SAFETY AND HEALTH ADMINISTRATION)

STATES AFFECTED: All

Rule: This rule addresses the major causes of logger deaths and serious injuries, by providing safety provisions for chainsaws, logging machinery, tree harvesting procedures, training, and personal protective equipment.

Beneficiary of the Rule: Logging companies are expected to benefit from over four thousand fewer lost work-day injuries and a standardization of industry safety requirements, and this rule is expected to prevent an average of 111 logger deaths, 4,759 lost work-day injuries, and 2,639 other serious injuries each year.

Impact of S. 219: The logging occupation has the highest death rate of all occupations -- 14,000 per 100,000 workers -- almost 3 times the private sector rate. If S. 219 passes, it would allow continuation of the carnage that now takes place in the logging industry.

Date: Most of the final rule went into effect on February 9, 1995, with twelve provisions of the final rule having been stayed until August 1995.

**ISSUE: SAFE PRACTICES FOR DIESEL EQUIPMENT IN UNDERGROUND
COAL MINES (DEPT. OF LABOR/MINE SAFETY AND HEALTH
ADMINISTRATION)**

STATES AFFECTED: Coal Mining States

Rule: Use of diesel-powered equipment in underground coal mines has mushroomed in the past 18 years, without the special safety, health regulations, or equipment approval regulations necessary to control fire hazards and health concerns of acute and long-term exposure to diesel exhaust gases -- this rule will provide basic, common-sense standards for use of this potentially dangerous machinery.

Beneficiary of the Rule: Mine workers, mine operators and state regulatory officials have strongly supported finalizing diesel regulations, and many mine operators have already begun implementing some improvements in anticipation of the standard rule.

Impact of S. 219: A moratorium would allow diesel equipment to continue to be used without specific regulation or safety controls. In a 13 year period, there were 10 diesel-related fires investigated by MSHA. Suspension of this rule would stall or halt the good-faith efforts that many mine operators have begun to make toward improving the health, safety and use of diesel equipment in underground coal mines.

Date: Final rule to be issued in March 1995

**ISSUE: REDUCING EXPOSURE TO TUBERCULOSIS IN THE WORKPLACE
 (DEPT. OF LABOR/OCCUPATIONAL SAFETY AND HEALTH
 ADMINISTRATION)**

STATES AFFECTED: All

Rule: Based on the Centers for Disease Control's recommendations, this proposed rule will protect employees from occupationally acquired tuberculosis through provisions for engineering controls, administrative controls, work practice controls, respiratory protection, medical surveillance, and training. In order to reduce the regulatory burden on facilities with a low incidence of TB, this rule will be specially tiered on the basis of the location and type of facility.

Beneficiary of the Rule: The 4.5 million workers covered under this rule, and the employers who will have fewer lost workdays to this disease.

Impact of S. 219: Unless workplace transmission of TB presented an "imminent threat to health or safety", a moratorium could prevent effective control of this virulent disease, especially in high-risk workplaces and locations.

**ISSUE: WORKER EXPOSURE TO CANCER-CAUSING AGENT
(DEPT. OF LABOR/OCCUPATIONAL SAFETY AND HEALTH
ADMINISTRATION)**

STATES AFFECTED: All

Rule: This proposed rule will reduce exposures to the potent carcinogen Chromium, found largely in the metal finishing, chrome production, and electroplating. The provisions are based on generally accepted good industrial hygiene practices. A separate standard for the construction industry will allow provisions to be tailored to different circumstances in that industry.

Beneficiary of the Rule: Workers and employers in the affected industries will benefit from prevented cancer deaths and dermatitis cases.

Impact of S. 219: Since it is unclear how the "imminent threat to health or safety" exception will be defined, a moratorium could delay the implementation of these health rules, resulting in continued exposure to this serious carcinogen.

Date: To be issued later this year.

**ISSUE: WORKER EXPOSURE TO REPRODUCTIVE AND
DEVELOPMENTAL RISKS (DEPT. OF LABOR/OCCUPATIONAL
SAFETY AND HEALTH ADMINISTRATION)**

STATES AFFECTED: All

Rule: This final rule will establish lower exposure limits for four chemicals that pose risks of adverse developmental and reproductive effects, including requirements for employee training, medical surveillance, and exposure monitoring. This standard is based on generally accepted industrial hygiene principles.

Beneficiary of the Rule: The 7,000 workers who would be covered by this rule. From 68 to 404 adverse developmental and reproductive effects/conditions could be avoided annually.

Impact of S. 219: A moratorium would allow the higher exposure levels to remain in place, potentially causing hundreds more adverse developmental and reproductive conditions. It is uncertain whether lowering an exposure level would qualify under an "imminent threat to health or safety" exception.

Date: To be issued later this year.

**ISSUE: MOTOR VEHICLE SAFETY STANDARDS FOR PASSENGER CAR
BRAKE SYSTEMS (DEPT. OF TRANSPORTATION)**

STATES AFFECTED: All

Rule: This rule standardizes U.S. regulations with those of the European Community with respect to braking systems. The purpose of the rule is to allow the same vehicle to be sold in the U.S. and European markets without modifying the brake systems to conform to the European standards, and vice-versa.

Beneficiary of Rule: The direct beneficiaries of this rule are automobile manufacturers and all the employees who are involved in the manufacturing of automobiles and the manufacturing of parts for automobiles. Purchasers of automobiles would benefit from lower industry costs.

Impact of S. 219: S. 219 would suspend the implementation of the standardization of braking systems, raising cost to the industry. U.S. employees will be hurt because the U.S. automakers may be less competitive abroad.

Date: Final rule scheduled to go into effect 3/6.

**ISSUE: STANDARDIZING REGULATIONS FOR DOMESTIC
 SHIPMENTS OF HAZARDOUS MATERIALS (DEPT. OF
 TRANSPORTATION)**

STATES AFFECTED: All

Rule: This rule standardizes regulations for shipments of domestic hazardous materials, making them more consistent with similar international regulations.

Beneficiary of Rule: Shippers and carriers of hazardous materials that are engaged in both domestic and international shipments. Without revisions to the final rule, carriers would have to comply with differing rules for domestic and international shipments of hazardous materials.

Impact of S. 219: S. 219 would increase the cost of doing business for international and domestic shippers and carriers of hazardous materials, placing an unfair burden on U.S. businesses. Moreover, requiring different regulations for domestic and international shipments may stifle exports of hazardous materials, which had a positive balance of trade of approximately \$17 billion in 1994.

Date: Rule in effect as of 1/95

ISSUE: GREAT LAKES PROTECTION (DEPT. OF TRANSPORTATION)

STATES AFFECTED: GREAT LAKES STATES

Rule: This rule requires vessel operators entering the Hudson River north of the George Washington Bridge, after operating on waters beyond the Exclusive Economic Zone, to either exchange their ballast water at high sea before entering the Hudson River, or to retain their ballast water onboard while in the Hudson River. This rule is designed to prevent the spread of injurious non-indigenous species (such as zebra mussels) carried in ballast water from entering the Hudson River and spreading to the Great Lakes.

Beneficiary of the Rule: Municipal power companies, utility companies, and the New York drinking water supply. This rule is designed to protect the Great Lakes, the Hudson River and the New York drinking water supply from the devastating effects of injurious non-indigenous species such as the zebra mussel which has already infested the Great Lakes. Such species clog intakes to municipal water-filtration and electrical power plants, requiring frequent repairs that are extremely costly.

Impact of S. 219: Without measures to protect the affected areas from introduction of non-indigenous injurious species, it is feared that a costly infestation, similar to the zebra mussel infestation, will occur again. The cost of the zebra mussel infestation in the Great Lakes may reach \$5 billion by the year 2000.

**ISSUE: AIRWORTHINESS DIRECTIVES (AD's), (DEPT. OF
TRANSPORTATION/FEDERAL AVIATION ADMINISTRATION)**

STATES AFFECTED: All

General Rules: Periodically, the FAA issues airworthiness directives designed to rectify potential safety problems in aircraft. Several examples of airworthiness directives that could be suspended are:

- Restrictions on the operation of the ATR-42 and ATR-72 aircraft in icing conditions, following the October crash of an ATR-72 in Indiana;
- Revision to the Airplane Flight Manual to prohibit takeoff in certain icing conditions unless either an inspection is performed or specific takeoff procedures are followed. Applicable to Fokker Model F28 Aircraft;
- Inspection and Modification of the tailcone release assembly of certain McDonnell Douglas aircraft to ensure that passengers can escape during an emergency evacuation;
- Inspection and repair of landing gear brakes for certain Airbus aircraft. This rule was prompted by an accident in which an aircraft was unable to stop on a wet runway;
- Replacement of certain bolts, nuts, and washers that hold together parts of the wing flap. The new attachments prevent failures that could cause the aircraft to roll over upon lift-off. Applicable to Boeing 757 aircraft;
- Requiring measures to prevent the sliding cockpit side windows from rupturing in certain Airbus models. Failure to prevent the sliding cockpit side windows from rupture can potentially result in rapid decompression of the aircraft.

Impact of S. 219: The moratorium could prevent these types of directives from being issued. The safety concerns they address, though significant, may not be sufficiently imminent to qualify for an exception under S. 219.

Date: These Airworthiness Directives were published after November 20, 1994.

ISSUE: **STANDARDIZATION OF AVIATION RULES (FAA)**

STATES AFFECTED: **All**

Rule: This set of rules would standardize regulations between the United States and European Joint Aviation Authorities regarding flight operations and aircraft safety certification.

Beneficiary of Rule: The direct beneficiary of this rule is the airline industry. It is estimated that the U.S. industry, both airlines and airline suppliers, will save between \$100 million and \$1 billion as a result of this standardization of important safety regulations. Passengers would benefit from reduced industry costs.

Impact of S. 219: S. 219 would have a detrimental effect on the U.S. airline industry by hampering their ability to conform to one safety and flight operation standard.

Date: No date of Rule

**ISSUE: AIRPORT RATES AND CHARGES
 (DEPT. OF TRANSPORTATION)**

STATES AFFECTED: All

Rule: This rule will provide standards and procedures under which the Department of Transportation will adjudicate complaints by airlines about new or increased airport fees. The standards and procedures are necessary to reduce the chance the airport fee disputes will create disruptions in air service.

Beneficiary of Rule: Airlines and airports, which face potential disruptions in services during fee disputes, will benefit from efficient adjudication set forth in this rule. Airline passengers in turn benefit from the reduced chance of service disruption.

Impact of S. 219: The moratorium would cause a delay in the implementation of this rule, increasing the risk for disruptive disputes in the future.

Date: The final rule is effective February 3, 1995.

ISSUE: COMMUTER AIRLINE SAFETY STANDARDS
(DEPT. OF TRANSPORTATION)

STATES AFFECTED: All

Rule: This set of rules would upgrade the standards for commuter airlines to those of the major airlines. For example, it would require pilots on small commuter aircraft to go through the same sophisticated training as pilots of the large carriers. It also increases crew flight and rest requirements.

Beneficiary of Rule: Commuter carrier passengers. Commuter carriers, which operate aircraft with fewer than 30 seats, represent one of the fastest growing segments of the U.S. airline market and often dominate airline service to many medium sized cities and rural areas. Air carriers in general have expressed support for this broad initiative.

Impact of S. 219: A delay in the implementation of this rule will slow the improvement in standards for commuter carriers.

Date: A proposed rule will be issued in March, 1995, with the final rule planned by December 1995.

**ISSUE: HEAD IMPACT PROTECTION (DEPT. OF
TRANSPORTATION)**

STATES AFFECTED: All

Rule: This rule will require protection against head impacts in the upper interior of cars, light trucks, and light multipurpose passenger vehicles.

Beneficiary of Rule: All drivers and passengers in automobiles manufactured after the effective date of the rule, as well as insurance companies, will benefit. The National Highway Traffic Safety Administration (NHTSA) estimates that, once the vehicles manufactured under this rule replace the existing fleet, over 1,000 lives will be saved and over 600 serious injuries will be avoided per year.

Impact of S. 219: Each year of delay in the implementation of this rule will cause over a thousand lives to be lost and several hundred preventable injuries to occur over time.

Date: In the absence of a moratorium, the final rule will be published in March or April 1995.

ISSUE: PREVENTION OF OIL SPILLS (DEPT. OF TRANSPORTATION)

STATES AFFECTED: Coastal States

Rule: This rule sets requirements for single-hull cargo vessels, such as oil tankers. It is intended to reduce the risk of oil spills like that of the Exxon Valdez, which caused the huge oil spill at Valdez, Alaska. The rule includes a number of measures including structural requirements and required operational procedures, to ensure that the structure and operation of these vessels is adequate to avoid such accidents.

Beneficiary of the Rule: This rule would benefit all coastal areas to which oil is shipped or from which it is imported. It would also enhance the safety of the crews of these vessels.

Impact of S. 219: The moratorium would delay the implementation of these new safety procedures, leaving the environment at risk to other oil spill accidents, such as the Valdez spill.

Date: The proposed rule is expected to be published in December of 1995 for the operational measures and February of 1996 for structural measures.

**ISSUE: AIRLINE CREW ASSIGNMENTS (DEPT. OF
TRANSPORTATION)**

STATES AFFECTED: All

Rule: This rule will require airlines to ensure that at least one of the pilots assigned to a particular flight has met specified experience requirements for that airplane. Aircraft accidents have occurred several times where both pilots were inexperienced with that particular type of aircraft, and most airlines now recognize the importance of having at least one seasoned pilot on each aircraft.

Beneficiary of the Rule: The flying public and airline crews would benefit from enhanced safety associated with more experienced pilots in the cockpit.

Impact of S. 219: The moratorium would delay the implementation of this safety enhancement.

Date: The final rule is scheduled to be issued by mid-1995.

**ISSUE: FLIGHT ATTENDANT DUTY PERIOD LIMITATIONS
 AND REST REQUIREMENTS (DEPT. OF
 TRANSPORTATION)**

STATES AFFECTED: All

Rule: This rule requires air carriers, air taxi, and commercial operators to provide duty period limitations and rest requirements for flight attendants. It is intended to ensure that flight attendants have an acceptable level of rest so they can perform safely at all times when they are on duty.

Beneficiary of the Rule: Flight attendants benefit from improved working conditions. The entire airline crew and passengers benefit from enhanced safety.

Impact of S. 219: This moratorium would delay the implementation of this rule. The enhancements to safety emanating from the rule would be delayed.

**ISSUE: GOVERNMENT SECURITIES - LARGE POSITION REPORTING
 (TREASURY)**

STATES AFFECTED: All

Rule: These rules are in response to the Government Securities Act Amendments of 1993 that granted the Treasury the authority to prescribe rules requiring persons holding, maintaining or controlling large positions in to-be-issued or recently issued Treasury securities to keep records and file reports of such securities. Large position rules will enable Treasury and other regulators to identify concentrations of ownership in certain Treasury securities, strengthen market surveillance capabilities and better police against fraud and manipulation in the market for Treasury securities. Large position records and reports will also provide regulatory agencies early warning of potential market problems. These rules will also enable regulators to monitor any large positions of major market participants other than government securities brokers and dealers that are largely unregulated (e.g., hedge funds).

Beneficiary of the Rule: The ultimate beneficiary of these rules is the U.S. taxpayer since large positions rules are intended to assure the continued liquidity and efficiency of the government securities market, thereby enabling the Government to minimize its borrowing costs.

Impact of S. 219: The exemptions of S. 219 do not include regulations affecting government securities brokers and dealers. S. 219 would deny the implementation of the rules, thereby preventing the enhanced market efficiency that they would promote.

Date: Proposed rule announced for public comment January 24, 1995.

ISSUE: ALCOHOLIC BEVERAGE LABELING (TREASURY/BUREAU OF ALCOHOL, TOBACCO AND FIREARMS))

STATES AFFECTED: All

Rule: Provides requirements for the improved labeling for containers of beer, wine and distilled spirits, so that they may be easily traced and identified in case of any threat to public health that may require speedy removal of an item from the market.

Beneficiary of Rule: Consumers, retailers, wholesalers and government agencies.

Impact of S. 219: Under a moratorium, the recall of a beer, wine, or distilled spirit item would take substantially longer due to the lack of this labelling system, potentially endangering the public health and safety.

Date: To be issued later this year.

**ISSUE: COMPENSATION FOR CERTAIN UNDIAGNOSED ILLNESSES OF
 PERSIAN GULF VETERANS (DEPT. OF VETERANS AFFAIRS)**

STATES AFFECTED: All

Rule: This document provides the necessary regulatory framework to allow the Secretary to pay compensation under the authority granted by the Persian Gulf War Veterans' Benefits Act.

Beneficiary of Rule: Afflicted Persian War Veterans and their families.

Impact of S. 219: Unless this compensation is defined as "benefits" and excluded from coverage under S. 219, passage of this measure would prevent the Secretary of Veterans' Affairs from authorizing payment of disability benefits to any veterans of the Persian Gulf War who are suffering from certain undiagnosed illnesses. The result will be the prevention of relief for these people and their families.

Date: November 2, 1994.

**ISSUE: AGREEMENT ESTABLISHING WATER QUALITY
STANDARDS FOR SAN FRANCISCO BAY DELTA (ENVIRONMENTAL
PROTECTION AGENCY)**

STATES AFFECTED: California

Rule: This rule provides farmers, bankers, municipalities and other users the certainty that they need over the next three years to allocate water in the Bay Delta among competing interests. This rule is a direct result of years of negotiation and final agreement among competing interests to manage fresh water supplies, minimize adverse water quality impacts on the Bay, and provide the assurances that the financial community needs to support economic activities in the Delta.

Beneficiary of the Rule: All Bay Delta waters and all U.S. consumers of food produced in the Delta. Delta water supports 45 percent of the nation's fruit and vegetable production and 20 million Californians, who use the Bay Delta for drinking water.

Impact of S. 219: S. 219 would void an agreement that required substantial time and effort. More importantly, eliminate the certainty it offers to maintain the Delta as viable source of drinking and irrigation water. The implications for voiding the Agreement would be substantial in scope. If the Agreement were vacated as a result of S. 219, long term use of the Bay Delta as a viable source of water supply would be threatened because of over use and lack of coordination among the millions of users of Bay Delta water, especially during droughts. Vacating the agreement would threaten the livelihood of individual water uses and State of California's credit rating and its economy.

Due to the lack of an Agreement, no new investment decisions have been made with respect to new canals, major construction projects, water allocation, alternative sources of water supply, canal systems, or reservoir management in the Bay Delta for the *last 20 years*.

Date: Final Rule published 1/24/95

ISSUE: **STANDARDS FOR NUCLEAR WASTE DISPOSAL (ENVIRONMENTAL PROTECTION AGENCY)**

STATES AFFECTED: All, particularly New Mexico

Rule: Issuance of these standards would allow safe disposal of nuclear waste. They would provide guidance that has already been delayed for many years and that is critical to solving the problem of nuclear waste disposal.

Beneficiary of the Rule: The nuclear power industry, DOD and DOE are looking to these standards to allow safe disposal of nuclear waste.

Impact of S. 219: With the passage of the bill, standards would be delayed which would further delay the proper and safe disposal of nuclear waste, particularly at the Waste Isolation Pilot Plant (WIPP) in New Mexico, the country's first nuclear waste repository.

Date: Proposed on January 30, 1995.

ISSUE: PESTICIDE REGULATION FLEXIBILITY (ENVIRONMENTAL PROTECTION AGENCY)

STATES AFFECTED: All, especially farm states

Rule(s): EPA has several regulatory reform initiatives underway that would be halted or substantially delayed under the moratorium. All of these initiatives are aimed at streamlining reporting requirements, targeting actions to high-risk, high-use pesticides, or providing the regulated community more flexibility. For example:

- o Farmworker Protection Standards: These standards require the producers of agricultural pesticides to label their products to provide warnings to workers about potential health effects associated with using these chemicals. This rule was promulgated and became effective in 1992, but Congress delayed the implementation of portions of the rule until January, 1995. The rule requires owners of agricultural production facilities (e.g., farms, nurseries, etc.) to provide training on ways to use regulated pesticides safely and require workers to wear protective clothing and to stay out of newly sprayed fields until they no longer pose a risk. EPA risk analyses show that 3.5-million farm workers are one of the highest risk groups protected by EPA regulations. On January 13, 1995, EPA proposed a package of additional provisions to provide more flexibility as the rule is being implemented.
- o Adverse Effects Reporting under FIFRA Section 6 (a)(2): Pesticide registrants must provide EPA with any information that shows their product may cause adverse health or environmental effects. Rule clarifies reporting requirements vaguely defined under two previous policy statements.
- o Setting Pesticide Tolerances for Public Health: Under the Federal Food Drug and Cosmetic Act, EPA establishes, by regulation, the maximum permissible level of a pesticide in foods--called "tolerances." If EPA does not establish or exempt from the requirement, a tolerance for a pesticide, the food containing that pesticide residue is considered to be "adulterated" and may not be legally introduced into interstate commerce. EPA sets different tolerances for raw and processed foods. If these actions are subject to the moratorium, new pesticide uses could be prohibited and recently approved uses could result in the harvesting of food crops which are subject to seizure by USDA or the FDA. In addition, EPA is operating under a court order to revoke the tolerances related to certain cancer-causing pesticides. To date, EPA has proposed or finalized revocations for over 30 tolerances--two dozen more are expected before mid-year.
- o Limiting Pesticide Use under State Groundwater Management Plans: This summer, EPA and States will propose to require 5 high-volume pesticides to be used only under the terms of a management plan that addresses state-specific groundwater uses and characteristics. This "common sense" approach to limiting pesticide uses, particularly where groundwater is used as a drinking water supply, would be halted under the moratorium--further postponing EPA's \$25-

million investment in working with states on this more flexible approach.

Beneficiary of the Rule: People who depend on groundwater for drinking water; pesticide manufacturers and distributors; owners of agricultural production facilities; farm workers who risky apply pesticides; consumers of food with pesticide residues.

Impact of S. 219: The proposed provisions to provide additional flexibility and regulatory relief would be delayed by the rulemaking.

Dates: Various proposal dates throughout the moratorium period.

ISSUE: REDUCING TOXIC AIR EMISSIONS (ENVIRONMENTAL PROTECTION AGENCY)

STATES AFFECTED: All

Rule: This rule allows industries to obtain pollution credits for voluntarily reducing air pollution before they are required to by law. Thus, this rule allows interested companies, those who now want to invest in cleaner air today, to take credit now for early compliance. This means that we all get to enjoy the benefits of cleaner air, sooner.

Beneficiary of the Rule: All U.S. residents will benefit from cleaner air, especially children and sensitive adults. Industry will also benefit because they will be allowed to take credit for reducing toxic air pollution earlier, rather than later. Currently, 21 companies have applied for the program and 17 more have indicated an interest.

Impact of S. 219: The proposed moratorium would prohibit these companies from participating. Those that make investments in controlling pollution will not receive credit for those reductions when future reductions are mandated by law.

Date: Proposed, November 21, 1994; final later this year.

ISSUE: LEAD POISONING PREVENTION (ENVIRONMENTAL PROTECTION AGENCY)

STATES AFFECTED: All, primarily states with older housing stock and drinking water supply infrastructure

Rule(s): EPA now has under consideration several rules that would protect the public from exposure to lead from house paint, including regulations to ensure that home buyers and renters will be informed of lead hazards prior to making purchase or rental decisions and regulations to ensure that all lead abatement workers are certified to professional standards of practice.

Beneficiary of the Rules: Anyone who is exposed to lead from paint or dust inside their homes (more than 3.8-million homes have lead-based paint), from lead-contaminated soil, or from their drinking water supply. Lead is a particular threat to children regardless of family income. It can adversely effect the nervous system, kidney and the hematopoietic system, causing decreased intelligence, impaired neurobehavioral development, coma, convulsions, hypertension and even death.

Impact of S. 219: Unless these rules are promulgated, there will be more exposures to lead that could have been prevented from occurring. Lead exposure is especially high in inner-city communities. One in five poor, minority, inner city children have elevated blood-lead levels, compared to one in eleven children in the general population.

Dates: Most of these regulations and guidance have already been proposed and are scheduled to be finalized this summer or fall.

ISSUE: **CLEANUP AT URANIUM PROCESSING SITES (ENVIRONMENTAL PROTECTION AGENCY)**

STATES AFFECTED: Western states primarily

Rule: This new final rule sets out cost-effective standards for preventing and cleaning-up groundwater contamination at inactive uranium processing sites. This rule replaces a restrictive and costly interim standard.

Beneficiary of the Rule: This rule benefits those people living around the sites, who will have cleaner groundwater. It also provides certainty and additional flexibility for those responsible for cleaning-up contaminated sites (e.g., DOE uranium processing facilities throughout the Western U.S.).

Impact of S. 219: More costly and unattainable interim standards will remain in effect, delaying clean-ups and increasing costs.

Dates: January 11, 1995 and later this year.

**ISSUE: FLAMMABILITY STANDARD FOR UPHOLSTERED FURNITURE
(CONSUMER PRODUCT SAFETY COMMISSION)**

STATES AFFECTED: All

Rule: The Commission is in the process of developing a proposed flammability standard for upholstered furniture. The purpose of the standard is to reduce the deaths and injuries that result from fire incidents involving upholstered furniture that are started by small open flames (e.g., matches, candles and lighters).

Beneficiary of the Rule: The potential victims of house fires would benefit from this rule. In 1992, there were an estimated 80 deaths, 490 injuries, and \$48.3 million worth of property damage associated with open flame ignition of upholstered furniture. A substantial portion of these are believed to be related to small flame sources.

Impact of S. 219: The moratorium would keep the Commission from doing the work necessary to develop this standard until after the moratorium period. The delay could result in additional fire-related injuries and deaths that could have been avoided.

Date: The Commission issued an advance notice of proposed rulemaking on June 15, 1994 and is working toward a proposed rule.

ISSUE: PERSONAL COMMUNICATIONS SYSTEMS AUCTIONS (FEDERAL COMMUNICATIONS COMMISSION)

STATES AFFECTED: All

Rule: This rule establishes criteria to prevent collusion among bidders for "entrepreneurs' blocks" of frequencies for Personal Communications Services (PCS). PCS is a form of mobile telephone service that is expected to compete with existing cellular services and thereby promote price competition in mobile phone services. The rule also establishes groundrules for triggering the final stage of the auctions. The auctions ensure that licenses are distributed by the competitive marketplace rather than bureaucratic procedures.

Beneficiary of the Rule: All businesses bidding for PCS services and the Treasury. Previous auctions for other frequencies brought in over \$6 billion to the Treasury. This rule is designed to improve the auction system previously used to allow for reasonable pace in bidding.

Impact of S. 219: The moratorium would require the suspension of the auction rules and a return to previous methods. Since the bidders have to prepare their bidding strategies weeks and months in advance of the auctions, suspension of the rules will be costly to the smaller businesses involved in the auctioning of "entrepreneurs' blocks".

ISSUE: EMERGENCY BROADCAST SYSTEM (COMMUNICATIONS COMMISSION)

STATES AFFECTED: All

Rule: The rule provides for the incorporation of a new mandatory system on broadcast TV and radio for airing instructions in the event of emergencies. The rule contemplates the use of new technology that automatically turns on radios and televisions. The rule also extends emergency broadcast rule requirements to cable TV companies.

Beneficiary of the Rule: The general public will benefit by having emergency broadcast system services more widely available. TV and radio broadcast stations will be able to reduce station operating expenses under this rule.

Impact of S. 219: With a moratorium in place, implementation of emergency broadcasting system services by cable TV companies would not occur and compliance cost reductions for broadcast stations will not be realized. This could eventually cost lives if a comprehensive system were not in place.

ISSUE: CABLE RATE RESTRUCTURING (FEDERAL COMMUNICATIONS COMMISSION)

STATES AFFECTED: All

Rule: This rule provides small (often rural community) cable systems with an alternative, less time-consuming means of calculating permissible rates under the 1992 Cable TV Act. The effect will be to make it easier for small systems to calculate current rates and increased rates for new programming and will thus be an incentive to carry new programming.

Beneficiary of Rule: Rural communities will benefit.

Impact of S. 219: The moratorium would delay the rule and postpone the potential benefits for small cable systems. Although S. 219 excepts rates, the exception apparently does not cover general rules like this regarding the calculation of rates.

ISSUE: VIDEO DIALTONE (FEDERAL COMMUNICATIONS COMMISSION)

STATES AFFECTED: All

Rule: This rule sets out the basic framework for Video Dialtone ("VDT"), the distribution of video programming by the telephone companies over their wire networks. The rules set out an accounting scheme to protect consumers by preventing phone companies from using their phone subscribers' revenues to build the infrastructure for their video delivery systems.

Beneficiary of Rule: Consumers will benefit from development of VDT systems and the competition the rules will allow.

Impact of S. 219: If this rule is stayed, planning for VDT systems now being conducted by a number of the major regional Bell companies would come to a halt. It is not clear that these rules would fit within S. 219's exception for new technology since new restrictions are also prescribed.

Date: Adopted proposal for price caps for VDT services February 7, 1995; cross-ownership rules for VDT adopted December 12, 1994.

ISSUE: CALLER ID (FEDERAL COMMUNICATIONS COMMISSION)

STATES AFFECTED: All

Rule: This rule would establish a federal model for interstate delivery of caller ID services which would protect calling party privacy and minimize costs of delivering this service.

Beneficiary of Rule: Consumers will benefit.

Impact of S. 219: The moratorium would delay the consumer protections that these rules would provide.

Date: Adopted rules March 8, 1994; final action expected soon.

**ISSUE: PERSONAL USE OF CAMPAIGN FUNDS BY A FEDERAL CANDIDATE
(FEDERAL ELECTION COMMISSION)**

STATES AFFECTED: All

Rule: To prevent the unlawful personal use of campaign funds by federal candidates, this FEC Rule clearly lists the areas that will be automatically considered personal use, and explains legitimate uses of campaign resources. The list includes items such as club memberships, clothing, tuition payments, mortgage and rent payments, and salary payments to family members. The passage of the Ethics Reform Act of 1989 prompted the FEC to create these rules to avoid any confusion over what federal candidates may do with campaign funds.

Beneficiary of Rule: Campaign donors, who will have increased confidence that campaign funds are being used properly, and federal candidates, who will be able to better comply with the campaign finance laws.

Impact of S. 219: Suspension of the rule will allow the continuation of the present FEC definitions of personal uses of campaign funds, which are much less clear. This in turn increases the chances of intentional or inadvertent violations by Members of Congress and Senators.

Date: The Final Rule was transmitted to Congress on February 3, 1995, and was published in the Federal Register on February 9, 1995.

ISSUE: PUBLIC FINANCING FOR PRESIDENTIAL CANDIDATES (FEDERAL ELECTION COMMISSION)

STATES AFFECTED: All

Rule: This rule is revised in preparation for every new Presidential cycle, providing guidance on permissible uses of campaign funds, proper disclosure of activity, and to streamline the mandatory audit process.

Beneficiary of the Rule: Taxpayers benefit from a more cost-efficient audit system under the public financing system, and Presidential primary and general election candidates benefit from improved guidelines.

Impact of S. 219: Presidential candidates could begin collecting contributions in January 1995 to qualify for public funding. The moratorium would make these guidelines unavailable to the 1996 Presidential primary and general election candidates.

Date: To be issued later this year.

ISSUE: POLITICAL CAMPAIGN DISCLAIMERS (FEDERAL ELECTION COMMISSION)

STATES AFFECTED: All

Rule: Clarifies to federal candidates and political committees how to comply with requirements to disclose who paid for and authorized political ads and communications.

Beneficiary of the Rule: Federal candidates, political committees and the general public will all benefit from clear national requirements for disclosing the sponsorship of political ads and communications.

Impact of S. 219: The moratorium would make this rule ineffectual during the 1996 Presidential and Congressional primary season early next year. Federal candidates and political committees will not have the benefit of working with a rule that seeks to simplify requirements.

Date: To be issued later this year.

**ISSUE: LOWER ELECTRIC RATES (FEDERAL ENERGY
REGULATORY COMMISSION)**

STATES AFFECTED: All

Rule: This rule will permit the FERC Chair and Commissioners to act generically (rather than on a case by case basis) to make transmission available to meet the needs of both power suppliers and customers. The rule will assist the industry as it moves to a competitive bulk power market where wholesale power suppliers will be able to compete freely to serve customers. At the same time, this rule will help resolve stranded costs.

Beneficiary of Rule: Every citizen. Increased competition will lower electric rates to consumers. Additionally, resolution of stranded costs will preserve the financial viability of utility companies, thus enhancing investment opportunity.

Impact of S. 219: Passage of S. 219 would create a substantial barrier to the utility industry's movement toward competitive wholesale markets, and would cause regulatory uncertainty and risk to the industry.

Date: To be issued this year.

ISSUE: UTILITY RATE RECOVERY (FEDERAL ENERGY REGULATORY COMMISSION)

STATES AFFECTED: All

Rule: This rule proposes rate recovery of "stranded costs," that is, utility costs that were prudently incurred under the old regulatory regime, but that might not be recoverable as the utility industry moves from a regulated environment to a market-driven, competitive regime. It also addresses how to harmonize recovery of stranded costs at the federal level with recovery of stranded costs at the state level. These costs could amount to billions of dollars. Potential stranded costs could exceed the book value of many utilities' equity if states implement programs allowing customers to choose their own electricity suppliers.

Beneficiary of the Rule: Every citizen. This rule will protect the financial viability of the utility industry. Thus, investment potential will be enhanced and, ultimately, utility rates will be reduced.

Impact of S. 219: Passage of S. 219 would greatly impede the transition toward competition within the industry and thus, retard any rate reduction for consumers.

Date: To be issued later this year.

ISSUE: **CLEANUP OF NUCLEAR FACILITIES (NUCLEAR REGULATORY COMMISSION)**

STATES AFFECTED: **All States with NRC-licensed facilities**

Rule: The proposed rule provides cleaned up criteria for the decontamination and decommissioning of NRC-licensed sites. These criteria include the clean up and release of these facilities for unrestricted and restricted use. The rule will ensure that decommissioning will take place without adverse effects on the health and safety of the public and the environment.

Beneficiary of the Rule: The American public and the environment. Cleanup of nuclear facilities pose a safety and health risk if not done in an appropriate manner. This regulation will ensure decommissioning in a safe and efficient fashion.

Impact of S. 219: If this legislation is enacted, the NRC would not have criteria to ensure consistent decommissioning decisions over many types of sites in different geographical locations. Moreover, the opportunity for release of sites under restricted use conditions would be more difficult. Without regulations, the nuclear industry would not have a predictable and stable basis on which to reach decommissioning decisions.

ISSUE: RECOVERY OF LICENSE FEES (NUCLEAR REGULATORY COMMISSION)

STATES AFFECTED: All, including all taxpayers.

Rule: The proposed rule is necessary for recovering licensing fees required under the 1990 Budget Act (Act). Under the Act, the Nuclear regulatory Commission is required to recover 100% of the costs of benefits it confers upon those licensees and applicants who receive a disproportionately large share of NRC services. This money would then fund the activity of the agency for FY 95.

Beneficiary of the Rule: The American taxpayer. The money estimated to be collected by the NRC would go to fund the agencies activities for FY 95.

Impact of S. 219: If this legislation is implemented, the NRC will be prohibited from receiving reimbursement for the services they have rendered and resources they have expended to applicants and licensees. The amount of money involved for FY 95, and which may not be able to be collected as a result of the implementation of S. 219 is expected to be close to \$525 million. The deficit would then increase by this amount for FY 95.

How Market Leaders Keep Their

EDGE

Instead of trying to do all things well, they pick just one discipline—best price, best product, or best solution—and execute like crazy. ■ by Michael Treacy and Fred Wiersema

WHY CAN CASIO sell a calculator more cheaply than Kellogg can sell a box of corn flakes? Does corn cost that much more than silicon?

► Why does it take only a few minutes and no paperwork to pick up or drop off a rental car at Hertz's #1 Club Gold, but twice that time and an annoying name/address form to check into a Hilton hotel? Are they afraid you'll steal the room?

► Why is it that Federal Express can "absolutely, positively" deliver a package overnight, but Delta, American, and United Airlines have trouble keeping your bags on your plane? Do they think you don't care?

► Why does Lands' End remember your last order and your family members' sizes, but after ten years of membership you are still being solicited by American Express to join? Don't the people at Amex know you're a customer?

► Why can you get patient help from a Home Depot clerk when selecting a \$2.70

package of screws, but you can't get any advice when purchasing a \$2,700 personal computer from IBM's direct-ordering service? Doesn't IBM think customer service is worth the time?

Why do some companies endear themselves to us while others just don't seem to know how to please? Don't the latter see what they are doing—and not doing? How long do they think they can get away with it? No one goes to work in the morning intending to fail. But managers at a great many companies, for all practical purposes, have chosen failure. Don't they see that the world has changed?

Customers today want more of those things they value. If they value low cost, they want it lower. If they value convenience or speed when they buy, they want it easier and faster. If they look for state-of-the-art design, they want to see the art pushed forward. If they need expert advice, they want companies to give them more depth, more time, and more of a feeling that they're the

This article is adapted from The Discipline of Market Leaders, a new book by Michael Treacy and Fred Wiersema, management consultants at CSC Index.

only customer. That's precisely why companies like Kellogg, Hilton, American Express, United, Delta, and IBM are on a slippery slope. One or more companies in their markets have increased the value offered to customers by improving products, cutting prices, or enhancing service. By raising the level of value that customers expect from everyone, leading companies are driving the market, and driving competitors downhill. Companies that can't hold their own will be pushed off a cliff.

Today's market leaders understand the battle they're in. They know they have to re-define value by raising customer expectations in the one component of value they choose to highlight. Casio, for instance, establishes new affordability levels for familiar



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products; Hertz makes car rental nearly as convenient as taking a cab; Lands' End shows individuals that they're not just a number; and Home Depot proves that old-fashioned, knowledgeable advice hasn't gone the way of trading stamps.

But wait a minute. These companies don't shine in every way. A successful company like Wal-Mart doesn't peddle haute couture; Lands' End doesn't sell clothing for the lowest possible cost; and Starbucks, the Seattle coffee chain, doesn't slide a cup of java under your nose any faster or more conveniently than anyone else. Yet all of these companies are thriving because they shine in a way their customers care most about. They have honed at least one component of value to a level of excellence that puts all competitors to shame.

OUR RESEARCH shows that no company can succeed today by trying to be all things to all people. It must instead find the unique value that it alone can deliver to a chosen market. We have identified three distinct value disciplines, so called because each discipline produces a different kind of customer value. Choosing one discipline to master does not mean that a company abandons the other two, only that it picks a dimension of value on which to stake its market reputation over the long term.

The first value discipline we call operational excellence. Companies that pursue this are not primarily product or service innovators, nor do they cultivate deep, one-to-one relationships with customers. Instead, operationally excellent companies provide

middle-of-the-market products at the best price with the least inconvenience. Their proposition to customers is simple: low price or hassle-free service, or both. Wal-Mart, Price/Costco, and Dell Computer epitomize this kind of company.

The second value discipline we call product leadership. Its practitioners concentrate on offering products that push performance boundaries. Their proposition to customers is an offer of the best product, period. Moreover, product leaders don't build their positions with just one innovation; they continue to innovate year after year, product cycle after product cycle. Johnson & Johnson, for instance, is a product leader in the medical equipment field. With Nike, the superior value does not reside just in its athletic footwear, but also in the comfort customers can take from knowing that whatever product they buy from Nike will represent the hottest style and technology on the market. For these product leaders, competition is not about price or customer service (though those can't be ignored), it's about product performance.

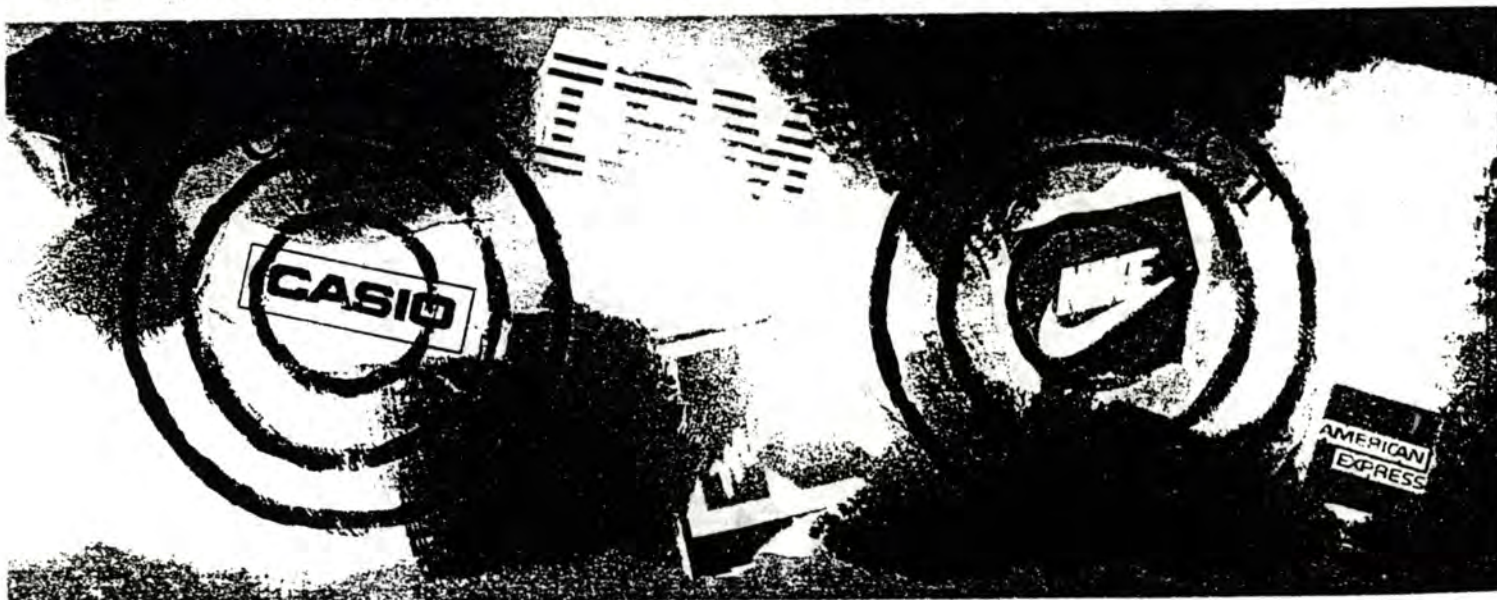
The third value discipline we have named customer intimacy. Its adherents focus on delivering not what the market wants but what specific customers want. Customer-intimate companies do not pursue one-time transactions; they cultivate relationships. They specialize in satisfying unique needs, which often only they recognize, through a close relationship with—and intimate knowledge of—the customer. Their proposition to the customer: We have the best solution for you, and we provide all the support you need to

achieve optimum results, or value, or both, from whatever products you buy. Long-distance telephone carrier Cable & Wireless, for example, practices customer intimacy with a vengeance, achieving success in a highly competitive market by consistently going the extra mile for its selectively chosen, small-business customers.

Note well: Choosing to pursue a value discipline is not the same as choosing a strategic goal. A value discipline can't be grafted onto or integrated into a company's normal operating philosophy. It is not a marketing plan, a public relations campaign, or a way to chat up stockholders. The selection of a value discipline is a central act that shapes every subsequent plan and decision a company makes, coloring the entire organization, from its competencies to its culture (see table). The choice of value discipline, in effect, defines what a company does and therefore what it is.

Such thinking leads to ideas that will surprise you. They seem out of step with the current, widely held notion that to identify core competencies and to reengineer a company's business processes is to assure its competitive future. Sick or not, if a company is going to achieve and sustain dominance, it must first decide where it will stake its claim in the marketplace and what kind of value it will offer to customers. Then it can identify core competencies and reengineer the processes that make up the operating model required to get the job done. The success of these exercises depends entirely on whether and how well they are channeled toward the pivotal issue of increasing customer value, year after year.

continued





ROBBIE MCCLELLAN

Low prices and smart merchandising help Price/Costco attract customers to its warehouse stores.

Winning Through Cost

Operationally excellent companies deliver a combination of quality, price, and ease of purchase that no one else in their market can match. They are not product or service innovators, nor do they cultivate one-to-one relationships with customers. They execute extraordinarily well, and their proposition to customers is guaranteed low price or hassle-free service, or both.

Price/Costco, the chain of warehouse club stores, doesn't provide a particularly rich selection of merchandise—only 3,500 items, vs. 50,000 or more in competing stores. But as a customer, you don't have to spend much time deliberating over what brand of coffee or home appliance to select. Price/Costco saves you that hassle by choosing for you. The company's *Consumer Reports* mentality leads to rigorous evaluation of leading brands and shrewd purchasing of just the one brand in each category that represents the best value. To add excitement to the shopping experience—that is, to get the customer to come again and again—new items are constantly sprinkled into the assortment to build anticipation and a value-of-the-week atmosphere, while the on-premise bakery wafts a delicious smell of fresh bread and pastry.

Behind the scenes, Price/Costco follows an operating model in which it buys larger quantities and negotiates better prices than competing stores. It carries only items that sell well. The company's information systems track product movement—and move it

does. These data drive stocking decisions that optimize floor space usage. The place hums. It runs like a well-oiled machine, and customers love it.

Dell Computer is another master of operational excellence. Dell has shown PC buyers that they do not have to sacrifice quality or state-of-the-art technology to buy personal computers easily and inexpensively. In the mid-1980s, while Compaq concentrated on making its PCs cheaper and faster than IBM's, college student Michael Dell saw a chance to outdo both companies by focusing not on the product but on the delivery system. Out of a dorm room in Austin, Texas, Dell burst onto the scene with a radically different and far more efficient model for operational excellence.

Dell realized that he could outperform PC computer dealers by cutting them out of the distribution process. By selling to customers directly, building to order rather than to inventory, integrating his company's logistics with its suppliers', and creating a disciplined, extremely low-cost culture, Dell undercut Compaq and other PC makers in price while providing high-quality products and services.

Businesses like Price/Costco and Dell Computer, which have vigorously pursued a strategy of operational excellence, have built an operating model based on four distinct features:

- Supply chains and basic services that have been optimized and streamlined to minimize costs and hassle.

- Operations that are standardized, simplified, tightly controlled, and centrally planned, leaving few decisions to the discretion of rank-and-file employees.
- Management systems that focus on integrated, reliable, high-speed transactions and compliance to norms.
- A culture that abhors waste and rewards efficiency.

Winning With Great Products

Companies pursuing product leadership continually push products into the realm of the unknown, the untried, or the highly desirable. Reaching that goal requires that they challenge themselves in three ways. First, they must be creative. More than anything else, being creative means recognizing and embracing ideas that may originate anywhere—inside the company or out. Second, they must commercialize their ideas quickly. To do so, all their business and management processes are engineered for speed. Third and most important, they must relentlessly pursue ways to leapfrog their own latest product or service. If anyone is going to render their technology obsolete, they prefer to do it themselves. Product leaders do not stop for self-congratulation. They are too busy raising the bar.

Johnson & Johnson meets all three of these challenges. It brings in new ideas, develops them quickly, and then looks for ways to improve them. The president of J&J's Vistakon, a maker of specialty contact lenses, heard in 1983 about a Copenhagen ophthalmologist who had conceived a way of manufacturing disposable contact lenses inexpensively. At the time, Vistakon generated only \$20 million in annual sales, primarily from a single product, a contact lens for people with astigmatism.

Vistakon's president got his tip by telephone from a J&J employee who worked for Janssen Pharmaceutical, a Belgian drug subsidiary. Instead of dismissing the ophthalmologist as a mere tinkerer, these two executives speedily bought the rights to the technology, assembled a management team to oversee development, and built a state-of-the-art facility in Florida to manufacture disposable contact lenses called Acuvue.

By the summer of 1987, Acuvue was ready for test-marketing. In less than a year, Vistakon rolled out the product across the U.S. with a high-visibility ad campaign. Vistakon—and its parent, J&J—were willing to

incur high manufacturing and inventory costs before a single lens was sold. Vistakon's high-speed production facility helped give the company a six-month head start over would-be rivals such as Bausch & Lomb and Ciba-Geigy. Caught off guard, the competition never caught up. Vistakon also took advantage of the benefits of decentralization—autonomous management, speed, and flexibility—without having to give up the resources, financial and otherwise, that only a giant corporation could provide.

Vistakon's sales topped \$225 million worldwide in 1991, and the division had captured 25% of the U.S. contact lens market. This success resulted partly from directing much of the marketing effort to eye-care professionals to explain how they would profit if they prescribed the new lenses. In other words, Vistakon did not market just to consumers. It said, in effect, that it's not enough to come up with a new product; you have to come up with a new way to go to market as well.

J&J, like other product leaders, works hard at developing open-mindedness to new ideas. Vistakon continues to investigate new materials that would extend the wearability of the contact lenses and even some technologies that would make the lenses obsolete. Product leaders create and maintain an environment that encourages employees to bring ideas into the company and, just as important, to listen to and consider these ideas, however unconventional. Where others see glitches in their marketing plans or threats to their product lines, companies that focus on product leadership see opportunity and rush to capitalize on it.

Companies excelling in product leadership do not plan for every possible contingency, nor do they spend much time on detailed analysis. Their strength lies in reacting to situations as they occur. Fast reaction times are an advantage when dealing with the unknown. Vistakon's managers, for example, were quick to order changes to the Acuvue marketing program when early market tests were not as successful as they had expected. They also responded quickly when competitors challenged the safety of the lenses. They distributed data combating the charges, via Federal Express, to some 17,000 eye-care professionals. Vistakon's speedy response engendered goodwill in the marketplace.



Shoemaker Nike competes not on price but on product.

Product leaders have a vested interest in protecting the entrepreneurial environment that they have created. To that end, they hire, recruit, and train employees in their own mold. When it is time for Vistakon to hire new salespeople, for example, its managers do not look for people experienced in selling contact lenses; they look for people who will fit in with J&J's culture. That means their first question isn't about a candidate's related experience; it's more likely to be, "Could you work cooperatively in teams?" or "How open are you to criticism?"

Product leaders are their own fiercest competitors. They no sooner cross a frontier than they are scouting the next. They must be adept at rendering obsolete the products and services they have created. They realize that if they don't develop a successor, another company will. J&J, Nike, and other innovators are willing to take the long view of profitability, recognizing that extracting the full profit potential from an existing product or service is less important than maintaining product leadership and momentum. These

companies are never blinded by their own successes.

Not surprisingly, the operating model of the product leader is very different from that of a company like Price/Costco or Dell that's focused on cost. Its main features include:

- A focus on the core processes of invention, product development, and market exploitation.
- A business structure that is loosely knit, ad hoc, and ever-changing to adjust to the entrepreneurial initiatives and redirections that characterize working in unexplored territory.
- Management systems that are results-driven, that measure and reward new product success, and that don't punish the experimentation needed to get there.
- A culture that encourages individual imagination, accomplishment, out-of-the-box thinking, and a mindset driven by the desire to create the future.

Winning Through Customer Intimacy



A company that delivers value via customer intimacy builds bonds with customers like those between good neighbors.

Customer-intimate companies don't deliver what the market wants but what a specific customer wants. The customer-intimate company makes a business of knowing the people it sells to and the products and services they need. It continually tailors its products and services and does so at reasonable prices. Its proposition is: "We take care of you and all your needs," or "We get you the best total solution." The customer-intimate company's greatest asset is its customers' loyalty.

Customers don't have to be resold through expensive advertising and promotion. Customer-intimate companies don't pursue transactions; they cultivate relationships. They are adept at giving the customer more than he or she expects. By constantly upgrading offerings, customer-intimate companies stay ahead of customers' rising expectations—expectations that, by the way, they themselves create. Cable & Wireless, a long-distance carrier, is a good example of a company that is better than most at building relationships that pay off in repeat sales from loyal customers.

Cable & Wireless Communications,

BOOK EXCERPT

based in Vienna, Virginia, has worked for years to become a customer-intimate organization. It is a subsidiary of Britain's Cable & Wireless, and focuses principally on business clients. The company attributes its 20% annual growth rate in number of long-distance customer minutes to its striving continuously to serve customers better than bigger competitors, such as MCI.

Company executives knew long ago that their long-distance operation couldn't compete on price with the Big Three, AT&T, MCI, and Sprint. So they sought to differentiate themselves by providing the best customer support in the industry, along with direct sales consultation that gives salespeople intimate knowledge of what makes its customers successful. The result is that Cable & Wireless has turned itself from a mundane commodity business peddling long-distance service into a sophisticated telemanager, a partner with its customers. Does the customer need an 800 service that routes calls, blocks calls, or captures data? Cable & Wireless supplies the expertise and information systems. "The product is conceived at the customer's office," says the president and chief operating officer, Gabriel Battista.

Cable & Wireless pins its success on



Cable & Wireless's Battista wins through customer intimacy.

choosing the customers it can serve best—small to medium-size businesses with monthly billings of \$500 to \$15,000. In such small businesses, Cable & Wireless's 500 U.S. salespeople, working out of 36 regional offices, can act like telecommunications managers. Corporations too small to hire their own telecom gurus value the advice and expertise Cable & Wireless people can offer.

The key is to segment the market vertically. This enables the company to pitch specific customers with specialized services that no other company can begin to pro-

vide. Example: One customer segment is the legal profession. Cable & Wireless is developing features and functions that have tremendous appeal to lawyers, such as innovative ways to track and segment billing of calls linked to specific client accounts. "We want to sell products that fit the legal industry like a glove," says Battista.

Next Cable & Wireless fine-tunes its services to each customer. If that means something as simple as printing its bills on both sides of the paper, Cable & Wireless obliges. The company wants customers to feel they're getting the support of not just the sales force but of the entire company.

Top management empowers all employees who work with customers to make sophisticated decisions. Pricing was once the domain of corporate pricing gurus. No longer. Now it's in the hands of the 50 local managers. The same thing goes for promotional, advertising, and trade-show money. Local managers allocate it as they see fit, preparing budgets and sending them up the corporate ladder to keep supervisors informed.

Do managers run amok with so much authority? It can happen, executives concede. But they figure the occasional screw-up is worth it. Executives go on to audit all deci-

WHICH DISCIPLINE SHOULD YOU CHOOSE?

Market leaders pick one of these disciplines and then build their organizations around it in the following ways.

Company Traits	Disciplines			
	Operational Excellence	Product Leadership	Customer Intimacy	
	Core business processes that...	Sharpen distribution systems and provide no-hassle service	Nurture ideas, translate them into products, and market them skillfully	Provide solutions and help customers run their businesses
	Structure that...	Has strong, central authority and a finite level of empowerment	Acts in an ad hoc, organic, loosely knit, and ever-changing way	Pushes empowerment close to customer contact
	Management systems that...	Maintain standard operating procedures	Reward individuals' innovative capacity and new product success	Measure the cost of providing service and of maintaining customer loyalty
	Culture that...	Acts predictably and believes "one size fits all"	Experiments and thinks "out-of-the-box"	Is flexible and thinks "have it your way"

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BOOK EXCERPT

sions and practices to catch blunders and help the front lines learn from them.

All these practices help Cable & Wireless people build tight relationships with customers. The result is extremely high customer-retention rates: Cable & Wireless loses only 2% of long-distance minutes billed each month, vs. an industry standard of 3% to 5%.

The company holds out a big carrot to keep everyone focused on customer retention: It pays salespeople based on how long a customer remains with the company. Salespeople thus don't hesitate to suggest that customers switch to more appropriate services, even if these bring in less money. Result: happier, more loyal customers.

Again, the operating model of the customer-intimate company is quite different from that of businesses pursuing other disciplines. Its features include:

- An obsession with helping the customer understand exactly what's needed and ensuring the solution gets implemented properly.
- A business structure that delegates decision-making to employees who are close to the customer.
- Management systems that are geared toward creating results for carefully selected and nurtured clients.
- A culture that embraces specific rather than general solutions and thrives on deep and lasting client relationships.

DESPITE the specialization required of market leaders, we regularly come across managers who don't buy the idea of having to narrow their operational focus. "What you're saying about making hard choices doesn't apply to us," they say. "We're good at all three disciplines."

Yet when we look at these managers' businesses, we invariably find companies that don't excel but are merely mediocre in the three disciplines. Sure, as the ante has risen in their markets, they've improved their cost structure and become more aware of their customers. They've added new products and line extensions over the years. They've kept up with rising parity levels to stay in the game. What they haven't done is create a breakthrough in any one dimension to reach new heights of performance. They have not traveled past competence to reach excellence. To these managers we say that if you decide to play an average game, to dabble in all areas, don't expect to become a market leader. Choosing a discipline is the choice of winners.

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THE PRESIDENT HAS SEEN
3/10

THE WHITE HOUSE

Mr. President,

Note from
Bill Rodgers...

Thought you'd
like to see it -

Guest
we should
introduce
him next
time.
Bill



THE PRESIDENT HAS SEEN

3/10

March 1, 1995

Hi Billy,

Thanks for arranging for me and my wife and brother Charlie to visit the White House - and I particularly want to say how much I appreciate the chance to run with President Clinton. He was very friendly to us and I'll never forget meeting him. You've got to come by our store or call us when you come to Boston area; we'll go out for a runner dinner like we did with George Harsch and Frederick Peña and his wife Ellen, and John, your running buddy.

Billy, just a footnote. I like to follow politics and have always liked President Clinton and his policies and views for the future - and Hillary too!

Lastly, just give me a call if you think President Clinton would ever want to do another run! I was wondering if Joan Benoit Samuelson might do such a run? Good luck in Paris! Best wishes, Bill Rodgers

Cron

THE REDEMPTION HAS BEEN

2-1-95

Sissy Yate
give this to me -
we need to visit the
guy from Ark - no
trouble - DC

Will

Send to
Doriskind

OK?

Yes

THE PRESIDENT HAS SEEN

2-1-95

RECEIVED

101-23

P.O. Box 164
Ravensden Springs,
AR. 72460
501-869-2458
1-24-95

Dear Congressman -

Mailed out 'bout 70 of inclosed
letter to Cong. people - folks in & around
the music biz.

Congrats on launching "Sept. as
National Classical Music Month" - I
great idea - but someone dropped the ball!
First read of it in British Music mag
middle of Sept. ("B.B.C. Music mag.")
Evidently, NO effectual P.R. ? Wrote to
many Sec label A. + R. people - and
critics - concert mgr's. + the like. Told
'em all - but guess I didn't help much.

You must be into music - B.B.C.
mag. tops. All U.S. mags concentrate
on hi-fi equip sales - very little
music info. -

2.
If you purchase C.D.'s, (compact
disc's not the # type) - they
"Nimbus", best qual.

Hobby, - music - NEWS - wife -
writing - politics - helping Sr. Cit's.
make tapes for friends from
C.D. stock pile + chatter -

Will send along a tape for you
+ staff.

Keep on crackin' - don't let kitchen
heat drive you out!

Always
Bob Vinyard

P.S. Pray for Arkansas and
Ms. + Mrs. Clinton - B. 4.
National Press portrays
their fine entities.
(Rlle)

P. O. Box 164
Ravenden Springs, Ar 72460
(501) 869-2458

Since November 8, 1994, the writer has been made aware, via the media, of the following Congressional forecast:

1. Severe revision and/or termination of the Public Broadcasting Act of 1967 - whose administration is handled by the non-governmental, private, non-profit body known as the "Corporation for Public Broadcasting." This corporation is responsible for its two entities - National Public Radio, N.P.R., and Public Television, P.T.V., being responsible for managing and portioning such funds as Congress deems suitable to these two entities. The Corporation makes sure that matching funds on a 50/50 basis are raised by all P.T.V. stations, and all 515 N.P.R. stations in the net.

2. If - the Public Broadcasting Act is to suffer revision, in lieu of termination, and thrust into the Private Commercial Broadcasting Industry, it will fall into step on a track already much eroded via non self-discipline programming of questionable moral content - ripped through with scars of violence, etc. Each and all stations now more concerned with their car position on the futuristic information super highway -- rather than placing QUALITY above all, in the National Interest.

3. Not satisfied with placing the "Public Broadcasting Act", on the endangered species list the same radical Congressional element is out to snuff the National Endowment for the Arts, N.E.A.

This Federal agencies funding for F.Y. "95" is 167 million +, down from "94" by nearly 3 million. It is interesting to note that from its total Federal funding, 95% of the endowment grant funds go to arts organizations which match their grants at least on a 1 to 1 basis which on many occasions reach a 3 to 1 ratio.

No one can say that both the Corporation for Public Broadcasting AND the N.E.A. are not operating under the ageless truism, "That God, (in this case the Federal Government), helps those who help themselves."

4. PLEA SUMMATION:

It is impossible for this Senior Citizen to enumerante the many attributes of the above-mentioned entities, or to cite the multiple levels with which their activities bring back dollars to the National Treasury via tax channels - plus the huge contribution the arts, cultural enhancements, education - public information - jobs, etc., make to our growing National Economy.

"This above all", (sayeth Bill Shakespeare), Please -- consider this note not an act of Special or Vested interest but, rather that of an ol' guy who missed out on higher schooling and only in the last few years, was to find how gratifying it is, to read the classics - to hear beautiful serious music - to be connected - educated and entertained coaxially.

Let's give our young people NOW an opportunity to gain high esthetic - moral and intangible rewards so they will not suffer the vacuum of a late sunrise and have to play catch-up at 70 years of age.

Respectfully,

Bob Wingate

THE WHITE HOUSE
WASHINGTON

DATE: 3/12/95

TO: The Vice President, Leon,
Rahm, Mike McCurry

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

The attached has been forwarded
to the President.



THE DIRECTOR

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

March 13, 1995

MEMORANDUM FOR THE PRESIDENT

FROM: ALICE M. RIVLIN *AMR*
SUBJECT: Administration's 1996 Drug Budget

Since Republicans on the Hill have been raising questions about the Administration's commitment to fighting drug abuse, I wanted to remind you that:

- your 1996 budget request reflects your strong commitment to controlling illegal drugs, and
- the House Republican rescission bill would make sizable cuts in drug control programs.

Your budget proposes a record \$14.5 billion for drug abuse control in 1996, an increase of \$1.3 billion, or nearly 10 percent more than was appropriated for 1995. Of this increase, a sizable portion (\$464 million) is associated with new funding authorized by the Violent Crime and Law Enforcement Act of 1994. The table below shows drug spending by function. A detailed table showing drug funding by agency is attached.

You will note that the largest increase in funding between 1995 and 1996 is associated with domestic drug law enforcement, while the increase for drug demand reduction programs is more modest.

***Drug Control Funding Increases
(BA in Billions)***

	1995 Enacted	1996 Proposed	1995-1996 Increase
Treatment	2.6	2.8	+ 0.2
Prevention & Education	1.8	2.0	+ 0.1
Domestic Law Enforcement	6.3	7.2	+ 0.9
Interdiction	1.3	1.3	--
International	0.3	0.4	+ 0.1
Intelligence & Research	0.9	0.9	+ 0.1
Total	13.3	14.6	+ 1.3
Supply Reduction	8.3	9.3	+ 1.0
Demand Reduction	4.9	5.3	+ 0.3

The 1996 Drug Budget

Among the more interesting 1996 programmatic increases are: expanded treatment opportunities for non-violent offenders through drug court programs (+\$131 million); construction of boot camp prison facilities to incarcerate and rehabilitate first-time non-violent drug offenders; expanded drug treatment funding for both State and Federal prisoners (+\$40 million); and community programs such as the Family and Community Endeavor Schools Program (+\$70 million), which, together with the Safe and Drug Free Schools and Communities program will provide a consistent in-school message and a strong program of after-school alternatives to the streets.

Congressional Rescission Activity

The House Appropriations Committee has reported a 1995 rescission bill that would have a dramatic negative effect on drug control programs. Major House drug program rescissions are shown in the table below.

Drug Control Funding Rescissions
(BA in Millions)

	1995 Enacted	House Committee Action
Drug Courts (DOJ)	29	- 28
Family and Community Endeavor Schools (E.D. & HHS)	37	- 37
Safe & Drug Free Schools (E.D.)	486	- 482
ONDCP Forfeiture Fund	28	- 13
Drug Elimination Grants (HUD)	290	- 32

THE WHITE HOUSE
WASHINGTON

THE PRESIDENT HAS SEEN
3-17-95

March 17, 1995

95 MAR 17 12:01

MEMORANDUM FOR THE PRESIDENT

FROM: Michael Deich MD
National Economic Council

SUBJECT: Background for Letter from Bob Crandall on International Aviation Issues

Bob Crandall would like the Administration to reject a proposed agreement with the United Kingdom (UK) unless additional benefits are secured for American Airlines. Crandall also would like the US to enter into immediate negotiations with Japan in order to secure new rights for American. This memorandum explains the status of current Administration efforts on these issues.

Background on American Airlines. American's international operations are more profitable than the international operations of any other US carrier. Between January 1992 and September 1994, American's international operations earned both operating profits and net profits that were greater than the profits on international operations of all other US airlines combined. American is the largest US carrier to Latin America and the Caribbean, and the second largest US carrier (after Delta) to Canada and Europe. American's greatest priority is to expand service to Japan, where it is only the fifth largest US carrier.

The Proposed US-UK Agreement. For the past two years the UK has periodically indicated an interest in concluding an incremental expansion of the US-UK aviation bilateral. Following reports of renewed UK interest in an incremental deal, Secretary Peña discussed with the UK Transport Minister the possibility of a limited agreement with the following elements:

- Chicago-Heathrow. United would be allowed to serve this route immediately. The existing treaty allows United to serve this market only after Chicago-UK traffic reaches 600,000 passengers per year. In the last few years, annual passenger traffic has been in the 575,000-585,000 range.
- Philadelphia-Heathrow. British Airways (BA) would be allowed to increase its service from one flight to two flights per day during the summer season. This proposal would benefit both BA and USAir, which codeshares with BA.
- Unrestricted codesharing for each country beyond the other country. This would grant US airlines their long sought right to code-share beyond London and other UK cities.

- Affirm US approval for unlimited BA-USAir codesharing. Although the existing treaty already provides for unlimited BA-USAir codesharing, the US has delayed approval for one of BA-USAir's code-sharing applications. Under the proposal, the US would process BA-USAir's application expeditiously.

At subsequent informal talks, the two governments tentatively agreed that this proposal could serve as the basis for formal negotiations. In addition, the UK government indicated a strong interest in following the present proposal with further agreements to liberalize the rules governing cargo service, charter service, and pricing -- issues that the US has pursued for some time.

Economic Consequences. The attached table shows the range of benefits that are estimated to accrue to US airlines (the table excludes consumer benefits, which have not been quantified). The proposed agreement would provide the US airline industry as a whole with added revenues of \$60-180 million per year. While *some US carriers* would be helped, other US airlines -- facing new competition -- *could be hurt*.

The new *route rights* would benefit only United and USAir. These carriers would use price competition and increased marketing efforts to attract new passengers that otherwise would not travel. In addition, these carriers would divert passengers from incumbent carriers, especially American (which would lose revenues of \$15-30 million along with its status as sole provider of US carrier nonstop Chicago-London service) and, to a far less extent, Continental (which would face greater competition at its Denver and Newark hubs). The economic effects on other US airlines would be minimal.

The new *code-share rights* would principally help American, United and USAir. The benefits noted in the table would be achieved only over time as airlines enter into and perfect their code-share arrangements. Over time, American could gain far more from code-sharing than it would lose due to increased competition from United on the Chicago-Heathrow route.

Congressional and State/Local Views. The proposal has generated unusually forceful reactions from Congress and from state and local officials. Most members of the Illinois and Pennsylvania delegations, along with the mayors of Chicago and Philadelphia, support the proposal. Most members of the Texas and New Jersey delegations strongly oppose the proposal.

Actions Sought by Crandall on the UK. Crandall believes that the USG should accept an agreement with the UK only if American is allowed to serve the Dallas-Heathrow market (American now serves Dallas-London via the less desirable Gatwick Airport). Other US airlines also have spoken of the need to have a "broad" agreement that provides new opportunities for all US carriers.

During 1993 and 1994, the US and the UK attempted to negotiate just such a broad agreement to liberalize the US-UK aviation regime. Last year, when the financial condition of USAir deteriorated and the value of British Airways' (BA) investment in USAir became questionable, the UK broke off negotiations until the BA/USAir relationship "stabilized." The UK has not

changed its basic negotiating position since then. State and DOT believe that the UK will not grant broad new access to Heathrow until BA wishes to secure US approval for further investment in USAir.

The economic and strategic arguments in favor of accepting the present proposal are as follows. Economically, US consumers and US airlines overall would benefit. Strategically, the proposal would allow the US to break the current impasse and achieve at least some of its aviation objectives with the UK. If the UK is serious about its professed desire also to conclude agreements on cargo, charters and pricing, then the US will have achieved all of its objectives except substantially greater Heathrow access. This would strengthen the US hand if and when the UK seeks negotiations to allow BA a greater investment in USAir.

The economic argument against accepting the current proposal is that the new competition -- though beneficial overall to both consumers and airlines -- could hurt, at least in the short run, American and perhaps other US carriers. In addition, opponents of the proposal suggest that making incremental progress on aviation issues eases pressure on the UK to achieve a broader agreement. No one in the Administration, however, believes that the US could force the UK to address the broader Heathrow access issues without renouncing the existing bilateral and taking down US-UK air traffic.

Actions Sought by Crandall on Japan. Crandall would like the USG to enter immediately into negotiations with the Government of Japan (GOJ). Crandall believes that the highest priority of the USG should be to secure new rights for American and other US carriers that now have only limited rights to Japan. Crandall recognizes that the Administration currently is seeking to resolve the dispute between Federal Express (Fedex) and Japan, so that Fedex will be able to exercise its existing bilateral rights to serve Japan.

The GOJ has long sought to renegotiate the US-Japan aviation bilateral. The current bilateral gives broad rights to United, Northwest and Fedex, and limited rights to some other US carriers. Under the existing bilateral, US airlines have secured nearly 70 percent of the passenger traffic and about 55 percent of the freight traffic in the lucrative US-Japan market.

The GOJ has made clear that it would be willing to provide limited new access for American and other US airlines, but only if the USG agreed to scale back the broad bilateral rights now enjoyed by United, Northwest and Fedex. To date, the USG has refused to enter negotiations with Japan on the grounds that US objectives could be achieved only at the unacceptable price of limiting the rights of incumbent US carriers. The NEC Deputies will meet soon, however, to consider a proposal by State and DOT that the USG agree to talks with the GOJ after the US has imposed some form of sanctions on Japanese air cargo carriers (the sanctions would be designed to avoid having the US "buy back" in future negotiations those rights that Fedex already enjoys under the current bilateral). It would be a matter of weeks before sanctions could be decided upon and put into place.

ECONOMIC BENEFITS

<u>A. New Route Rights</u>	<u>US airlines' revenue gain(loss)</u>	<u>UK gain(loss)</u>
1. Chicago-Heathrow: allow new service by United even though annual passenger traffic remains just under the 600,000 required by the current treaty in order to allow new entry.	\$20 - \$43 m. ^{*/}	(\$7 - 13 m.)
2. Philadelphia-London: allow additional summer service by BA to replace some of the service cancelled by American.	(\$5 - 0 m.)	\$10 m.
<u>Subtotal</u>	\$15 - 43 m.	(\$3) - \$3 m.
 <u>B. New Codesharing Rights</u>		
1. Unlimited codesharing for each country beyond the other country	\$60 - 150 m.	\$10 - 22 m.
2. Affirm US approval for unlimited BA-USAir codesharing	(\$13 m.)	\$13 m.
<u>Subtotal:</u>	\$47 - \$137 m.	\$23 - \$35 m.
<u>TOTAL:</u>	<u>\$62 - \$180 m.</u>	<u>\$20 - \$38 m.</u>

^{*/} This figure is net of the \$15-30 m. in revenues that would be diverted from American to United.

Farm Aid to Chicago? Miami? Study Hits an Inviting Target

By STEPHEN ENGELBERG

WASHINGTON, March 15 — Marco Island, Fla., hardly seems an obvious destination for checks under the Agriculture Department's farm programs. It is, after all, one of South Florida's most exclusive vacation paradises, renowned for its golf courses, beaches and expansive homes.

But for the past 10 years, mostly in the name of saving family farms, the department has sent farm program money to Marco Island and other addresses in a host of unlikely locales — from Beverly Hills to Manhattan to Chicago, according to a new computer analysis by the Washington-based Environmental Working Group.

The study, titled "City Slickers," is an opening salvo in what is expected to be one of this year's most hotly

contested budget fights. It takes aim at the longstanding political argument for farm subsidies, which is that they help keep family farms alive.

Advocates of the subsidies dismissed the study as unfair and irrelevant, and several independent scholars said the question of where the money went was less important than whether the programs were cost-effective for the taxpayer.

Even so, the research organization's study adds a human face, and some provocative specifics, to a fact agricultural experts have long recognized: that Federal rules permit landowners of any income level to collect benefits, whether or not they live on the farms enrolled in the programs.

"Almost anyone can qualify for Federal agriculture subsidies," the study says, summing up the current rules. "You don't have to farm the land, you don't have to live anywhere near the land, you don't even have to

NEWS SUMMARY

A2

Arts C15-22
Business Day D1-21
Editorial, Op-Ed A24-25
Home Section C1-13
International A3-12
Metro B1-10
National A18-23, B11-13
Sports/Thursday B15-22

Media Business D8 TV Listings C21
Obituaries B13-14 Weather C18
Classified B22 Auto Exchange D21

Continued on Page A20, Column 1

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Farm Aid to Chicago? Study Raises Juicy Target

Continued From Page A1

visit from time to time. You don't have to be related to the farmer or anyone else who has an interest in the farm."

From 1985 to 1994, the study found, the Agriculture Department sent more than \$1.8 billion to recipients living in and around the nation's 50 most populous cities.

More than \$1.4 million, the study also shows, went to 36 residents of Marco Island who owned farm land outside of Florida.

One of them was William R. Solmos, 62, a retired farmer who still owns a half share of his family's farm in Indiana and who has received more than \$196,000 under various Agriculture Department programs since 1985. He said in a telephone interview that his brother still operated the 2,000-acre farm in Starke County, with Mr. Solmos splitting the expenses and lending a hand during the growing season.

Mr. Solmos said he would like to see Federal farm programs limited to farmers smaller than himself, a step Congress has voted down several times.

"I would just as soon the Government got out of it," Mr. Solmos said. "I see where there's a lot of waste." Mr. Solmos did not need much help from the Government in other entrepreneurial arenas. He said that in his latter years as a farmer, he owned a Ford dealership, a golf course and a construction company.

The \$10 billion-a-year amalgam of farm programs, most of which date from the Depression, are under attack in Congress as never before. Representative Dick Armey of Tex-

as, the House Republican leader, has long been a vocal critic. Senator Richard G. Lugar, the Indiana Republican who heads the Agriculture Committee, has pledged a "bottom up" review of all farm programs.

In the study, the Environmental Working Group recommends that Congress use the pending farm bill to invest in farm programs that get pesticides out of food and tap water, and protect rivers, lakes, land and wildlife.

The study, which was widely distributed in advance to reporters and is being released on Thursday gives any opponent of the existing farm system a new weapon, one as potentially potent as Ronald Reagan's anecdotes about welfare-collecting Cadillac owners.

In an era of sound bites and talk radio, such barbed bits of information are politically essential. Enormously complicated subjects, like tort reform, end up being boiled down to a handful of easily understood examples. Reports about the woman who won a jury judgment against McDonald's for hot coffee spilled on her lap can have more impact on the debate than a stack of learned studies.

Those who favor vast changes in the farm programs may be able to make just as much hay out of the notion that the Federal Government has in the past decade sent \$1.2 million in farm benefits to homes with the ZIP code of Beverly Hills 90210.

Lobbyists for the various commodity groups immediately grasped the threat. "I think this is a major attempt to distort the debate," said Carl Schwensen of the National Association of Wheat Growers. "The debate is much more fundamental. It's not about ZIP codes. It's about

food policy, and who benefits."

The study, Mr. Schwensen said, portrays farmers "as being some type of well-heeled welfare recipient," adding, "That's not the way we look at it."

Kenneth A. Cook, the Environmental Working Group's president, said the study set out to scrutinize closely the rationale lawmakers have historically advanced to justify the farm programs.

"People keep on insisting over and over again that family farmers benefit," Mr. Cook said. "It's been vital. It's really been the first line of attack. First, you join together all the commodities so that no one is isolated. Then you try to make the case that this really is about family farms, in the romantic way that Americans think about them."

The environmental group's study is based on a computer analysis of 110 million Agriculture Department payment records obtained by the group through a Freedom of Information Act request.

The records released by the department did not include names of individual farmers, but did specify the 9-digit ZIP code to which checks were sent. This allowed researchers to narrow down a particular recipient's address to within a block or two.

According to the study, 1.6 million checks, totaling \$1.3 billion, went to people whose permanent mailing address was in one of the nation's 50 most populous areas.

Much of this money, the study found, went to just a few people. It said that 862 of the big-city recipients, about 1 percent, collected \$388 million of the payments, or nearly one-third.

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Helms Seeks to Merge Foreign Policy Agencies

By STEVEN GREENHOUSE

WASHINGTON, March 15 — Senator Jesse Helms proposed a radical restructuring of foreign policy apparatus today that he said would save billions of dollars by merging half a dozen agencies into the State Department.

Asserting that Republican control of Congress created an unusual opportunity to revamp foreign policy institutions, the Senator proposed eliminating the Agency for International Development, the Arms Control and Development Agency, the Export-Import Bank, the Overseas Private Investment Corporation and other agencies.

At a news conference today, Mr. Helms, Republican of North Carolina and chairman of the Senate Foreign Relations Committee, said his plan would reduce duplication and save \$6 billion over five years.

"Our foreign policy institutions are a complete mess," he said. "Over the past four decades, key foreign policy functions have been spun off into a constellation of money-absorbing, incoherent satellites, each with its own entrenched, growing bureaucracies and its own bureaucratic interest. The result has been an incoherent mishmash which no one policy-maker can control."

In spelling out details of legislation he plans to introduce, Mr. Helms said he was borrowing from proposals that Secretary of State Warren Christopher made in December. The Secretary suggested merging the Agency for International Development, the United States Information Agency and the disarmament agency into the State Department.

Vice President Al Gore has rejected Mr. Christopher's proposal, saying the costs would outweigh the savings, and Michael D. McCurry, the White House spokesman, said today that the proposal was unnecessary because the Administration

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A Senator sees savings; the State Dept. sees chaos.

was streamlining the agencies.

The White House and the State Department also insist that the proposal could create havoc for a foreign policy team that has its hands full with Bosnia, Iran, Chechnya, the Middle East and other trouble spots.

Mr. Helms proposed replacing the Agency for International Development with a foundation that would channel aid for education, health and agriculture through grants to companies and nonprofit groups. He said such a foundation should be phased out over 20 years. Under his plan, emergency relief would be handled by an expanded State Department bureau.

The Senator also proposed that an agency to develop exports and investment be set up within the State Department to assume the duties of the Overseas Private Investment Corporation, the Export-Import

Bank and the Trade and Development Agency, an arm of the Commerce Department.

Mr. Helms proposes to abolish the United States Information Agency, which runs Radio Free Europe and Radio Liberty, and give its responsibilities to an Under Secretary of State for Public Diplomacy. The work of the arms control agency would be taken over by a new Under Secretary of State for Security.

Appearing with Mr. Helms, Representative Benjamin A. Gilman, Republican of New York and chairman of the House International Relations Committee, praised the proposals, saying foreign policy institutions needed to be streamlined. But Mr. Gilman stopped short of a full endorsement.

One Administration official said that if the Helms proposal were implemented, employees of the information agency would do the same work but their checks would be signed by someone else. "This is box-moving for the sake of box-moving," she said.

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Laura
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What's the cost?
PRC

Tax policies that work

Last week, we described the economic disincentives that the Alternative Minimum Tax (AMT) has created. Namely, it dampens job creation and economic growth because AMT penalizes capital investment. The reason: AMT's capital recovery rules—or depreciation schedule—are worse than those allowed under the regular tax schedule.

The AMT is a parallel tax system enacted in 1986 to eliminate excessive use of tax credits and deductions. Instead, it has become a disincentive for many companies to invest in the U.S.

The AMT depreciation system is the worst among industrialized nations, placing America's capital intensive companies at a disadvantage in the global marketplace. According to the National Association of Manufacturers, the cost of capital for a company subject to AMT is 10 percent higher than it would be under the regular corporate tax. Moreover, it violates a cardinal principle of equitable tax policy—namely that taxpayers investing in similar assets should be taxed in the same manner.

Lots of companies are caught in the AMT web. Mainstream American industries—like airlines, autos, chemicals, energy and steel—where sustained levels of capital investments are required and profit margins are narrow, frequently move in and out of the AMT system. But even start-up and growing firms with high capital-investment needs can find themselves tapped for a big AMT tab.

What can Congress do to fix the problem? A number of things. Ideally, the corporate AMT should be repealed. Nonetheless, the realities of moving toward a balanced budget probably preclude outright repeal.

As a start, though, Congress could allow

AMT taxpayers the same depreciation rules and the same business credits that regular taxpayers enjoy. And taxpayers should be allowed to use their AMT credits to reduce their future AMT liability.

Under current rules, regular taxpayers use one set of depreciation rules. AMT payers use another—one in which assets are written down more slowly and over a longer life. The net difference can be substantial. Take the case of an investment in a steel mill, for example. Under regular rules, about half the initial investment can be recovered in three years. As an AMT payer, however, it would take eight years to recoup the same amount. We're not proposing anything radical. We're simply suggesting companies investing in similar assets should be treated the same for tax purposes.

In addition, business credits given to regular taxpayers for research and development investments, targeted jobs programs, etc., aren't available to AMT taxpayers. This inequity should be corrected by allowing general business credits to offset AMT liability.

The AMT tax is treated as a credit or prepayment of future regular income taxes. For many companies that remain trapped in the AMT system, however, it has become a permanent tax—something Congress never intended. Since many AMT taxpayers find themselves unable to generate sufficient taxable income to use their accumulated credits within a reasonable time frame, a mechanism should be established to allow partial use of these credits against current AMT liability.

Revising the AMT would give American companies a better chance to grow and compete globally. It would restore the encouragement to invest in U.S. capital facilities, and it would create jobs. And it certainly makes the tax bite fairer.

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Essay

WILLIAM SAFIRE

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The Greatest Auction Ever

WASHINGTON

They all laughed at the economist Milton Friedman when he suggested a generation ago that the Federal Government auction off broadcast licenses, instead of giving them away to political favorites.

The last laugh is his; last week, in the greatest auction in history, bidders for wireless places on a tiny fragment of the broadband spectrum committed nearly \$8 billion to the U.S. Treasury.

And that's only the beginning of the taxpayers' bonanza in the sale of our valuable thin air.

Remember all the talk, eight years ago, of high-definition television, the Japanese invention that was supposed to force us all to replace our 200 million TV sets? U.S. manufacturers, with antitrusters' blessing, formed a "Grand Alliance" to match the Japanese advance.

Along came an unexpected scientific breakthrough. We leapfrogged the analog (feh!) competition into the brave new digital world. This not only produces a knock-your-socks-off picture but expands each TV channel into five or six wireless channels for video, audio, computer data transmission, telephones and every form of communication short of mental telepathy.

Broadcasters smacked their lips at the bonanza. "Advanced television is not just about pretty pictures anymore," F.C.C. chairman Reed Hundt told Edmund Andrews of The Times, one of the few reporters on top of this story. "It's about the digitization of television and a huge range of new services."

Get top dollar for the spectrum.

It's as if one old oil well gave birth to six new gushers. Broadcasting lobbyists have descended on Congress and the F.C.C. to insure "flexibility" — that is, to exploit exclusively all the new technology, and to charge viewers for the "ancillary and supplementary" services.

Even if accompanied by payment of rent to the Government, the exclusive arrangement sought by broadcasters would be an outrageous taxpayer ripoff.

What is the digitized, divisible channel worth? Senate Commerce Committee Chairman Larry Pressler gave a hint in an op-ed piece last week, suggesting that noncommercial licensees had a huge hidden asset: "Public broadcasting stations could rent, sell or make use of the additional channels for other telecommunications and information services."

Based only on current uses, which are primitive, the market value of the VHF, UHF, cellular, broadband and narrowband spectrum ranges around \$120 billion.

But in the near future, your television set will combine with your computers and telephone and fax machine into a single unit you can hang on the wall or fold up in your pocket. That's soon — possibly in the next Presidential term.

I've seen not-for-attribution estimates that the market value of the digitized spectrum in that onrushing era will be — hold your breath — a half-trillion dollars, give or take a hundred billion.

Before rushing into any giveaway, or any long-term exclusive rent-away, we need extended, wide-open, thoroughly debated hearings to make certain of three outcomes:

First, we want a guarantee of spectrum competition. The criterion to determine competition must be scrupulously economic, not jiggered by the Government to introduce sexual or racial or ethnic or ideological favoritism. An appeals court yesterday stayed the F.C.C. from holding auctions that favored minority fronts.

Next, we want a holdback of certain rights. For example, we can solve the campaign finance dilemma justlikethat by putting a right-of-way in the deed setting aside air time, on-line time and direct E-mail advertising for candidates, which could be used or traded or sold by them in election campaigns.

Finally, we want top dollar for our public property. That means a series of Friedman-style auctions. After the purchases, sophisticated risk-takers and their banking backers can enhance the value of their property at no cost to the taxpayer and with great benefit to the consumer.

Where should the spectrum-sale money go? Toward reduction of the crushing national debt. By recognizing our hidden asset of the spectrum, Americans can ride the wave of the future. □

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Let's discuss

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THE WHITE HOUSE

WASHINGTON

March 17, 1995

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MEMORANDUM FOR THE PRESIDENT

FROM: SUSAN BROPHY *gmb*

SUBJECT: CONGRESSIONAL CORRESPONDENCE

Attached is a letter from Representative Sonny Montgomery (D-MS).
I thought it might be of interest to you.

cc: C. Huber ✓



HOUSE OF REPRESENTATIVES
05 MAR 14 WASHINGTON, D. C. 20515

GILLESPIE V. MONTGOMERY
THIRD DISTRICT
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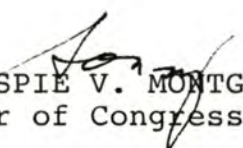
March 13, 1995

Dear Mr. President:

It was nice of you to call in a pledge to Channel 53 on Friday night during the Mississippi State-Florida game. We didn't play very well, but it is great to have the chance to see SEC basketball in the Washington area.

I hope Mississippi State can go as far in the NCAA tournament this year as your Razorbacks will. Thanks for supporting SEC basketball.

Sincerely,


GILLESPIE V. MONTGOMERY
Member of Congress

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

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PROGRESSIVE POLICY INSTITUTE

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Cut-and-Invest

A Budget Strategy for the New Economy



Progressive Policy Institute
Policy Report No. 23

Robert J. Shapiro

March 1995

Progressive Policy Institute

"One person with a belief is a social power equal to ninety-nine who have only interests."
—John Stuart Mill

The Progressive Policy Institute (PPI) is a center for policy innovation that develops alternatives to the conventional left-right debate. Founded in 1989, the Institute is fashioning a public philosophy for the 21st century by adapting America's progressive tradition of individual liberty, equal opportunity, and civic obligation to the challenges of the information age.

PPI advocates growth-oriented economic policies designed to stimulate broad upward mobility and foster a more inclusive, more democratic capitalism; social policies that move beyond maintaining the poor to liberating them from poverty and dependence; and a foreign policy of resolve in defending America's interests and promoting free institutions. The Institute also explores four issues that loom large on the public agenda of the 1990s: crime, health care, educational excellence, and environmental safety.

In addition to the original work of its own scholars, the Institute offers a platform to a new generation of progressive thinkers and writers around the country. Through its studies on public enterprise, PPI examines ideas for renewing the public sector by redesigning government along more entrepreneurial and less bureaucratic lines. Believing that effective governance also requires harnessing private energies and resources for public purposes, the Institute promotes creative ways to build America's civic infrastructure and to cultivate the civic virtues necessary for self-government to work.

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Cut-and-Invest

A Budget Strategy for the New Economy

Progressive Policy Institute
Policy Report No. 23

Robert J. Shapiro

March 1995

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This essay has benefited immeasurably from the sound advice and generous assistance I have received from my colleagues at the Progressive Policy Institute—Al From, Will Marshall, Julie Kizer Ball, Anne Saunders, Steven Tidrick, Debbie Boylan, Lisa Davis, Chuck Alston, David Kendall, and Chin-Chin Ip. I am very grateful to each of them.

I want to express special gratitude to M. Jeff Hamond, economic policy analyst at the Progressive Policy Institute, for his invaluable research and his preparation of the Investment Budget included in this report.

I also want to acknowledge and thank many friends whose wisdom and knowledge inform the best parts of this analysis, especially Alice Rivlin, Daniel Patrick Moynihan, Mancur Olson, Jonathan Rauch, Elaine Kamarck, and William Galston. Any mistakes remaining are my own.

Contents

1. A Fiscal Program to Raise U.S. Living Standards	1
The Economic Stakes	2
The Costs of Subsidies	3
Tax-Subsidy Reforms Are Not Tax Increases	4
Economic Benefits of Public Investment	5
Reinventing the Budget Process	6
2. The United States in the Global Economy: The Crisis of Slow Growth	7
Global Markets and the Terms of Competition	8
Government's Role in Enhancing National Productivity	10
3. Cutting Public Subsidies for Private Interests	13
The Decline of Liberal Economic Policy	14
Who Gains from and Who Pays for Subsidies	15
4. A Catalogue of Current Subsidies	17
Spending Subsidies	17
Tax Subsidies	22
Subsidies By Other Means: Trade Protections	25
Subsidies By Other Means: Economic Regulation	26
5. Public and Private Investment: The Division of Labor Between Government and Business	29
The Decline of Conservative Economic Policy	29
Recognizing Genuine Public Investment	31
Choosing Viable Public Investments	33
6. An Investment Budget for Upward Mobility	35
Education and Training	36
21st-Century Infrastructure	37
Basic Research and Development	38
Social Investment	38
7. Cut-and-Invest, or Budget Business as Usual?	41

1. A Fiscal Program to Raise U.S. Living Standards

The battle lines over the budget are drawn for 1995; but the real struggle is likely to be not the one between Democrats and Republicans, but the one between *both parties* and the real requirements of a growth-oriented fiscal policy.

To Americans demanding a new economic strategy that can help revive their prospects, both parties offer promises and rhetoric that add up to little more than business as usual. The Republican congressional majority says that only a balanced budget and hands-off government will deliver prosperity—yet they offer only a constitutional amendment calling for absolute fiscal discipline, rather than exercise it themselves, and no path to a balanced budget even with draconian cuts in social programs. The Administration insists that long-term growth will depend on declining deficits and new government priorities—but after making initial progress on this course in 1993, the President now proposes a budget that doesn't cut spending for any significant constituency or raise new revenues from any source.

Instead, Democrats sit back and wait for Republicans to do what they will promptly criticize them for. More than that, all sides pledge to use any spending cuts they can

achieve *not* to reduce the deficit or fund public investment, but only to finance tax cuts.

They are wrong, and their political tactics neglect the economic challenge: Use every tool of fiscal policy to help make the nation more productive and, ultimately, restore mass upward mobility. The President and Congress can break the current impasse and substantially reduce both spending and projected deficits—and without a general tax increase or Social Security cuts—if they are willing to eliminate or reform scores of special spending programs and tax provisions narrowly targeted to subsidize influential industries. This new approach would not only provide the resources for greater private and public investment; it also would make the economy more efficient and strengthen the forces of competition that drive economic innovation and productivity.

In this report, we identify 120 programs and tax provisions that currently provide taxpayer subsidies to powerful industry groups. We propose cuts or reforms in these programs that would produce \$265 billion in savings over five years—\$131 billion from spending programs and \$134 billion from tax provisions—and would make U.S. markets more efficient and competitive.¹ These savings would be substantial enough to really affect business investment

and national productivity: *\$265 billion over five years is equivalent to nearly half of all the domestic capital dedicated to fixed net business investment over the five years from 1989 through 1993.*² This report also provides a detailed plan for redirecting these resources. Nearly 60 percent of the \$265 billion in savings would go to expand private investment by reducing the deficit. Another 24 percent of the savings is dedicated to new forms of public investment—the education and training, primary economic infrastructure, and basic research which make people more productive; and social reforms to reduce welfare dependency and teenage pregnancy. The remaining 19 percent of the savings would be used to provide targeted tax support to moderate-income families with children.

We call this strategy *cut-and-invest*. It represents a direct application of basic economics to the challenge posed to mass upward mobility in America by the globalization of markets, investment, production, and commerce.

A serious attack on industry subsidies will require the President and a majority in Congress to take on much of the Washington establishment. This is a particular challenge to the Republican party, which thus far has proposed cutting only social programs while leaving benefits for high-income constituencies undisturbed. For both parties, however, this challenge is the political heart of the new economic reform agenda. As neither party or branch of government appears willing to move first, we propose that they adapt the model of the Military Base Closing Commission to this problem and create a nonpartisan, nonpolitical commission to examine all industry-specific spending and tax provisions. This new commission would recommend a package of reforms and cuts for those subsidies serving no overriding national purpose and, like the base-closing effort, Congress should be required to vote the package up or down without amendment.

Ironically, Washington's current reluctance to reform entitlements may enhance the prospects for cut-and-invest. The two parties emerged from the 1994 elections agreeing not even to *talk* of reforming Social Security or the health care system, and for the time being, serious entitlement reform is out of reach.³ Until

that debate begins in earnest—as eventually it will—industry spending and tax subsidies comprise the only major area of public resources left for reducing the deficit or expanding public investment, and thus the last stop before tackling entitlements.

Yet most liberals and conservatives remain wedded to the conventional strategies that consistently fail to increase investment and growth. The orthodox Keynesian conviction that deficit spending can spur domestic production and drive broad-based growth is hopelessly outdated in a world where governments cannot control capital flows and every store stocks imported goods. The hands-off alternative from the right is equally obsolete at a time when U.S. companies and workers compete with low-wage foreign labor or with producers in other advanced nations committed to broad high-skill training and state-of-the-world infrastructure and technological development. Nevertheless, many liberals still insist on simply increasing spending and, when necessary, taxes too, while most conservatives still concentrate merely on reducing taxes and, when possible, cutting spending as well.⁴

Cut-and-invest provides a progressive, growth-oriented alternative. It seeks to remove the dead hand of obsolete subsidies from workers and companies striving to succeed. It aims to halt legally-mandated transfers from average people to the shareholders of influential industries. It can provide a basis for an economically-sound alternative to the Balanced Budget Amendment. And it would fund public and private investments to *spur* growth by eliminating wasteful spending and tax provisions that *inhibit* growth.

The Economic Stakes

A generation and two ago, the largely self-sufficient and resource-rich U.S. economy generated sufficient new wealth each year to produce mass upward mobility: An average American family entering the work force in 1950 more than *doubled* its real income by working hard for two decades. Since the early 1970s, however, such prospects have narrowed sharply as U.S.

net business investment, worker productivity, and overall economic output all have grown much more slowly. For most people, working hard for the last two decades has produced very little real gains in income or improvement in living standards. This is the ultimate reason for a radical budget strategy that would eliminate or reform every instance of spending and taxation that does not either contribute directly to higher national productivity or serve some other overriding national purpose.

This strategy is very different from the simple impulse to cut government, and it could have much more powerful effects. All the evidence indicates that, notwithstanding the claims of many conservatives, a modest cut in the gross size of the public sector in America would matter very little, if at all. Every advanced economy in the world has developed a substantial public sector; however, America's is among the smallest, despite our far greater geographic size and military responsibilities. Government spending at all levels claims about 33 percent of U.S. annual production or Gross Domestic Product (GDP), roughly the same share as in Japan, but fully one-third less as a share of GDP than the average in the European G-7 economies and Canada.⁵ With Japan, the United States also has the lowest total tax burden of the advanced economies, averaging about 31 percent of GDP, as compared to an average of nearly 40 percent in the other G-7 countries.⁶

There is no economic basis, therefore, for the implicit argument of the Republican "Contract with America" that U.S. growth or productivity would strengthen if we cut federal spending and taxes, in tandem, by \$170 billion over five years, or by roughly one-half of one percent of GDP annually. At best, this approach will leave the quantity and quality of public and private investment unaffected; at worse, it could impair our economic prospects by reducing productive public investment or by increasing the deficit and so raising the cost of private investment. In all likelihood, its only effects would be distributional—an exercise in social policy rather than economics—as net government services and benefits are reduced for some people while others gain proportionally more from tax cuts.

Different kinds of spending and taxes have different effects on productivity and growth, and global competition places as high a premium on the quality of public spending and taxation as on their quantity. Proper public investments financed by other spending cuts or by closing tax loopholes will be more productive than a personal tax cut, even one financed by spending cuts, and eliminating an industry tax subsidy may enhance the economy's efficiency more than a cut of comparable size in welfare spending.

If government is to actually help U.S. companies and workers become more competitive, it will have to be more active than conservatives would wish—and more self-disciplined than liberals might want. As a nation, we must invest much more aggressively, through government as well as the private sector, in the education and training, infrastructure and research, and plant and equipment that can make an economy more productive and efficient. And government also must stop undermining this effort by providing special spending subsidies, tax breaks, and trade and regulatory protections that insulate companies and industries from the powerful market forces of the global economy.

The Costs of Subsidies

In a world of international markets, production, and trade—where U.S. growth and income depend on our firms' and workers' capacities to innovate efficiently and upgrade productivity—industry subsidies will weaken our prospects in four major ways.

First, industry subsidies and protections weaken market incentives for firms to become more efficient and productive. This happens because subsidies artificially raise an industry's rate of return, shielding its firms from competitive pressures to upgrade their products and production, in order to stay ahead of foreign rivals or other domestic firms competing for labor and capital. In this context, subsidies and protections ultimately harm those they are intended to benefit.

Second, industry subsidies weaken our prospects by placing every unsubsidized sector and firm at a

disadvantage. From farm supports and tax breaks for oil and gas firms to textile quotas and telecommunications regulation, these special industry entitlements force taxpayers, consumers, and businesses to transfer more resources to influential sectors than markets would otherwise re-

"Far from contracting the economy...spending restraints and tax reforms can spur growth..."

quire—and leave less capital and labor for everyone else. The result is less efficient capital and labor markets, and, thus, less growth and income. And in a global economy, firms forced to operate at

a disadvantage at home will often move some of their operations abroad, leaving fewer jobs at home.

Far from contracting the economy, then, spending restraints and tax reforms can spur growth *if* they target those programs and provisions that weaken the economic forces driving economic efficiency and productivity. Cutting spending and tax subsidies will thus improve the *quality* as well as the *quantity* of private investment, as intensified competitive pressures drive firms and workers to make the most of the new resources for investment released by deficit reduction.

This strategy recognizes, however, that *some* subsidies *do* serve compelling social purposes. Growth policy does *not* dictate, as some conservatives suggest, that government must stop supporting immunization of children, end tax incentives for home ownership, and suspend health and safety regulation. Becoming more productive requires phasing-out provisions that artificially raise returns for industries with political clout, but provide no overriding social benefit—and reforming social regulations, such as those for protecting health and the environment, so their benefits are achieved at the least cost to productive investment.

Third, many current subsidies and protections have come not from economic logic, but from political influence first exercised long ago. As a result, subsidy policies largely ignore the industries and firms most critical to an information-based economy. Nearly two-thirds of all spending subsidies, for example, are concentrated in agriculture, transportation, and energy. Our current subsidy regime, in short, is out-of-date as well as counterproductive, focusing government policy on industries central to the commodity- and manufacturing-based economy of the past.

Finally, subsidies are also significantly regressive. The direct beneficiaries of subsidies are the shareholders in the industries whose rates of return have been artificially subsidized. These subsidies may also preserve jobs in an industry, but such job gains are offset by job losses in firms and industries forced to compete on an uneven playing field. As detailed later, we estimate that the \$53 billion in average annual spending and tax subsidies which we propose to eliminate or reform currently provide more than \$16 billion a year in net benefits to the top 5 percent of Americans, while costing the lower four-fifths of Americans nearly \$7 billion a year.

The cut-and-invest program is genuinely progressive. The program would end the regressive transfers embedded in current subsidies, leaving each industry's full costs to be borne by its customers and by its shareholders, who would earn a market return on their investments instead of a taxpayer-supported return. And if the resources now claimed by these subsidies are redirected to genuine public investment and deficit reduction, average Americans stand to gain more, through a more productive economy and lower interest rates.

Tax-Subsidy Reforms Are Not Tax Increases

Since we published the first edition of this analysis more than a year ago, Labor Secretary Robert Reich, Senator Phil Gramm, and a number of other officials have publicly questioned the logic or benefit of subsidies. Over the same

period, political support for spending reductions generally also has increased. However, some conservatives and industry advocates have argued that existing tax subsidies should not be cut, because any revenue increase from business would reduce business investment.

This position has no economic merit. The opponents of these reforms that raise revenues confuse the elimination of tax provisions which undermine business productivity with a general increase in the tax burden on business. Tax subsidies supplant neutral market judgments about how capital should be allocated efficiently, with political micromanagement, and dampen normal competitive pressures on firms to make the best use of their investment capital. Moreover, by using much of the revenues now lost to tax subsidies for deficit reduction, we can expand the pool of capital available for private investment throughout the economy.

There is a cogent case for comprehensive tax reform to reduce the overall tax burden on capital: The United States, despite a relatively light general tax burden, imposes the highest tax burdens on capital of any advanced nation.⁷ This is a wholly separate matter, however, from tax breaks that distort how the economy allocates capital. In any event, the critical factors that drive overall U.S. business investment are our rates of growth, productivity, and national savings—all factors which cut-and-invest is designed to support.

Economic Benefits of Public Investment

If a proper goal of fiscal policy is to promote the productivity and increase the income of American workers and firms—as it surely is—government should be increasing spending on public investments in specific activities that support economic efficiency and innovation, as well as reducing the deficit to promote more private investment.

Government can reconcile these goals only if genuine public investment can be distinguished, clearly and convincingly, from other federal spending that may have to be restrained to reduce the deficit. Public investment is different: Its only purpose is to expand the

economy's capacity to create wealth. Genuine public investment also usually has a generic or systemic quality: It is intended to strengthen not a particular firm or industry, but large portions of the economy. Private incentives for such broad investments are often weak, because a private investor usually cannot profit from the economy as a whole. As Adam Smith noted in the late 18th century, public investment is called for in these areas precisely because private capital markets invariably fail to produce the level of investment that would make the most of the economy's potential—principally, education and worker training, basic research, and the primary infrastructure networks that link firms, workers, and customers into markets.

Yet expanded public investment also must not become a new entitlement for anyone who wants training dollars, research support, or a new road. Public investment decisions must be more carefully insulated from political influence than most spending decisions, or they may simply produce a new generation of subsidies. The President and the Congress, therefore, will have to reinvent the way they select public investment projects before we spend more on them. First, all projects should be targeted to elements common to all economic enterprise, not just to those specific to one industry or firm. In order to qualify, the training should be general, the research should be basic, and the infrastructure should be primary.

Furthermore, public-investment decisions should incorporate a crucial element of private-market discipline: Those who receive support for a project should bear part of the project's cost. States and localities receiving federal infrastructure funding should always provide substantial matching contributions, and cover the project's operating costs. If the decision to build is economically sound, those using it should be willing to pay fees to maintain it as well as part of the cost of building it.

Similarly, federal funding for basic non-military research should be directed to projects with substantial private support, as through the partial tax credit for private research and development (R&D) or grants to projects with substantial private participation. In education investments, for example, federal college-tuition support can be tied to the student's com-

mitment to pay back the country, on the model of President Clinton's national service program.

The investments, far from a traditional agenda of public-works projects, are also intended to facilitate our transition to an information- and skills-based economy. Infrastructure investment, for example, should include support for advanced systems such as "smart" vehicles and highways, and grants to connect public facilities to the information superhighway, along with funds for interstate highway maintenance and mass transit construction. Educational investments should encompass seed money for public-private programs of youth apprenticeship training and for local charter-school initiatives, as well as funds for college loans. Research investments should focus on the frontier of technological development, where breakthroughs can benefit a wide range of industries and economic activities.

Reinventing the Budget Process

The cut-and-invest fiscal strategy also provides an economically-sound alternative to an arbitrary and blunt-edged Balanced Budget Amendment. First, the budget should be formally divided into an Investment Account, or "Future Budget," for public investments, and a Consumption Account, or "Present Budget," for everything else, from entitlement transfers and defense to interest payments and government operations. As a general rule, new federal borrowing should be limited to genuine public investments which, over time, should pay for themselves by expanding growth and the tax base. Therefore, except during recessions, Congress would have to balance its consumption accounts, and limit the annual deficit to the

total of education, training, infrastructure, and R&D, *minus* the annual social security surplus which is intended to be an investment for future benefits.

Under these rules, federal budget practice would closely resemble that of most states, which use bond issues to finance their capital expenditures, and most businesses which borrow to finance long-term capital investments. Like most governors and CEOs, the President also should be able to veto line-items in the budget or in new tax acts, so he or she can stop special interests from claiming scarce national resources. Finally, by law, *total* government spending—investment accounts and consumption accounts—should be permitted to grow no faster than the economy (except during recessions), so government spending does not deny the economy the resources it needs to maintain its current growth.

This investment-led approach to fiscal discipline would cap annual deficits at roughly \$80 billion to \$100 billion by the end of the 1990s, or roughly one-third the level of those currently forecast for those years.

As these deficit targets suggest, the major burden for upgrading U.S. growth and productivity under cut-and-invest falls to expanded *private* investment in the training, technologies, and systems *specific to a firm and industry*. Public investment is crucial for long-term growth, but government's first job at this time lies in promoting capital formation. The President and Congress accomplished the easy part in the 1993 budget reforms, under which federal expenditures now grow more slowly than the economy. The hard part involves far-reaching reforms in industry subsidies and entitlement programs, which neither party has yet fully acknowledged.⁸

2. The United States in the Global Economy: The Crisis of Slow Growth

Americans' deep dissatisfaction with their economic lives is well-grounded. Serious and systemic problems with the U.S. economy are evident in the key measures of the economy's capacity to create new wealth: Through the 1970s and 1980s, the average annual rates of growth in U.S. net investment, productivity, total output, and income gains all declined by one-third to one-half, compared with the 1950s and 1960s (see Table 1).

This sustained, substandard economic performance has virtually halted progress in living standards for most Americans. In the 1950s and 1960s, vigorous growth supported genuine upward mobility. A 20- or 30-year-old who began working in 1950 found, a generation later, in 1970, that his income had doubled, even after taking into account inflation and the additional cost of raising a child. Compare that with the income gains of the average 20- or 30-year-old who started working in 1970. A generation later, in 1990, his inflation-adjusted income was barely more than when he started, after deducting the cost of raising a child. Twenty years of slow growth has produced an economy that offers most American families little more than the equivalent of running in place (see Table 2).

This slow growth has not affected all Americans equally. The 15 percent of workers with professional or managerial jobs saw their inflation-adjusted incomes continue to rise at healthy rates of 4 to 6 percent a year, the rates that nearly everyone achieved in the previous generation. And the incomes of the richest 1 to 2 percent, those with large holdings in stocks, bonds, and real estate, grew by more than 75 percent after inflation just in the 1980s.⁹ With overall real income growth averaging only about 1 percent a year over the 20 years, the strong gains by those at or near the top have

**Table 1. Performance of the U.S. Economy,
Basic Measures**
(Average Annual Rates of Growth)

Years	GDP	Productivity	Net Investment	Median Income
1950s	3.5%	2.9%	NA	3.4%
1960s	4.1%	3.0%	7.0%	3.6%
1970s	2.8%	1.5%	5.8%	1.1%
1980s	2.5%	1.2%	2.3%	0.9%

Sources: GDP: *Economic Report of the President*, Jan. 1994, Table B-2. Productivity: Labor Department data for 1949-58; *Economic Report*, Table B-48 for later years. Investment: *National Income & Product Accounts*, Table 5-3, and *Economic Report*, Table B-17. Median Income: U.S. Department of Commerce, Census Bureau data.

left truly meager income growth for most other working Americans.

America is not alone in this predicament; most other advanced economies grew little or no faster in the 1970s and 1980s. The International Monetary Fund reports that from 1975 to 1992, real output expanded even more slowly in Germany, France, and Britain than in America, and the Canadian and Italian economies performed only marginally better. Among the major advanced economies, only Japan managed to sustain robust growth, averaging about 4 percent a year since 1975—until the Japanese economy slowed sharply beginning in 1992.¹⁰

Moreover, much of the growth in the United States in the 1970s and 1980s came from an influx of new labor, mainly women and immigrants, while investment and productivity lagged. As a result, by some measures, most

other advanced economies out-performed the United States. In 1990, both Germany and Japan produced more wealth per person than we did, and France was close behind. In productivity (GDP per worker), Japan, Germany, France, and Italy all led the United States. And our savings rate and trade balance have long been the worst of the advanced nations (see Table 3).

Strikingly, the problem of sustained slow growth has mainly afflicted the most advanced economies, while scores of developing and newly-industrializing countries have maintained high growth. Overall, the world's non-advanced economies expanded nearly twice as fast as those of the G-7 nations over the last generation, averaging 4.2 percent annual growth for 20 years. Asia's non-advanced economies have expanded nearly *three* times faster than those of the G-7—50 percent faster than even Japan's.

By 1990, for the first time in history, the world's developing and newly-industrializing economies produced more total output than the three largest advanced economies combined—the United States, Japan, and Germany.

Global Markets and the Terms of Competition

These developments point to the clear conclusion that America's economic prospects are inextricably tied to the global economy. *The most fundamental issues for U.S. economic policy in the 1990s and beyond arise from the costs and opportunities produced by global capital, commerce, and markets.*

In certain respects, the global economy is as old as international trade. Over the last 20 years, however, vast advances in the speed, efficiency, and reach of international communications and transportation systems have opened up most national economies to countless new foreign economic forces and actors. These developments have reorganized na-

Table 2. Americans' Real Income Gains by Age

	Age 20-29		Age 30-39		Age 40-49	
	Annual	Decade	Annual	Decade	Annual	Decade
1950s	6.4%	85.7%	3.9%	46.0%	3.5%	40.7%
1960s	5.2%	65.3%	3.7%	43.1%	3.5%	40.4%
1970s	3.6%	42.7%	2.1%	22.9%	1.7%	18.8%
1980s	3.8%	45.6%	2.7%	30.4%	2.4%	27.3%

Source: Author's calculations from Census Bureau data.

Table 3. Economic Performance, U.S. versus Other Advanced Economies

	Wealth/ Person (Per-capita GDP)	Productivity, 1990 (Per- worker GDP)	National Savings Rate, 1990	Trade Balance, 1990 (% of GDP)
U.S.	\$21,449	\$43,211	2.2%	-1.5%
Japan	\$23,822	\$46,098	20.5%	0.7%
Germany	\$23,536	\$49,891	12.7%	5.5%
France	\$21,105	\$49,764	8.5%	0.0%
Italy	\$18,921	\$45,940	7.4%	0.0%

Source: *OECD in Figures*, Supplement to *OECD Observer*, No. 176, June/July 1992. GNP: pp. 24-25; productivity: pp. 8-9, 24-25; savings: pp. 24-25; trade: pp. 60-61.

tional and international markets and changed the basic terms of economic competition.

The heart of America's economic challenge lies in our response to these changes, especially our capacity to upgrade the skills of our workers, the quality of our infrastructure and basic research, the quantity of our private investment, and the strength of the competitive forces that drive workers and firms to become more efficient and innovative.

Little more than a generation ago, most large U.S. firms competed by using American capital, labor, materials, and other resources to produce standard goods and services for our national market. In this competition, foreign firms, foreign capital, foreign resources, and foreign markets all played relatively minor roles. Today, large American firms, like their counterparts around the world, face a very different economic problem. They must compete with rivals drawing on different and sometimes superior resources, including labor, technology, and infrastructure. In this competition, they use materials, production facilities, and other resources located thousands of miles from our own markets. Capital, too, is drawn from and shared by the entire world. Perhaps most important, the new global markets for goods and services are vastly different from the roughly uniform domestic markets of the 1950s and 1960s. They are an assemblage of market segments that provide new sources for every factor of production; and demand goods and services reflecting the various needs and desires of different countries and cultures, classes, and communities around the world.

In this new economic framework, successful firms have to efficiently organize productive factors from around the world—R&D, materials and labor, product and process design, financing, marketing, packaging, distribution, and more—and produce the goods and services demanded by various market segments. The basic terms of competition created by global commerce and markets now require that firms and workers not simply produce standard goods and services efficiently—the hallmark of America's (and Japan's) economic success in the 1950s and 1960s—but also *innovate* efficiently

in virtually every aspect of economic production.

From this perspective, the United States is no longer one economy, but four. We are, first, an advanced economy that uses sophisticated technologies and skills to produce complex products such as software and many machine tools. Here, we compete with the world's other advanced economies for sales in most world markets, including our own. But America is also an industrial economy, producing basic, standard products such as slab steel, automobiles, and many microchips. Here, we compete with newly-industrialized countries such as Korea and Taiwan, as well as with other advanced economies, for markets everywhere. In addition, America is a commodity economy, producing basic staples such as food, textiles, and petroleum, in competition with developing nations and many others for sales everywhere. Finally, the United States includes vast sectors that make up a non-traded services economy in areas such as food service and health, where our

Table 4. Global Real Growth Rates

Sector	Total Growth 1975-1992	Average Annual Growth 1975-1992
World	74.7%	3.2%
Advanced economies	58.0%	2.6%
Non-advanced economies	127.7%	4.7%
Non-advanced Asian	217.9%	6.6%
United States	53.9%	2.4%
Japan	103.8%	4.0%
Germany	48.5%	2.2%
France	50.1%	2.3%
Italy	55.8%	2.5%
United Kingdom	38.1%	1.8%
Canada	64.2%	2.8%
Other advanced*	47.9%	2.2%

* Australia, Austria, Belgium, Denmark, Finland, Greece, Iceland, Ireland, Luxembourg, Netherlands, New Zealand, Norway, Portugal, Spain, Sweden, and Switzerland.

Source: Calculations by M. Jeff Hamond from *World Economic Outlook*, International Monetary Fund, October 1993, Tables A1, A2.

firms compete with each other for the domestic market.

The inescapable conclusion is that Americans must now compete throughout the entire world, and not only with the handful of other large advanced economies, but also with dozens of fast-growing developing and newly-industrialized economies. In part, these economies owe their stupendous growth and productivity gains to their roles as suppliers of inexpensive raw materials and labor for large corporations based in advanced countries. But they are developing as well as growing, becoming not only crucial markets, but also important competitors to satisfy many of these markets.

Government's Role in Enhancing National Productivity

As the world's largest and most diversified economy, the United States has a great portfolio of national resources and investments encompassing every sphere of competition—vast natural resources for commodity production, extensive social and economic organization for basic industrial production, and far-reaching human and intellectual capital for advanced production. An economic program for global competition should promote our competitive advantages not only with other advanced economies that have comparable cost structures, but also with the recently-industrialized and developing nations producing standard industrial and commodity products with labor far cheaper than ours.

Two elements are essential for this task: (1) high levels of public and private investment, and (2) vigorous competitive pressures that can drive innovation and productivity gains by U.S. firms and workers.

First, we have to match the basic resources employed by competing economies—in the skills of our workers, our technologies of production, and the infrastructure systems that link our businesses to the sources of every factor they need to produce and deliver their products. This means greatly expanding both our *public and*

private commitments, often through new government/private sector partnerships, to state-of-the-art education and training, advanced R&D, and world-class communications and transportation networks. On a per-worker basis, our stores of human, technological, and physical capital should match or exceed those of other economies, especially the economies of other advanced countries producing comparable goods and services.

The second crucial element is competition itself. Our firms and workers must face intense competitive pressures—chiefly from each other—to make the most of our public and private investments in human, technological, and physical capital. The reason lies in human nature. Firms and workers alike change their habits and decisions only when they have to in order to survive and prosper. This capacity for change, shaped by knowledge of markets and the myriad aspects of economic production, is a powerful facility for efficient economic innovation—the key factor in competitiveness created by economic globalization.

Government's first responsibility in promoting economic innovation involves eliminating the barriers to competition. Today, government itself insulates selected industries from these healthy competitive pressures in five principal ways. In each case, government actions or programs reduce normal incentives to innovate by artificially supporting the industry's rate of return:

- Spending subsidies, such as those for farm businesses or inland-waterway operators; *is water?*
- Tax subsidies, such as those for energy production and housing construction;
- Government services provided to particular industries *gratis* or at below-market rates, such as grazing on public lands and tourism services;
- Trade protection, such as that for textile makers and machine-tool manufacturers;
- Regulatory protection, such as that for certain kinds of telecommunications companies and financial institutions.

In a global economy, domestic subsidies and protections cost a country jobs and growth. Programs such as farm-price supports and textile quotas not only create barriers against normal competitive pressures to innovate in order to meet *foreign competition*, they also place industries that don't receive favored treatment at a disadvantage in the *domestic competition* for resources. As a result, these programs raise the operating costs for those doing business without special subsidies or protection. And this increases their incentives to press for their own benefits or take advantage of globalization and move some operations to countries where costs are lower or special subsidies are available.

The dynamics of growth in a global economy do not dictate that government eliminate ev-

ery instance of spending, tax treatment, or regulation that benefits a specific industry. Health care subsidies for the poor, tax incentives for middle-class homeowners, and many forms of health and safety regulation all promote social goals which are equally as important as marginal economic efficiency and innovation. In other instances, provisions that resemble anti-competitive subsidies or regulation may be designed to offset genuine market failures, such as federal spending to protect bank depositors, tax incentives for basic research, and in many cases environmental regulation. But when there is no overriding social purpose or market failure, a substantial burden of proof should fall on any instance of special spending or tax treatment, or trade or regulatory protection.

3. Cutting Public Subsidies for Private Interests

For more than a decade, most debate in Washington over spending and tax policy has been curiously disengaged from the economics of productivity and investment. The political argument has focused persistently on distributional questions—chiefly, who is to pay higher taxes and who shall pay less, or who is to gain new government benefits and who will shoulder the principal burden of budget cuts. This debate must change before we can have a budget program and economic policies that actively promote growth and upward mobility.¹¹

Consider the impact of a government subsidy for agriculture, an example which could apply to most instances of spending and tax subsidy. In the largely closed economies of the 1950s, when U.S. growth and employment were relatively unaffected by foreign competition and foreign markets, domestic farm supports did little harm. They directly helped many farmers, and if the subsidy, such as a tax incentive for farm equipment, enabled them to increase their productivity, the higher taxes or upward pressures on prices paid by others could be offset in part by lower prices from the productivity gains. The subsidy channeled capital to agriculture, but high national savings (and the Bretton Woods international monetary system)

enabled government to keep the cost of capital low for everyone.

The result is different in a more open economy. If a direct subsidy to farmers raises prices for domestically-produced food, it also will increase the competitiveness of *foreign* agricultural goods, which in turn reduces the market share of domestic farmers, hampering their productivity gains. If the supports also mean higher deficits at a time of low national savings and internationally-mobile capital, they will reduce investment resources for everyone else, also dampening productivity and growth.

Subsidizing one sector while others are open to global competition makes matters worse. If only farming is subsidized, the policy artificially raises the rate of return for domestic farm businesses and so draws capital and other resources away from other industries. Since firms in other industries are open to foreign competition, the drain of resources to agriculture reduces their competitiveness and so hampers economic growth. When this happens, everyone pays a price. Furthermore, with globalization, U.S. firms in unsubsidized industries often shift resources to markets in other countries where subsidies or lower prices for land, labor, and construction promise higher returns. One result is now painfully clear: In a global economy,

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subsidies for domestic industries reduce domestic job and business creation.

Nevertheless, as both Ronald Reagan and Bill Clinton discovered in their first budget battles, special interests usually can block serious action in Congress to phase-out their existing subsidies. Congress and the President have to find new ways to unravel this web of political influence.

As suggested earlier, Congress and the President should create a Commission on Industry Subsidies and National Productivity that would recommend an annual package of reforms, from phase-outs to user fees, to the President, who would submit the package to Congress. Congress should be required to vote the package up or down without amendment.

The Decline of Liberal Economic Policy

The cut-and-invest approach challenges, even rejects, much of the logic of traditional Keynesian macroeconomic policy. According to an orthodox Keynesian strategy, higher deficits, not discriminating spending cuts or tax loophole closings, will boost growth by stimulating demand, which in turn will spur productivity-enhancing investments to meet the new demand. One problem with this approach is that global trade and capital limit the amount of stimulus an economy will normally receive from a higher deficit. In a global economy, foreign imports satisfy a share of any new demand spurred by more deficit spending. Thus, as trade has increased while U.S. productivity and our competitiveness have lagged, a rising share of new U.S. deficit stimulus ends up stimulating *foreign* production, jobs, and investment.

The operations of global capital markets pose a second difficulty for the growth-stimulus strategy. When lenders can easily move their funds anywhere in the world—as they can today—and when they fear that higher deficits can also mean higher inflation and falling currency values—as international lenders often do unless the economy is in recession—they may respond to increased public spending either by

demanding higher interest rates or by moving funds abroad. In either case, much of the original Keynesian stimulus is neutralized.¹²

In a global economy, the primary stimulus to growth comes from productivity gains based on domestic investment or, in light of persistent slow growth in the United States, from fast-growing demand in the world's developing nations. This context reveals the potential of a cut-and-invest program to stimulate growth and promote upward mobility. Repealing subsidies would enable American capital markets to channel resources to their most efficient uses, promoting more effective investment, while intensifying competitive pressures on formerly-subsidized firms to make the most productive use of their investment capital. And the resources released by phasing-out or reforming industry subsidies—\$265 billion over five years—would go either to deficit reduction, which would promote business investment in *every* sector, or to public economic investments in generic activities such as education, training, infrastructure, and basic research which can enable every worker to become more productive and so earn higher wages.

The need to tap fast-growing demand in the developing and newly-industrialized world raises perhaps the most difficult problem in economic policy in the 1990s: Growing trade relationships with less-developed economies inevitably open less-skilled American workers to competition from their much-lower-paid foreign counterparts, because trade is a two-way street. Yet America cannot turn its back on the developing world without sentencing itself to slow growth and stagnating living standards. The best response now available is to increase public and private investment in the education, training, and technologies that enhance the productivity of less-skilled workers, and to allow competition to create incentives for U.S. firms to determine how to use these resources to become more productive, so their products and/or services can out-compete those produced in East Asia and Latin America as well as in other advanced economies. That is the ultimate purpose of the cut-and-invest strategy.

Who Gains from and Who Pays for Subsidies

Industry spending and tax subsidies also carry social consequences inimical to the goals of liberal economic policy, because they disproportionately benefit higher-income people. When a spending program or tax provision raises the rate of return for firms within an industry, the primary beneficiaries are the shareholders of those firms. Industry advocates of subsidies often insist that these preferences also benefit workers by preserving their jobs. But workers in general do not benefit, because job gains in subsidized firms are offset by job losses in firms forced to compete for capital and labor without subsidy advantages. Rather, the net benefits of industry subsidies are distributed generally according to the income distribution of corporate ownership, which is highly concentrated in high-income Americans, especially the 5 percent highest-income families with incomes of \$100,000 or more.

It is notoriously difficult to track the ownership of American industry with precision, but various proxies can be used to approximate the distribution of this ownership. For example, estimates of who bears the burden of the corporate income tax provide a reasonable proxy for the distribution of the underlying ownership. On this basis, using one recent analysis, it is estimated that the 5 percent highest-earning families own about 53 percent of American corporations, as compared to 22 percent of corporate ownership held by the bottom three-fifths of Americans.¹³ On this basis, the top 5 percent of Americans receive about \$28 billion in benefits from the annual industry subsidies which we propose to eliminate or reform, while the bottom 80 percent of Americans receive less than \$15 billion (see Table 5).

The full distributional consequences of subsidies, however,

also depend on how they are financed or how their costs are otherwise offset. A subsidy financed by additional revenues raised by a new business-tax provision, for example, produces an implicit transfer from one set of shareholders to another, with little implication for the distribution of income. By contrast, an industry subsidy financed through surplus payroll tax revenues would shift resources in a highly-regressive way, from moderate-income and middle-income workers to higher-income shareholders. In practice, revenues from all tax sources are fungible, and therefore the distribution of the entire federal tax burden provides the best proxy for who bears the burden of financing industry subsidies. On this basis, the top 5 percent of Americans bear about 31 percent of the burden of financing industry subsidies, while the bottom 80 percent carry about 40 percent of this burden.

A rough picture of the distributional impact of industry subsidies can be constructed, then, by comparing the pattern of beneficiaries with the pattern of federal revenues. On this basis, industry subsidies represent a highly regressive, as well as economically destructive, policy: The \$53 billion in annual spending and tax subsidies which we propose to reform or eliminate

Table 5: Who Gains from and Who Pays for Industry Subsidies
(dollar amounts in billions)

Income Group	Share of Corporate Ownership	Annual Benefits from Subsidies	Share of Total Tax Burden	Net Benefit or Cost from Subsidies
Quintile 1	1.2%	\$0.6	1.1%	+ \$0.06
Quintile 2	4.6%	\$2.4	6.1%	- \$0.8
Quintile 3	8.7%	\$4.6	12.4%	- \$2.0
Quintile 4	13.5%	\$7.2	21.0%	- \$3.9
Quintile 5	71.6%	\$38.0	59.1%	+ \$6.6
Top 5%	53.0%	\$28.1	30.7%	+ \$11.8
Top 1%	35.4%	\$18.8	15.5%	+ \$10.5

Source: Calculations by M. Jeff Hamond based on Congressional Budget Office data; also Patricia Ruggles in *Economic Inequality and Poverty*, Lars Osberg, ed., Table 8-3.

Cut-and-Invest

embodies a net gain of \$11.8 billion a year for the 5 percent highest-income Americans—with \$10.5 billion of that net gain going to the top 1 percent of Americans—and a net loss of \$6.63 billion for Americans in the lower four-fifths of the income distribution.¹⁴

4. A Catalogue of Current Subsidies

Spending Subsidies

On the following pages we have catalogued 89 spending programs that benefit specific industries. We have also suggested reforms that would save \$131.2 billion over five years. In many instances, we recommend that Congress repeal or phase-out the subsidy entirely; in cases in which the subsidy provides a service to certain private businesses, we recommend that the service be privatized or financed by user fees. Our list demonstrates that virtually every part of the budget contains special-interest subsidies. However, nearly two-thirds of the benefits are bestowed on three industry groups: Roughly \$31 billion of our total proposed five-year savings come from current spending programs benefiting agribusiness firms; \$30 billion from reforms of spending programs for transporta-

tion-industry companies; and \$19 billion from spending programs benefiting energy and other natural resources firms. Most of these subsidies have been in the budget for decades, and so it is not surprising that they are concentrated in sectors critical to a commodity-based and traditional manufacturing economy. Subsidy policy, therefore, has largely ignored the industries and firms most critical to an information-based economy. The current regime of spending subsidies is archaic as well as economically counterproductive and regressive.

Our catalogue of spending subsidies and proposed reforms is neither definitive nor exhaustive. The proposed Commission perhaps will find sound economic or social reasons for preserving some of them, as well as suggesting others. We offer these reforms as a starting point for the work of the proposed Commission and for Congress's current budget deliberations.¹⁵

Agricultural Subsidies

- *Agricultural target price programs:* As a first step towards phasing-out direct farm subsidies, reduce target price-subsidy supports for basic commodities by 3 percent a year.* _____ \$11.1
- As step two, raise the proportion of a farm business's acreage ineligible for subsidy payments to 25 percent.* _____ \$3.9

Continued >

As step three, end price support payments for unplanted crops. ^a	\$1.3
As step four, reduce subsidization of wealthy farmers by limiting subsidy payments to \$50,000 per person. ^a	\$0.7
• <i>Dairy programs:</i> Increase assessments on dairy producers participating in the dairy price support program to 25 cents per hundredweight. ^a	\$1.2
Milk marketing orders: End government-set minimum pricing for fluid milk, which raises consumer prices. ^a	\$0.8
• <i>Export-enhancement agricultural subsidies:</i> End U.S. taxpayer subsidies of wheat and other food purchased by foreign consumers. ^a	\$4.2
USDA export promotion: End funding by Foreign Agriculture Service of overseas advertising campaigns and trade shows for U.S. agribusiness firms. ^a	\$0.2
• <i>Federal Crop Insurance:</i> Taxpayers should not subsidize insurance for firms in only a particular industry; replace this program with federal disaster assistance. ^a	\$0.7
• <i>Direct government services that should be eliminated or funded by user fees:</i>	
USDA Agricultural Research Service, Extension Service, Cooperative State Research Service, and Economic Research Service: Agribusinesses should bear the expense of research services. ^{a,c}	\$2.6
Food Safety and Inspection Service: This service to agribusinesses and their customers should be supported by user fees. ^c	\$1.9
International Agricultural Trade Service: End federal funding of private commodity associations and regional groups for promoting U.S. farm business products, and charge firms for government-collected foreign market information. ^{b,c}	\$0.5
Agricultural Marketing Service: User-finance agribusinesses for this office's marketing and market-news services. ^c	\$0.3
USDA National Agricultural Statistics Service: Eliminate estimating and statistical research functions performed by other departments, so funding can be cut 50 percent. ^c	\$0.2
Agricultural Quarantine Inspection Program: Include U.S.-Mexico border in user-fee funding for inspections of agricultural products. ^d	\$0.1
Federal Grain Inspection Service and Packers and Stockyards Administration: Finance these services through user fees. ^c	\$0.1
World Agricultural Outlook Board: Eliminate duplicative services and user services providing economic data to agribusinesses. ^{b,c}	\$0.1
National Cooperative Survey: Charge large farm cooperatives user fees for research studies and technical assistance. ^{b,c}	**
• <i>Farmer's Home Administration:</i> End below-cost loans to new farmers for purchase of land or materials. ^a	\$0.4
• <i>National Marine Fisheries Services:</i> Charge fishery companies user fees for services provided by the Maritime Administration. ^b	\$0.3
End the Fishing Vessel and Gear Damage Compensation Fund and the Fishermen's Contingency Fund programs, which subsidize losses to firms in this one industry. ^c	**
• <i>Tobacco Program:</i> Tobacco firms finance their own direct price supports but not the program's administrative costs. Phase-out tobacco subsidies or charge user fees to cover the program's administrative costs. ^a	\$0.2
• <i>Animal Damage Control Program:</i> Shift financing of this program to state cooperatives and affected companies. ^{a,j}	\$0.2
• <i>Grazing Fees:</i> Raise fees for grazing on public lands so that commercial users pay market-based rates. ^g	\$0.2

Five-Year Savings (billions)

- *Irrigation programs:* Water subsidies created for family farms now subsidize many suburbs and agribusinesses. Charge farm firms over 960 acres and all farms receiving price support payments market rates for water from federal projects.^a \$0.1

Energy Industry Subsidies

- *Power Marketing Administrations:* Charge market rates for power generated by federal hydroelectric power plants, now sold at cost to utilities in certain regions.^a \$4.8
- *Energy Department Nuclear Production:* End unnecessary nuclear weapons production services in the Energy Department.^{b,h} \$3.0
- *Energy-related R&D, Fossil and Nuclear:* Phase-out all grants for fossil and nuclear energy development, since these are mature industries that can finance their own development.^{a,c} \$2.3
- *Energy R&D, Other:* Reduce R&D support for solar, renewables, and conservation activities by 20 percent until market forces from reduced subsidies for other forms of energy take effect.^a \$1.0
- *Naval Petroleum and Oil Shale Reserve:* Suspend new purchases and privatize this program.^c \$1.1
- *Strategic Petroleum Reserve:* Suspend new purchases.^a \$0.3
- *Tennessee Valley Authority (TVA):* Since 1933, TVA has subsidized electricity consumption and recreational activities in the Tennessee Valley. Eliminate most activities and increase rates or fees to cover TVA stewardship functions.^a \$1.0
- *Nuclear Waste Disposal Program:* Increase user fees paid by utilities and defense firms for federal waste disposal services.ⁱ \$0.6
- *Nuclear waste disposal fees:* Government fees to dispose of utilities' nuclear wastes should be indexed for inflation.^a \$0.3
- *Rural Utilities Service:* Formerly the Rural Electrification Administration, created to electrify rural America, it now subsidizes private utilities in selected areas with low-cost loans. End lending and phase-out program over two years.^{a,j} \$0.6
- *Uranium enrichment services:* Fund by user fees all activities of Energy Department's Office of Uranium Enrichment, which services nuclear power firms.^d \$0.3
- *Clean Coal Technology Program:* End new funding for this program, which subsidizes practical research for one segment of the coal industry capable of financing it on its own.^a **

Other Natural Resource Subsidies: Mining and Timber

- *Mine Safety and Health Administration:* Finance this agency's services through user fees, including inspections, accident investigations, training policies, and technical support.^e \$1.0
- *Minerals Management Service:* Eliminate or fund through user fees the Royalty Management Program, which provides accounting, auditing, and compliance activities related to mineral production from the Outer Continental Shelf and other federal properties.^e \$0.9
- *Bureau of Mines:* End the Bureau's remaining activities involving information dissemination on hard-rock minerals and research on mining techniques.^a \$0.9
- *1872 Mining Act:* Set an 8 percent royalty on minerals recovered from public lands.^a \$0.3
- *Timber sales from national forests:* End below-cost timber sales and reduce the subsidy for Forest Service construction of logging road networks.^{a,j} \$0.7

Continued >

Transportation Industry Subsidies

- *Federal Aviation Administration:* Charge airlines and private plane owners user fees to cover the entire operations of the FAA—including air traffic control—or privatize non-safety services.^c _____ \$11.0
- *Mass-transit subsidies:* Mass-transit construction may be public investment, but operating subsidies are not and should be phased-out. Also, reduce federal share of construction costs from 80 to 50 percent, to discourage investments in unproductive mass transit.^a _____ \$6.9
- *Coast Guard rescue and enforcement:* Charge commercial boat companies and pleasure boat owners user fees to cover rescue and enforcement activities.^b _____ \$3.8
- *Inland waterway programs:* Charge user fees to firms using inland waterways to cover federal costs to maintain, operate, and upgrade these routes.^a _____ \$3.1
- *Highway demonstration projects:* Rescind all new funding for demonstration projects—projects that do not qualify for federal support under state transportation plans or highway grant programs.^a _____ \$2.6
- *Amtrak operating subsidies:* Phase-out operating subsidy and make the system self-supporting.^a _____ \$1.9
- *Maritime Administration:* End cargo preference and do not renew the operating differential subsidy program, which compensates U.S. carriers for the higher costs of operating U.S. flag vessels, while permitting U.S. carriers to freely operate vessels under foreign flag.^c _____ \$1.0
- *Rail safety fees:* Extend Federal Railroad Administration fees that cover its costs of enforcing safety laws.^b _____ \$0.2
- *Federal Maritime Commission:* Finance the Commission's regulatory activities through user fees.^c _____ \$0.1

Aerospace and High-Tech Industry Subsidies

- *NASA space station:* Cancel the program; its likely benefits do not justify its cost.^a _____ \$10.4
- *NASA Advanced Subsonic and Supersonic Research:* End this program, which subsidizes U.S. aerospace firms to protect their market share.^d _____ \$1.8
- *Military export sales:* Discontinue direct and indirect subsidies to foreign purchasers of U.S. defense firm products.^k _____ \$2.5
- *Sematech and Technology Reinvestment Project:* Phase-out these subsidies for applied research, as urged by the Defense Advanced Research Projects Agency and others.^a _____ \$1.5
- *Advanced Technology Program:* Reduce funding for this program, which helps firms convert research to commercial uses, to its 1993 level.^a _____ \$0.5

Financial Industry Subsidies

- *FDIC examinations of state-chartered banks:* Charge for this service and do not compensate other banks with lower FDIC premiums.^d _____ \$1.5
- *Securities and Exchange Commission:* Raise current charges to cover SEC costs of registering and monitoring securities transactions.^m _____ \$0.4
- *Commodities Futures Trading Commission:* Charge user fees on futures-exchange transactions to cover costs of overseeing the exchanges.^a _____ \$0.3
- *Office of Thrift Supervision:* Increase current user fees to cover all costs of the Office.^c _____ **

Five-Year Savings (billions)

Miscellaneous Industry Subsidies

• <i>Federal Communications Commission (FCC):</i> Charge current television and radio broadcasting firms an annual royalty to use the public broadcast spectrum. ^a	\$11.0
Raise fees for all communications firms using FCC services to cover all regulatory costs. ^a	\$0.6
• <i>Special hospital subsidies:</i> Reduce special payments to teaching hospitals from 7.7 percent to 6 percent. ^a	\$4.8
Reduce federal subsidies for costs of graduate medical education, including salaries, fringe benefits, and institutional overhead. ^a	\$1.1
• <i>Wastewater Treatment Grants:</i> Eliminate direct grants to construct wastewater and drinking water treatment facilities, shifting half of the savings to the revolving fund program and half to deficit reduction. ^a	\$2.6
• <i>University overhead payments:</i> Overhead for federally-supported university research has risen faster than direct costs of research; reduce these payments 10 percent. ^a	\$1.6
• <i>Small Business Administration (SBA):</i> End below-market credit programs, except minority and disaster programs. ^a	\$1.5
SBA development centers: Impose user fees for services from SBA development centers. ^b	\$0.1
• <i>Food and Drug Administration:</i> Increase user fees for FDA services and functions. ^b	\$1.4
• <i>Export-Import Bank:</i> Reduce loan subsidies to foreign purchasers of U.S. products by half, increase fees based on credit risk, and direct loans to credit-worthy firms in growing countries. ^a	\$1.4
• <i>Superfund:</i> Require polluting firms to pay a larger portion of the expense of cleaning-up their toxic wastes. ^a	\$1.0
• <i>Public housing:</i> Replace new commitments to build public housing with vouchers to serve the same number of low-income tenants. ^a	\$0.9
• <i>Travel and Tourism Administration and International Trade Administration:</i> Charge firms for using tourism and export promotion services, or eliminate these programs. ^a	\$0.8
• <i>Davis-Bacon Act:</i> This 1931 law requires that all federal construction projects pay union wages, raising the cost of federal contracts by 30 percent. Limit this subsidy to projects of \$1 million or more. ^a	\$0.8
• <i>Market Promotion Program:</i> Abolish this program, which subsidizes foreign advertising costs of U.S. businesses. ^a	\$0.5
• <i>Native American Business Grants:</i> End these subsidies to firms owned by Native Americans. ^b	\$0.4
• <i>Overseas Private Investment Corporation (OPIC):</i> End OPIC below-market loans and risk insurance to U.S. firms that wish to enter emerging markets. ^b	\$0.3
• <i>Bureau of Alcohol, Tobacco and Firearms:</i> Charge user fees to cover compliance and enforcement activities. ^b	\$0.3
• <i>National Parks concessions:</i> Introduce competitive bidding for right to operate lucrative concessions at National Parks and raise fees to cover costs related to concessions. ¹	\$0.2
• <i>National Indian Gaming Commission:</i> Charge these gaming firms user fees to cover Commission's costs. ^c	..

Total savings over five years from spending reforms: \$131.2 billion

Tax Subsidies

Special-interest subsidies are as prevalent in the tax code as they are in the budget proper, and the list below details 31 major industry tax subsidies, along with suggested reforms that would raise \$101.8 billion over five years. Tax subsidies are distributed more widely across industries than are spending subsidies, but the energy sector is a major beneficiary of these tax preferences. In a separate section, we also detail an additional \$32.2 billion in indirect subsidies for the construction sector provided through excessive mortgage interest deductions that do not serve the purpose of promoting broad, middle-class home ownership.

Since the publication of the first edition of this report in January 1994, some conservatives and industry advocates—and their allies in Congress—have claimed that current tax subsidies should not be touched, because any reforms would amount to a corporate tax increase that would harm business investment and productivity. This complaint lacks any economic basis. It confuses the elimination of tax provisions which undermine business productivity with a general increase in the tax burden on business. Tax subsidies, like their counterparts on the spending side, reduce economic efficiency by substituting political micro-management for routine market decisions about how capital should be allocated across the

economy. They further reduce productivity by dampening normal competitive pressures on their beneficiaries to make the best use of their investment capital.

In fact, these tax subsidy reforms should spur business investment. Years of evidence indicate that tax rates have much less impact on business investment than the *pre-tax* rate of return on investment; in fact, over the last generation, the rate of growth of business investment declined while the overall corporate tax burden dropped. Moreover, the pre-tax rate of return depends primarily on the same factors which the cut-and-invest program is designed to enhance—the size of the nation's capital pool, the growth rate, and productivity. By redirecting the revenues now claimed by industry tax subsidies to deficit reduction, this program would increase the pool of capital available for business investment across the economy. And, by eliminating the distortions caused by current subsidies and by expanding public investment, it should help spur growth and productivity.

The catalogue of tax subsidies listed below is neither exhaustive nor definitive. The proposed Commission may determine that some of these subsidies serve overriding economic or social goals. We offer these proposals as a starting point for the work of the proposed Commission and for Congress's current budget deliberations.

Energy Industry Tax Subsidies

- | | Five-Year Savings (billions) |
|--|------------------------------|
| • <i>Expensing of oil, gas, and mineral firms' intangible drilling, exploration, and development costs:</i> Phase-out extractive industry's special right to fully deduct certain capital costs instead of depreciating them. ^a | \$6.1 |
| • <i>Special tax credit for producers of fuel from non-conventional sources:</i> Phase-out current credit for fuels produced from certain sources. ^a | \$5.8 |
| • <i>Percentage depletion cost recovery for oil, gas, and non-fuel mineral firms:</i> Repeal the extractive industry's special right to deduct a percentage of their gross income. ^a | \$4.8 |
| • <i>Alcohol fuels tax credit and partial excise tax exemption:</i> End special tax subsidies for one specified form of alcohol fuel, mostly benefiting one firm. ^a | \$3.6 |
| • <i>Tax credit for enhanced oil recovery costs:</i> End tax credit for recovering oil by a certain method. ^a | \$0.4 |

- *Clean fuel vehicles and refueling property:* End special deductions for certain energy uses.^a \$0.3
- *Expensing of tertiary injectants:* Treat injectants used in oil extraction as depreciable capital costs, not as operating expenses.^a \$0.1

Construction Industry Tax Subsidies

- *Tax depreciation on rental housing:* Treat depreciation of rental housing on same basis as that for other structures.^a \$7.3
- *Private-purpose revenue bonds:* End ability of state and local governments to raise funds loaned to private developers by issuing bonds exempt from federal tax.^a \$5.3
- *Low-income housing credit:* Replace this credit, which subsidizes passive investors in projects providing relatively little low-income housing, with rental vouchers that would serve an equivalent number of low-income families.^a \$4.5
- *Tax credit for rehabilitating older buildings:* Reduce credit for historic structures to 15 percent and repeal the special tax benefit for older, non-historic structures.^a \$0.3

Financial Industry Tax Subsidies

- *Exemption of credit union income:* Tax large credit unions on retained earnings, as are mutual savings banks and thrifts.^a \$3.4
- *Special deduction for certain health insurers:* End special deduction for health insurers who accept all applicants, when health care reform universalizes this requirement.^a \$0.9
- *Taxable income adjustment for small life insurance firms:* End special prerogative of small life insurers to be taxed on investment income rather than adjusted gross income.^a \$0.5
- *Exemption of certain income for small property and casualty insurance companies:* Tax all property and casualty insurers on the same basis.^a \$0.2

Agribusiness Tax Subsidies

- *Cash accounting:* Phase-out farm firms' special right to defer tax on income from crops to be delivered the following year.^a \$1.3
- *Dairy and breeding cattle exclusion:* End special tax exclusion for costs of raising dairy and breeding cattle.^a \$0.7
- *Expensing of conservation and fertilizer conditioner costs:* Treat these expenses as depreciable capital costs.^a \$0.5
- *Exclusion of "cancellation of indebtedness" income:* Reduce ability of farm firms to exclude income from debt repayments.^a \$0.3
- *Exclusion of cost-sharing payments:* Phase-out farms' ability to exclude state or federal support payments from income if they are used for conservation.^a \$0.1

Timber Industry Tax Subsidies

- *Timber-industry exception from uniform capitalization rules:* Reduce by one-third benefits from timber firms' special right to expense indirect costs of production.^a \$0.9
- *Special tax credit for timber companies' reforestation costs:* Phase-out subsidy for timber industry expenditures for site preparation, seeds and seedlings, labor and tools, and depreciation.^a \$0.1

Continued >

Miscellaneous Industry Tax Subsidies

• <i>U.S. territorial possessions tax credit:</i> Repeal tax credit exempting income earned by U.S. firms on operations in Puerto Rico and other U.S. possessions. ^a	\$19.7
• <i>Expensing of advertising costs:</i> End firms' right to fully deduct advertising costs by depreciating 20 percent as a capital cost to build brand recognition. ^a	\$18.3
• <i>Foreign sales corporations:</i> End ability of exporting firms to exclude 15 percent of export income generated through special subsidiaries, which often are created merely to process the subsidy. ^a	\$7.5
• <i>Tax deferral on income of controlled foreign corporations:</i> End ability of U.S. firms to delay tax on income earned by their foreign subsidiaries until the income is transferred to U.S. accounts. ^a	\$5.7
• <i>Business entertainment:</i> End the 50-percent deduction for costs of entertaining business clients, which highly subsidizes professional sports companies. ^a	\$2.0
• <i>Tax benefit for selling a broadcasting facility to a minority-owned business:</i> End this tax subsidy for broadcasters. ^a	\$0.5
• <i>Capital construction by shipping companies:</i> End this tax benefit designed to ensure adequate means for shipping in wartime. ^a	\$0.4
• <i>Expensing of magazine circulation expenses:</i> End magazine publishers' ability to deduct all costs of increasing building circulation, instead of capitalizing part. ^a	\$0.2
• <i>Magazine, paperback book, and record returns:</i> Apply same tax treatment to the return of these products as is applied to other retail goods. ^a	\$0.1

Total savings over five years from tax reforms: \$101.8 billion

Indirect tax subsidies for the home construction industry

In addition to these direct industry tax subsidies, enormous economic distortions are introduced through the very large, indirect tax subsidy for residential housing under the mortgage interest deduction.¹⁶ The scope of the economic costs is suggested by comparing levels of investment in residential housing, to investment levels in business equipment and structures. The gross investment numbers should not cause great concern: Over the last four years, from 1990 through 1993, gross business investment claimed 72.5 percent of all gross private capital investment, while residential housing accounted for the remainder.¹⁷ The *net* investment numbers, however,

are both more disquieting and more important. They measure how much *more* the U.S. is effectively investing—the extent to which we increase our wealth-creating capacity as compared to increasing the housing stock—and not simply how much the U.S. invests on a gross level.

The data on *net* fixed business investment versus *net* residential investment—subtracting from gross investment the depreciation in the value of existing business assets and existing housing—show clearly the economic implications of enormous subsidies for residential housing. From 1990 through 1994, *net investment divided nearly evenly between business and housing*, with business averaging \$84.4 billion a year and residential housing averaging \$76.6 billion a year.¹⁸

The mortgage interest deduction, while subsidizing housing investment at the expense of productive business investment, also serves a clear social purpose in promoting broad middle-class home ownership. However, this social good can be preserved while limiting the scope of the deduction, so that the portion of the deduction which seems socially non-productive is lessened and the economic drain on business investment is reduced. For example, only the top 5 percent of homeowners carry mortgages exceeding \$300,000:

- Reduce the ceiling on mortgage principal against which mortgage interest can be deducted from \$1 million to \$300,000 (adjusted upward for areas with above-average housing prices).⁸ \$20.6 billion
- Phase-out the deductibility of interest paid on consumer loans secured by home equity.⁹ \$11.6 billion

Additional five-year savings from reform of the mortgage-interest subsidy: \$32.2 billion

Subsidies By Other Means: Trade Protections

Industry spending and tax subsidies are not the only means by which current economic policies diminish our capacity to create new wealth. Industry trade protections operate in much the same manner, insulating industries from competitive pressures to upgrade themselves by artificially underwriting their rates of return and leaving unprotected industries at a disadvantage in market competition for capital and labor. In this area, however, the Clinton Administration has achieved significant progress. Congressional approval of the North American Free Trade Agreement (NAFTA) and the Uruguay Round of the General Agreement on Tariffs and Trade represent substantial steps that should strengthen productive market pressures on American producers while expanding our foreign markets.

The direct costs of trade protection generally take the form of higher prices for U.S. consumers and businesses, as compared to the

higher taxes and higher deficits that finance most spending and tax subsidies. Nevertheless, industries typically have won trade protections in the same way they or others have secured special spending and tax subsidies—through well-organized campaigns of political influence that are difficult for unorganized consumers and businesses to counter.¹⁹

In a global economy, trade protections, like spending and tax subsidies, do not confer world-productive status. With weaker incentives to improve their productivity and innovate, protected industries often cannot maintain even their domestic employment. According to a recent survey by Gary Hufbauer and Kimberly Elliott of the Institute for International Economics, U.S. trade protections today extend to 21 major industries with annual sales of \$1 billion or more. Yet from 1985 to 1990, as U.S. exports expanded sharply, employment *declined* in 15 of these sectors and remained constant in three others.²⁰ While these job losses might have been even larger without protection, the artificial demand created for these industries' products came from other, unprotected, sectors which otherwise would have created more jobs.

Hufbauer and Elliott estimate that the various arrangements transfer \$32 billion a year from U.S. consumers and businesses to protected sectors, or the equivalent of a 34.5 percent surtax over world-market prices for the products of the 21 affected industries. They further estimate that these protections maintained roughly 190,000 jobs. Accounting for the benefits of these jobs, the net direct cost of the protections comes to \$9.1 billion a year, transferred to these industries' shareholders. A similar analysis by the International Trade Commission, which also included many smaller protected sectors, has estimated the net costs of current U.S. trade protections at some \$19 billion a year.²¹

The economic costs of protection are likely greater, since the trade protections impair the competitiveness of unprotected sectors by drawing away resources. Moreover, ending protection would ultimately benefit some protected sectors. For example, after protective quotas

ended for U.S. steel makers, some firms shifted to specialty products that slab-steel makers in low-wage countries could not produce.

Moreover, like most spending and tax subsidies, most trade protections were established long before new information technologies and economic globalization changed the terms of competition; yet they have persisted for decades or even centuries, long past any prospect of providing temporary relief to industries while they adapt to foreign competition. Current maritime protection can be traced back to 1789. Of 20 other instances of significant formal protection today, two were established in 1922 (glassware and organic chemicals) and 11 more date from the early 1930s (ball bearings, ceramic articles and tiles, costume jewelry, frozen concentrated orange juice, luggage, women's and all-rubber footwear, women's handbags, polyethylene resins, and sugar). In 1951 and 1953, three more agricultural commodities joined the list of protected sectors (dairy products, peanuts, and canned tuna), and in 1957 apparel and textiles, the largest protected sectors, attained their trade subsidy status. Finally, in 1987, machine tools and softwood lumber won protection.

Abolishing all industry trade protections, unilaterally, would not be politically feasible, nor even entirely prudent economically. President Clinton should continue to press for multilateral liberalization and, where appropriate, bilateral progress on the model of NAFTA. Future bilateral liberalization should focus, first, on the fast-growing economies of Latin America and Asia, which hold the greatest potential as expanding markets for U.S. goods and services.

Subsidies By Other Means: Economic Regulation

Finally, certain forms of economic regulation covering particular industries also operate as anti-competitive subsidies. In contrast to *social* regulations that protect the health and safety of workers and consumers, many forms of *economic* regulation insulate a sector from potential domestic and foreign competitors. This

economic regulation takes many forms: price controls on some trucking, railroad, and ocean shipping; limits on the products that can be offered by security and commercial banking firms; geographical restrictions on utilities; Intelstat's monopoly on international satellite communications; certain restrictions on local and long-distance telephone companies' activities; and more.

Some instances of economic regulation arose from special pleading, like most spending and tax subsidies and trade protections. But others grew out of legitimate concerns about promoting efficiency and protecting consumers in the presence of a monopoly, such as local telephone service, or the prospect of virtually unlimited risk, such as financial panic. Economic regulation is still necessary where natural monopolies persist. But the universe of these cases is shrinking as technology creates new ways of providing old monopoly goods and services. How long will it be, for example, before the spread of wireless-telephone technology breaks the monopoly bottleneck of local telephone exchanges?

Where some form of genuine market failure does not exist, however, the typical result of most economic regulation is higher prices with little or no national or social benefit. As with the other forms of anti-competitive subsidy, such economic regulation leaves the entire economy less productive and less efficient by legally enabling a favored sector to claim earnings that otherwise would go to more competitive domestic industries and firms.

Estimates of the costs of economic regulation to U.S. growth and productivity depend on econometric models of problematic reliability, but the total cost is probably tens of billions of dollars a year. Moreover, global commerce and markets increase the cost. Restrictions on the availability of certain products or controls on prices deny U.S. consumers and firms opportunities to purchase new goods and services, or standard ones at lower prices, from an entire world of innovative producers.

Over time, these regulatory barriers do not deter innovative companies from developing alternative goods and services that can take the

place of those protected by regulation. In effect, global markets and competition compel resourceful firms to claim part of a regulated market by redefining it. The regulatory walls insulating traditional financial institutions did not protect them from the competition of numerous new financial instruments—revolving credit accounts, annuity funds, money market accounts, international investment funds, and many more—created by resourceful retailers, insurers, and real estate firms, as well as by innovative securities and banking companies. And since the Carter Administration, the United States has increasingly recognized this reality and has significantly reduced economic regulation for various industries, principally transportation, communications, energy, and finance. By one estimate, the share of U.S. GDP produced by fully-regulated industries declined from 17 percent in 1977 to 6.6 percent in 1988.²²

Thus far, however, there has been virtually *no* progress in another, closely related area of regulation—namely, the non-economic application of social regulation, especially those to protect the environment. Much of our current environmental regulation has substantially increased business costs without improving the quality of our environment or, more commonly,

has produced cleaner air or water but at unnecessarily high cost. In either event, business investment that could enhance productivity has been reduced, and thus workers' income gains have been depressed. Congress and the President, therefore, should fundamentally reform our national approach to the environment. Pollution taxes and antipollution tax credits, for example, can supplant much of our current command-and-control regulation, so that firms will have genuine economic incentives to figure out how to be more productive in environmentally-friendly ways.

In addition to cutting direct industry subsidies, therefore, a new growth program should include aggressive steps to further cut economic regulation and recast our approach to social regulation. Economic deregulation could concentrate, first, on the telecommunications and financial sectors, two of the global economy's most dynamic industries, where current regulation raises domestic prices and stifles the innovation demanded by competition from aggressive new foreign rivals. Economic reform of environmental regulation can begin by legally mandating the routine use of scientifically-sound risk-assessment analysis, to determine the nature of the problems which such regulation might address.

5. Public and Private Investment: The Division of Labor Between Government and Business

Restoring mass upward mobility will require more than deficit reduction, more even than reducing the deficit in ways which enhance the quality, as well as the quantity, of private investment. Genuine growth policy also dictates that we invest more of our national resources, public as well as private, in the building blocks of productivity—better education and training for workers, the development of new technologies, and improvements in the economic infrastructure.

The general proposition that the United States should invest more of its national income in the factors of growth and productivity is hardly controversial. Traditional conservatives, however, insist that only private markets acting alone can achieve the highest potential and actual economic growth, and that the only sound economic policy is deficit reduction and perhaps additional tax incentives for private investors. *In a global economy, this conservative view is as outdated as some liberals' insistence that higher government spending and deficits are prerequisites to growth.*

The Decline of Conservative Economic Policy

The dynamics of global commerce and capital have shredded much of the logic of the conservatives' case against public economic invest-

ment and for a hands-off economic policy. To begin, the domestic tax incentives favored by conservatives are no longer a reliable way of increasing investment. International credit markets give large firms everywhere access to the entire world's capital, from which they borrow freely at home and abroad—and the foreign savings that provides much of the capital for U.S. investment today is largely unaffected by our domestic tax incentives for savings and investment. That is one important reason why four cuts in the U.S. capital-gains tax rate between 1977 and 1985 failed to increase the growth rate of U.S. net investment. Instead, lower capital-gains taxes mainly shifted savings and investment from instruments denied the tax break, such as money-market accounts, to those granted it, such as stocks. As a result, the tax incentives *reduced* the efficiency of our capital markets, which is why Ronald Reagan's Treasury Department in 1984 recommended *ending all capital gains tax preferences.*

Nor can the United States spur national investment by cutting marginal income tax rates for the wealthy, as supply-siders promise. Comparing U.S. economic performance in the business cycle of 1976-1979, before the tax cuts, and the business cycle of 1983-1989, after the cuts—or throughout the 1970s and 1980s—demonstrates that by every relevant measure, the

economy performed no better *after* the supply-side reforms than *before* (see Table 6).

Conservatives are right that capital still counts. *But in the era of global capital markets, differences in the cost of capital among advanced economies don't reflect differences in tax policy.* Rather, they mainly reflect each nation's rate of expected inflation and the close relationships in some countries between banks and businesses.

In any event, long before globalization, Adam Smith pointed out that markets alone normally will not generate the education required for a society to make the best use of its resources, or the roads needed to enable its markets to work efficiently. In a global economy, these classical efficiency considerations become more significant, because each country's firms compete with others that may have access to better-trained labor, more-advanced technologies, and better-developed infrastructure systems.

In this context, the first test for additional public spending is whether it helps U.S. firms and workers to become more productive and thus more competitive, or simply expands old programs for entrenched interests. In this pe-

riod of economic change, these investments should strive not only to increase our economic efficiency, the central issue for a traditional economy, but also to respond to the global economy's demands for greater economic flexibility and innovation. Provision for continuous training that increases workers' adaptability can be more important than specific vocational training; opening public facilities to the information superhighway should receive higher priority than new road construction; and basic research for future technologies may produce higher returns than incentives to expand supplies of basic equipment.

The traditional conservative approach is flawed, but its general attitude towards public spending merits respect. For both political and economic reasons, government always should bear a substantial burden of proof when it presumes to spend taxpayers' money for a general economic good. In politics, debates about new spending or tax preferences are often couched in the opaque language of experts, easily camouflaging any special-interest agenda. Even after results from a spending or tax change begin to come in, most taxpayers are unable to evaluate their value, because those results are usu-

ally defended through general measures such as productivity or changes in the trade imbalance.²³

An economic presumption also lies against a government's claims to improve the economy by investing taxpayers' money for them. Without government, markets produce and distribute hundreds of thousands of resources through billions of transactions carried out by tens of millions of people acting in their own self-interest. A few hundred elected officials and bureaucrats sitting in Congress and in executive branch buildings cannot begin to know or digest the

**Table 6. U.S. Economic Performance
Before and After Supply-Side Policy Changes**

Average Annual Rate of Growth	Pre Supply-Side		Post Supply-Side	
	1970s	1976-79	1980s	1983-89
Real GDP	2.8%	4.2%	2.5%	3.7%
Civilian Jobs	2.7%	3.7%	1.9%	2.6%
Real Personal Income	3.0%	4.0%	3.1%	3.5%
Average Annual Share of Nat'l Income	Pre Supply-Side		Post Supply-Side	
	1970s	1976-79	1980s	1983-89
Real Capital Spending	3.9%	2.5%	2.7%	2.8%
Personal Savings	6.7%	6.0%	5.3%	5.4%
Trade Balance	-0.1%	-0.4%	-3.0%	-4.0%

Source: Author's calculations from data reported in *Economic Report of the President*, February 1991, Tables B-2, B-26, B-29, B-33, B-58, B-101.

information generally required to produce better results.

Recognizing Genuine Public Investment

How, then, can the government and the public recognize genuine public economic investments, especially when nearly all spending is routinely described as such, from immunization and law enforcement to health care reform and defense? Such spending can result from sound policy, but public economic investment has a specific character that can be described precisely. To meet the burden of proof, public investment must have a compelling economic purpose, and private markets must be unable to fulfill this purpose without government support.

First, an investment should hold clear potential for producing future benefits, and as an economic investment in particular, these future benefits should be manifest through an increase in the private economy's wealth-creating capacity.

National economic investment is not the same as what accountants call "capital improvements," which would include, for example, new defense installations or public buildings. Rather, it must have genuine potential to expand the private economy and not merely to shift resources from one location or sector to another.

If public economic investment is intended to expand the economy's productive capacity, why doesn't private investment take care of it through private markets? The principal reason is that genuine public investments have a generic or systemic quality: They are intended to strengthen not a particular firm, but large segments of the economy. Private-sector interest in such broad investments will always be weak, because a private investor usually cannot profit from the economy as a whole.

Second, public investment should occur only in particular pockets of the economy where the private capital markets fail to produce a level of in-

vestment that would make the most of the economy's potential.

The economy contains three significant pockets of economic "market failure," in the areas of human, technological, and physical resources that are critical in global competition.²⁴

Human capital: education and training

The first sphere for greater public economic investment is human capital—education and training. Many private firms are reluctant to train their employees, because a well-trained worker can more easily move to a new job where the new employer will reap the benefit of a competitor's previous training investment. In an advanced economy such as that of the United States, dependent on sophisticated skills, this species of market failure has produced chronic under-investment in skill training and chronic business complaints about an under-skilled work force.

Average working people in U.S. factories and offices are bearing the main cost of this under-investment. Up to 70 percent of all private U.S. training dollars are spent on the top 10 percent of employees, principally professionals and managers. The on-going training they receive is an important reason why their incomes have continued to rise at healthy rates, and why income inequality is increasing. As recent research has demonstrated, the widening gaps in incomes in the 1980s did not result from the downsizing in manufacturing industries and expansion in services, but rather from rising demand and increased wages for those with advanced skills *across industries*, and lower demand and wages for those lacking such skills *throughout the economy*.²⁵ In a global economy, where standard products are less important, and innovation and flexibility are more highly valued, policies targeted to particular sectors do not reduce inequality. And only workers who can upgrade their skills on a regular basis will be able to significantly increase their productivity and incomes.²⁶

Technological capital: basic research

The second sphere for greater public investment is basic research, the heart of an advanced economy's technological capital, because private investment will generate less basic R&D than the economy could use profitably. Normal market incentives for developing new technologies—especially generic breakthroughs—are generally weak, because most basic innovations generate downstream benefits to which the original developer cannot easily lay claim. The more generic the area of research, the greater this market failure. Just as important, basic R&D is inherently risky, entailing costs that are difficult to predict and potential benefits that are virtually impossible to value. The normal result is under-investment in research, unless supports are provided by government, consortia, or some other large entity.

The state of American basic research is a critical factor in U.S. productivity and global competitiveness, because it is the essence of innovation. A strong commitment to basic research, moreover, is as vital to America's traditional manufacturing and commodity firms as it is to our advanced industries, because innovation, especially in production processes, is an advanced economy's natural area of comparative advantage when competing against low-wage foreign producers of standard products. Biogenetics has helped keep U.S. agriculture competitive with Asia and Latin America, for example, and high technologies have revived parts of the U.S. apparel industry.

Public investment's proper role in industry research lies at the frontier, promoting generic breakthroughs such as superconducting materials or optoelectronics, where progress can produce benefits across industries and throughout the economy. As a research project becomes more specific to a particular industry, normal market incentives for private investment increase—along with the temptation for the industry to use its influence to gain government subsidies for the project.

Physical capital: economic infrastructure

The third sphere for increased public investment is physical capital, chiefly the transportation and environmental systems that form the core of the nation's economic infrastructure. As in training and basic research, infrastructure investments typically produce income in ways that private investors cannot easily claim. In addition, the costs of building these systems are typically very high and the risks are often great, because it is difficult to predict the extent to which business will develop along a highway or around a harbor until the infrastructure is in place. This results in government-owned and operated road and waterway systems, and air and rail networks built with government assistance.

As economy-wide investments, public infrastructure provides benefits across industries. By binding together the country's domestic suppliers, producers, distributors, and customers into a single market, these investments can enhance the productivity of virtually every firm. They also can produce a comparative advantage for U.S. manufacturing and commodity industries competing in our markets with lower-wage foreign firms forced to produce their goods with less efficient infrastructure.

The focus of an expanded agenda for infrastructure investment is far different from the traditional public works program of the old economy. While more resources are probably needed to repair interstate highways, the focus of new public investment should be the *next* generation of transportation systems, including "smart" highway systems and automated traffic management. In other areas of economic infrastructure, notably telecommunications, fast-evolving market and technological conditions are *reducing* the need for direct public investment, apart from basic research and the costs of connecting public facilities to the information superhighway. For many years, the telecommunications infrastructure was sustained indirectly through cross-subsidies and controlled prices for the old AT&T monopoly. Rapid technological progress and new compe-

tition, first in long-distance and now emerging in local telephone exchange networks, have resolved much of the old, monopoly-based market failure, creating new economic opportunities for a variety of industries to invest in telecommunications infrastructure. Through the 1990s, the best policy in this area may be continued deregulation of telecommunications while ensuring all consumers and businesses access to the new networks at competitive market prices.

Choosing Viable Public Investments

The question remains, How can the government—or anyone—identify the *specific* public investments that make economic sense? No one can guarantee that any investment, private or public, will pay off. Yet spending more money on outdated educational strategies or pork-barrel highways would only leave the country and the economy *less* productive. The real question is, How can we recognize the infrastructure projects, training programs, and research ventures that could generate returns at least as high as those of the average private investment—which would be the economy's alternative use of the funds?

Government officials will not always choose correctly, any more than do private investors. But government also should not permit expanded public investment to become an entitlement for everyone who wants training dollars, research support, or a new road. Public-investment decisions have to be carefully insulated from the normal exercise of political influence by industries, firms, and municipalities; otherwise, such investment can become just another form of special-interest subsidy.

The President and Congress should reinvent the way they select public investment projects before spending more for them. First, all public investment should be targeted to elements common to all economic enterprise, not to those specific to one industry or firm. In order to qualify, the training should be *general*, the research should be *basic*, and the infrastructure should be *pri-*

mary.²⁷ Second, federal funding in these areas should be steady and reliable, so as to discourage frantic competition for support and subsequent project bottlenecks.

Third, the government can encourage sound investment analysis by applying strict planning and review requirements to all state and local infrastructure projects or training programs seeking federal support.

Fourth, and most important, public-investment deci-

sions should incorporate a crucial element of private-market discipline: *Those who receive support for a project should bear part of the project's cost.* If public-investment dollars are "free" to those receiving them, demand will be both limitless and indiscriminate.

States and localities receiving federal infrastructure funding should *always* be required to provide substantial matching contributions. Federal funding also should be available for the *capital* costs of building a highway, subway, harbor, or basic airport facility, but not for their *operating* costs or for the facilities of private vendors, such as airlines. If the initial decision to build is sound, economically, those using the facility will be willing to pay fees to maintain it. And in many instances, incentives for substantial private investment in infrastructure construction can be created by statutory reforms to reduce private liability and other associated economic risks.

Federal funding for basic non-military research also should be directed to projects with substantial private support. In most cases, government can address the market failure in basic research through the partial tax credit for private R&D spending provided today. Direct government support will always be appropriate to advance the frontiers of science, and substantial funding increases through the 1990s and beyond are needed to

"In order to qualify, the training should be *general*, the research should be *basic*, and the infrastructure should be *primary*."

restore American leadership in basic scientific research. But direct federal funding for large, esoteric construction projects should be accompanied by major private-industry investment—a safeguard which might have headed-off the budget-busting superconducting supercollider.

The principle of requiring users to share the costs of public investment also applies to human capital. Federal college-tuition support can be tied to the student's commitment to pay back

the country through community service, on the model of President Clinton's national service program, Americorps. Federal support for training should concentrate on apprenticeship programs, jointly-operated and financed by local school districts or governments and local businesses prepared to match federal contributions. Alternatively, a tax credit for businesses willing to invest in training their employees will always be a sounder investment than a government-run training program.

6. An Investment Budget for Upward Mobility

A national growth and productivity policy, based in part on expanded public economic investment, should readily acknowledge the numerous *non-economic* reasons to spend public money—to keep the country safe from enemies, for example, or help those who cannot help themselves. It also should recognize the differences. The principal distinction comes in how government finances these different purposes. Expenditures for non-economic purposes should be paid for with tax revenues *as they occur*, on an annual basis. Genuine public economic investment *may* be expanded through deficit-financing, because, over time, it pays for itself by enhancing our national productivity, which in turn expands the tax base.

As the Progressive Policy Institute has maintained since 1990—and as President Clinton concurred in his 1992 presidential campaign—the federal budget should be divided into one account for public economic investments, and another for all other, consumption-related spending. By law, total federal spending (except interest payments on the national debt) should be permitted to increase at a rate no greater than that of the private economy, and an annual balanced budget should be required covering all non-investment spending, unless the

economy is in a recession. Put another way, by law, the annual federal deficit should not exceed annual net investment spending.²⁸ These restraints on the growth of federal spending and the size of the annual deficit can help ensure that American businesses have the capital to invest in the specific skills, technologies, and physical equipment that can make their particular enterprises more productive and efficient.

The budget reforms enacted in 1993 succeeded in slowing the growth of federal spending and the size of the federal deficit. By current projections, total federal outlays will rise by 35.2 percent from 1993 to 2000, as compared to expected economic growth of 46.8 percent over the same period. President Clinton and the Congress properly provided a substantial gap between expected spending and expected economic growth. Yet the 1993 and 1994 budget programs, along with the 1995 budget proposals from both the Administration and the Republican congressional majority, do *not* address the long-term growth of entitlement spending. Without entitlement reform, government once again will grow faster than the economy in the next decade—even when economic growth is strong. Reforming the major entitlement programs is as fundamental to the country's long-

term productivity and growth as is the reform of industry subsidies.

The President's budgets and the Republican alternatives also have not provided for a significant, new national commitment to public investment. Federal support for infrastructure increased by only \$6.4 billion from 1993 to 1995, and the President's budget proposals would actually *cut* future infrastructure investment. Education and training spending increased by barely \$7 billion from 1993 to 1995, as Americorps remains underfunded, and apprenticeship and other training initiatives await enactment. And again, the President's budget for 1996 would *reduce* the total federal commitment in this area. Finally, funding for civilian research has been increased by only \$4 billion over the last two years; the President's budget for 1996 would add another \$1.1 billion in this area.

The investment agenda outlined below, prepared by M. Jeff Hamond of the Progressive Policy Institute, is more ambitious than those advanced by either political party; yet, it is more illustrative than comprehensive.²⁹ In each case, we highlight economic and social investments to enable Americans to enhance their capacities, prepare the economic infrastructure for the next century, and expand the frontiers of technological advancements. Like all government initiatives, these should be judged by their results; if economic returns are not forthcoming, they should be reformed or eliminated. Their total additional cost is about \$64 billion over five years.

Education and Training

National Service. As open global markets reduce job and income opportunities for young Americans with only high school diplomas, all youth need and deserve additional access for furthering their education. President Clinton's national service program provides college tuition support for young people willing to pay back the nation through community service. This fiscal year, the program will provide assistance to 30,000 students. Expanding this program to cover 150,000 young people at the end of five

years will require a public investment of an additional \$6.4 billion.

Youth Apprenticeship. A more productive American work force also depends on providing advanced skills to non-college-educated young people. School-to-work initiatives provide grants to states to facilitate partnerships among high schools, community colleges, and local employers to operate post-secondary apprenticeship training programs. Increasing support for these initiatives will require an additional investment of \$2.5 billion over five years.

Head Start. The Head Start program does not perform miracles, but it remains the most successful federal strategy for preparing disadvantaged children to begin elementary school, ready to learn. The program currently reaches only 36 percent of an estimated 2 million eligible poor children, and it does not serve them all equally well. Increasing the proportion to 50 percent within five years, and upgrading the program's performance, will require an additional investment of \$6 billion over five years.

Public Charter Schools. Competition and deregulation can be a driving force for improving public education. The federal government should help stimulate greater efficiency and innovation by providing more seed money for charter schools within public school choice programs, and by evaluating the results. Providing seed money for up to 1,000 new charter school initiatives a year will require an additional investment of \$200 million over five years.

Goals 2000. President Clinton's Goals 2000 initiative supports school districts in developing and applying rigorous, voluntary national performance standards. Congress should expand this program and include incentive rewards for schools that dramatically lift pupil performance and exceed national performance standards. These reforms would stimulate improved educational quality without blindly increasing general education funding. These incentive grants could be used to purchase books, supplies, or athletic equipment, or to fund after-school programs. Increasing support for Goals 2000 to \$1 billion over five years will require an additional investment of \$1.8 billion.

Worker Retraining. Current programs for retraining displaced workers have produced disappointing results. The funding for these programs, including administrative costs, should be consolidated and distributed as vouchers, so that qualified workers can purchase their own training on the open market. In this way, all of the assistance can go directly into training, and workers with the knowledge and motivation to enhance their productivity can control the resources. This investment would entail no additional funding.

Individual Development Accounts. To become more productive, all workers have to continually invest in upgrading their own skills. Individual development accounts (IDAs) can help workers achieve this goal. Under this initiative, workers could deposit money into special tax-free accounts, with no penalties for withdrawals if the funds are used for educational and training expenses or start-up business costs. For poor Americans, IDAs can also be a savings incentive: The federal government could match a portion of the deposits of lower-income people, the amount of the matching grant declining as income approaches 200 percent of the poverty level. Like training vouchers for displaced workers, IDAs would allow adult workers rather than government to decide what education and training would prove most productive, while providing disadvantaged Americans a chance to save for their futures. Funding IDA demonstration projects and evaluating their results will require an additional investment of \$1 billion over five years.

21st-Century Infrastructure

Highways and Mass Transit. Every American firm and worker depends on reliable transportation, yet 37 percent of the country's interstate highways are in only fair condition or worse. Moreover, pressing demands for road repair claim scarce resources needed for mass transit systems in some metropolitan areas. Federal support for interstate highway maintenance should be increased by 50 percent; additional support for these systems should be targeted to maintenance, be-

cause funds used for that purpose produce twice the rate of return as investments in new roads. These funds could also be used for mass transit capital expenditures, where appropriate, but not on transit operating expenses or new highway projects. This initiative will require an additional investment of \$7.3 billion over five years.

Congestion Pricing Initiatives. The congestion on America's highways

costs the American economy more than \$100 billion a year in lost productivity. We can promote higher productivity by supporting new public investments that encourage states to charge market-based rates for use of highly congested corridors during peak travel times, varying the charges by time of day. Congestion pricing can help reduce congestion and pollution, provide a market test for new infrastructure investments, and enable local officials to reduce other taxes. Underwriting two to four congestion pricing projects a year for five years will require an additional investment of \$2 billion.

Environmental Infrastructure. The federal government should help finance the environmental mandates imposed on American cities, counties, and states under the Clean Water Act and the Safe Drinking Water Act. Rather than provide direct grants with no strings attached, the government should expand the current State Revolving Loan Fund, on condition that these loans be repaid to provide the resources for future projects. Authorizing the revolving loan fund to provide additional support for both drinking water projects and sewage and wastewater treatment plant construction will require an additional investment of \$10 billion over five years.³⁰

"To become more productive, all workers have to continually invest in upgrading their own skills."

Information Superhighway. With little government assistance, private firms are creating an advanced national information network far more iterated, flexible, and complex than any centrally-planned system. Government support is appropriate, however, in establishing state-of-the-art linkages between these networks and federal, state, and local facilities. This undertaking will require an investment of \$1 billion over five years.

Basic Research and Development

The federal government invests nearly \$70 billion a year in all forms of R&D, but its research priorities do not reflect the nation's economic challenges. Four areas—defense, health, space, and energy—receive nearly 90 percent of all federal R&D support, while research for the development of crucial information, transportation, and environmental technologies receives less than four percent. Expanded investment in these areas, as well as basic science research, can pay enormous dividends and promote dramatic economic progress.

Basic Science. More than any other factor, advances in basic science, from optoelectronics to superconducting materials, define the frontier of economic and technological progress. A 20-percent increase in federal support for the National Science Foundation and other basic research activities will require an additional investment of \$4 billion over five years.

Information. In our emerging information-based economy, basic research into information technologies should receive high priority. Tripling the current commitment to non-defense, information-related research will require an additional investment of \$1 billion over five years.

Transportation. The economy will not become as productive as it could be unless we accelerate the development of more advanced systems for transporting goods and people more efficiently. Areas of research could include "smart" vehicles and highways, efficient high-speed rail, and vehicles powered by alternative

fuels. Doubling our current commitment to non-NASA transportation R&D will require an additional investment of \$3.5 billion over five years.

Environment. The development of new, environment-friendly materials and environmental technologies is a matter of pressing economic, as well as social, concern. A meaningful increase in our current commitment to environmental R&D will require an additional investment of \$1.5 billion over five years.

Social Investment

We also recommend investing an additional \$15.5 billion over five years in critical social areas of welfare reform and teenage pregnancy, and \$50 billion over the same period for a tax credit for moderate-income families with children.

Welfare Reform. The top social investment on the nation's agenda should be work-based welfare reform, designed to permanently reduce long-term welfare dependency and poverty. The reform should provide for two years of transitional aid, during which recipients would receive job placement services. After two years, able-bodied recipients who have not found employment would earn their own incomes in community-service jobs. The initiative would expand employment-related services to reach at least one-third of parents currently living on Aid to Families with Dependent Children; establish 400,000 community-service positions; and provide child-care subsidies for poor and working-poor parents. Funding this effort will require an additional investment of \$15 billion over five years.

Teenage Pregnancy. The federal government also can be a catalyst in reducing teenage pregnancy by supporting three new strategies. First, we recommend federal matching grants for communities to create "second chance" group homes for teen mothers living in abusive or unstable environments, and "neighborhood opportunity centers" to help families form networks of mutual support. Second, the government can help support community incentive

programs for low-income teens at risk of pregnancy. Third, the federal government should launch a national media campaign against teen pregnancy and intensify law enforcement efforts to punish sexual predators. Funding these initiatives will require an additional investment of \$500 million over five years.

Tax Relief for Working Families with Children. The slow growth in incomes has especially affected moderate-income families with children, and we recommend a tax reform to exempt from federal income tax the private resources such families need to raise a child. This can be achieved by replacing the current \$2,500 exemption for dependents with a \$700 per-child tax credit for families in the 15 percent income-tax bracket, covering families with incomes of roughly \$45,000 a year or less. This reform would be equivalent to nearly doubling the current exemption for dependents and, thus, would exclude from income tax \$4,670, or roughly the funds such families spend each year raising a child. It also would provide a tax credit of the same value to lower-income families as that afforded higher-income families in the 28-percent bracket under the \$2,500 exemption

for dependents. Unlike GOP proposals to cut taxes for those with incomes up to \$200,000, or the Administration approach to cut taxes for families with younger children and income of less than \$60,000, this proposal targets all of its support to children in moderate-income families. This reform would require an investment in federal revenues of \$50 billion over five years.

This national investment budget could be easily financed with savings from reforming special-interest subsidies. The public economic investments we recommend would require \$48.2 billion in additional resources over the next five years, or about 18 percent of our subsidy savings. The social investments would claim \$15.5 billion more over five years, or about 6 percent of the savings. Tax relief for moderate-income families with children would claim 19 percent of the savings. Therefore, cut-and-invest would shift to various forms of public economic and social investment about 43 percent of the potential savings identified from reforming non-productive and regressive industry spending and tax subsidies, leaving another \$150 billion over five years for additional deficit reduction.

7. Cut-and-Invest, or Budget Business as Usual?

President Clinton, the Congress, and the country face a clear choice: Maintain the budget priorities of the Washington establishment and accept high deficits and stalled living standards, or enact a cut-and-invest strategy for higher U.S. productivity and growth.

The first commits the United States to the current course of short changing genuine public investment, preserving special-interest subsidies, and insulating American firms and workers from the global economy's incentives to become more productive, innovative, and efficient. In effect, this is the present position of *both* parties in the budget debate, as liberal Democrats continue to defend virtually all current programs, while conservative Republicans try to repeal social spending in order to finance tax cuts. In either case, these are strategies of economic retreat and national resignation that

will ensure an economic future much like the recent past and present. U.S. firms and workers will fall behind in the competition for world markets, and another generation of Americans will live with slow growth and stagnating living standards.

Instead, Americans can face the world as it is. The global economy offers great challenges and opportunities to any nation willing to invest in the common resources that can make it richer and ready to discard the false security of special subsidies and protections for exclusive interests. The United States has the resources to make these investments *without* raising income taxes, cutting vital social programs, or retreating from world leadership.

In the end, Americans can control their own economic future. Never before have we failed ourselves when the choice was so clear.

Notes

- ¹ The first edition of this report, issued in January 1994, listed 68 unproductive economic subsidies and proposed reforms that would save \$225 billion over five years (Robert J. Shapiro, *Cut-and-Invest to Compete and Win: A Budget Strategy for American Growth*, Progressive Policy Institute, Washington, D.C.: January 1994). In 1994, President Clinton and the Congress approved reforms affecting four subsidies listed in that report, for total five-year savings of approximately \$19.4 billion. In addition, 12 proposals in President Clinton's budget for fiscal year 1996 include elements of reforms proposed in this new report.
- ² *Economic Report of the President*, January 1994, Table B-17, p. 288.
- ³ Entitlement reform, at a minimum, involves a new approach to means-testing and increases in the retirement age for Medicare, Social Security, and other federal pensions. We propose limiting entitlement spending and related tax benefits for high-income groups that now receive a larger share of the total benefits than their share of the population. We also urge Congress to examine raising the Social Security retirement age to 70 in increments of three months per year. See Robert J. Shapiro, "Enterprise Economics and the Federal Budget," *Mandate for Change*, Will Marshall and Martin Schram, eds., Berkley Books, 1992, pp. 21-51.
- ⁴ The hold of the tax-and-spend paradigm on most of official Washington was demonstrated last year in the failed effort to cut projected spending by \$90 billion over five years, led by Reps. Tim Penny and John Kasich. Liberal opponents objected to virtually any spending restraint; conservatives insisted that all savings go for tax relief. The cut-and-invest alternative eluded both sides: cut unproductive spending and use part of the savings for public investment, part for the deficit, and part for tax changes.
- ⁵ Organisation for Economic Co-Operation and Development (OECD), *Economic Outlook*, Vol. 53, 1993, Paris: OECD.
- ⁶ OECD, *Revenue Statistics of OECD Member Countries*, 1993, Paris: OECD.
- ⁷ *Ibid.* See also, Perry Quick and Tom Neubig, *Comparing Tax Burdens*, in *Enterprise Economics and Tax Reform, Promoting U.S. Growth in the Global Economy*, Working Paper, Volume II, Robert J. Shapiro, ed., Progressive Foundation, Washington, D.C.: October 1994, Table 14, p. 26.
- ⁸ Promoting capital formation also will ultimately involve serious efforts to elevate the personal savings rate, through restructuring the individual and corporate income tax systems and reforming the public and private financing of retirement.
- ⁹ Several factors account for these disproportionate gains by wealthy people. For example, as any economy matures the share of its national income earned by capital increases. The most crucial factors, however, were federal tax and regulatory policies that artificially raised the post-tax rate of return on capital—tax benefits for real estate partnerships, lower tax rate on high incomes, high real interest rates, and feverish merger-and-acquisition activity that drove up equity prices.
- ¹⁰ International Monetary Fund, *World Economic Outlook*, October 1993, Table A1.
- ¹¹ Some old-fashioned liberals still believe in higher spending and higher deficits to boost growth, and many classical conservatives still see a Golden Age on the other side of a balanced budget—as if America's open economy, interacting constantly with foreign financial and commercial markets, would still respond as it did when it was an economy unto itself. And a handful of supply-side true-believers still insist that American competitiveness and growth would revive regardless of deficit policy, if only we would cut tax rates for wealthy people.
- ¹² Global capital markets also limit the stimulative effect of cutting short-term interest rates. Lenders have learned that when government cuts short-term rates in an expanding economy, inflation often accelerates; when this occurs, they are quick to shift their funds to other currencies with lower inflationary expectations, forcing up long-term rates in the country that lowered its short-term rates.

¹³ Patricia Ruggles, "The Impact of Government Tax and Expenditure Programs on the Distribution of Income in the United States," Table 8.3, p. 230, in *Economic Inequality and Poverty, International Perspectives*, Lars Osberg, ed., M.E. Sharp, Inc., Armonk, New York: 1994.

¹⁴ Far greater regressive effects can flow from spending and tax policies that are *not* industry-specific. For example, the top 5 percent of Americans receive nearly 6 percent of the \$362 billion in federal retirement benefits paid out in 1993, including Social Security, civilian, and military retirement, nearly 17 percent of more than \$90 billion a year in retirement-related tax benefits, and 8 percent of some \$40 billion a year in health care-related tax benefits. Wealthy families also claim the lion's share of the value of the current tax exemption for capital gains at death. Limiting this exemption to the first \$75,000 in gains, plus \$125,000 from the sale of a home and half of the remaining assets' value, would protect all but the top 2 percent, and raise nearly \$32 billion over five years for public investment, deficit reduction, or tax relief for families with children. See Robert J. Shapiro, "Enterprise Economics and the Federal Budget" in *Mandate for Change, op. cit.*, Table 5, 6, pp. 40-41; *Budget of the United States Government*, Fiscal Year 1994, pp. 25-30; Joint Committee on Taxation, "Estimates of Federal Tax Expenditures for Fiscal Years 1994-1998," April 1993; and Congressional Budget Office, *Reducing the Deficit: Spending and Revenue Options*, Report to the Senate and House Committees on the Budget, February 1993, pp. 375-377.

¹⁵ Five-year savings estimates for the proposed spending cuts and tax reforms are based on the following sources, identified by letter (** = less than \$50 million over five years):

a: Congressional Budget Office, *Reducing the Deficit: Spending and Revenue Options*, March 1994.

b: Independent source at the National Performance Review, Office of the Vice President.

c: *Budget of the United States Government*, Fiscal Year 1995.

d: Independent source at the Congressional Budget Office.

e: Independent source at the U.S. Department of Agriculture.

f: "The Green Scissors Report" (Friends of the Earth and the National Taxpayers Union Foundation, January 1995).

g: "Summary of Rangeland Reform '94: Final Environmental Impact Statement" (U.S. Department of the Interior, Bureau of Land Management, December 1994); "Proposal to Raise Grazing Fees is Sinking Slowly in the West" (*The Washington Post*, January 19, 1995).

h: Institute for Science and International Security.

j: *Sustainable Energy Budget for the U.S. Department of Energy: Fiscal Year 1995*.

k: National Commission for Economic Conversion and Disarmament.

m: Independent source at the Securities and Exchange Commission.

n: Congressional Budget Office, *Reducing the Deficit: Spending and Revenue Options*, February 1993.

o: Conference Report to accompany H.R. 4624, 103rd Congress (Appropriations for Veterans Affairs and Housing and Urban Development).

p: "How Washington Wasted Your Money in the 1995 Appropriations Bills" (The Heritage Foundation, "Backgrounder No. 1008, October 28, 1994).

q: "Estimates for Federal Tax Expenditures for Fiscal Years 1995-1999" (Joint Committee on Taxation, November 9, 1994).

r: "Effect of Current Tax Proposals on Employment in the Restaurant and Entertainment Industries" (Congressional Research Service, May 18, 1993), and an independent source at CRS.

s: Mortgage Bankers Association of America.

¹⁶ The current tax treatment of employer-provided medical insurance, allowing employers to deduct the cost as a form of employee compensation and employees to exclude its value in their taxable income, operates in the same way. These provisions may serve the proper national purpose of promoting broad private health care coverage. They also unnecessarily increase demand for nonessential or needlessly

expensive medical treatments, which drives up medical costs and artificially diverts investment from other industries. We can continue promoting broad, employer-based insurance coverage, while limiting the unproductive aspect of the subsidy, by capping the amount which an employee can exclude from income and payroll taxes at the average cost of basic insurance coverage in a geographic area. The Congressional Budget Office estimates that this subsidy reform would save \$104.4 billion over five years. (CBO, *Reducing the Deficit: Spending and Revenue Options*, March 1994, pp. 311-2.) This proposal is not included in the cut-and-invest program, because it should properly occur as part of comprehensive health care reform, and its savings directed towards providing more universal coverage.

¹⁷ U.S. Department of Commerce, Bureau of Economic Analysis, *Survey of Current Business*, July 1994, Table 5.2, p. 81.

¹⁸ *Ibid.*

¹⁹ One political difference is that most spending and tax subsidies are achieved through lobbying by corporate representatives, while many trade protections are concentrated in the minority of union-organized industries and have been won by coalitions of industry and union representatives.

²⁰ Gary C. Hufbauer and Kimberly A. Elliott, *Measuring the Costs of Protection in the United States*, Institute for International Economics, Washington, D.C.: 1994.

²¹ U.S. International Trade Commission, "The Economic Effects of Significant U.S. Import Restraints," November 1993.

²² Clifford Winston, "Economic Deregulation: Days of Reckoning for Microeconomists," *Journal of Economic Literature*, Volume XXXI, September 1993, pp. 1263-89.

²³ By contrast, when the government proposes to spend national resources for social purposes such as feeding poor children or providing health care for the elderly, most taxpayers can decide for themselves whether the expenditure seems just and reasonable.

²⁴ There are other instances of social market failure that also justify public investment, notably in the areas of national security and public resources, which justify spending on national parks, and so on. Here we are concerned only with market failures which affect the optimal operation of the national economy.

²⁵ Kevin Murphy, Chin Hui Juhn and Brooks Pierce, "Wage Inequality and the Rise in Returns to Skill," *Journal of Political Economy*, June 1993, pp. 410-442; Kevin Murphy and Lawrence F. Katz, "Changes in Relative Wages, 1963-1987: Supply and Demand Factors," *Quarterly Journal of Economics*, February 1992, pp. 35-78.

²⁶ Globalization contributes to growing economic inequality in the United States in other ways. With more open international markets, the supply of less-skilled workers able to meet the demands of U.S. consumers has increased sharply, because U.S. firms and others selling in the U.S. market can use lower-wage foreign labor. This expanding supply of less-skilled labor has bid down the wages of less-skilled American workers. At the same time, open markets have also increased worldwide demand for the output of highly-skilled people, and this increased demand has bid up the wages of highly-skilled American workers. Supply and demand in open global markets, therefore, has increased income inequalities in the U.S. by both bidding down the wages for less-skilled Americans and bidding up the wages of those with advanced skills.

²⁷ Many widely cited studies of U.S. infrastructure or training "needs" are wish lists without reference to priorities, budget constraints, or technological alternatives. For example, most official "needs studies" for wastewater-treatment plant construction do not consider conservation measures that would reduce the volume of water needing treatment. Studies calling tens of thousands of older bridges "structurally deficient" assume that all bridges must meet the highest current engineering standards for those carrying substantial heavy-truck traffic—although thousands on the list do not and never will. And requests for highway funds rarely consider the impact of reforms such as congestion pricing on traffic volume.

²⁸ The critical distinction is between public investments intended to promote common prosperity, often by providing a specific benefit such as education, and other public spending designed to provide specific

benefits, often in ways that generate some common gain. Classifying certain programs will be controversial. Military purchases, for example, are often considered capital investments because they *look* like other durable goods—but from an economic perspective, purchasing and maintaining most weapons systems and defense installations are forms of national consumption. The basic distinction also provides a sound basis for resolving the debate over the budget treatment of payroll-tax revenues. Current Social Security benefits would fall within the consumption account, balanced by equivalent payroll tax revenues. *Surplus* payroll-tax revenues, however, should be applied to the capital account as an investment in the economic growth required to finance future benefits. This arrangement would end any financing of non-Social Security government operations by Social Security taxes.

²⁹ M. Jeff Hamond, "From Pork to Prosperity, New Public Investments that Expand Opportunity for All," in *The New Democrat*, Vol. 7, No. 1, January/February 1995, pp. 28-30.

³⁰ Of this \$10 billion, \$2.6 billion would result from the net savings from the elimination of current grants for wastewater treatment plant construction, leaving net additional investment requirements of \$7.4 billion.

About the Author

Robert J. Shapiro is a founder and the Vice President of the Progressive Policy Institute, where he directs economic policy. He is also the director of economic studies of the Progressive Foundation.

Dr. Shapiro is currently a contributing editor of *The New Republic*. Previously, he served as a principal economic advisor to Bill Clinton during his 1992 presidential campaign and senior advisor to the Clinton-Gore presidential transition. He also has held appointments as Deputy National Issues Director and chief economic advisor for the 1988 Dukakis-Bentsen campaign; Legislative Director, Economic Counsel, and Tax Counsel to Senator Daniel P. Moynihan; and associate editor of *U.S. News & World Report*.

Dr. Shapiro has been a Fellow of Harvard University and a Fellow of the National Bureau for Economic Research. He holds a doctorate from Harvard University, as well as degrees from the University of Chicago and the London School of Economics and Political Science.



PROGRESSIVE POLICY INSTITUTE

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(202) 547-0001 · Fax (202) 544-5014

THE PRESIDENT HAS SEEN 5/17

THE WHITE HOUSE

WASHINGTON

March 15, 1995

95 MAR 16 AM : 54

INFORMATION

MEMORANDUM FOR THE PRESIDENT

FROM: DOUG SOSNIK

SUBJECT: NEIL HARTIGAN, FORMER ATTORNEY GENERAL (IL)

I. SUMMARY: Hartigan is the former attorney general for Illinois -- please encourage him to run for the Senate in 1996.

II. DISCUSSION: At this point Hartigan is leaning toward a gubernatorial run in 1998. His wife supports a gubernatorial run rather than a Senate run. The current potential Senate candidates are Rep. Lane Evans, Rep. Dick Durbin, former Senator (and BRAC Commission chair) Alan Dixon, David Wilhelm and Mayor Richard Daley's brother William Daley (although recent reports indicate Daley's interest is waning.) Political pundits see Hartigan, a former statewide elected official, the strongest potential Democratic nominee. His entry in the race would certainly clear the field --enhancing our chances of holding the seat next November. This is a top priority race for the GOP.

If the opportunity arises, please pull Hartigan and his wife Marge aside at the Irish reception and make a pitch for him to run for the Senate seat.

*Dolan know
Durbin Evans
won't run if
Dolan - he is a
stronger
candidate than
Durbin*

cc: 65

FRANK S. STEPHENS P. E.
10610 Hat Street
Houston, Texas 77099

THE PRESIDENT HAS SEEN

3-16-95

February 27, 1995

Honorable William J. Clinton
President of The United States
White House
Washington D. C. 20500-2000

Dear Bill:

I greatly appreciate the time that you took from your extremely busy schedule to answer my last letter. Carol & I received our Pictures taken with you and Hillary at the White House. We will treasure these always. Thanks again for the friendship and hospitality.

I have been listening to the comments of the working people, and I feel that your campaign to help address the concerns of the *middle class* is working. Your leadership in ordering a review of *Affirmative Action Regulations* hits home with many Americans who feel that they have been discriminated against. When I lost my Engineering Management job at Dow Chemical because of job elimination, three white male managers age 51, 50 and 48(me) were replaced by a 39 year old white male and a 28 year old black female(lower level). As a line manager at Dow I have supported promoting people on the basis of merit and never discriminated against minorities and women. *I believe that a large segment of the white male population believes, as I do, that many of the Fortune 500 companies are using Affirmative Action as an excuse to eliminate older higher paid white male employees and replace them with lower paid younger and/or minority/female employees. This is a win win approach for most large multi-national corporations. They unload their future pension and health care obligations and supposedly meet the intent of Affirmative action. Today it is difficult for a highly skilled person over 50 who loses a job to find a comparable paying job.*

I learned recently that large corporations plan to have only **20% direct employees** in the future. If they do, then **80%** will have **no benefits**. As you stated, **THE BALANCED BUDGET AMENDMENT** will tie your hands in case of a down turn in the economy. A way must be found to force the sponsors of this bill to define the cuts so that in 1996 you **don't get blamed** for vetoing this bill by an **uninformed** electorate. This could create a condition **worse** than that in the **1920's & 1930's** before the rise of labor unions.

It is an opportune time for some **aggressive investigative journalism** to demonstrate to **the public** what is really going on and as to **who** will benefit in the long run. *Labor Unions* need to be told (if they don't already know) they need to support you if they plan to *survive*. There is a **silver lining** in this black cloud for labor unions. They have a potential to organize **80%** of the work force. The **Democratic Party** *could gain most of the white collar worker support and diversify it's power base.*

As a highly successful middle aged white male engineering manager, I am still on job search after 10 months. I work 9 hours per day networking, writing approach letters and answering adds. I have 250 contacts and have written hundreds of letters. I am targeting Engineering & Construction firms as well as owners. *The E & C business appears to be picking up but they mostly want less experienced contract people.* I **understand** from first hand experience **how others** in this situation **feel**.

Sorry that I'm so long winded! In **summary** the battle can only be won by letting the American people know what would happen **TO THEM** with a **BALANCED BUDGET AMENDMENT** in place during the next major down turn. Peoples concerns about **affirmative action** also need to be addressed in a **fair** and **honest** way. *Investigative journalism could be utilized to identify examples of how major corporations are eliminating higher paid people before they can retire and replace them with lower paid younger people.* If one looks at who is gaining from these changes in an objective manner the truth will be self evident. **If we do not succeed in airing the true issues, companies will have succeeded in reducing overhead by dumping people on the street, who have worked hard all their life, with no safety nets.** The sad part is that *companies with extremely good earnings* are still **replacing** workers. Just think what will happen when they really learn how to use the **INTERNET!**

I hope that these comments are helpful.

Sincerely,

A handwritten signature in cursive script that reads "Frank."

Frank S. Stephens

THE WHITE HOUSE
WASHINGTON

163

John Magaw
letter
OMB

March 16, 1995

Mr. John W. Magaw
Director
Bureau of Alcohol, Tobacco
and Firearms
Room 8000
650 Massachusetts Avenue, N.W.
Washington, D.C. 20226

Dear John:

Thank you for your candid and thoughtful letter. All of us here recognize the commitment of the dedicated employees of the Bureau of Alcohol, Tobacco and Firearms, and, of course, I never intended to offend you or them by my remarks during Tuesday evening's lighthearted festivities.

We are acting quickly on the round-two agencies. I understand that next week the Treasury reinvention team will be coming in to present the second round of options to the NPR and OMB group that has been considering proposals for decision by the Vice President and me. I hope that we will resolve the issues related to ATF by the end of April, and we will do so in a way that will not be reopened during this Administration. In the meantime, please feel free to share your ideas about the review with the Vice President.

I regret the turmoil that your agency and others have faced during the reinvention process. And we have tried to mitigate the pain of change. But, as I'm sure you understand, a thorough review of government necessarily entails some pain.

The Vice President and I appreciate everything that you and the rest of the ATF team do each day to serve the American people. We look forward to working with you to assure that the ATF mission is accomplished efficiently and effectively.

Sincerely,

Bill Clinton



*The Director Bureau of Alcohol, Tobacco and Firearms
Washington, D.C. 20226*

95 MAR 15 P4:07

The President
The White House
Washington, DC 20500

Dear Mr. President:

In reading today's issue of "The Washington Post" I was troubled by your reference to the Bureau of Alcohol, Tobacco and Firearms. In context, I realize that you were making a light-hearted comment about combining agencies that oversee activities commonly associated with men.

However, as Director of an agency that has lived in turmoil for the past 18 months because of continued talk of reinvention, I am concerned about the effect your comments will have on the fine men and women of this agency. I suggest to you that when you blow away the smoke of the political controversy aimed at ATF, you will find that we are not an organization that needs reinventing, but a model for what the process should yield.

There is no way to divide ATF without creating unnecessary duplication. We have consolidated related functions to the benefit of the taxpayer, with a 35 to 1 ratio of tax collections to expenditures. We have traditionally served customers in the industries we oversee, and they continually attest to our competency, with one exception -- the NRA. We are well focused and meet the test of smaller being more efficient -- in a business where larger is not only more costly, but is perceived by many to be more threatening.

Mr. President

I am proud to serve with this highly diverse workforce, as they are the most unappreciated, yet dedicated civil servants in the Federal sector. They just want to get the job done right, and in doing so respect the rights of all human beings.

However, Mr. President, they are frustrated in achieving this goal by the continued uncertainty of their future as employees of ATF. They have been down this road before -- in 1982, an exhaustive study recommended that ATF remain whole and separate; and now, since 1993, the same issue is being revisited. They deserve an answer.

My intention is not to belabor the point, or to question a comment that was clearly meant to entertain; however, I wanted to honestly make you aware of the impact your words are having on ATF personnel.

Mr. President, I remain a caring and dedicated public servant -- and that is why I choose to send you this private, for your eyes only, note. Out of respect for these women and men, and their families, please do not let the decision on the reorganization that you and the Vice President are making drag on. Thank you, sir.

Respectfully,


John W. Magaw

THE PRESIDENT HAS SEEN
316-95

March 14, 1995

TO: Erskine

FROM: John Satagaj

RE: Product Liability Reform/Civil Justice Reform

Last week I attended a small meeting for business leaders, hosted by Senators Daschle, Rockefeller, John Kerry, Dorgan, and Breaux. It was the first this year, of a series that Senators Pryor and Daschle started several years ago. The business group was diverse (e.g. John Motley attended).

The pitch was that these Senators were still friends of business (indeed they are the ones who historically have been approachable) and they still merit business' support.

The meeting came after the Mikva/Reno letter on civil justice reform but before the final House votes. Senator Rockefeller was quite emphatic in saying he had spoken to the President and others, and he had received assurances that the President would sign a product liability bill such as the Gorton/Rockefeller bill. Of course, also implicit was the President would oppose a wide ranging bill such as the House version of reform. Rockefeller was followed by Breaux who said he had been an opponent of the reform but he believed Rockefeller's statement was right on.

For those who had labored in the product liability reform vineyard, the statements were a remarkable development. We had been assuming, with the access and influence of the trial lawyers' lobbyist to the White House, the best we might hope for was a draw.

Nevertheless, given the House bill, it was less than a euphoric moment.

I do believe the Senate Democrats are on the brink of two pivotal votes. I said to them after their statements, the credibility of those Senate Democrats appealing for the support of the business community would be tested by their ability to produce final bills in both the regulatory reform and civil justice reform debates that avoided a veto. This means crafting a bi-partisan juggernaut that not only produces a Senate victory but one that can hold sway in a conference committee.

I suspect the President could survive vetoes (except for the timing problem noted below) in both of these areas if laws are ultimately enacted. I do not think the Senate Democrats have much hope of holding onto any business support under such circumstances.

Underscoring the dilemma, my comments were immediately followed by those of John Motley, who suggested that the Senate bill must be greatly expanded to encompass many of the House reforms.

My point is, for the sake of those Senate Democrats, it would be helpful if the Administration was part of a four-party juggernaut of Senate Democrats, Republicans and business groups that want product liability

reform. Right now, a good chunk of the business community is still taking its cues from Gorton and Rockefeller. In the Senate, a line in the sand has not been drawn around the House reforms. But that will not hold for long in the absence of progress.

SBLC has long fought for product liability reform. However, many of the provisions of the House bill are attractive to us and we would work for their enactment, but not all of them.

There is a vested interest for the Administration. The way the timetable for regulatory reform and civil justice reform are playing out, there is a distinct possibility that both of them could be cleared for Presidential signature (in unacceptable form) by early June, right around the White House Conference. I do not think I need to tell you what problems that would create. So far it is coincidence, but as time goes on, you know how life is in Washington.

On the other hand, it is not unrealistic to believe acceptable bills could be developed, passed by the Senate, and re-passed by both Chambers and signed before mid-June. It seems to me there is a significant incentive to clear the decks of both these issues before the Conference. Obviously, it would nice to have something positive to say, but perhaps more significantly, I would not want to be faced with a veto decision right around that time.

1. Congrats on WSJ story. It is hard to keep great talent a secret. As always, I'm proud to say I know that guy.
2. Next time you see Bill Curry, tell him Satagaj says "Hello." It will blow his socks off. I am a Connecticut boy, and "Billy", "Tommy" (Tom Ritter current Speaker of the CT House) and I (thank goodness I was just plain John) spent a lot of time together in law school. We worked together for the City of Hartford and did political stuff together. I have kept in touch with Tom, but I haven't talked to Bill in years.
3. I probably should not say thanks until it happens, but, in advance, thanks for your help in resolving the home furnishings group's speaker request.
3. I am sure you have seen the spate of articles about the House Republicans keeping track of who's who among lobbyists. These are delicate times. You have always been the "soul of discretion" with respect to my bursts of candor. I know you will continue to do so.

THE PRESIDENT HAS SEEN

3.16.95

THE WHITE HOUSE

WASHINGTON

95 MAR 14 PG: 31

March 14, 1995

FOR THE PRESIDENT

FROM: Alexis Herman

RE: Night Reading

1. Fax from Lynn Cutler regarding the Americans for Affirmative Action.
2. Letter from Msgr. John J. Egan.
3. Letter from John Bryan, Chair and CEO of Sara Lee Corp.

Attachments

AMH:RGM

*Pls get
the
night reading
done*

APR 1995

Americans for Affirmative Action

FAX

Xcs President
George
Deval
Chris Eoley
FYI

Date: March 9, 1995

Number of pages including cover sheet: 4

To: ALEXIS HERMAN

Phone: 202-456-6455

Fax phone: 202-456-2983

CC:

From: MARGARET MCENTIRE

Phone: 800-875-8795

Fax phone: 800-206-4136

REMARKS:

☐ Urgent☒ For your review☐ Reply ASAP☒ Please comment

Lynn Cutler suggested that I FAX you these materials. I am working with two other women here in Madison, WI to pull together a national coalition of people, organizations and businesses concerned about the current threat to affirmative action. I understand that you are working on this issue within the White House and hope that you can make use of our beginning efforts. We would appreciate any suggestions you or others might make to our work. Thank you.

AMERICANS FOR AFFIRMATIVE ACTION

...we're not there yet

March X, 1995

DRAFT

National Committee:

Helen Barnhill, Past Moderator
United Church of Christ

Dennis M. Walcott, President & CEO
New York Urban League

Patty DeDominic, President
National Association of Women Business Owners

Honorable Donald Melvin Aytch, Ph.D., President
National Association of Black County Officials

Elisa Sanchez, President
MANA, A National Latina Organization

Cynthia I. Newbille, Executive Director
National Black Women's Health Project

John F. Robinson, President & CEO
National Minority Business Council

Deane Bonner, National Vice President
National Women's Political Caucus

Ruth C. Clusen, Former National President
League of Women Voters

Catherine Sykes, President
National Association of Negro Business
and Professional Women's Clubs

Frederick E. Jordan, Chair
California Business Council for Equal Opportunity

Gene Boyer, President
National Women's Conference Center

Sheila Smith-Shirley, President
Black Women's Network

Judith M. Sweet, Former President
National Collegiate Athletic Association

Meda Chamberlain, Executive Director
Southern California Chapter
National Council of Negro Women

Joanne Smith, President
Network for Professional Women

Maryann Mahaffey, President
Detroit City Council

Joselyn Geaga-Yap, Chair, Asian Pacific Caucus
National Women's Political Caucus

Harriet R. Michel, President
National Minority Supplier Development Council

Honorable Roy Innis, National Chairman
Congress of Racial Equality (CORE)

Samuel A. Carradine, Jr., Executive Director
National Association of Minority Contractors

Camille Failla Murphy, President
National Association of Commissions for Women

Name

Title

Company

Street Address

City, State, ZIP

Dear :

For more than a quarter of a century, the concept of affirmative action has been a positive force for change in America. It has helped individuals realize their full potential, while benefiting our entire society by creating greater workplace diversity and enhancing our nation's competitiveness.

Now, the premise of affirmative action -- achieving equal opportunity for all -- is being called into question. Some political leaders even suggest that affirmative action has gone too far, and minorities actually have an unfair advantage.

We are concerned that in the emerging political debate, only this mistaken view is being heard from what purports to be the center -- and that in a vacuum, a growing number of Americans might actually come to believe that in striving to become a land where every man, woman and child has an equal shot at the American dream, we're all the way there.

We are NOT all the way there! Certainly, we've come a long way over the past 25 years. But we're not there yet.

In an editorial entitled "Affirmative action: Too soon to abandon fight for fairness," the *Milwaukee Journal* (March 6) observed, "...the new onslaught on affirmative action is not coming from corporate America. Large firms now tend to view AA as good business practice...many corporations recognize that they must help develop new sources of talent. And that means looking to women and people of color."

Our goal is simple. Americans for Affirmative Action intends to speak out whenever the principles of affirmative action are challenged, to make it clear that the heart of America remains committed to insuring that we do not turn our back on the ideal of creating a land of true opportunity for all.

National Committee (continued)

Maria Luisa Flores
Vice Chair, Hispanic Caucus
National Women's Political Caucus

Harvey Gantt, AIA
Former Mayor
Charlotte, North Carolina

William Lynch
Former Deputy Mayor
City of New York

Henrietta Villaescusa, R.N.
Former National President
National Association of Hispanic Nurses

RoseAnn Zimbro
Vice Chair, Black Caucus
National Women's Political Caucus

Jean Hairston
Co-Chair, Black Caucus
National Women's Political Caucus

Helen Dixon
Former Regional Administrator
U.S. Small Business Administration

Mila Morelos
Vice Chair, Asian Pacific Caucus
National Women's Political Caucus

Lynda Van Scoyoc
Secretary of the Board
National Women's Political Caucus

Jai Miyasaki
Co-Chair
Wisconsin Organization for Asian Americans

Honorable Carol Ruth Silver
Former Member
San Francisco Board of Supervisors

Monica Jones
Chair
Atlanta Women's Political Caucus

Willis C. White
President
California Black Chambers of Commerce

Honorable Gary George
Wisconsin State Senator
Former Chairman
National Association of Black Legislators

Joseph K. Bravo
Board Member
Mission Economic Development Association

Lynne Mieritz
Public Policy Director
YWCA of Greater Milwaukee

DRAFT

We believe that it is imperative that America's most progressive business leaders – who have taken so many important steps to achieve diversity and equality of opportunity in our best corporations – now join us in establishing a new voice that speaks for the genuine American center.

Now is the time for those who embrace the *ideals* of affirmative action to join in support of its still not fully realized objectives. Now is the time to join Americans for Affirmative Action, a nonpartisan group of corporations, public service organizations and individuals. Now is the time to support the fight for what is fair, what is right, and what is just – for your employees, your shareholders, your customers, and your children.

Please join us in this endeavor. To pledge your corporation's support, or for more information, please call Camille Haney or Margaret McEntire at 1-800-875-8795.

Sincerely,

Dennis M. Walcott
President & CEO
New York Urban League

Patty DeDominic
President
National Association of Women Business Owners

Joanne Smith
President
Network for Professional Women

John F. Robinson
President & CEO
National Minority Business Council

William Lynch
Former Deputy Mayor
City of New York

P.S.: The attached William Raspberry column, "Not There Yet," was the inspiration for the organizing principle for Americans for Affirmative Action, and explains our tag line, "we're not there yet."

cc: Chief Affirmative Action Officer

DEPAUL
UNIVERSITY



Office for Community Aff
25 East Jackson Boulevard
Chicago, Illinois 60604-2287
312/362-5234
FAX: 312/362-6639

March 5th, 1995

MAR 9 1995

My dear Alexis,

Thanks for rembering me and Peggy and
in sending such a gracious letter to
me.

it was a great night and I was so very
pleased that I was able to see os many
old friends.....that was really the joy of
the evening. It would have been very good
to see you but I would imagine that
your schedule is always hectic.

Stay the course, and tell that gracious
man for whom you work that there is
an old Monsignor in Chicaog who wishes
him well, along with his wife.....I frenkly
think that they are the finest President and
First Lady we have had in many decades.

But, please tell him to tone down
his rhetiric on abortion.

Love,

Msgr. John J. EGan

L. Lee

February 24, 1995

*Three First National Plaza
Chicago, Illinois 60602-4261
312 726 2600*

*John H. Bryan
Chairman and
Chief Executive Officer*

Ms. Alexis Herman
Assistant to the President
Director of Public Liaison
The White House
Washington D.C., 20500

Dear Alexis:

In view of our conversation at The White House on Wednesday, I thought you might particularly enjoy seeing the cartoon on the editorial page of the *Chicago Tribune* today. I promise that neither Jack Smith nor I had anything to do with this cartoon.

Thank you so much for inviting us to lunch with the President; as always, it was a very enjoyable and enlightening time.

The President did a terrific job Wednesday night; everyone was impressed. The Congressional Democratic leadership, however, did not perform so well in their program before the Business Council on Thursday morning.

Best wishes, and I hope to see you soon.

Sincerely,



JHB/cmr
Enclosure

Chicago Tribune

FOUNDED JUNE 10, 1847

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F. RICHARD CICCONE, Associate Editor

14 Section 1

Friday, February 24, 1995



Hands off school feeding programs

If the reasons being offered by House Republicans for tampering with the federal school lunch program sound lame and unconvincing, it's because they are.

There is no evidence that this 48-year-old program has been anything but successful in improving the health and nutrition of American children, especially those poor children for whom lunch at school can be their only decent, reliable meal of the day.

The only possible reason to fiddle with it is blind, slavish and decidedly unconservative devotion to an ideology that holds that *anything* that comes out of Washington, D.C., must be bad. That's as foolish in its way as the notion that if Washington hasn't put its fingers on it, it can't be any good.

The fact is that the school lunch program works, and the guiding principle in dealing with it ought to be: If it ain't broke, don't fix it.

Speaker Newt Gingrich, at his Thursday morning meeting with the press, gave the rationale for the GOP

Gingrich offered the now-familiar explanation: Block grants put power into the hands of people closest to the problem and give states the ability to craft solutions appropriate to their unique situation. Removing a layer of federal bureaucracy will let the states achieve the same results with less money, etc. etc.

But the fact is that there has been no evidence of outrageous waste, fraud or abuse in the school nutrition programs. There has been no credible assertion that federal authorities have attempted to micromanage it or forced gross inefficiencies on the states.

There has been no discernible clamor from the states—which someone seems to have decided are the repositories of all governmental wisdom and efficiency—for authority over the programs. And there is no reason to suppose that feeding children in the schools of Maine is an appreciably different problem than feeding children in the schools of Arizona.

THE WHITE HOUSE
WASHINGTON

3.16.95

95 MAR 15 P5:15

March 15, 1995

MEMORANDUM FOR THE PRESIDENT

FROM: CAROL RASCO *CR*
LAURA TYSON *LT*

SUBJECT: Medicare Managed Care

*Thank this
keep file
cc: HRC FY**cc VP
Leon
Alice Kevle*

As you know, the most recent HHS projections for the Medicare and Medicaid baseline between 1996 and 2000 were \$94 billion lower than the estimates in the August 1994 Midsession Review. Of this \$94 billion, \$40 billion of the savings were for Medicare spending.

You mentioned in your March 3rd press conference that Medicare managed care contributed to this reduction in the baseline. Secretary Shalala has made similar suggestions in the past, although she now understands that Medicare managed care as currently structured is not producing Medicare savings. The reduction in the HHS Medicare baseline was actually the result of other factors, including programmatic changes implemented during your Administration that have improved efficiency and reduced fraud and abuse, and the lowering of overall inflation in the economy.

BACKGROUND

As currently designed, Medicare managed care actually increases program spending. While the industry argues persuasively that they are able to reduce costs with managed care, the Federal Government is not enjoying comparable savings. Instead the savings achieved by Medicare HMOs are largely passed along to beneficiaries in the form of Medigap benefits, e.g., prescription drugs, hearing, vision, and/or retained by the HMOs themselves in the form of higher earnings/profits. There are two features of current Medicare managed care programs that explain why they do provide inadequate savings for the Federal government.

First, CBO and OMB now believe that Medicare's current reimbursement rate for HMOs is too high and actually loses money on each beneficiary enrolled. Medicare now pays participating HMOs a capitated payment that is calculated at 95 percent of the cost of providing care to fee-for-service beneficiaries in an area. At the time of the enactment of the Medicare HMO law (TEFRA - 1972), there was too little experience in the program to know what level of reimbursement was appropriate. The 95 percent number was chosen to provide an incentive for HMO participation in the program while capturing some savings for Medicare.

The current reimbursement formula does not adequately control for the fact that, on average, people who enroll in HMOs are healthier (their costs if they had remained in fee-for-service Medicare are often less than 95 percent of the average), and subsequently Medicare overpays HMOs for the cost of providing care to them. In fact, CBO estimates that Medicare pays 5.7 percent more for beneficiaries in managed care than it would if they had remained in the fee-for-service sector. In regions where fee-for-service costs are disproportionately higher than managed care costs -- which happens in areas with very competitive managed care markets -- the payment formula overpays HMOs even more.

The second characteristic in the Medicare managed care program that may increase costs is the option for beneficiaries to disenroll every 30 days. There is anecdotal evidence indicating that beneficiaries disenroll from an HMO and seek care in the fee-for-service sector once they get seriously ill. The underlying theory behind managed care savings, however, is that capitated payments provide incentives to keep costs down when enrollees become sick. When enrollees can leave managed care arrangements when they get seriously ill, the incentives faced by HMOs to manage care effectively are minimized. Under this scenario, managed care could potentially further increase Medicare costs.

Many Republicans in the Congress have suggested that significant savings can be achieved through the utilization of managed care in the Medicare program. While they have yet to release details, proposals that could guarantee savings of the magnitude that are being discussed would restrict choice, particularly for lower income beneficiaries. It is therefore not surprising that elderly advocates are particularly wary of proposals for capped vouchers that have been suggested by Republican analysts. The HMO industry also is not likely to lead the charge toward initiating any significant changes to the program since, for the reasons outlined above, they are generally quite satisfied with the current Medicare payment arrangement.

FUTURE ADMINISTRATION ACTIONS

We are conducting an intensive review of managed care options to develop an Administration position on this issue. There is a strong commitment to moving forward on the managed care front by OMB and HHS, and the Department has testified to this effect in recent weeks. In contrast to the approaches being advocated by some Republicans, the managed care models--such as a new Medicare PPO model--that have been referenced in Administration testimony would increase the use of managed care by expanding the choice of plans available to beneficiaries. But the Administration proposals would not restrict beneficiaries' ability to remain in the fee-for-service system. Without modifications in the reimbursement methodology, however, such proposals would probably cost money -- at least over the short-term. We are currently studying the political and policy feasibility/advisability of alternative managed care options that would significantly reduce the growth of Medicare spending.

We are also soliciting input from private sector managed care firms (such as FHP), and we believe this relationship has the potential to yield some interesting results. While any viable managed care proposal is unlikely to generate significant Medicare savings in the short term, we believe that movement toward managed care in the Medicare program has the potential to produce savings over the long term. We will keep you apprised of the status of our work in this area.

LEHMAN BROTHERS *LB*

THE PRESIDENT HAS SEEN
3 10 95

✓cc TO POTUS
Do you know?

February 17, 1995

→ *Hillier
has been with loop*

Mrs. Hillary R. Clinton
The White House
1600 Pennsylvania Avenue, NW
Washington, DC 20500

Dear Hillary:

I want you to know what an exceptional job I think you and the President are doing. During my tenure as the Chief Executive of the Sam Walton family's financial companies, I greatly enjoyed seeing you and admiring your work in Arkansas. Your focus of bringing quality people to the judiciary was a real contribution to our State.]

Recently, I learned that Congresswoman Eddie Bernice Johnson had forwarded Cheryl B. Wattley's name to the President for nomination to the vacant Federal District Court seat in Dallas, Texas. I want you to know that this fair-minded African-American woman has been an exceptional federal prosecutor, SMU law professor and, now, defense attorney. She is one of the most outstanding people I have met in my lifetime and would make you and the President very proud. In short, she would be a sterling choice.

Again, Hillary, you and the President should be very proud of the work that you are doing on behalf of our country. The country owes you a great debt of gratitude.]

Best wishes,

Neal
Neal G. McCabe

3/9
has been answered

THE WHITE HOUSE
WASHINGTON

95 MAR 14 A 8:42

March 12, 1995

MEMORANDUM FOR JOHN PODESTA

FROM: JENNIFER O'CONNOR

SUBJECT: ATTACHED REQUEST FROM
SECRETARY JESSE BROWN

Secretary Jesse Brown sent the attached request for the President to address the Disabled American Veterans on July 23 at their annual convention. I have responded to the Secretary that I forwarded his note to the President's office and to his scheduler. We have already submitted a formal scheduling request to Billy Webster for this event. It is certainly one that deserves a high level surrogate if the President cannot attend.

CC: Billy Webster

Billy
yours to handle
John
3/15/95



THE SECRETARY OF VETERANS AFFAIRS
WASHINGTON

MAR 13 1995

95 MAR 14 A8:42

The President
The White House
Washington, DC 20500

Dear Mr. President:

Veterans across the country now recognize you as the staunch advocate you pledged you would be on their behalf dating back to your campaign for the Presidency when you appeared before the national convention of The American Legion in Chicago in 1992. This recognition was evidenced most recently by the warm reception you were given at the Veterans of Foreign Wars midwinter conference here in Washington on March 6. Following your speech, one newspaper headline characterized the reaction with "Veterans find Clinton in same trench."

In every program area and outreach effort, VA can proudly point to magnificent accomplishments due to the priority you have placed on serving those who have worn the uniform. As a result, support for you in the veteran community is broad-based and continues to grow.

As we have discussed before, veterans and their families represent more than one-third of America's population. That is why I believe it is so vitally important that you continue to appear before the nation's veterans' organizations and reinforce your pledge to fight for their interests.

The Disabled American Veterans forwarded an invitation to you to appear before the July 23 opening session of their national convention in Las Vegas. This invitation is now under consideration by your staff. The DAV is the nation's third largest veterans' service organization – 1.2 million members – and is comprised of veterans of each era who are combat-wounded and have other service-related disabilities. This important constituency is very well informed on your policies and achievements and from within its ranks comes some of your strongest support.

Mr. President, I urge you to accept this important invitation.

Respectfully,


Jesse Brown

3-15-95

THE WHITE HOUSE

WASHINGTON

95 MAR 14 P1:37

March 13, 1995

Memorandum for the President

From: Mike McCurry *MM*
Assistant to the President and Press Secretary

Re: Regional media

The following is a read-out of the primary regional media activities generated by the White House last week:

Rescissions - The Cabinet was given its second round of rescission assignments for print conference calls and radio based on House floor targets. Media Affairs is also doing another round of conference calls with senior White House officials and editorial writers in targeted states. We have been using our "Senior White House Staff Radio Program" to book people for radio interviews on rescissions. Harold Ickes, Carol Rasco and Gene Sperling have participated. Updated rescission backgrounders are going to editorial writers in targeted states early this week.

NACO/Welfare - The NACO speech satellite feed received a great deal of local pick-up. It was used by 121 stations in 84 markets, leading the news in many of the markets. The Vice President's interviews into Ohio stayed on message. While HHS concentrated on radio, Media Affairs saturated the print press in Ohio. The local print coverage was very good, with almost all of the articles taking a quote from you. Media Affairs also sent out the state one pagers on waivers to state AP bureaus. To follow up on your NACO speech, we sent out a comprehensive welfare reform/child support enforcement editorial board mailing into targeted states based on the HHS welfare reform list.

Stake-outs - There were several local stake-outs this week including three on rescissions and the stake-out following your meeting with Lieutenant Governors. In addition to sending the Lieutenant Governors to the stake-out, we booked them for individual press and radio interviews.

Louisiana Day - Print, radio and tv interviews were conducted with selected Louisiana Day participants. We will have a clip package shortly. We would like to do a roundtable with you and D.C. based print reporters the day after scheduled state days. We hope to be able to do one in conjunction with the upcoming New York and Pennsylvania state days.



Foster - Conference calls with African-American press were conducted. We will continue to reach out to specialty media with emphasis on minority, health and education press.

VFW Speech - We worked with Veterans and DOD to distribute press material from your speech. We concentrated on specialty press while the Departments did radio. The Stars and Stripes editorial was in their background package.

Economic Conference - We are working on a regional press plan that includes extensive pre-conference press into the eleven participating states using Cabinet officials and a select group of invited guests. We will also do a regional roundtable with D.C. based reporters with Dr. Tyson and Gene Sperling.

THE WHITE HOUSE
WASHINGTON

March 15, 1995

Wes Edwards
1062 Hillcrest Drive
Troy, Ohio 45373

Dear Wes:

Thanks for your note of March 11 and for sending Robert R. McCammon's Boy's Life. It looks good, and I hope to have an opportunity to read it.

Thanks, too, for letting me know about your upcoming visit. The schedule's always very fluid, but I hope we have a chance to visit when you're here.

See you soon.

Sincerely,

Barack

cc to
Cammon
(I hope
the book)

March 11, 1995

Dear Bill,

Here's some mystery and magic. Read it. I don't think you'll ever forget it. Susan Purvis told me about it during a visit there in January. Joe's reading it, too. I think there's a lot in here about what "core convictions" really are, and where they come from.

Hernreich's office called some time ago about our visit to D.C. I told them it would be this spring, which is new upon us. Anyway, I've got to be at an association meeting (to reform among other things) on April 4 at the Sheraton Carlton. That week is also Kathryn and Fred's spring break, so we're going to do the whole city for about a week (their first time). We could come late the previous week or even stay over into the following week if your schedule made it necessary. I'll keep in touch with Nancy's office and hopefully things will work out.

Take care. Go Piggie! See ya' soon!

Wes