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- P2 Relating to the appointment to Federal office [(a)(2) of the PRA]
- P3 Release would violate a Federal statute [(a)(3) of the PRA]
- P4 Release would disclose trade secrets or confidential commercial or financial information [(a)(4) of the PRA]
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- b(9) Release would disclose geological or geophysical information concerning wells [(b)(9) of the FOIA]

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Fighting back. For Assembly Speaker Brown, defeating CCRI is very personal. Brown, a former Mineola, Texas, shoe-shine boy, recalls how customers used to toss quarter tips in a spittoon so they could watch him fish them out. "I don't want the next generation to go through what I went through to get where I am," he told *U.S. News*. Indeed, Brown believes affirmative action programs should cover gays and lesbians.

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Authors. Custred (left) and Wood

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Custred, who likens working on the campaign to jury duty, can hardly wait for it to end. "After this," he says, "I'm going to get back to work on Transylvania." ■

By JIM IMPOCO IN BERKELEY

■ U.S. NEWS

The war within the DEA

A new leader draws fire from the ranks

Over the course of its 22-year history, the U.S. Drug Enforcement Administration has seen good times and bad—but it may never have seen times quite as bad as these. The DEA is at war with itself, racked by suspicion, bitterness, a variety of conspiracy theories and, among some agents, a near-mutinous attitude toward Administrator Thomas Constantine. "He has no respect for the agency or the agents, and so they have no respect for him," says one recently departed executive. Adds Joe Toft, the agency's former chief in Colombia: "I don't know of a single man in upper management who's happy with what this guy's doing."

Since mid-1994, the DEA's special agents in charge in Miami, Chicago, Atlanta, Los Angeles, Phoenix and Houston have departed, along with the DEA attaché in Colombia, its chiefs of money laundering, planning and inspection and the former head of training. Some had been considering retirement for a while, but dissatisfaction with Constantine was at least a factor for many.

In May, Constantine warned his staff in a memo, obtained by *U.S. News*, that a continuation of racially tinged attacks and vicious rumor-mongering within the ranks would "jeopardize our future as a professional law-enforcement agency." One agent based in the Midwest, in a typical comment, says, "morale here isn't just low, it's underground." Adds a headquarters staffer: "We're at a point where we're eating our young."

"Paralyzed." Since taking over in March 1994, Constantine, a former New York State Police superintendent, has employed a no-nonsense, paramilitary management style that has proved a tough fit for a risk-taking agency that operates in a dark and gritty world. He has invested massive resources and manpower in internal discipline and self-inspection because, he says, he and career



The front lines. DEA agents on patrol in

Pe

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Last year, a Minnesota police commander complained that a Chicago-based DEA agent had used offensive language in a training seminar. Even salty-tongued DEA agents agreed that some of the alleged comments were probably inappropriate. But the DEA's Office of Professional Responsibility launched a massive investigation into a series of training sessions conducted by five Chicago-based agents—especially Associate Special Agent in Charge Francis White.

Three female police officers from

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Podesta

Sent 6/12

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Peru. Some officials fear the campaign against the international drug cartels is stalling.

Madison, Wis., sued the DEA and the five-member training team in U.S. District Court in Chicago, alleging that the agents referred to women as "babe" and "bitch," showed slides of scantily clad women, directed sexual comments at the women and opened seminars with a string of obscene references to sexual intercourse. The suit and the DEA's internal report also allege that White, a 27-year veteran, called Attorney General Janet Reno a crude term for a lesbian.

After the DEA told White it intended to fire him, he decided to retire rather than risk his pension. But sources say that he denies making the comments attributed to him and that the agents have denied much of the alleged harassment. And White also is

firing back. When he became the focus of the DEA's internal investigation early this year, he responded by charging Constantine with drinking on duty at a conference last year. White's allegation, and a separate charge that Constantine had DEA personnel help him write a doctoral thesis, are being investigated by the Justice Department's inspector general.



Constantine

Constantine says the charges are nonsense.

White and the other four Chicago agents also have filed equal employment opportunity complaints with the DEA, charging that the probe of their conduct and the punishments proposed for them would not have been so severe if they were not white males. Some agents agree that White's proposed firing is unduly harsh, given

his mostly exemplary DEA career, and they suspect Reno, who clashed with White a decade ago in Miami, is using the case to settle old scores. Constantine and Justice Department spokesman Carl Stern vehemently deny the charge.

New focus. The DEA is also suffering from dizzying changes in its marching orders. Constantine's predecessor, Robert Bonner, thought the agency could get the biggest bang for its limited federal buck by focusing almost exclusively on the major drug cartels in a so-called "Kingpin Strategy." But DEA division heads without major cartel activity in their areas felt ignored and believe "Kingpin" slighted cooperative efforts with state and local cops.

As a former state cop, Constantine was sympathetic. He has refocused the DEA on local drug-related violence, partly through Mobile Enforcement Teams that will assist financially strapped cities besieged by drug gangs. Although the administrator believes that is where the agency can have the biggest impact on ordinary lives, his new emphasis is drawing fire from staffers at both the DEA and the White House Office of National Drug Control Policy: They think the big, international-cartel cases won't get done because only the DEA can do them.

Recent arrest and conviction statistics are inconclusive, but DEA sources say the special-operations division that handled major cases has lost 17 staffers and had millions of dollars cut from its budget; the money laundering section has been similarly slashed. Constantine "has made DEA irrelevant," says one former agency executive.

A shocking number of agents think Constantine "has been put there to destroy DEA," says one former staffer. In this conspiracy theory, the villain is FBI Director Louis Freeh, who helped Constantine get the job and who, conspiracy buffs claim, plans an FBI takeover of the DEA. Constantine calls the theory preposterous. Freeh praises Constantine as "one of the nation's most effective law-enforcement leaders" and says "it is ludicrous for anonymous critics to suggest I would want to secretly run DEA or that Constantine would permit it."

Constantine and his supporters say the anger is wildly exaggerated, and they think some of it was inevitable. "When a good man comes in and wants change, he's going to rock boats, and some don't want their boats rocked," says Dan Rosenblatt of the International Association of Chiefs of Police. "That's the nature of leadership," says Constantine. "Everybody isn't going to love you."

BY GORDON WITKIN

CAPITAL JOURNAL
BY GERALD F. SEIB

Democrats, GOP Agree on This: Strangle Rivals

THE TWO MAJOR political parties may or may not know how to solve the nation's problems, but give them credit for this much: They know how to stay alive.

Ross Perot made the most serious challenge to two-party dominance in a generation in 1992, and today his United We Stand America organization is pondering whether to become a third party. His effort has energized existing third parties and spawned new ones. At least three powerful American figures—Mr. Perot, Jesse Jackson and Colin Powell — could try running as third-party or independent candidates for president in 1996. One national poll shows that half of Americans think a third party would be a good idea.

So Democrats and Republicans around the country are responding the way big organizations do: They are trying to strangle the competition. In at least 10 states already this year, legislators have introduced bills to make it more difficult for independent or third-party candidates to get onto ballots. The new requirements range from the minor to the major. One state, Alabama, is considering legislation that would quintuple the current number of petition signatures necessary for ballot access.

"Depending on the state, it's either a nuisance or a major problem," says Bill Winter, a spokesman for the Libertarian Party, one of the old hands at trying to get onto ballots. "It isn't even a conspiracy. All these Democrats and Republicans sat down independently and said, 'Hmmm, maybe it's time we should stop complaining and start doing something.'"

AT A TIME when there is lots of loose speculation about a third-party or independent presidential candidate in 1996, this is more than just a footnote. It is a reminder that independent presidential campaigns are a heck of a lot easier to talk about than to actually mount.

It also is important to remember that, by ratcheting up the requirement

Affirmative-Action Advocates Seeking Lessons From States to Help Preserve Federal Programs

By PAUL M. BARRETT
And MICHAEL K. FRISBY
Staff Reporters of THE WALL STREET JOURNAL

WASHINGTON—Federal affirmative-action programs aren't dead, despite Monday's Supreme Court setback for racial preferences.

In fact, after the Supreme Court in 1989 applied much stiffer legal standards to state and local racial-preference programs, premature obituaries were written. But some programs were retrofitted to comply with the court's "strict-scrutiny" standard, the same standard it mandated for federal programs in this week's decision.

Indeed, as foes and supporters of affirmative action attempt to sort out the ramifications of the court's 5-4 decision on Monday, the experiences of various states and localities after the 1989 ruling are instructive.

The 1989 decision striking down a contracting set-aside program in Richmond, Va., "turned out to be a short-term shock and less of a shock over the long term," says White House aide George Stephanopoulos. States and municipalities, he adds, learned to live under the new, stricter standard. "They set up agencies, they set up commissions, they set up processes to make sure that their programs were in compliance with the law. They were able to do that," Mr. Stephanopoulos asserted.

Clinton Has Hope

"The Supreme Court has raised the hurdle, but it is not insurmountable," President Clinton said in a prepared statement yesterday.

But there are reasons for affirmative-action defenders to worry. The political circumstances surrounding the two Supreme Court decisions are radically different. After the 1989 ruling, liberal, and in many cases, predominantly black, local political establishments in Richmond and elsewhere were adamant about finding a way to continue some form of affirmative action. Now, however, the legislative body that would be in a position to repair the damage caused by this week's ruling is the Republican-controlled Congress. And conservative lawmakers are vowing to go in precisely the opposite direction, possibly in an attempt to wipe out federal affirmative action altogether.

Because of the 1989 case, about 50 of the more than 200 state and local affirmative-action programs in place then were voluntarily dropped. In addition, more than a dozen were knocked out by reverse-discrimination suits filed by white contractors. Small minority-owned businesses were hurt badly. In Richmond, the percentage of public contracts going to minority firms dropped from more than 40% to the

past generation, Congress hasn't ever marshaled the kind of rigorous study of discrimination in contracting that Mr. Brimmer says he can provide. "That doesn't exist," says George LaNoue, a University of Maryland political scientist who has aided affirmative-action foes.

Mr. LaNoue, who has testified as an

that have the capacity to bid on federal contracts. "And all of this is assuming that the GOP would fund the work," which is far from certain, Mr. LaNoue adds.

Philadelphia Story

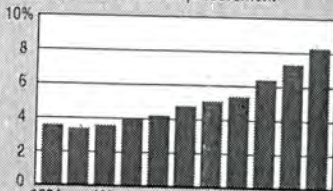
Even if supporting research is done at the federal level, it's far from certain that it would hold up in the face of inevitable legal challenges. Some cities, such as San Francisco, have successfully used their disparity studies in federal court as a shield against reverse-discrimination lawsuits. But a federal judge in Philadelphia earlier this year struck down a 15% black-contracting participation goal in that city, concluding that disparity research didn't prove there had been discrimination. The city is appealing the decision.

The Philadelphia experience could have some parallels to what federal officials will face. Mr. Brimmer, who tried to help salvage the program, says it was initiated by the City Council after hearings, but no systematic investigation of discrimination was done. "They adopted a program of goals and targets that they picked out of the air," he says. Many federal programs were also based on scanty findings drawn from congressional hearings.

But Theodore Shaw, the associate director-counsel of the NAACP Legal Defense Fund, says if the research is done properly, it would hold up in court. It "is a daunting task," he concedes, but one that could be accomplished.

Steadily Rising

Minority share of federal procurement*



*A minority business is one at least 51% owned by one or more individuals who belong to such racial groups as African Americans, Hispanics, Native Americans and Asian Americans

Source: Commerce Department

expert witness attacking the validity of local disparity studies, contends that conducting one at the national level probably wouldn't be feasible. The Supreme Court's strict-scrutiny standard requires a highly particular showing of discrimination in a specific market. "What market would Congress be looking at, given that business conditions vary widely across the country?" Mr. LaNoue asks. Also, he says that it would be extremely difficult if not impossible to compile a reliable register of the minority-owned businesses nationwide

Trailblaz



for small parties or independent candidates to get on the ballots, states aren't simply constructing barriers. They are taking barriers that already exist and making them even higher.

When Mr. Perot decided to run for president in 1992, his staff calculated that he had to gather more than 770,000 signatures to make it onto the ballot in all 50 states and the District of Columbia. That's some 27 times more signatures than a Republican candidate has to gather, calculates Clarence Evjen, an official of the tiny Natural Law Party who has made it his business to track ballot-access issues.

Mr. Evjen argues that to run a national slate of candidates for the House, a new party would have to get more than 1.6 million signatures to meet state requirements — 10 times more than a Democrat would need to get. The Libertarian Party calculates that to go further and field a full slate of both federal and statewide candidates, a third party in 1994 would have needed to collect 3.5 million valid petition signatures.

To see what this means inside a state, look at the new Patriot Party in Pennsylvania. Last year, its statewide candidates had to gather and submit 26,000 signatures to get on the November ballot. By contrast, a Democratic or Republican candidate needed 1,000 signatures to get on a primary ballot.

OF COURSE, the laws setting up these requirements are written by state legislatures run by the very Democrats and Republicans threatened by upstart candidates and parties. The laws they write ensure that a would-be third party's first fight isn't on the battlefield of ideas; it's on the expensive legal battlefield of petitions and challenges.

On a national level, this all means that the only people likely to have much real success as presidential candidates are those like Mr. Perot, who have saddlebags full of their own money, or Gen. Powell, who already have overpowering name recognition and latent support. But even for them, it will be an organizational feat to get into the 1996 ballgame.

Without doubt, there are real reasons to like the stability the two-party system has afforded America. Few countries would invite the kind of political paralysis that periodically befalls countries such as Israel that have politically splintered systems. There, a proliferation of tiny parties produces ruling coalitions so thin and fragile that fringe parties acquire enormous leverage over everybody else. Most third parties in America have quirky or extreme ideas that mean they probably would fail the tests of popular and financial support, even if the electoral playing field were level.

On the other hand, it was an upstart new party called the Republicans that produced Abraham Lincoln in a matter of just a few years at a fairly important juncture in American history. Seems a shame to construct even higher barriers if they would keep down the next Lincoln.

low single digits. In Denver, where the affirmative-action program was scaled back rather than killed, the decline was from nearly 20% to less than 11%.

But while the impact was significant, it was far from deadly. Roughly 100 cities tried to preserve their programs by commissioning so-called disparity studies to prove they were justified in giving blacks and other minorities advantages in winning business. The overwhelming majority of this research purports to show, among other things, a disparity between the percentage of firms in a given area that are owned by minorities and the percentage of government contracting dollars going to those companies. Only a few of these disparity studies, however, have been tested in the courts, and the results have been mixed.

Research at National Level

Some supporters of affirmative action argue that Congress or the Clinton administration could do the same type of research to buttress federal programs. "Technically, it is not difficult at all," says Andrew Brimmer, a Washington economist and consultant who helps municipalities defend affirmative-action programs. "It comes down to the will and the resources. These are expensive undertakings."

Atlanta's city government paid Mr. Brimmer more than \$500,000 for a disparity study in 1991 that documented discrimination so the city could establish a new program for minority businesses after an older one was successfully challenged in court.

Another thing that could be done to insulate some federal programs would be to adjust them in the way that certain cities modified theirs. Formal set-asides, such as those used by the Pentagon to provide work to minority builders at many military bases, might be very vulnerable under the strict-scrutiny standards. But flexible goals used by many federal agencies probably would be more readily defended. After its 30% set-aside was struck down in 1989, Richmond, for example, replaced it with a less-rigid system of percentage goals for minority subcontracting that shift from contract to contract, with room for negotiation.

In addition, federal programs that benefit "disadvantaged" businesses, but with the presumption that minorities are automatically in this category, could be revised so that there is a serious, case-by-case inquiry into whether applicants are, in fact, socially or economically disadvantaged. After a set-aside in Washington, D.C., was struck down in 1992, the city moved to a so-called "race-neutral" approach to affirmative action, although white contractors in the capital complain that there is still a problem with racial favoritism.

But at the federal level, saving affirmative-action programs could be a lot more complicated. In creating the vast web of federal affirmative-action programs over

FOR NORFOLK SOUTHERN'S IN

PHOTOCOPY
PRESERVATION

specifically praying for God's strength and comfort for the two gay men — largely out of compassion because both are dying of AIDS.

He did not perform a "marriage" as such, the priest said, although the two men considered their vows of faithfulness to each other to be the equivalent of a marriage.

But Bishop Martin G. Townsend insisted that Father Mount's participation was a violation of church law and misled the two men and their guests.

"You may neither preach, lead worship, nor perform sacramental ministry in this diocese," Bishop Townsend informed Father Mount, the 85-year-old canon — or honorary officer — of Trinity Cathedral in Easton.



THE REV. JOHN K. MOUNT

SPECIAL TO THE SUN

might be loving and faithful, it cannot be considered a marriage and you have no authority to bless it as such," the bishop wrote.

Furthermore, the bishop said, "since the honorific 'Canon' was granted to you by the Chapter of a cathedral where you may no longer practice your priesthood, I am recommending to the Chapter of Trinity Cathedral that that

honorary title be withdrawn."

The revocation of Father Mount's ecclesiastical right to exercise his priesthood in the Easton Diocese became effective Monday.

Out of respect for Bishop Townsend, whom Father Mount said he considers a friend, he will not dis-

See PRIEST, 10A

GOP social agenda creeps into Capitol Hill's dialogue

Emotional issues displace economics

By Karen Hosler

Washington Bureau of The Sun

WASHINGTON — It's June, and on Capitol Hill the long pent-up Republican social agenda is busting out all over.

Thursday brought a heated debate on school prayer. Tuesday and Wednesday, the issue was flag-burning. A limited abortion ban comes up next week. The effect of the "homosexual agenda" on public schools is to be examined soon. Efforts to eliminate race-based hiring, the ban on assault weapons and pornography in cyberspace also are percolating up.

Seven months after the 1994 election gave the Republicans a congressional majority, conservative forces are beginning to push forward their list of antidotes to America's perceived social ills.

"I feel like I've died and gone to heaven," said the Rev. Louis P. Sheldon, a Presbyterian minister in Anaheim, Calif., and chairman of the Traditional Values Coalition, which he says represents 31,000 churches. "This is our finest hour in the last half-century."

All the emotional proposals that GOP leaders suppressed earlier in the year, to maintain party unity while Congress focused on the economic reforms staked out in the

"Contract with America," are now on the table.

Mindful that the religious right and other conservative advocacy groups influence many Republican core voters, party leaders are eager to reward such groups for their support in last year's election.

"The timing is right; it's starting to move," Ralph Reed, executive director of the Christian Coalition, said of the "moral, cultural, pro-family agenda" his group supports.

Although the Republican victory in 1994 signaled that Congress would take a more conservative approach on social issues, the enthusiasm shown by many lawmakers — especially the large class of House freshmen — has caught some Democrats by surprise.

"It's amazing how vibrant it is; I don't know how we're going to keep track of it all," said Rep. Patricia Schroeder of Colorado, who is leading the Democratic resistance on issues of women's rights and abortion.

"They're going to have us in chadors within the week," she quipped, referring to the traditional garment worn by Muslim or Hindu women.

So far, though, there has been more sound and fury than legislative action.

Lots of public hearings are scheduled this month and during the summer in the House and Senate. Some action may be taken in committees. The House is expected to vote just

See AGENDA, 6A

Capt. Scott O'Grady shares

U.S. pilot survives

From Wire Reports

ANIANO, Italy — A day after he was plucked to safety from a war-torn Bosnia, Air Force Capt. Scott F. O'Grady was back at a base in Italy, celebrating. On Monday, he will be celebrating at the White House.

"It will be a small, private thing," White House spokeswoman Mary Ellen Glynn said.

Yesterday's festivities were anything but small and private. More than 1,000 jubilation well-wishers turned out at a NATO base in northeast Italy.

Clearly overwhelmed by the reception, Captain O'Grady put the air with his fist and as he stepped from his squadron staged a

INDEX

Favorite scratched

Preakness winner Tim Laster Country, who was the favorite for today's Belmont Stakes scratched from the final Triple Crown race because of a high fever. Sports, 1C

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Comics	5D	Movies
Deaths	5B	Television

Weather

Afternoon storms. High 85, low 65. Yesterday's Airport high, 81; low, 65.

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before the Fourth of July on a constitutional amendment to ban flag-burning.

But much of the social agenda is unlikely to arrive at final action until next year because, Republicans in Congress concede, it is not quite their highest priority.

"The difference between this Congress and the last ones is that we will allow these issues to come up for a vote at some point; we aren't afraid

"We have to talk about these things in a Reaganesque way so they don't scare people. We certainly don't want to look like we're sticking it in the face of our fellow Americans. That would be a disaster."

GARY L. BAUER
Family Research Council

of them," said Sen. Larry E. Craig of Idaho. "But when Republicans talk to each other privately and publicly, nobody says these issues are at the top of the list of things to be done."

At the top of the list for most Republicans is the difficult task of cutting enough spending to balance the budget and to cut taxes. That battle has already brought about a confrontation with President Clinton, who this week vetoed the Republicans' first major attempt to cut popular spending programs. The dispute could easily keep Congress busy through December.

"The economic agenda has to come first," said Sen. Orrin G. Hatch, a Utah Republican who chairs the Senate Judiciary Committee, which would handle school prayer and other social proposals.

Advocates for the religious right and self-proclaimed family values

say they don't mind if the budget comes first. They point out that the \$500-per-child tax credit supported by Republicans in the House and by many in the Senate is also one of their goals.

"It might not be so bad if some of these things don't come up in this Congress," Mr. Reed said. "Why not hold some stuff back until 1997, when we will probably have a Republican president and a larger Republican majority in the House and Senate?"

What's more, the budget itself is a battleground for revolving social issues, from funding for the arts and public television to family planning and legal services for the poor. Republicans are using an ideological yardstick to choose which programs to preserve.

On some divisive issues, though, advocates have undertaken a calcu-

lated effort to proceed slowly, with lots of public discussion, so their proposals won't appear to be extreme.

They want to avoid the sort of scene that occurred at the 1992 Republican convention, where speeches by Patrick J. Buchanan and other social conservatives set a tone that some Republicans feared made their party seem intolerant, even hateful.

"We have to talk about these things in a Reaganesque way so they don't scare people," said Gary L. Bauer, head of the Family Research Council, another leading advocacy group. "We certainly don't want to look like we're sticking it in the face of our fellow Americans. That would be a disaster."

Instead, Republicans have decided to open the debate delicately.

When a House Judiciary subcommittee opened hearings Thursday on a constitutional amendment to permit some form of school prayer, no specific proposal was offered. At least six more hearings around the country will be held this summer before detailed legislative work begins.

"This is a very complex, very difficult issue," said Rep. Charles T. Canady, the Florida Republican who chairs the subcommittee. He ac-

knowledges that even supporters of such an amendment can't agree on how it should be worded.

Rep. Vic Fazio of California, chairman of the House Democratic Caucus, said he sees calculated timing by the Republicans in highlighting social issues just as Congress is seeking agreement on painful spending cuts in social programs.

"You bring up the flag amendment now, for example, so maybe the veterans won't notice cuts in their benefits," Mr. Fazio suggested.

But Mr. Fazio's Republican counterpart, Rep. John A. Boehner of Ohio, said there is too much pressure from Republican members and advocacy groups promoting the social issues to keep them bottled up any longer.

Because their party is so divided, the Republican leadership has promised only to allow the social issues to come up for a vote. It's making no effort to marshal the troops into line.

"This gets us off the hot spot," Mr. Boehner said of the social debate under way. "It makes some of our people happy, and some of our people unhappy. So we don't take sides."

Part of the problem, Mr. Boehner added, is that House Speaker Newt Gingrich of Georgia has made too many promises to too many groups that their pet causes would at least get a hearing.

"Newt is the softest guy in the world; he can't say no to anybody," Mr. Boehner said. "He makes these commitments, and we have to honor them."

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TAKING ISSUE

BY STUART TAYLOR JR.

Crawling All Over the Presidency

If the Clinton administration has accomplished nothing else, it has at least sensitized Democrats—with a vengeance—to the dangers of the system of court-appointed independent counsel that they used for so long to harry Republican presidents.

President Bill Clinton, and his wife, and his closest White House aide (Bruce Lindsey), and Commerce Secretary Ronald Brown, and Housing and Urban Development Secretary Henry Cisneros, and former Agriculture Secretary Mike Espy, and others now are (or are about to be) squirming under microscopic scrutiny by independent counsel. And suddenly, onetime champions of the statute that mandates such investigations, like Clinton and White House Counsel Abner Mikva, are sounding more like critics.

It's easy to make fun of the hey-those-are-our-oxen-being-gored timing of such Democratic misgivings, and I've done so. But "[w]isdom too often never comes, and so one ought not to reject it merely because it comes late," in the words of Justice Felix Frankfurter.

And the Clintonites' current travails provide perspective—especially for those of us whose hearts did not bleed for the likes of Oliver North and Michael Deaver—on the risk that the current independent counsel regime will have a debilitating effect on the presidency for many years to come.

Governments are not, and never have been, run by paragons of ethical purity. After all, just about every elected official in Washington, and many a Cabinet officer, owes his or her position in large part to success at the legalized corruption of wheeling campaign contributions from special interests seeking political payoffs. It's a dirty business, but somebody has to do it. And some people steeped in sleaze have done it rather well. Like the first Mayor Richard Daley of Chicago. And like Ron Brown.

Every administration, at least in recent history, has had people near the top who could be made to look sleazy—and even implicated in arguably criminal violations—under scrutiny by prosecutors with unlimited resources and broad mandates to comb through those officials' closets in search of skeletons.

The independent counsel law has become an engine for unleashing precisely this kind of prosecutorial scrutiny on the president and his top aides. All it takes to start the engine is for a political adversary or journalist to come up with a superficially plausible allegation of ethical impropriety.

Independent counsel probes can be especially onerous in an era when the criminal law has become all-encompassing, sprawling, and vague, and littered with traps for casual perpetrators of petty ethical lapses. Few businesses, or gubernatorial campaigns, or other enterprises could come completely unscathed through such a no-holds-barred investigation.

Kenneth Starr, the independent counsel who is now putting President Clinton, Bruce Lindsey, and many others through the wringer in the sprawling scandal known as Whitewater, suggested in a thoughtful May 13 speech that "[t]he basic policy concern [is the] independent counsel's lack of accountability to the president and the attorney general." I disagree. The 93 U.S. attorneys aren't very accountable either, and some have brought cases more dubious and oppressive than any brought by independent counsel.

Rather, the most serious problem with the statute is the vesting of independent counsel with virtually unlimited time and money (only cosmetically restrained by the 1994 amendments to the law) and an implicit mandate to leave no stone unturned in probing a single target. The one-case independent counsel has every incentive to pursue possible crimes too petty, or too harmless, or too hard to

prove, or too close to the line of legality to warrant the attention of an ordinary prosecutor.

As Justice Antonin Scalia has pointed out, the independent counsel statute comes close to institutionalizing what was called "the greatest danger of abuse of prosecuting power" in a 1940 speech by then Attorney General Robert Jackson:

With the law books filled with a great assortment of crimes, a prosecutor stands a fair chance of finding at least a technical violation of some act on the part of almost anyone. In such a case, it is not a question of discovering the commission of a crime

both at the Justice Department and on the D.C. Circuit—and may well hope to serve again.

(Not to mention the appearance problem created by the role of Starr's former D.C. Circuit colleague, the ardently conservative Judge David Sentelle. He heads the special three-judge court that appointed Starr—an appointment made soon after Sentelle had lunched with the intensely partisan Republican senators from North Carolina, Lauch Faircloth and Jesse Helms. Helms is a political benefactor of Sentelle's.)

Starr's political ambitions could well suffer if he resists the enormous pressure from politically motivated Republicans in Congress to bring home Clintonite scalps, or at least to spare no effort in digging dirt. And even if Starr carried no such baggage, he could hardly be expected to confine himself to cases that would be brought by an ordinary prosecutor.

Consider Starr's pursuit of Deputy White House Counsel Lindsey, who is a target of the investigation in connection with his work as treasurer of Clinton's 1990 gubernatorial re-election campaign. Starr appears to be pushing hard to see whether a case can be made that Lindsey told an Arkansas banker not to file routine reports with the Internal Revenue Service about Lindsey's otherwise legal, and non-taxable, withdrawal of \$30,000 in cash on May 25, 1990, (and a similar withdrawal later) for use as get-out-the-vote money in the Arkansas campaign.

These alleged crimes are, at worst, so petty that they would hardly be considered worth investigating if, say, Clinton had lost the 1992 presidential election and Lindsey were still just an obscure Little Rock lawyer. But crimes they may have been: The banker has pleaded guilty and become a cooperating witness. And almost any independent counsel with Starr's broad mandate would feel obliged to investigate Lindsey's role thoroughly and to bring any prosecutions for which evidence can be found.

It's easier to find fault with the independent counsel system, of course, than to come up with a flawless alternative.

I've previously proposed creating a quasi-independent, permanent office of public prosecutions outside the Justice Department; headed by a Senate-confirmed presidential appointee; with jurisdiction over all executive, legislative, and judicial branch officials; and with political (but not judicially enforceable) protections against unwarranted removal ("How About a Semi-Special Public Prosecutor?" Dec. 13, 1993, Page 25). But the vast power of such an office could be abused, and the idea has not exactly caught fire.

The Clintonites' troubles tempt me to flirt with the idea of scrapping the independent counsel statute and leaving it to the Justice Department and Congress to cope with high-level crimes.

The risk is that such a change would open the way for a festival of unchecked corruption and executive branch lawlessness. Remember Iran-Contra, which the Reagan Justice Department would have buried quickly if it could.

So what is to be done? Pending further enlightenment, I can only take refuge in a 1986 concurrence by Justice Richard Sims III of the California Court of Appeals: "[H]aving taken all conceivable sides on the issue, I must certainly at some point have been right. Unfortunately, it too obviously follows that at some point I must also have been wrong."

Stuart Taylor Jr. is a senior writer with American Lawyer Media, L.P., and The American Lawyer magazine. "Taking Issue" appears every other week in Legal Times.



and then looking for the man who committed it, it is a question of picking the man and then searching the law books, or putting investigators to work, to pin some offense on him.

The result is exhaustive exploration of questions that, 25 years ago, would have been of little interest to any good prosecutor, and of limited interest to journalists. Questions like whether Brown enriched himself through corrupt business deals before joining the Cabinet, or why Cisneros lied to the Federal Bureau of Investigation about how much he had paid his former mistress.

This inherent problem with the statute is magnified by the reality that not every court-appointed independent counsel will be a paragon of apolitical wisdom and restraint. Nor will the judges who do the appointing.

Consider the conduct of Independent Counsel Donald Smaltz. His assignment was to focus on Espy's alleged receipt of illegal favors from regulated companies. But Smaltz has seized the opportunity to muckrake widely through Arkansas, while improperly blabbing to the press about his interest in unsubstantiated allegations that Tyson Foods sent envelopes full of cash intended for then Gov. Clinton in the 1980s.

Kenneth Starr appears to have done his job responsibly, and he has a reputation for integrity and good sense. But he is probably the wrong man for the Whitewater job, because he is a politically active Republican who has served in high office—

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TIMES MIRROR

COLUMN ONE

Rio Grande Midwives Deliver Citizenship

■ A birth certificate scam sheds light on a thriving network of women who help Mexican mothers have babies in Texas. Under lax laws, they can declare the newborns Americans.

By JESSE KATZ
TIMES STAFF WRITER

SAN BENITO, Tex.—For hundreds of Mexican women, some here legally and some not, the cardboard stork outside Maria Elena Tafoya's birthing room signals the doorway to a brighter future.

Inside, on a small bed with a rubber sheet, under a portrait of the Virgin Mary, their children enter the world on U.S. soil—a minor distinction in geographic terms but one that carries big advantages economically. Tafoya, 57, serves both as midwife and de facto immigration judge, conferring U.S. citizenship at the moment of delivery, no questions asked.

"The people who come to me look at this as an investment," said Tafoya, the founder and former president of the Rio Grande Valley midwives' association. "Not to get government benefits but to give their children more opportunities in the future: to work, to study, to be somebody important."

As Public's Eye, Press Tours Grisly Images

By ANDREA FORD
TIMES STAFF WRITER

Like mourners at a wake, we glide silently into two empty rows of the courtroom's spectator section, our eyes drawn immediately to the eight large charts set up on easels several feet in front of us.

There, on bright azure backgrounds below titles such as "Sharp Force Injuries to Left Flank, Left Thigh and Right Chest of Mr. Goldman," is the forensic record of the slayings of Ronald Lyle Goldman and Nicole Brown Simpson.

The display seeks to document, in full color and clinical detail, the ferocity and extent of the attack.
Please see PHOTOS, A8

Prosecution Won't Call Golden to Stand

By JIM NEWTON
and HENRY WEINSTEIN
TIMES STAFF WRITERS

Prosecutors announced Monday that the deputy medical examiner who performed the autopsies on Ronald Lyle Goldman and Nicole Brown Simpson—and who made a series of much-discussed mistakes—will not be called as a government witness in the trial of O. J. Simpson.

High Court to Federal

Hail From the



President Clinton applauds U.S. troops who evaded capture in Bosnia

Mayor Upholds

It is a testament to the uniquely symbiotic culture of the border that midwives, *parteras*, perform more than 10% of all births in Texas' southernmost corner, compared with just 1.7% statewide. But the business of some Rio Grande midwives, according to the U.S. Immigration and Naturalization Service, has gone beyond just exploiting loopholes in federal immigration law.

In the largest birth-certificate scam ever uncovered by the INS, authorities have charged Tafoya and at least four other midwives with doctoring paperwork to make it appear as though they had delivered babies in the United States when the infants were born in Mexico. As a result, officials say, more than 1,500 children, most of them living in the Mexican border town of Matamoros, are in possession of illicit Texas birth certificates.

The parents, who allegedly paid \$800 to \$1,200 for the documents, have not been targeted for prosecution. Most of the midwives, in exchange for cooperating with investigators, also will avoid prison terms at their sentencing next month. What authorities want most is simply to identify all of the fraudulent records to prevent the children from applying for Social Security cards or other benefits.

"We just want to keep those kids out of the system," said INS Special Agent Gilbert Trevino, adding that at least another half-dozen midwives remain under investigation. "I'm looking at the future. I'm thinking about the taxpayers."

Please see BIRTHS, A7

Wilson Campaign Many Top Jobs

■ **Politics:** Governor picks people, aide says. Some have joined his

By MARK GLADSTONE
and PAUL JACOBS

TIMES STAFF WRITERS

SACRAMENTO—Last fall, the state's \$103,000-a-year housing chief spent a weekend walking precincts in the San Gabriel Valley on behalf of Gov. Pete Wilson and the Republican ticket. One night he camped on his sister's sofa with her Labrador retriever.

Meantime, other state officials who make more than \$100,000 a year as appointees of Wilson staffed phone banks in their off hours and hosted house parties to drum up support for their boss's reelection.

Partisan politics is the tie that binds the 755 Wilson appointees

BIRTHS: Certificates

Continued from A1

Although some fraud had long been suspected, the scale of the Rio Grande document scam has cast a spotlight on the lax regulation of midwifery in Texas, where there are few provisions to prevent an unscrupulous *partera* from lying about the details of a birth.

The case also underscores some of the ambiguous aspects of U.S. immigration law, which allows Mexican residents to obtain temporary permits for shopping or family visits, provided they don't venture more than 25 miles beyond the border. Despite the millions of dollars spent every year to keep illegal immigrants out, it's possible for a pregnant woman in Matamoros to take a taxi across the international bridge and legally give birth in Texas to a U.S. citizen.

Meanwhile, the government foots the hospital bill for those births if the mother is indigent, regardless of her immigration status. That infuriates nobody here more than the midwives, who complain that their patients are being lured away by the generosity of U.S. taxpayers.

"Yes, it's contradictory, but then so is almost everything about the laws that regulate the border," said Tony Zavaleta, an expert on folk medicine and dean of the liberal arts college at the University of Texas at Brownsville. "You've got to remember, we're joined at the hip down here—we're Siamese twins—with the same economic bloodlines and genealogical bloodlines and cultural bloodlines. If you sever one side, it makes both sides bleed."

In California, despite the proximity to Mexico, there is no comparable culture of midwifery. Prompted by concerns over health and safety, lawmakers pulled the plug on the profession some four decades ago, agreeing only last year to begin setting up a licensing process.

In the meantime, a small unregulated network of midwives has managed to stay in business, but birth records show they delivered just 629 babies in 1993, the last year for which figures are available.

By comparison, 5,530 babies were delivered that year by licensed Texas midwives, most of them clustered along the banks of the Rio Grande, where they assist women living on both sides of the border. More than 40% of those babies, in fact, were born in just two border counties, Hidalgo and Cameron, where *parteras* dot the landscape, unlike anywhere else.

Almost all of them operate out of their homes, usually humble little bungalows in working-class neighborhoods with one room set aside for births, somewhere between the bathroom and kitchen. Most have a hand-painted sign out front, often of a stork hoisting a



Los Angeles Times

newborn in its bill, which serves as a kind of universal beacon.

One of the best-known establishments is operated in Brownsville by Margarita Garcia, who charges \$350 to deliver a child. Her claim to fame, apart from 18 years of experience, is that she lives just three blocks from the border—in a house that sits under the golden arches of a McDonald's.

"Everybody knows where to find me," she said.

Just a few more blocks down Jackson Street is the home of another veteran midwife, 48-year-old Trini Saldivar, whose office is adorned with dozens of photos from her more than 1,000 successful deliveries. "A baby is God's way of saying the world should go on," says a poster on the wall.

Like most midwives in the Rio Grande Valley, Saldivar was born and raised in Mexico, where she trained as a nurse before coming to the United States in the 1970s. Although she is a legal resident, she remains a Mexican citizen and communicates best in Spanish.

Parteras, she insists, have thrived primarily for cultural reasons, offering a relatively inexpensive service in a non-threatening environment. Women are assured of being treated by a Latina practitioner while avoiding the bureaucracy associated with most publicly funded clinics.

But Saldivar also concedes that the prospect of instant citizenship is the lure that draws many of her patients across the border, a fact that does not entirely jibe with her own political views.

She takes pride, for instance, in helping hard-working families

WILSON: Campaign

Continued from A6

wound up with government jobs.

White, who is paid \$106,404 as the governor's chief of staff, has served as a top Wilson adviser since the late 1960s when he was a San Diego field representative for the Republican Party. His stamp of approval is required for virtually all the governor's appointments.



This Series

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and coming budget January, the number of ntees had jumped about the final year of Wil- ecessor, compared to for the state govern- force as a whole. The

Altered to Falsely Grant U.S. Citizenship



Midwife Maria Elena Tafoya with Josefina Bailles and her child, Ricardo Jaramillo, a newly born U.S. citizen in San Benito, Tex.

BRAD DOHERTY For The Times

move beyond their impoverished conditions—"any human being would," Saldivar said. But don't get her started on those women who look for welfare to pave the way: "Senor, I'm paying a lot of taxes for that class of woman to be coming over here." And even worse, she contends, are those social workers who assist undocumented women in obtaining Medicaid coverage.

"They should tell those women, look, if you don't have the money, don't go to a hospital, don't even go to a partera," she said. "Stay in our own country. Have your baby over there."

Since Texas health officials were first mandated to fund emergency medical care for illegal immigrants in 1988, the number of midwife-assisted births in Cameron County is dropped 30%, while the number of hospital births has increased 10%.

As a result, midwives say, most of their patients tend to be far more solidly rooted in Mexico's middle class. One pregnant woman, who gave her name only as Senora Rodriguez, recently arrived at Saldivar's home on a 72-hour visitor's pass, which is issued to Mexican residents with a record of

stable employment. She was accompanied by her first child, Mariel, born four years ago under the same roof.

Even though the U.S.-born children of undocumented immigrants can seek legal residency for their parents once they turn 21, Rodriguez said she has no desire to relocate or apply for benefits on this side of the Rio Grande. In Matamoros, she is an elementary school teacher and her husband works for the phone company.

"My life is in Mexico," she said. "I'm only doing this for the kids."

The legal avenues for Mexican women to have their babies on U.S. soil are so wide that it almost seems odd anyone would risk trafficking in bogus birth certificates. But the system of registering midwife-assisted births is so lax, officials say, that the chances of getting caught, even now, are slim.

The state's 259 licensed midwives are all required to undergo at least 80 hours of medical training plus an apprenticeship, which authorities credit for a generally high rate of safety. When it comes to filling out paperwork, however, there are virtually no safeguards to prevent a midwife from inventing a

U.S. address for the child.

"If somebody's a documented midwife, she could submit certificates all day long and we would never question it," said John Murphy, deputy registrar for the state Bureau of Vital Statistics.

Tipped by an informant, the INS began investigating two San Benito midwives in 1992, eventually concluding that Tafoya and Rosalinda Esquivel were responsible for doctoring more than 600 birth certificates. In some cases, officials say, Tafoya and Esquivel actually went so far as to recruit mothers who were recuperating in Mexican birthing centers.

In hopes of snaring more midwives, the INS waited three years to charge the women, who could have faced five-year prison terms and fines of \$250,000. Two midwives in Brownsville recently were charged with selling fraudulent documents. A fifth indicted midwife, Josefa Concepcion Uribe de Buitron, is believed to have fled to Mexico.

"Once they figured out how easy it was, they just got out of control," said Trevino, the lead INS investigator. "It boiled down to greed."

In separate interviews, Tafoya and Esquivel, who have both pleaded guilty, denied that they profited from their enterprise—that they recruited children from Mexico. Most of the women, Tafoya said, were already patients of her who, for whatever reason, were unable to make it to her birthing center in San Benito, about 20 miles north of Mexico.

"I just helped them, without thinking of the consequences," said Tafoya, as she sat in her office surrounded by framed nursing degrees and plaques of appreciation for founding the local midwifery council, Parteras Hispanas de Valle. "In the end, I lost everything, though, my prestige and my integrity. I wish I could disappear."

After her sentencing, she was probably stripped of her midwifery license. The INS also was reviewing her case to determine whether her U.S. residency can be revoked. But in the meantime, life goes on in certain inexorable ways.

On June 5 at 4:45 a.m., as she had done so many times in the past, Tafoya welcomed another U.S. citizen into the world: Ricardo Jaramillo, a healthy 6-pound, 8-ounce boy.

*Don't say
we do need to discuss
with troops on this a full scale
RC*

there."

Indeed, Gingrich cannot help but fault Clinton, for perceived sins old and new.

In response to Clinton's criticism that the House-passed foreign aid bill was "isolationist," Gingrich noted that Clinton had been the Texas field director for Sen. George McGovern's 1972 presidential campaign, which was "was far more isolationist than anything we've ever done."

And he casually asserted that the presidency had become "relatively less important" than the legislative branch, and that this was "a past tense statement of fact," no mere burst of hubris.

He said the drug problem would be easier to solve if the administration demonstrated a tough attitude against drugs, not a soft attitude.

He said that the war in Bosnia was "a historic mess" for which both parties were responsible and that might have been prevented several years ago if the United States had established what he called a Balkan economic development bank and a Balkan trade zone.

But he also faulted Clinton for the current muddled policy in the Balkans. At a breakfast fundraiser here Saturday morning, he cited the decision not to destroy Serbian positions when Capt. Scott F. O'Grady was rescued from hostile Bosnian territory last week.

U.S. flyers had determined that Serbian radar had pinpointed their location, but the Americans were denied permission to fire on the Serbs, in part to protect U.N. hostages.

"It is inexcusable to allow Serbian radar to work," Gingrich said. "If we're going to fly aircraft over Bosnia, we should have set the ground rule - they turn on the radar, we kill 'em." Big applause.

He also erupted in anger at the notion of U.N. peacekeepers who wear "baby blue helmets" and do not look or act like soldiers.

"Any system which would put soldiers out in such an unmilitary manner as to allow them to be taken hostage is a disgrace to civilization," he declared to much applause. The U.N. model in Bosnia, he said, "is utter, total insanity."

His solution is to use the threat of overwhelming military power from the United States to force the Serbs to the negotiating table.

He had been asked what he would do about Bosnia if he were president. But in answering, he was careful to say, "As speaker, the advice I would give the president is this." And the audience applauded again.

U.S. MILITARY SHIFTING FOCUS, OF AIDS FIGHT BY DAVID W. DUNLAP c. 1995 New York Times News Service

Facing a drastic budget cut, military medical officers say they are planning to curtail clinical work in treatment of HIV, the virus that causes AIDS, to concentrate instead on developing a preventive vaccine.

With the new emphasis, the officers said, they would be fulfilling the primary mission of military medicine: keeping troops in a state of readiness.

"The effectiveness of the Army as a fighting force is best assured by prevention of HIV infection," Brig. Gen. Russ Zajchuk, the assistant surgeon general for research and development, wrote in a recent memorandum.

"Therapeutic approaches to HIV disease do not make significant contributions to combat effectiveness. If a soldier is already infected, that soldier is a casualty and is of limited use to the force."

Those who support the clinical programs argue that the

studies yield invaluable data. In the military population, the progress of HIV infection can be tracked from the earliest stage, since troops are tested regularly. Service members offer researchers a diverse pool of subjects and are more compliant than civilian volunteers in clinical trials.

Stopping the trials, moreover, would cut off promising drugs and other therapies from service members or their dependents who have HIV, the advocates said.

"We're essentially saying, 'We're going to deny American GIs with this infection access to potentially life-saving medication,'" said Freeland H. Carde IID, a retired Navy commander who lobbies in Washington on behalf of people with AIDS.

Rep. Constance A. Morella, R-Md., said the current programs had a direct relation to military readiness "because these are people who still want to continue to serve."

There are 7,574 patients covered by programs that would be ended prematurely, abridged or canceled, said Dr. Kenneth F. Wagner, senior research physician at the Henry M. Jackson Foundation for the Advancement of Military Medicine. The nonprofit foundation is the largest private contractor conducting HIV research for the armed forces.

There is still a chance, however, that money will be found to maintain the programs. A White House official, speaking on condition of anonymity, said Friday that this would "very probably" happen. In any case, he said, no patients now participating in studies would be dropped.

The current annual budget for military research into HIV is \$40 million, \$13 million of which was requested last year by the Clinton administration, with the balance added by Congress.

When it appeared earlier this year that the Defense Department was balking at spending the additional money, Leon E. Panetta, the White House chief of staff, wrote to Defense Secretary William J. Perry, saying that AIDS research was a "high priority for this administration."

For the coming fiscal year, the administration requested \$9.6 million for military research into HIV. Although Congress supplemented the request in the past, it is not clear what will happen this year, given the newly conservative climate, both fiscal and social, on Capitol Hill.

"We have to make our plans on what we expect to get," said Col. William H. Bancroft, director of the military infectious disease research program at the Army's medical research and materiel command in Fort Detrick, Md.

In a telephone interview Thursday, Bancroft said: "We feel that it's appropriate that the money in the president's budget is directed to areas of research that most support military readiness. And that's research on the development of vaccines to prevent infection and protect the active force." The vaccine trials would be conducted in Thailand.

Paralleling the debate over research is the issue of whether troops who become infected with HIV should be allowed to continue serving as long as they are physically able.

Three weeks ago, the House Committee on National Security voted 37-16 in favor of a measure proposed by Rep. Robert K. Dornan, R-Calif., to require the prompt discharge of troops with HIV.

Rep. Barney Frank, D-Mass., who supports the work of the Jackson foundation, said that vote probably emboldened those who oppose the research programs.

"The Pentagon is going to start paying more attention to the Republican majority in Congress than to the administration," Frank said. "This is a test of it."

THE WHITE HOUSE
WASHINGTON

June 16, 1995

MEMORANDUM FOR TERRY GOODE

FROM: TODD STERN 

SUBJECT: Approval for Presidential Signatures

Phil Caplan is now authorized to approve use of the President's signature pen for all nominations except those of flag rank in the Armed Forces and for all matters in the absence of the Staff Secretary.

THE WHITE HOUSE
WASHINGTON

06/16/95

TO: LEON PANETTA
ERSKINE BOWLES
HAROLD ICKES
MARK GEARAN
MIKE MCCURRY

FROM: TODD STERN

FYI

GREER, MARGOLIS
MITCHELL, BURNS
GMMB&A
& ASSOCIATES, INC.

THE PRESIDENT HAS SEEN
6/15/95

MEMORANDUM

TO: THE PRESIDENT
FROM: FRANK GREER
DATE: JUNE 14, 1995
CC: LEON PANETTA
ERSKINE BOWLES
HAROLD ICKES
MARK GEARAN
MIKE MCCURRY
GEORGE STEPHANOPOULOS
DON BAER
RE: BALANCED BUDGET SPEECH

To VP/BAER
Lagu in this
re: Message

I have no quarrel with the substance of your proposal to balance the budget. It's actually bold, commendable, compassionate and courageous. A fine effort and the right thing to do.

And, even though I have some disagreement with the timing which I've expressed to you, that is really not my major concern.

The real problem was the message or lack thereof. The facts and details were there, but no context, no rational, no theme, no message, no music... Why didn't we talk about "Restoring the American Dream," "Building a better future for our children," "Putting People First"... something ... anything.

There was no hope and inspiration and nothing that sounded visionary or Presidential.

If anything, the Dan Rather intro and the close of Bob Dole's response was more inspiring and uplifting ... and Presidential.

We need to get back to a theme -- "Restoring the American Dream," "Lifting up the Middle Class," "Opportunity and Responsibility," "Making America work for the

forgotten Middle Class," etc. -- a message that provides the American people with a context and a sense of hope and inspiration. It was sadly missing.

Also the opening delivery and the extreme wide shot at the beginning made you seem small and hurried and more like a policy wonk than a President.

When we have an opportunity like this -- with the whole country watching -- we should do better.

As you know, I'd be glad to discuss or help in any way I can.

original letter
sent to
Dorskind

Jim Dorskind

Pls coordinate
the reply.

THE PRESIDENT HAS SEEN
6/15/95

Gergen/McCauley
Fyl- I need a
written reply BZ

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

Dear Mr. President,

My wife Whitney and I were honored and delighted to meet you and Mrs. Clinton at the recent screening of "The Crimson Tide". We thank you for your hospitality and the opportunity to enjoy the pleasures of rare access to some of America's greatest treasures.

The film wasn't bad either and I thought my old friend Dick Valeriani was a highly credible TV News Correspondent. What a surprise! A TV guy can actually play a TV guy.

In the course of our conversation, I mentioned to you that I had once considered working for you. You clearly were unaware of that and there is no reason why you should have been. Let me explain. In December of 1993, I had a long conversation with David Gergen and Tony Lake about a new position which they were considering ...a White House spokesman on foreign affairs. Ultimately it was decided not to create that particular job. David then asked me if I would be interested in the spokesman's job at the Pentagon. I wasn't and that was the end of it. As far as I know, my Canadian citizenship was not a factor as I indicated I was willing to become a US citizen.

I suppose I will always be a little sorry that I did not have the opportunity to have that look at the inside of policy making after thirty years on the outside. But I have happily proceeded with my plans for early retirement from ABC News, and this fall I begin a fellowship at the Kennedy School at Harvard. I will be working on a study of the consequences of live TV coverage of war, and my view that there is an urgent need for new guidelines. Without them, I fear the next war could be a catastrophe and, among other things, this could put the First Amendment under serious threat.

Having covered the foreign policies of seven Presidents, I consider myself essentially non partisan. I am however, very sympathetic to the unique challenge that you face....to make policy without the easy ground rules of the Cold War.

At the risk of sounding presumptuousness, I support what I see of your instincts in foreign affairs and your basic goals.

I think they are right for the country and I very much want you to succeed.

Sincerely,


Barrie Dunsmore
Washington, D.C.
June 7th, 1995

THE WHITE HOUSE
WASHINGTON

95 JUN 16 11:08

sent

OFFICE OF THE STAFF SECRETARY

Fax Transmittal Sheet

TO: The Honorable Donna Shalala

Fax Number:

690-7755

Phone Number:

690-6133

FROM: John Podesta

SUBJECT: cc's from The President/ 2 items
(one is 7 pages, the other is 2 pages)

DATE: 06/15/95

NUMBER OF PAGES (including cover sheet):

10

MESSAGE:

If all pages are not received, please call 202/456-2702

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THE PRESIDENT HAS SEEN
6/15/95

DOWNEY CHANDLER, INC.

1401 I Street NW, Suite 1210, Washington, DC 20005

CR/CC Shalaby

TO: ~~GEORGE~~ STEPHANOPOULOS
FROM: TOM DOWNEY
DATE: JUNE 7, 1995
RE: WELFARE REFORM MEMO

George,

I saw the President at the Vice President's house last night. We had a few chats about welfare, and I promised to send him something in writing. Will you make sure he sees this?

THANKS!

T

TO: Vice President Al Gore
FROM: Tom Downey
RE: Welfare Reform Issues
DATE: June 6, 1995

The President gave a great speech this afternoon about the need to protect poor children and noted that the welfare reform bills that have been moving through Congress will hurt poor children. It is imperative that the entire Administration join with the President in condemning the punitive and regressive nature of these bills, articulating a clear message of what the Administration is for, and influencing the Congressional debate.

There is little support for maintaining the status quo for welfare or guaranteeing a right to AFDC benefits with no strings attached. However, I believe the American public cares about the future of America's children. I also believe that the American public does not understand block grants, does not believe that state flexibility is the answer to every problem, and believes in the positive aspects of the federal guarantee and funding mechanism as described later in this memo.

This Administration's call for genuine welfare reform must be built on the following principles:

1. Basic Protections for Children. There must not be prohibitions on aid for teenage mothers, children born while their parents are on AFDC, or children whose families have received AFDC for longer than an arbitrary time limit. We must also ensure that children would not be penalized because they became poor in June and the state had already run out of funds in January. Funding for states must be protected against inflation, recession, population shifts, and changing demographic circumstances. In addition, state maintenance of effort must be mandated. In short, any welfare reform legislation the President signs must contain all of the positive aspects of the words "AFDC entitlement."
2. Work for All Who Can. A real welfare reform bill must require that parents who can work do work, and that they be provided with the necessary supports to make that possible. Adults who are disabled or caring for a disabled child should be exempted from this work requirement and any time limit. Child care must be provided for all families that are required to work and for those who are transitioning off of welfare into the workforce.
3. Parental Responsibility. Both parents must be held responsible for the support of their child. Custodial parents should engage in work or training (if they are able) and non-custodial parents must pay child support. Teenagers should be encouraged to postpone sexual activity. If a teenager becomes pregnant, she should be required to stay in school and live at home or with a responsible adult in order to receive benefits.

To be faithful to these principles, the AFDC entitlement must be preserved. Everyone acknowledges that the current welfare system should be fixed, but it goes against everything this Administration stands for if it allows the safety net for poor children and their families to be destroyed in the name of reform. It is essential that this Administration continue to articulate this vision and speak out against the House and Senate bills, which use block grants to disguise drastic funding cuts. The ultimate test of any welfare reform bill should be: "does it improve child well-being?" If it does, the President should sign it; if it does not, the President must veto it.

Present Legislative Status of Welfare Reform

As you know, the Senate Finance Committee voted the "Family Self-Sufficiency Act of 1995" out of committee on May 26. H.R. 4, "The Personal Responsibility Act" passed the entire House in March. Both of these bills end the entitlement to AFDC. The entire focus of the welfare debate is now block grants, state flexibility, and budget savings. It is not about the welfare of children or the resources that are needed to move individuals from welfare to work. If this Administration were to accept a welfare reform bill that creates block grants to states for aid and services to needy families with children, it would alter a 60 year tradition of shared federal-state responsibility for protecting America's most vulnerable families. The President indicated today that he understands the importance of this issue. He and others must continue to take a strong stand against these bills.

During the last six months, the Republicans have transformed the definition of welfare reform from "two years and work" (the message of the Work and Responsibility Act) to "let the states decide everything" but with conservative strings. The Work and Responsibility Act promised parents that the federal government would work with states and increase funding for education, training, and child care, in exchange for which parents would have to use these tools to work toward self-sufficiency. The House and Senate Finance bills take an entirely different approach: they establish tougher (and more unrealistic work requirements), while simultaneously cutting funding for the services necessary to make these requirements a reality. These also impose arbitrary time limits on cash assistance (even if the parent is moving toward self-sufficiency) which will deny badly needed support to millions of children.

These bills passed on mainly party line votes. Throughout this process, Republicans have largely ignored Democratic concerns because they believe that the President will have to sign any welfare reform bill that comes out of Congress. Since the Republicans have been able to maintain their party unity on these major votes, they have not needed Democratic votes and have not felt the need to compromise with Democrats or accept any amendments offered by Democrats. Even if the President issues a veto threat, it is possible that Republicans will not compromise and will pass a bill like the ones passed by the Senate Finance Committee and the House.

Impacts of Republican Welfare Reform on Children and Families

The Senate Finance and House bills discussed above would have devastating effects on low income children and families. As a result of these bills, millions of children will be denied cash assistance, child protection services, child care, and nutrition assistance. These bills will push more children into poverty and offer less support to parents who want to work their way off of welfare and achieve self-sufficiency.

According to analyses done by the Department of Health and Human Services, the House bill, when fully implemented, would eliminate AFDC cash assistance to 5.6 million children; the Senate Finance bill would deny support to 4 million children when fully implemented. Of the estimated 888,000 children who received SSI benefits in 1994, 702,000 children would not have received cash benefits if the House bill had been in effect.

The size of the funding cuts in these two bills provides a good gauge of how much they will hurt poor children. The House bill will cut \$69 billion from programs that serve low income children and families. The Senate Finance bill cuts \$32 billion from these programs over the next five years, but this figure does not include potential cuts in Food Stamps and child nutrition. The comparable House figure (which takes into account only programs under the jurisdiction of the Senate Finance Committee) is approximately \$38 billion.

This Administration has continually proclaimed its commitment to our nation's children and desire to create a better country for future generations. Everything from increasing funding for Head Start, creating the AmeriCorps program, expanding the Earned Income Tax Credit, and reducing the deficit have focused on these goals. Given these achievements, it would be tragic for this Administration to sign a welfare reform bill that would doom future generations of poor children to more poverty and less support from the federal government.

Political Issues Surrounding Welfare Reform

The issue of welfare reform has political appeal because of the resonance with the middle class values of work and responsibility. The Administration must not let the Republicans redefine this issue. Today, the President eloquently reiterated his belief that "welfare reform" is not about ending benefits; it is about improving the well-being of our nation's poor children through the promotion of work, parental responsibility and self-sufficiency.

The Democrats in Congress also accept this vision of welfare reform and support preserving the AFDC entitlement. In the House, every Democrat voted for the Deal bill, which preserved the AFDC entitlement. Although there are several Democratic alternatives in the Senate, each one maintains the AFDC entitlement in some form. Therefore, the President already has support from his fellow Democrats for maintaining the AFDC entitlement.

One final consideration is that the President will have serious problems with the base of the Democratic party, if he were to sign a welfare reform bill that is like the House or the Senate Finance bills. Although they will probably not support the Republican party candidate in 1996, it is more likely that they will stay home on election day. Given the results of the 1994 election, the President will need an energized base if he is going to be successful in 1996. It is very important that the President reassure the base that he has not abandoned them and that there is a difference between a Clinton presidency and a Dole or Gramm presidency.

Major Issues Surrounding the AFDC Entitlement

The word "entitlement" carries with it many negative connotations. To many, it means keeping the status quo and continuing unlimited benefits without obligation. However, there are aspects of the "entitlement" which are vitally important and must be preserved. These are described below:

State Match Requirements

Current law requires state financial participation in providing aid and services to needy families with children and that assistance be provided to all who meet the state-defined category of "needy." In the name of welfare reform, the House-passed bill and the Senate Finance bill eliminate both the guarantee that all "needy" families with children will receive assistance and state participation in funding assistance. Coupled with the dramatic reductions in federal funding, elimination of state matching or maintenance of effort requirements virtually ensures dramatic benefit cuts for recipients.

In addition, the current matching formula gives states an incentive to maintain somewhat reasonable levels of assistance, although the generosity of benefit levels varies substantially across the country, as permitted under current law. The minimum federal contribution to a state for benefits is 50 percent for the relatively rich states, ranging as high as 79 percent for a poor state like Mississippi. Every dollar a state spends on AFDC benefits is rewarded with forty cents in federal funds, taking into account the interaction with Food Stamps. In the context of a block grant, without a match requirement, however,

states will have no incentive to raise, or even maintain, benefit levels. Every additional dollar spent by a state on assistance for needy families with children will mean less federal monies. In fact, a reduction in state spending on AFDC will actually mean more federal dollars will flow to the state through the Food Stamp program. This element of the entitlement, along with the next two described below, are needed to avoid a "race to the bottom" among states. (See attached op-ed piece by Robert Reischauer.)

Automatic Adjustments for Changing Need

The current AFDC program guarantees that federal funding will be available to help states cushion the blows of a national recession, a geographically concentrated economic downturn, a natural disaster, population shifts, or other demographic changes. The federal government will pay at least half of the increased cost for these events that increase the number of needy families with children in a state and/or the average amount of benefits a needy family receives. Under a block grant, however, when the need for AFDC increases, the entire burden falls on the state because funding levels are fixed -- even when overall revenues are also generally declining. The most plausible alternatives for states faced with insufficient funds to meet increasing need would be to restrict eligibility and/or reduce benefits for needy families with children.

The attached table shows that there are no consistent patterns among indicators of changing state needs. As shown in the table, within a five year period, or even shorter periods of time, there is enormous variation in the amount of change across states for all selected indicators of the AFDC caseload size, AFDC expenditures, children receiving Food Stamps, child population, and child poverty. A flat block grant will not respond to the broad diversity of changes in need experienced by states over time. In addition, by its very nature, a fixed block grant will decrease in value over time because it does not adjust for inflation. Therefore, unless a state takes explicit action to increase funding for benefits, either all children will receive lower benefits or fewer children will receive benefits.

Uniformity/Equal Protection

The AFDC program is currently funded to ensure that all similarly situated families with children in a state who meet the eligibility requirements receive the same level of benefits. Under the block grant proposals with their capped funding levels, families who become eligible at the beginning of the year could be more likely to receive benefits than those who become eligible toward the end of the year. If funds become limited during the year, a state might find itself in the position of having to create a waiting list of eligible families who receive benefits as funds become available, much like the current LIHEAP and Section 8 housing programs. Alternatively, a state could reduce benefits for all families at the beginning of the year in case their projections of need surpass the block grant amount.

Although current law already gives states vast flexibility in terms of defining its needy family population and setting benefit levels, it also establishes minimum federal standards for truly needy families all across the country. Under current law, a state must provide benefits to all children it defines as needy. It may not discriminate on the basis of race; marital status of the child's parents; whether the child was conceived while his or her parents received welfare; or how long the child's parents received assistance.

Conclusion

Fundamentally, block grants cannot substitute for entitlements. Each one of the above three aspects of the entitlement are important and must be preserved.

Table 8.
**FLAT BLOCK GRANTS DO NOT RESPOND
 TO CHANGING STATE NEEDS OVER TIME**

Selected Indicators of Changing Need

Jurisdiction	1-year Change in AFDC Caseload 1993-94	2-year Change in AFDC Expenditures (million dollars) 1992-94	2-year Change in Children Receiving Food Stamps 1991-93	5-year Change in Child Population (under 18) 1989-94 (1)	3-year Change in Children in Poverty 1990-93 (1)
Alabama	-2.4%	9.2%	9.7%	-2.5%	-9.5%
Alaska	5.2%	17.2%	57.2%	16.4%	-21.5%
Arizona	2.8%	11.1%	23.6%	16.0%	34.4%
Arkansas	-2.1%	-2.4%	12.7%	-1.5%	5.6%
California	5.8%	5.6%	30.4%	12.5%	39.6%
Colorado	-2.2%	-3.6%	11.6%	12.3%	-35.2%
Connecticut	3.3%	5.9%	20.0%	3.8%	37.5%
Delaware	0.6%	4.7%	39.6%	25.9%	51.2%
Dist. of Col.	9.4%	24.6%	19.6%	-29.2%	73.3%
Florida	-2.7%	17.8%	47.5%	13.6%	23.9%
Georgia	0.1%	3.2%	19.5%	5.3%	-21.0%
Hawaii	11.3%	27.1%	20.7%	5.6%	-33.3%
Idaho	9.3%	18.8%	25.6%	11.5%	1.3%
Illinois	3.9%	5.7%	7.1%	3.5%	-3.8%
Indiana	1.1%	5.6%	27.8%	0.9%	-18.9%
Iowa	7.9%	5.7%	8.4%	3.0%	-6.2%
Kansas	-0.3%	13.1%	12.5%	4.7%	42.5%
Kentucky	-3.6%	-6.0%	0.7%	0.4%	28.1%
Louisiana	-3.4%	-7.1%	1.4%	-3.0%	6.6%
Maine	-3.9%	-8.5%	11.1%	0.3%	-5.9%
Maryland	-0.1%	4.6%	24.0%	8.8%	-9.1%
Massachusetts	-2.3%	-2.3%	10.9%	6.5%	-8.4%
Michigan	-2.5%	-3.1%	2.8%	3.3%	15.6%
Minnesota	-1.8%	-0.4%	21.8%	9.9%	17.7%
Mississippi	-5.5%	-11.9%	9.6%	-1.7%	-3.3%
Missouri	2.5%	6.8%	17.9%	5.6%	18.3%
Montana	1.4%	10.2%	18.0%	9.7%	-26.7%
Nebraska	-4.8%	-7.0%	20.6%	4.2%	24.1%
Nevada	8.0%	21.9%	65.6%	35.7%	20.0%
New Hampshire	4.1%	19.2%	43.8%	4.7%	66.7%
New Jersey	-2.8%	2.3%	9.7%	5.3%	26.0%
New Mexico	7.5%	39.8%	45.9%	9.7%	-20.3%
New York	5.1%	0.3%	8.8%	3.7%	23.6%
North Carolina	0.4%	7.4%	31.7%	6.9%	6.9%
North Dakota	-9.5%	-5.0%	5.3%	-3.9%	-21.8%
Ohio	-3.0%	0.0%	0.7%	1.3%	17.2%
Oklahoma	-3.1%	-3.8%	18.3%	3.2%	52.2%
Oregon	-1.1%	6.2%	21.9%	12.3%	74.0%
Pennsylvania	2.3%	3.0%	11.2%	2.0%	14.0%
Rhode Island	2.1%	14.5%	18.0%	3.9%	94.1%
South Carolina	-2.6%	-2.9%	24.8%	-0.3%	40.3%
South Dakota	-3.9%	-0.3%	9.5%	6.1%	-12.0%
Tennessee	2.7%	5.7%	27.1%	3.3%	4.6%
Texas	1.8%	16.1%	24.2%	7.0%	20.1%
Utah	-3.5%	3.2%	14.8%	6.5%	43.6%
Vermont	-1.3%	-1.7%	27.0%	3.5%	-19.5%
Virginia	1.6%	11.9%	33.5%	8.2%	-10.5%
Washington	1.6%	3.7%	13.6%	15.8%	44.3%
West Virginia	-1.8%	4.9%	76.5%	-7.3%	9.1%
Wisconsin	-3.5%	-4.7%	6.0%	7.3%	49.3%
Wyoming	-11.8%	-19.1%	13.6%	0.7%	13.4%
Minimum value	-11.8%	-19.1%	0.7%	-29.2%	-35.2%
Maximum value	11.3%	39.8%	76.5%	35.7%	94.1%
Median value	-0.1%	4.7%	18.3%	4.7%	13.4%
National Average	1.4%	4.0%	18.8%	6.1%	15.3%
Total States	66,425	\$1,000	2,243,910	3,939,000	1,953,753

(1) State level CPS data in the smaller states are subject to a relatively large sampling error and should be interpreted accordingly.

The Blockbuster Inside the Republicans' Budget

In the Rush to Fiscal Devolution, Has Anyone Figured Out How to Divvy Up the Cash?

By Robert D. Reischauer

POLITICALLY DARING," said The Washington Post's lead story. "Historic," said the New York Times. They were referring, of course, to the plan unveiled last week by Senate Budget Committee Chairman Pete Domenici (R-N.M.)—followed by an equally ambitious House Budget Committee plan—to balance the federal budget by 2002. And, indeed, both committees deserve considerable credit for doing what few have dared before—actually laying out with some specificity the benefit and service cuts required to do the job.

Now, though, Congress has to complete the work the committees have only begun: figuring out exactly how the program cuts would be carried out. Take, for one key example, the proposals to change the way the federal government pays for such means-tested entitlement programs as Aid to Families with Dependent Children (AFDC) and Medicaid. Instead of providing aid through the current open-ended matching grants that pay a share of the costs each state incurs for welfare, the federal government would give block grants—fixed amounts of money—to each state for these purposes.

From both Washington's and the states' perspectives such a change has first-glance appeal. Block grants would limit the federal government's financial exposure—a relief after a period of rapid and unpredictable growth in welfare-related spending. The budget plans, in fact, anticipate about \$200 billion in savings over the next seven years from the switch to block grants. To the states, block grants hold out the promise of reduced federal regulation

Robert Reischauer, a senior fellow at the Brookings Institution, was Congressional Budget Office director from 1989 to 1993.

and a chance to use Washington's money to pay for state-designed programs that may be better tailored to local values and conditions. Sounds like a great idea—until you hit the details.

Consider, for starters, a seemingly simple question: "How would the block grant money be distributed among the states?" "Obvious," you may say. "Divvy it up by need"—that is, in proportion to the number of low-income residents in each state. Further thought might suggest paring the allocations to wealthier states somewhat on the grounds that they can afford to chip in more of their own funds than poorer states, but basically the plan is straightforward.

Straightforward until you look at the way that federal aid is currently shared among the states. In fact, if block grants were allocated according to need, there would be massive redistributions of federal aid. For example, if federal AFDC monies were allocated according to the number of poor children in each state, Alaska, Hawaii, Massachusetts, Rhode Island, Vermont and Washington would see their federal payments roughly halved, while Alabama, Arkansas, Louisiana, Mississippi, South Carolina and Texas would more than double their takes.

Similarly, if Medicaid block grants were allocated according to the number of residents with incomes under 150 percent of the poverty threshold, the current flow of funds to New York would be cut in half while federal aid for this purpose to Virginia, Florida and Idaho would increase by at least three-fifths.

Okay, so Congress is not likely to agree on such a massive upheaval to state budgets. Why not just allocate block grants along the lines of the existing federal matching grant structure? But this means we would provide the nation's poorest state, Mississippi, with a block grant worth \$302 per poor child (which is what its 1994 federal AFDC grant was) while we distribute to each poor child in Con-

necticut, the nation's richest state, some \$1,566. Sound fair?

We accept this inequitable distribution under the existing matching grant structure because it's the result of each state's decision about the amount of its own resources it wants to devote to welfare. Mississippi could increase its federal payment if it chose to spend more of its own money, that is, if it raised its AFDC benefit levels five-fold to match Connecticut's.

But under a block grant approach, where a state's own effort on behalf of the poor would not affect its federal aid, such an allocation would be indefensible. Congress would find itself faced with a choice of taking money away from some large, powerful states to increase the allocations to poorer states or increasing overall funding. The former would be a political nightmare; the latter would undermine the budgetary rationale for block grants.

Funding formulas are far from the only killer question about block grants.

Think for a moment what would likely happen to state spending on the vulnerable populations they are meant to serve. Most likely, it would drop like a rock.

First, states would no longer be encouraged by generous federal matching rates to devote their own resources to low-income residents. Currently, the federal government rewards rich states by matching with a federal dollar every dollar they spend on AFDC and Medicaid; poor states such as Alabama and Arkansas receive roughly \$3 from Washington for every state dollar they spend.

Without this inducement, state welfare spending, which amounted to \$68 billion or 43 percent of the total spent on AFDC and Medicaid in 1993, will be squeezed out by more popular programs such as school aid and criminal justice. Fearful that they will become

a Mecca for the poor if their welfare programs are more generous than those of their neighbors, states will compete in their stinginess. Future Congresses also will be tempted to cut federal allocations as they seek ways to reduce the deficit—far easier to do when the cuts play out through 51 separate state programs and the repercussions on affected individuals are less obvious.

But should we care if spending on the poor is reduced? After all, federal means-tested outlays have almost tripled over the past decade; maybe some belt tightening is in order. Surprisingly, the explosion of welfare costs does not mean that states have been lavishing benefits on the poor. Health care for poor elderly and disabled individuals accounts for much of the increase, while AFDC and food stamp benefits to welfare families have, on average, declined. As a result, means-tested cash, food and housing benefits are considerably less effective in lifting people out of poverty than they were a decade ago.

The unfortunate reality is that, as the economy has changed and divorce and out-of-wedlock births have soared, the poor population has grown—by 25 percent between 1988 and 1993—and the poor are poorer than they used to be. Scaling back resources for this group is not going to make it shrink. It is only going to increase hardship, homelessness and suffering.

And what would happen to a state if the need for welfare increased unexpectedly because of a national or localized recession, a natural catastrophe, immigration or other demographic factors? After all, over the last four years, AFDC caseloads in 14 states expanded by more than one-quarter, while those in 12 states contracted. The answer is that the state would be left holding the bag—just when its own resources were under greatest strain.

Finally one may ask whether, when all is said and done, block grants will really give states greater flexibility and freedom from federal regulation over the long run. The answer is "Probably not." String-free federal aid flies in the face of the Golden Rule of Fiscal Federalism: "He who provides the gold sets the rules."

Over time, federal intrusiveness will grow, driven by the inevitable desire of Washington policymakers to assert federal priorities and to ensure federal funds are not squandered. (See the detailed rules in the House-passed welfare reform bill as evidence that, even at the dawning of the block grant age, it is impossible to keep Congress from playing a major role in program design.) When the inevitable examples of fraud, waste and abuse in the block grant programs hit the headlines, Congress will feel compelled to impose ever more detailed regulations and controls. In time, the states could find themselves with most of the red tape they hoped to shed and without the generosity provided by the open-ended matching grant structure.

Block grants could well end up making an admittedly bad system even worse. This, however, should not be cause to defend the status quo. Several reforms could give the states more programmatic leeway and the federal government more budgetary certainty. The waiver processes, which have already given states flexibility to experiment with ways to save Medicaid and welfare dollars, should be expanded and encouraged. The underbrush of minor federal welfare regulations should be cleared away. Welfare budgets should be established to keep total spending within acceptable bounds while allowing these budgets to vary modestly with economic and demographic conditions. And finally, retaining the matching grant structure would preserve incentives for state contributions, but matching rates could be adjusted periodically to keep federal spending within limits. True, these changes won't produce massive, painless savings—but then neither will block grants.

THE PRESIDENT HAS SEEN
6/15/95

Laura / c: Mick R

~~Mina Stone~~
Cantor

anything her for us?
BC

Medicare, Jot This Down

Employers Offer Valuable Lessons On Saving Money With Managed Care

By MILT FREUDENHEIM

Business has a lot to teach the Government about controlling medical costs. But the Government hasn't been listening.

Republicans in Congress say American taxpayers could save billions of dollars and the Medicare program could be rescued if only the Government would adopt some of the cost controls that employers have imposed on their workers under the banner of "managed care." They frequently note that Medicare spending has recently been growing almost twice as fast as private spending on health care.

But health care experts in industry and the Congressional Budget Office say the Government will not realize the kind of savings that the Republicans are talking about unless it learns some of the lessons that employers have absorbed in the last decade.

Medicare, which serves the elderly and disabled, cost \$162 billion last year. But it will have to find savings of \$165 billion over the next seven years to remain solvent, the budget office says. Senator Bob Packwood, the Oregon Republican who is chairman of the Senate Finance Committee, says that \$140 billion of the shortfall could be made up by moving more elderly Americans into managed care and that \$90 billion more could be raised by increasing the premiums for wealthier retirees who stick with traditional Medicare coverage.

"We can save the Medicare trust fund," and still have billions left to cut taxes, Senator Packwood said during the Senate budget debate.

Representative Bill Thomas, the California Republican who is chairman of the House Ways and Means subcommittee on health, also said managed care would be "a major component" in saving Medicare. He said the elderly should have a range of choices, including health maintenance organizations or other networks of doctors, or Government-financed savings accounts for medical care.

Central to employers' strategies for controlling costs are the H.M.O.'s that oversee the care of tens of millions of working Americans and their families. About 2.6 million of the 34 million people covered by Medicare are already in H.M.O.'s, and enrollment is growing by more than 75,000 a month. But under present rules, Medicare spends more on its participants in H.M.O.'s than it would have spent

Continued on Page D4

Continued From First Business Page

had they stayed in traditional fee-for-service medical care, according to the Congressional Budget Office.

By contrast, employers say H.M.O.'s cost them less than traditional health plans. What have employers found that the Government hasn't? They say they have learned many lessons, including these:

LESSON 1: Promote competition and demand some of the savings.

Currently, Medicare pays the same per-capita fee to any certified H.M.O. in a county no matter what the actual cost to the H.M.O. Even though the fee is only 95 percent of the average Medicare participant's costs in that county, H.M.O. participants tend to be healthier. The taxpayer does not share in any savings realized by H.M.O.'s as they hold down costs.

By contrast, employers typically press H.M.O.'s to compete on price, and give their business to the ones that offer the lowest rates yet still meet a set of standards. If Medicare hopes to lower its costs, it should make the same demands.

LESSON 2: Make deals that take advantage of surpluses of doctors and hospital beds in a region.

For example, in markets like New York, Los Angeles and Miami, where many doctors and hospitals are competing for business, an H.M.O. can cut a better deal for their services, and could pass that savings on to Medicare. Private employers demand a cut of such savings. (By contrast, in places where there is a shortage of doctors, like rural areas and many inner-city areas, such deals would be harder to find.)

"We see enormous variations, from New York to West Texas," said Helen Darling, head of health care strategy at the Xerox Corporation, which itself strikes such deals.

The H.M.O.'s now serving Medicare patients in high-cost places like New York and California see a huge opportunity. That is because the average price paid there by Medicare is relatively high, so the 95 percent that the H.M.O.'s get is also high. Furthermore, because of the surplus of doctors and hospitals, the H.M.O. can negotiate greater discounts with medical providers.

Currently, the H.M.O.'s do not pass such savings on to Medicare. Instead, they use some of the money to attract new members by offering attractive benefits, like free medicines, exercise classes and other "goodies," Ms. Darling said.

"And they still make money," she added. For example, at Secure Horizons, a Pacificare Health Systems H.M.O. in Orange, Calif., Medicare members can take free exercise classes five times a week.

LESSON 3: Prevent "cherry picking" by the H.M.O.

Critics say that while H.M.O.'s are required by law to accept all comers, they are adept at attracting robust older Americans who need relatively little expensive care. For example, H.M.O.'s invite thousands of elderly Americans on Medicare to recruiting parties in restaurants and hotel ballrooms. Naturally, the less healthy (and costlier) people never make it to such parties. And the insurers' recruiters never seem to make it to nursing homes.

"The H.M.O. advertisements never say they have the best heart transplant doctors in the country," said Merrill Matthews, a health policy specialist at the National Center for Policy Analysis, a conservative group that has expressed doubts about the savings under managed care.

Honeywell Inc., the Minneapolis manufacturer of automated controls, concluded years ago that its H.M.O.'s were profiting handsomely by collecting per-capita fees for healthy employees who needed little care, leaving those with expensive problems in traditional health plans. As a result, Honeywell's overall medical costs kept rising. Later, the company joined with other big employers in Minnesota in a health care-buying group.

Some experts say Medicare payments to H.M.O.'s should be adjusted to reflect the health of the patients covered, so the H.M.O.'s would lose interest in cherry-picking.

LESSON 4: Establish quality standards and issue "report cards" to

Private employers demand a cut of H.M.O. savings. Medicare doesn't.

insure that H.M.O.'s are not cutting corners.

Last year, for instance, the Pacific Business Group on Health, comprising 28 big California employers, published a "consumer satisfaction report card." Seventeen H.M.O.'s were graded from C- to A+ on services including treatment by doctors and hospitals and counseling and screening for diseases. Most received B's and C's. Employees could consult the grades as they chose an H.M.O.

Medicare has a much less effective review system. The main performance incentive for H.M.O.'s serving Medicare patients is the knowledge that unhappy members can leave at any time and return to the traditional Medicare system.

In a step toward establishing standards for Medicare H.M.O.'s, the National Committee for Quality Assurance, an accrediting group, has begun scrutinizing H.M.O.'s serving elderly patients. Some in Florida, operated by Humana Inc., did not pass muster. The company says it has made changes and plans to try again.

LESSON 5: Communicate clearly with patients and be open to complaints.

Many employers provide "800" numbers and ombudsmen to answer questions and thwart skimping on needed care. Medicare officials said they were planning an "800" number, but complaints must now be filed through a cumbersome appeals process.

Communication is important because joining an H.M.O. is a "very emotional decision and change for folks," said Jim Bronson, employee benefits director of Sears, Roebuck & Company, which has been promoting H.M.O.'s for retirees on Medicare as a way to reduce its own costs.

Mary Jane England, a psychiatrist who is president of the Washington Business Group on Health, said many elderly Americans could benefit by joining an H.M.O. For example, an H.M.O. can direct them to the right combination of outpatient and home-care services and remind them to take their drugs regularly for high blood pressure and other ailments. She said H.M.O.'s also eliminated the tedious paperwork faced by traditional Medicare patients.

LESSON 6: Encourage H.M.O.'s to pay attention to the special needs of the elderly.

New eyeglasses, for example, may prevent a fall and a costly broken hip. Flu shots can prevent costly hospital stays. Ms. Darling of Xerox said Medicare H.M.O.'s should hire specialists with the patience to hear out complaints that can often seem long-winded.

LESSON 7: Don't set rules in concrete.

David Scherb, chairman of the Washington business group and a vice president of PepsiCo Inc., recalled that his company once required a second doctor's recommendation before authorizing surgery. But the doctors rarely disagreed. "We've changed our minds about requiring that," he said.

THE PRESIDENT HAS SEEN
6/15/95

LESSON 8: Allow people to go to a doctor who is not in the H.M.O. network, if they are willing to pay for the privilege.

Health plans with that option were the fastest-growing of all types of employer plans last year. Patients could "keep the surgeon they always had for cardiac problems, but they could get the rest of their care through a more tightly managed system," said Stuart Butler, a domestic policy analyst at the Heritage Foundation.

Gail Wilensky, who ran the Medicare program during the Bush Administration, said that offering such options was "one of the most important lessons that the private sector has shown us."

THE NEW YORK TIMES, WEDNESDAY, MAY 31, 1995

690-1755

THE PRESIDENT HAS SEEN
6/15/95

MEMORANDUM

TO: THE PRESIDENT
FROM: FRANK GREER
DATE: JUNE 14, 1995
CC: LEON PANETTA
ERSKINE BOWLES
HAROLD ICKES
MARK GEARAN
MIKE MCCURRY
GEORGE STEPHANOPOULOS
DON BAER
RE: BALANCED BUDGET SPEECH

To VP/BAER
Lagu in this
re: Message

I have no quarrel with the substance of your proposal to balance the budget. It's actually bold, commendable, compassionate and courageous. A fine effort and the right thing to do.

And, even though I have some disagreement with the timing which I've expressed to you, that is really not my major concern.

The real problem was the message or lack thereof. The facts and details were there, but no context, no rational, no theme, no message, no music... Why didn't we talk about "Restoring the American Dream," "Building a better future for our children," "Putting People First"... something ... anything.

There was no hope and inspiration and nothing that sounded visionary or Presidential.

If anything, the Dan Rather intro and the close of Bob Dole's response was more inspiring and uplifting ... and Presidential.

We need to get back to a theme -- "Restoring the American Dream," "Lifting up the Middle Class," "Opportunity and Responsibility," "Making America work for the

forgotten Middle Class," etc. -- a message that provides the American people with a context and a sense of hope and inspiration. It was sadly missing.

Also the opening delivery and the extreme wide shot at the beginning made you seem small and hurried and more like a policy wonk than a President.

When we have an opportunity like this -- with the whole country watching -- we should do better.

As you know, I'd be glad to discuss or help in any way I can.

6/15/95

6 June 1995

THE PRESIDENT
THE VICE PRESIDENT
LEON PANETTA
MARK GEARAN

HAROLD ICKES *ND*

"These are the Days" video by Mandy Grunwald

As you know, the Re-elect would like to update this video to use at its fundraisers. The DNC would also have access to it. The total cost to update is estimated at \$20,000, which, as I understand it, would be split between the Re-elect and the DNC.

Please let me know which areas should be redone.

Erwin
Pls handle per
our discussion
B.
human
Shirley Ann Swannick
along w/ new spec for
a group of notes —
BZ

FROM : GRUNWALD,ESKEW&DONILON

TEL: 202 973 9408

MAY.30.1995 3:31 PM P 2

"These Are the Days"**VIDEO:**

Chyron: January 20, 1993
Clinton swearing in

Crowd cheering

Clinton speaking at the Inauguration

Crowd cheering. Inaugural parade.

Clinton speaking to Joint Session of Congress
2/17/93

Crowd shots

B-roll of industrial workers
Headline: "Clintonomics Starts to get some
Results"

AUDIO:

CLINTON: I, William Jefferson Clinton do solemnly swear that I will faithfully execute the office of the President of the United States of America.

Our democracy must be not only the envy of the world but the engine of our renewal.

There is nothing wrong with America that cannot be cured by what is right with America.

Tonight I ask everyone in this chamber and every American...
to look simply into your own heart -- to spark your own hopes, to fire your own imagination.

There is so much good, so much possibility so much excitement in this country that if we act boldly and honestly, as leaders should, our legacy will be one of prosperity and progress. This must be America's new direction. Let us summon the courage to seize it.

For all the many tasks that require our attention, I believe tonight one calls us to focus, to unite and to act, and that is our economy.

For more than anything else, our task for tonight as Americans is to make our economy thrive again.

FROM : GRUNWALD,ESKEW&DONILON

TEL: 202 973 9408

MAY.30.1995 3:31 PM P 3

Clinton at South Lawn signing of 1993 Budget
Headline: "Dow rises 7.59 points, reaching
Another High"

Headline: "Inflation rate up only 2.7% in 1993,
Retail Sales Strong"

Unemployment drops to 6.4%

Headline: "Rates Boost housing starts to 4 year
high"

Headline: "Consumer Spirits Brighten"

Clinton on White House Lawn for Family
Leave Bill

Headline: Clinton Signs Family Leave Bill
into Law

Clinton signs Family Leave Bill

Headline: "National Service Initiative now
Law"

Shot of National Service participant

Clinton on the lawn with National Service
participants
Clinton at White House during signing of
National Service initiative.

Clinton signs bill.

Headline: " Motor Voter bill Speeds through
House"

CLINTON: We are taking steps necessary and
long overdue to renew our American dream --
to restore confidence in our own ability and to
take charge of our own affairs.

FEMALE: In times of family crisis, people
should not have to worry about keeping their
jobs. They should not be forced to choose
between their loved ones and the jobs they
need. Thanks to President Clinton other
families will not have to face the terrible
choice.

NATIONAL SERVICE PARTICIPANT: This
summer I had the opportunity to direct one of
President Clinton's summer of service sites. It
was one of the most rewarding and exciting
experiences I've ever been a part of.

The young people of America will preserve the
freedom of America, for themselves and for all
of those of their generations by assuming the
responsibility of rebuilding the American
dream.

FROM : GRUNWALD,ESKEW&DONILON

TEL: 202 973 9408

MAY. 30. 1995 3:32 PM P 5

Headline: "Clinton Hails Courage of citizens as
he signs flood assistance bill"

B-roll of Clinton with flood relief workers

Headline: "Destructive Quake Shakes Los
Angeles -- at least 27 Die, hundreds are
injured"

B-roll of construction rebuilding highway

Headline: "FEMA to stay in LA Until Needs
are Met"

Clinton with construction workers

Headline: "Clinton asks backing for sweeping
change in the health system"

Clinton speaking to Jt. Session on Health Care
Reform Sept. 22, 1993

CLINTON: Our history and our heritage tell
us that we can meet this challenge.

The First Lady's testimony to Congress

HRC: When the President began this journey
he was committed to a simple principle. To
build on what works in our current system and
to fix what is broken.

Clinton speaking to Joint Session of Congress
Sept. 22, 1993

CLINTON: So I say to you, let us write that
new chapter in the American story. Let us
guarantee every American comprehensive
health benefits that can never be taken away.

Headline: "Clinton Makes Emotional Plea
Against Crime"

Clinton speaking in Memphis

CLINTON: Unless we do something about
crime and violence, drugs that are ravaging our
community, we will not be able to repair this
country.

Headline: "Clinton Puts focus on Crime Crisis
Brady Bill Signing"

POLICE OFFICERS WIFE: 2 police officers
came to where I was working and informed me
that my husband had been shot and killed while
eating lunch in a food court in a mall in
Atlanta. The Brady Bill could have saved my
husbands life.

FROM : GRUNWALD,ESKEW&DONTILON

TEL: 202 973 9408

MAY. 30. 1995 3:32 PM P 4

B-roll Clinton at Motor Voter signing

Headline: Clinton embraces Gore Blueprint to trim government

Clinton and past presidents enter for the NAFTA signing

Headline: Israel and PLO Sign Peace Pact
Clinton at the Peace Signing

Rabin and Arafat shaking hands

CLINTON: Together, today, with all our hearts and all our souls we bid them Shalom, Salaam, Peace.

B-roll of Air Force One taking off with headline:
Clinton Shows his Style, Skill on Summits World Stage"

Headline: "Tokyo Talks Yield Trade Breakthrough"

Clinton shaking hands with Japanese crowd

G-7 Shot

B-roll of Air Force One taking off with headline: "US Partnership Approach Attracts Four E. Europe States"

B-roll of Clinton and Yelstin

Headline: "Ukraine Agrees to Relinquish Nuclear Arms"

Clinton and Yelstin shaking hands

Headline: Clinton Pledges US Support to Russia's revival

B-roll of Clinton in Russia

Aerial footage of the flooding in St. Louis

To Alex's (cc: Cawr)

- ① Fyl - might want to write him to July West
- ② need a Ty letter to him for this — Bx.

THE PRESIDENT HAS SEEN
6/15/95

Jim Doeskin d
to coordinate
reply

THE PRESIDENT HAS SEEN
6/15/95

VIOLENCE AND OTHER PROBLEMS: A PREVENTIVE APPROACH
Daniel Goleman, Ph.D. for Bill Clinton

In my duties at the New York Times (where I cover behavioral and brain sciences) and while researching the enclosed book (EMOTIONAL INTELLIGENCE) I've run across some findings that may be important in your thinking on decisions in the next few weeks.

There is a quiet crisis among America's children, a malaise that registers on our collective radar in rising rates of violence, teen pregnancy, substance abuse and the like. But the roots--and some hopeful solutions--go deeper than these problems: at cause is a growing and pervasive deficiency in basic emotional and social competencies like impulse control, emotional management, empathy, settling conflicts and cooperation.

The data showing this underlying decline are very strong (but little known). A national study in which parents and teachers rated the behavior of a random national sample of more than 10,000 children--first in the mid-1970s and again in the late 1980s--found that over the intervening decade and a half children declined in 42 key indicators. They were, on average, more impulsive and mean, more demanding and disobedient, more aggressive, hot-tempered and prone to lie and cheat, more anxious and lonely, more stubborn and withdrawn.

No one problem stood out; all got steadily worse. While scores were worst among the most impoverished children, the rate of decline was as great in the wealthiest suburbs as in the inner cities. This signals a toxic sea change among our children, a decline certainly as troubling, or more so, than any dip in SAT scores. But unlike for IQ (as argued in The Bell Curve), the outlook is hopeful: there is strong evidence that emotional competencies can be taught to children, and that doing so reverses these ominous trends.

These emotional deficits are the seeds in a child's life of the problems that alarm us so--violence, substance abuse and so on. Careful longitudinal studies now document that the life trajectory toward such problems invariably includes deficits in one or another (or many) of these basic emotional competencies. Boys who are highly impulsive as second-graders, for example, are six to eight times more likely than others to have a criminal record as teenagers--impulsive girls, on the other hand, are three times more likely to become pregnant during their teen years.

Helping children learn to overcome such deficits inoculates them against the risks. An impartial evaluation of prevention programs by a consortium organized by the W.T. Grant Foundation found that many widely used programs to prevent drug use and such

were ineffective. Those that had good effects all built on a base of cultivating children's emotional and social competencies--teaching impulse control, anger management, and the like. In breadth and effect they go way beyond the standard drug- or violence-prevention programs that are currently the norm.

I've been tracking a handful of pioneering schools that teach emotional literacy. The best ones begin in kindergarten (and should one day include Head Start) and continue through 12th grade, teaching these lessons over and over in new ways as children develop. That way, when children learn about resisting specific pressures for sex or drugs, or want to avoid a fight, they have a strong base in skills like thinking before acting, managing anger or anxiety, and generating alternative responses with better outcomes.

I've been sitting in on such classes in the New Haven public schools, where a Yale group developed a "Life Skills" course taught K-12 to all 18,000 students. New Haven, as you know, is ridden with the urban plagues of our time: 50% of 8th graders never finish high school; the highest rate of pediatric AIDS in the country; the modal time for a teenage girl to get pregnant is the summer after eighth grade. The senior class at one high school has had seven shooting deaths among its members.

But these classes are offering hope for turning back some of these ominous tides. Students there tell me of times when they have used these lessons in their own lives, most often to avoid fights, but also to resist pressures to steal, take drugs, or have sex. There were 102 suspensions (most for fights) in one middle school last year--with two months left in the year, it was just 40.

More to the point, I've found about a half dozen well-designed and well-evaluated emotional literacy programs. The outcome data is heartening: these courses reverse the decline. Children in the courses become better at: recognizing feelings, impulse control, managing anger and anxiety, thinking before they act, staying on task and pursuing goals, empathy, sharing and cooperating, handling conflicts and communicating. Delinquency, fights and drug use drops, and students behave better in class. An added bonus: they learn better, with rising achievement test scores. [For more detail on outcomes, see Appendix F in my book.]

If we cannot in our lifetime reverse the larger social and economic forces that put our children at such risk, we can at least do a better job of giving them the tools to navigate life. The best point of leverage is the schools, the one place you can reach all children. Emotional literacy programs are still rare in America's schools, though this course may be one of the most important for our children's future. The Yale Child Studies Center

DETERMINED TO BE AN ADMINISTRATIVE

MARKING INITIALS: MI DATE: 1/29/14

218-0667-5

EMOTIONAL LITERACY

~~[CONFIDENTIAL--To appear in the New York Times Magazine]~~

THE poster seems inescapable at New Haven's East Rock School, enshrined on the wall of virtually every classroom. Alongside the red-yellow-green image of a traffic signal, the text reads:

"When you have a problem...
STOP, CALM DOWN, THINK before you act
Say the PROBLEM and how you FEEL
Find a POSITIVE GOAL
Think of lots of SOLUTIONS
Think ahead to the CONSEQUENCES
Go ahead and TRY THE BEST PLAN."

It's in the air at East Rock. The kids call it "the stoplight" or "think-before-you-act." Teachers invoke the stoplight when a student frets about a problem like being left out of a game or some dispute. Sal Punzo, the school principal, drills home the concept when he talks to kids sent to his office for discipline, running them through other ways they might have handled whatever it was that got them in trouble. Kids caution each other about "think-before-you-act" when tempers flare in the rough-and-tumble of the playground and halls.

Part of an innovative urban experiment in emotional education, the stoplight poster urges impulse control--it's a prop in "Life Skills" classes students get three times a week. Designed to take little or no time away from academics, the classes take about a half hour during time that would otherwise go to electives. In some grades they are part of courses like health, P.E., and even math, for study skills.

All of New Haven's 19,000 public school students, kindergarteners through seniors, are part of this experiment in giving children emotional lessons as well as the usual academic ones. Designed five years ago by a group of Yale psychologists at the urgent request of the then-superintendent, who was desperate about skyrocketing rates of problems like dropouts, fights, and teen pregnancies, the New Haven program already has parallels in a scattering of schools from New Jersey to California, and the numbers are rising. Quite separate from values education, the movement focuses on inculcating social and emotional skills rather than an enquiry into attitudes.

The need to build children's emotional capabilities is felt most everywhere, not just impoverished neighborhoods like the one East Rock serves: national studies show a marked decline among America's children in these abilities, including climbing rates of impulsivity.

This emotional literacy movement comes at a time when new insights into brain development are offering a neurological rationale for the approach. Neuroscientists now realize that the centers that regulate emotional response are among the last parts

of the brain to reach full maturity, sometime in mid-to-late adolescence. The repeated experiences of a child's life literally shape the emotional circuitry, neuroscientists say, cautioning that we leave this sculpting to chance at our own peril.

THE spotlight poster is prominent on the wall of Sue Fineman's classroom, where she teaches Life Skills to a group of seventh-graders. Fineman has the endearing flutteriness of Olive Oyl as she leads her class through their responses to a hypothetical situation: "Someone bumps into you and knocks your books out of your hand. How can you prevent a problem?"

Cory, a shy, plumpish girl, ventures, "You could say, Would you please pick them up..." Then, sheepishly, retracts it: "Maybe that would make it worse."

Adrielle, thick-set and stocky, suggests instead, "Try, Excuse me, you knocked my books out of my hand. Could you help me pick them up?"

Ebie, a demure Heloise lookalike, proposes, "You could just ignore them and pick up the books yourself."

Fineman praises their answers with, "That's great, you didn't accuse them. These are all answers that would de-escalate things."

What students learn in such Life Skills classes can perhaps best be summed up as "emotional intelligence," a term coined by Dr. Peter Salovey, a psychologist whose Yale office is a ten minute drive--and a universe away--from East Rock. Salovey, whose thick bandido mustache gives him a casual air, came up with the concept in 1990 to cover a set of emotional and social competences that matter immensely for the course of life, but are ignored in the usual focus on intellectual abilities.

Emotional intelligence, in Salovey's rather academic definition, includes the skill with which people can identify and handle their own feelings and those of others, and motivate themselves effectively. Within that abstract framework fall such vital human capacities as self-awareness, anger management and impulse control, perseverance, empathy and social skill.

Regulated by circuitry running between the prefrontal lobes behind the forehead and the limbic centers deep in the brain, these emotional capacities are, neurologically speaking, independent of the higher neocortical intelligences measured by IQ tests, such as verbal fluency.

Though the limbic centers, the source of emotional impulse, are largely developed by the time a child reaches puberty, the connections to areas of the prefrontal lobes that are the source of emotional self-control and artful response continue to develop into late adolescence, sometime between 16 and 18 years of age.

In this continuing development it is not that new neurons are added, "but the number of synapses"--the connections between brain cells--"that continue to increase," explains Dr. Pasko Rakic, chairman of the section on neurobiology at Yale Medical School. Dr. Rakic, a developmental neurobiologist, studies how the brain takes shape as cells migrate to their positions and send out synaptic connections to form circuits to other cells.

The two tools the brain uses to sculpt itself are hormones and experience. "Emotional learning, like all other learning, strengthens synaptic connections," Dr. Rakic explains in his thick Hungarian (ck) accent. "The more an emotional lesson is repeated, the stronger the connection--that's why training and repetition helps in mastering any skill."

Evidence for how emotional circuitry can be shaped by experiences during childhood has only recently been coming to light. One source is Dr. Jerome Kagan, the eminent developmental psychologist at Harvard, who studies shyness. He traces a timid temperament to over-reactive circuitry in the amygdala, a key structure in the limbic brain. The fearfulness of new people that underlies shyness in children, Kagan proposes, is due to their having a hair-trigger amygdala that too-readily floods them with anxiety when they confront the unfamiliar.

But, Kagan has found, temperament is not destiny. About four in every ten infants who come into the world with all the signs of an overexcitable amygdala have lost their timidity by the time they reach kindergarten. From observations in children's homes, Kagan's research team discovered that the mothers of these now-bolder children had put gentle pressure on them to face uncertainty and be more outgoing--thus giving the child repeated small chances to practice a bolder approach to life--while mothers of the children who stayed timid catered to the fearfulness, keeping the child from the chance to practice mastering apprehension.

Neuroscientists contend that such emotional lessons, when repeated consistently and over the years, will shape a child's brain circuitry, making the responses learned more likely options during the moments they are needed most, in the throes of anger or angst.

THE concrete payoff for emotional learning is to be seen in the changing lives of students like Israel Vega, a Puerto Rican eighth-grader who, wearing a t-shirt and baggy jeans slung midhip in gravity-defying gangsta-style, resembles a younger, crewcut version of Lou Diamond Phillips in "Stand and Deliver."

East Rock School abuts the sidewalk with a forbidding, windowless wall, a design suggesting a defensive posture against the crime and violence of these New Haven neighborhoods. But once inside the tone is warmer. The walls are hung with banners proclaiming, "Parents, teachers, students together," and "East Rock Welcomes You," part of a citywide campaign to get parents and neighbors to drop by, help out, and get involved in their schools.

Israel is sitting outside the cheery greenhouse across the hall from the main office, which divides the wing for the school's lower grades from the wing for its middle school. Gaggles of tiny first-graders run off in one direction, gangly adolescents lope off in the other.

Recalling his unhappy fifth grade year at St. Rose, a Catholic School, Israel says, "The first day at that school, the teacher screamed at me, and I never got along with anybody after that. I felt a lot of tension--I talked back to the teacher all the time.

I was rude and wild." There were many days he was sent to the principal's office and sat for hours in the hallway playing a pocket video game.

In sixth grade Israel transferred to East Rock and was put in special education classes, the track for kids too unruly or slow to keep up in regular courses, and often a way station to dropping out. But the class he says made the big difference for him wasn't special ed, but "Life Skills," where, as he puts it earnestly, "I learned to handle stress and stuff."

Israel's father, a "bad alcoholic," would disappear for days on end; his Mom "was worried all the time." At school, Israel recalls, "I was always mad in those days. But they taught me in Life Skills that when you feel upset, you gotta take time to calm down--breathe, relax--then think of what to do before you act. That set me straight--I really used it."

IT'S Israel's advisory class, the 25-minute period where matters like Red Cross drives and the coming transition to high school are taken care of. Friday is game day, and Israel and a buddy are slumped in beanbag chairs, their backs against the wall, engrossed in tic-tac-toe.

Amy Clark, Israel's advisory teacher, was also his special education teacher. She remembers when Israel first came to East Rock. "Back then Israel was very distracted and irritable. But now he's cooled down. He has a slight learning disability that comes out in his writing, but he's fulltime in regular classes now."

In fact, as he finishes 8th grade, Israel is an honors student--a huge leap for someone from special ed. Israel again attributes this academic turnaround to his Life Skills class, where another boon was learning to better handle the burden of anxiety from his family troubles.

"I was feeling so tense at home back then," he says, his brow furrowing. "But I learned that if I went out and played basketball or did somethng else I really liked, it would cool me out. Before I'd just sit at home and watch TV or something, but it wouldn't make me feel any better. I wouldn't have figured that out without the Life Skills class."

This knack of soothing oneself is a crucial emotional skill; it can be monitored by the activity of the vagus nerve, which at one end regulates the heart and at the other sends signals to the amygdala from the adrenals, prompting it to secrete the catecholamines, which prime the fight-or-flight response. A University of Washington team that observed parents and children interacting has discovered that repeated experience can lead to an improvement in children's vagal nerve functioning.

The improvement was found in children of parents who used the child's upsets as an opportunity to act as emotional coaches. These parents put into action many of the same lessons used in emotional literacy courses. For example, they helped their child recognize that while all feelings are okay, not all actions are, and talked through alternatives to hitting, or withdrawing in spite

because of hurt feelings.

Could something so basic as learning how to calm broiling emotions have a role in Israel's change in academic fortune? It just might. One reason is coming to light across town, at Yale Medical School, where Dr. Patricia Goldman-Rakic--Dr. Pasko Rakic's wife--is holding a chart showing the activity of a single neuron in the prefrontal cortex of a rhesus monkey, primates being a universal surrogate in neuroscience for the harder-to-study human brain. These prefrontal cells are critical in working memory, the ability to temporarily hold in mind the information relevant for a task at hand. Working memory is the bedrock ability in cognition; it makes possible all intellectual efforts, from reading a sentence to thinking through the consequences of an action.

This neuron, monitored by a micro-electrode placed with exquisite precision, is a specialist in memory of locations; it bristles with activity while the monkey tracks and holds in mind the location of a brief flash of light on a TV monitor. But then the monkey's brain is injected with a drug that in effect mimics the action of dopamine, a brain chemical naturally secreted during anxiety. With that chemical bath the neuron's activity subsides drastically, impairing thinking and memory as the monkey struggles to monitor the location.

"This is akin to what happens when a student is under acute stress, when these cells are flooded with dopamine," explains Dr. Goldman-Rakic. "When there's too much dopamine, it shuts down the cell."

The prefrontal lobe's vulnerability to the biochemistry of distress suggests a neural mechanism for just why, when we are upset, we can't think straight. Everything we have learned is accessed through working memory; a difficulty here interferes directly with a child's very ability to think. The discoveries in Dr. Goldman-Rakic's laboratory suggest in neural terms why enabling children like Israel to handle their distress might make them better learners.

It helps explain, too, a consistent finding on emotional literacy programs like Life Skills: apart from any behavioral changes, students' achievement scores and academic performance in school improve. An unanticipated payoff from the curriculum in the emotions appears to be that because it helps children learn better, the schools are more effective in their central mission, education.

IN a day when we seem obsessed with IQ, the emotional literacy movement redirects attention to a set of human capacities that arguably can matter as much or more for how people fare in life, but are now in startling decline. The most striking evidence for this decline comes from a University of Vermont study done in the mid-1970s, and repeated in the late 1980s, when tens of thousands of children across America were assessed by their teachers and parents on a widely-used measure of social and emotional adjustment.

The study documented a marked drop in emotional intelligence.

Over the course of 15 years, American children, on average, had gotten worse on 42 indicators, including being more anxious and depressed, more impulsive and mean, more demanding and disobedient, more angry and aggressive.

While there may be some small comfort for middle-class parents in thinking of these problems as centering in beleaguered neighborhoods like Israel Vega's, the survey found growing deficits even among the children of our wealthiest suburbs. Although scores were worst for the poorest children, the rate of decline over 15 years was the same for all children, privileged and impoverished alike.

This across-the-board drop in children's emotional intelligence may be a more troubling social trend than any dip in SAT scores. But the trend need not be downward; emotional intelligence can be learned. Its ingredients, such as managing anger and anxiety, reading others' feelings with empathy, or moderating impulse by thinking first of consequence, are at the heart of the Life Skills lessons that helped Israel so much.

Nowhere are these abilities more wanting than in New Haven, a city of dying industries and endemic poverty. White flight to the suburbs and private schooling means public school students are 85 percent minority, half black, about a quarter Hispanic. In recent years the odds an 8th-grader like Israel would graduate from high school were just 50-50. The city has the fourth highest teen pregnancy rate in the country; a quarter of sixth-graders have had intercourse. New Haven has the highest rate of pediatric AIDS in the country. Drugdealers are the local heroes, the most visible models for success in many parts of town.

Today the New Haven schools, now in the fifth year of this experiment in helping children survive these ominous tides, is perhaps the only school district in America--certainly the only one of its size--where all students are methodically schooled in the human skills deemed essential for resisting the centripetal forces of destruction they face.

"It turns out it doesn't matter which specific problem a kid ends up with," says Karol DeFalco, who oversees the program in elementary and middle grades. "They all share a core of deficits, including being poor at impulse control, at solving problems in their lives, at managing stress and emotions like anger, and in empathy and cooperation. This curriculum was designed to help build these skills."

Just how much all this matters, though, is hard to assess. The first class of New Haven seniors who have had this curriculum from kindergarten onward will not graduate for eight more years. But if you ask Sal Punzo, the energetic, wiry principal at East Rock, he'll tell you there has been a gradual improvement in the tone of the school and a decline in the numbers of middle school students sent to him for discipline: last year by his count the total was 176 referrals, this year, with two months left, the number is down to 99.

Some bright spots are emerging in a just-completed study comparing 1992 and 1994: a 5% drop in sexual intercourse among

sixth-graders, an 11% drop for sixth-graders and 8% decline for 8th-graders in fights, a five percent rise in 10th-graders who think they will finish high school. The dropout rate among high school students has fallen from about 15 percent per year to 12 percent. But "even though these are the areas the program is designed to help, there are many other potential causes for these changes," cautions Dr. Mary Schwab-Stone, a psychiatrist at the Yale Child Studies Center who directs the Collaborative for the Advancement of Social and Emotional Learning, which helps spread emotional literacy programs.

Emotional literacy courses make explicit what has always been an implicit role for schools, socializing our young. It means, in effect, methodically giving students greater wherewithal for a fourth 'R'--responsibility. That expanded vision of what schools are for may have added appeal in a day when calls for responsibility ring ever louder. Since it helps children learn better, emotional literacy can be seen not as an intrusion, but as a missing piece in schools' central mission, to educate. And, at \$25 per student each year, it may be one of those bargain ounces of prevention.

TODAY there is a special event at East Rock, the awarding of \$1,000, donated by the Peoples Bank, to four charities a student group have chosen from a field of several dozen. During the group's deliberations Israel spontaneously took the lead in questioning representatives of candidates like hospices and homeless shelters. And Israel was the one selected by his fellow students to make the presentations at the awards ceremony.

Poised, Israel reads from an index card, "The New Haven Animal Shelter is dedicated to the care of helpless animals..."

The only sign of Israel's nervousness is his pursed lips as he poses to have his picture taken by a newspaper photographer, while he and other students hold a poster-sized check for \$250 made out to the animal shelter. With aplomb he goes through the same routine awarding grants to an AIDS project, a soup kitchen, and a hospice.

Israel's moment in the spotlight is lightyears from that forlorn fifth-grader brooding over a pocket video game in the hallway of his old school. If Israel is right, he owes this turnaround to his sixth grade Life Skills class. But is reversing the tide that simple?

Certainly no one would claim that any class is enough to transform the economics and culture of neighborhoods where children born to unwed teenagers see dealing drugs as the readiest road to wealth, and violence as having decided survival value.

While it is too early to say for New Haven what the precise impact is on children's lives, there is promising news from the handful of careful comparisons done on more modest pilot programs in emotional literacy in other parts of the country. They show marked improvements in key elements of emotional intelligence like impulse control and managing anger and anxiety, empathy and sensitivity to others' perspectives, resolving conflicts and

cooperation.

One issue, of course, is whether schools should be doing this at all. Sue Fineman, who teaches Life Skills to seventh-graders, is ambivalent: "I'm about as conservative a Republican as you can find, and when I first heard I had to teach Life Skills, I didn't want to. But too many kids have no training in these skills, and so many things are getting them off track. I've changed--I see a positive attitude emerging in these kids."

Still, Fineman has her reservations; Life Skills is not magic. "I may never know if this makes a difference for a given child," Fineman adds with a philosophic sigh. "There are too many outside influences in their lives besides me--home, other kids, maturation. One of my students who has temper tantrums can come up with elegant solutions for this in class. But does he do what he knows he should all the time? No. Do I? Do you?"

Perhaps the most compelling testimony comes from students like Israel, who says the think-before-you-act principle helped him most with avoiding fights, something the once often-angry youth had not shied away from. Now, he says, when people pick fights he tries to ignore them. Still, Israel admits to having been suspended once for fighting; he claims that when he tried to walk away his antagonist jumped him from behind. Israel adds, ruefully, "This stuff doesn't work every time."

Withdrawal/Redaction Sheet

Clinton Library

DOCUMENT NO. AND TYPE	SUBJECT/TITLE	DATE	RESTRICTION
001. memo	Harold Ickes to POTUS re: July Direct Mail Package (2 pages)	06/08/1995	Personal Misfile

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Clinton Presidential Records
Staff Secretary
John Podesta (Chron Files)
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FOLDER TITLE:

June 11-17, 1995 [1]

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RESTRICTION CODES

Presidential Records Act - [44 U.S.C. 2204(a)]

- P1 National Security Classified Information [(a)(1) of the PRA]
- P2 Relating to the appointment to Federal office [(a)(2) of the PRA]
- P3 Release would violate a Federal statute [(a)(3) of the PRA]
- P4 Release would disclose trade secrets or confidential commercial or financial information [(a)(4) of the PRA]
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Freedom of Information Act - [5 U.S.C. 552(b)]

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- b(7) Release would disclose information compiled for law enforcement purposes [(b)(7) of the FOIA]
- b(8) Release would disclose information concerning the regulation of financial institutions [(b)(8) of the FOIA]
- b(9) Release would disclose geological or geophysical information concerning wells [(b)(9) of the FOIA]

Gene Sperling

THE PRESIDENT HAS SEEN
6/15/95

THE REPUBLICAN HOUSE BUDGET CUTS

MEDICARE AND MEDICAID GROWTH CAN BE SLOWED DOWN BUT THERE IS A RIGHT WAY AND A WRONG WAY TO DO IT. CURRENT REPUBLICAN PROPOSALS ARE THE WRONG WAY BECAUSE THEY WOULD:

- MAKE NECESSARY HEALTH CARE UNAFFORDABLE AND IN SOME CASES UNAVAILABLE FOR TOO MANY OF OUR MOST VULNERABLE ELDERLY AND THEIR FAMILIES
- JEOPARDIZE THE QUALITY OF OUR HEALTH CARE SYSTEM
- DESTROY THE HEALTH CARE INFRASTRUCTURE IN MANY OF OUR URBAN AND RURAL AREAS
- INCREASE THE NUMBER OF UNINSURED AMERICANS, PARTICULARLY UNINSURED CHILDREN.
- BREAK OUR COMPACT WITH MANY OF OUR DISABLED MEDICALLY INDIGENT VETERANS

**MAKE NECESSARY HEALTH CARE UNAFFORDABLE
OR EVEN UNAVAILABLE FOR MANY ELDERLY**

INCREASING PREMIUMS, COPAYS AND DEDUCTIBLES BY \$123 BILLION FOR HOME CARE, LAB SERVICES AND PHYSICIAN CARE WILL MAKE HEALTH CARE UNAFFORDABLE FOR OUR FRAIL ELDERLY AND THEIR FAMILIES. THE FINANCIAL BURDEN OF A CHRONICALLY ILL OLDER PARENT ALREADY STRAINS MANY FAMILY BUDGETS AND CAN CREATE TERRIBLE TENSION FOR FAMILIES WHERE BOTH CHILDREN ARE WORKING. FOR ELDERLY WHO ARE ON THEIR OWN, THE INCREASED COSTS MAY MEAN THAT THEY SIMPLY WILL NOT BE CARED FOR.

VOUCHER PROGRAMS WHICH ALLOW DIFFERENT BENEFIT PACKAGES WILL INCREASE DISCRIMINATION AGAINST OUR MOST VULNERABLE SENIORS AS INSURERS WILL DESIGN THEIR BENEFITS PACKAGES TO ATTRACT ONLY YOUNGER, HEALTHIER PEOPLE. AS THESE YOUNGER AND HEALTHIER SENIORS OPT FOR THE LOWER RATE PACKAGES, THE COSTS TO MORE VULNERABLE ELDERLY WILL SKYROCKET, ASSUMING THEY CAN GET INSURANCE AT ALL.

MEDICARE ALREADY PAYS HOSPITALS AND DOCTORS LOWER RATES THAN PRIVATE INSURERS IN MANY AREAS. SLASHING THESE RATES EVEN FURTHER WILL CAUSE HOSPITALS TO RELEASE PREMATURELY MANY SICK ELDERLY PATIENTS AND WILL CAUSE MANY DOCTORS TO REFUSE TO SEE MEDICARE PATIENTS.

MANY HOSPITALS WHICH SERVE PRIMARILY ELDERLY COMMUNITIES WILL SEE REDUCED REVENUES. MANY WILL ALSO SUFFER FROM LOWER MEDICAID PAYMENT RATES AND INCREASED CALLS FOR CHARITY CARE AS THE NUMBER OF UNINSURED INCREASES. THIS WILL LEAVE MANY PEOPLE WITHOUT ACCESS TO CARE WHERE THEY LIVE.

SERIOUSLY JEOPARDIZE QUALITY

OUR ACADEMIC MEDICAL CENTERS PLAY A CRUCIAL ROLE IN GUARANTEEING THE QUALITY OF OUR HEALTH CARE SYSTEM THROUGH THEIR TEACHING, TRAINING, RESEARCH AND CLINICAL TRIAL PROGRAMS.

MANY OF OUR ACADEMIC CENTERS ARE ALREADY UNDER GREAT STRAIN BECAUSE MANAGED CARE COMPANIES WON'T PAY THE HIGHER PRICES THAT THEY HAVE TRADITIONALLY CHARGED TO SUPPORT TEACHING AND RESEARCH.

THE \$27 BILLION IN CUTS PROPOSED IN MEDICARE EDUCATION FUNDING, CUTS IN THE NIH RESEARCH BUDGET AND CUTS IN MEDICAID (SINCE MANY OF THESE INSTITUTIONS ARE IN URBAN AREAS WITH HIGH MEDICAID POPULATIONS), WILL DESTROY MANY OF OUR FINEST TEACHING HOSPITALS AND CAUSE OTHERS TO CURTAIL TEACHING AND RESEARCH TO SUCH A GREAT EXTENT THAT THE FUTURE QUALITY OF AMERICAN HEALTH CARE WILL BE JEOPARDIZED.

DESTROYING THE HEALTH CARE INFRASTRUCTURE IN UNDERSERVED AREAS

AMERICA ALREADY HAS A TWO TIER HEALTH SYSTEM WITH THE WORLD'S BEST HEALTH CARE SERVICES FOR THOSE WITH GOOD HEALTH INSURANCE AND INADEQUATE SERVICES FOR THOSE WITHOUT INSURANCE OR THOSE WHO LIVE IN RURAL AND URBAN UNDERSERVED AREAS.

TODAY, HOSPITALS IN THESE UNDERSERVED AREAS CAN BARELY AFFORD TO KEEP THEIR DOORS OPEN WHILE THOSE IN AFFLUENT SUBURBS ARE HIGHLY PROFITABLE.

THE REPUBLICAN MEDICARE PROPOSALS CUT OVER \$31.2 BILLION IN MEDICARE FUNDS WHICH ARE DIRECTED SOLELY TO INSTITUTIONS IN UNDERSERVED AREAS. AN ADDITIONAL \$47 BILLION IN GENERAL HOSPITAL CUTS WILL FALL MOST HEAVILY ON THOSE INSTITUTIONS SINCE THEY TEND TO HAVE A HIGHER PROPORTION OF MEDICARE PATIENTS. THESE COMBINED WITH DRAMATIC MEDICAID CUTS WILL DOOM MANY OF OUR NATION'S HOSPITALS IN AREAS WHERE WE NEED THEM MOST.

INCREASING THE NUMBER OF UNINSURED

FROM 1989 TO 1993, THE NUMBER OF PEOPLE WITH EMPLOYER SPONSORED INSURANCE DECLINED BY 5 MILLION. THE NUMBER OF UNINSURED ROSE BY OVER 6½ MILLION. ONLY AN INCREASE OF 10 MILLION PEOPLE COVERED BY MEDICAID PREVENTED THE NUMBER OF UNINSURED FROM SKYROCKETING.

PROPOSED MEDICAID CUTS WILL THROW AT LEAST 5 TO 8 MILLION PEOPLE, MAINLY CHILDREN, OFF THE MEDICAID ROLLS. THIS COMBINED WITH THE CONTINUING LOSS OF EMPLOYER-SPONSORED INSURANCE, WILL CAUSE THE NUMBER OF UNINSURED TO INCREASE DRAMATICALLY.

REDUCED MEDICARE AND MEDICAID PAYMENTS WILL ALSO MEAN THAT MANY DOCTORS AND HOSPITALS WILL RAISE RATES TO PRIVATE PAYORS TO COMPENSATE. SINCE LARGE COMPANIES AND THE GOVERNMENT CAN NEGOTIATE WELL, THIS WILL MEAN THAT MOST OF THE HIGHER PRICES WILL BE FELT BY SMALL AND MEDIUM-SIZED COMPANIES AND THEIR WORKERS AND BY SELF EMPLOYED PEOPLE.

BREAKING OUR COMPACT WITH VETERANS

REPUBLICAN BUDGET CUTS WOULD CREATE SERIOUS HARDSHIP FOR MANY OF OUR DISABLED VETERANS WITH SERVICE-RELATED DISABILITIES

- OVER 40 VETERANS HOSPITALS WOULD HAVE TO BE CLOSED
- ALMOST 1 MILLION VETERANS NOW RECEIVING TREATMENT WOULD BE DENIED TREATMENT IN THE FUTURE
- PLANS TO UPGRADE MANY VA FACILITIES TO MAKE THEM MORE COMPETITIVE WILL BE DROPPED

THE VA HEALTH SYSTEM FULFILLS A COMMITMENT WE MADE TO VETERANS. IT CAN BE MADE MORE EFFICIENT. WE PROPOSED STEPS LAST YEAR TO DO THIS. HOWEVER, REPUBLICAN CUTS WOULD SEVERELY CRIPPLE THE SYSTEM WHICH SO MANY NOW DEPEND ON.

THE PRESIDENT'S PROPOSAL

THE PRESIDENT PROPOSES TO SLOW THE RATE OF GROWTH IN MEDICARE AND MEDICAID TO HELP BALANCE THE BUDGET.

HOWEVER, UNLIKE THE DESTRUCTIVE REPUBLICAN BUDGETS, THE PRESIDENT'S PROPOSAL:

- REQUIRES LESS THAN $\frac{1}{2}$ THE CUTS IN MEDICARE PROPOSED BY REPUBLICANS AND LESS THAN $\frac{1}{3}$ OF THE CUTS IN MEDICAID. THE PRESIDENT BELIEVES IT IS WORTH WAITING AN EXTRA THREE YEARS TO BALANCE THE BUDGET IN ORDER TO PROTECT THESE IMPORTANT HEALTH PROGRAMS.
- CONTAINS NO INCREASES IN COSTS OR CUTS IN SERVICES FOR BENEFICIARIES. SAVINGS ARE REALIZED BY REQUIRING GREATER EFFICIENCY FROM HOSPITALS AND DOCTORS AND CUTTING WASTE AND FRAUD.
- REINVESTS SOME OF THE SAVINGS TO EXPAND COVERAGE, IMPROVE HOME- AND COMMUNITY-BASED CARE PROGRAMS AND MAKE^R INSURANCE MORE AFFORDABLE TO MILLIONS OF AMERICANS.
- PROTECTS QUALITY CARE AT ACADEMIC HEALTH CENTERS BY MINIMIZING CUTS TO THEIR PAYMENTS FOR RESEARCH AND TEACHING.

■ POLITICS

Home Fires Sputtering

Back in their districts, Republican freshmen find nervousness about the consequences of budget cuts

By HOWARD CHUA-EOAN

WHEN MARK NEUMANN WAS A MATH teacher, he'd lecture on the arithmetic of the federal deficit to his high school class in Janesville, Wisconsin. Hauling out charts and graphs, he'd explain the atrociousness of the situation, how the budget crisis had to be solved, and why America had to live within its means. Last week Neumann was again hauling out the math and the charts and the graphics, but this time as a freshman Congressman and real-life budget cutter returning home from a historic budget-busting session of the House of Representatives. How would this play in the First District of Wisconsin? And would his constituents think it all added up?

Neumann and other freshmen budgeteers of the 104th Congress spent last week's recess on talk shows and in town-hall meetings, explaining what they had done. Says Brad Todd, an aide to Tennessee Congressman Van Hilleary: "We had a lot of educating to do." And while the reaction was, for the most part, complimentary or at least polite, "it's a very volatile situation," notes Representative Enid Waldholtz of Utah. "What we need to do is listen better to what people are saying."

If there was a single issue that set off Neumann's constituents, it was tax cuts. So heated was the local reaction against the proposed cuts that Neumann took to calling the plan passed by Congress "second best." Said Gwen Daluge, a retired schoolteacher from Janesville: "I'm really angry about the Congress wanting to cut taxes when we have a debt like this. We are so much better off than anybody in the world. I just don't think it would hurt us to not cut taxes right now." In Beloit—the Democratic section of the district that Neumann did not carry—the sentiment was even more heated. "You've been voting to hurt other people," said Bill Hallstrom, a Beloit engineer. "You voted for a tax cut for the rich—you're giving them a break at the expense of the poor." Elkhorn Rotarians, who feted Neumann with a luncheon, were equally clear. Said V. Kirt Fiegel, whose firm makes parts for surgical and other tools: "The deep sen-



WALDHOLTZ: The freshman Representative on a radio call-in show in Salt Lake City



NEUMANN: The Wisconsin Congressman—and former math teacher—listens to a complaint about a Medicare billing



BILBRAY: Listening to constituents at a meeting in Imperial Beach, California

timent out there is that we have got to get our house in order. And the tax cuts ought to be delayed. That's an easy one."

"The political reality," Neumann explained, "is that the House of Representatives is not going to pass a balanced budget without tax cuts. When I suggested we bal-

ance the budget first, I got the door slammed in my face." In fact, against the wishes of senior revolutionaries in the Gingrich revolution, Neumann had proposed balancing the budget in four years, not the favored seven, and without the tax cuts until the deficit was eliminated. His proposal received only 89 votes on the floor but won him applause at home last week.

Waldholtz, who represents Utah's most liberal county, around Salt Lake City, fielded questions for an hour on Bob Lee's radio talk show on station KSL. One caller phoned in worried about Social Security. "Nobody I know is talking about cutting Social Security," said Waldholtz. "Social Security is off the table." A young woman asked about Medicare: "You say we owe the older people because they've been paying in to this, but I'm seeing part of my money going out to other people every month." Said Waldholtz: "Part of the problem is that our government made too many promises. We have got to make changes, not just to preserve Medicare and Medicaid but to make health care more available to everyone." And there was the caller who complained about a Utah Congressman who brought his newborn to his office. Said Waldholtz, who is pregnant: "This is not an eight-hour-a-day job. We are frequently working 12-, 14-hour days."

In Imperial Beach, California, the folks who turned out for Brian Bilbray of California's 49th District were polite but anxious. Imperial Beach has been struggling to balance its budget for at least a decade. Bilbray's constituents were concerned about what he and his fellow deficit hawks might do about Social Security and Medi-

care benefits. "Social Security," said Zelmar Bolin, a senior citizen who has lived in Imperial Beach for 51 years, "is the only income I've got." Bilbray assuaged the gathering, saying Democrats were using scare tactics. He explained that his plan would only slow the growth of Social Security and Medicare benefits. Virginia Richter said she'd back Bilbray on Medicare, "but it should be one of the last avenues" to balance the budget. "If everything else is reduced, yes, we'd go along," she said. But first slash corporate subsidies and aid to Israel. Said Thelma Steffen: "I say take care of Americans first, then foreigners."

"They play a whole different game with a different language in Washington," Bilbray cautioned constituents. Now Republicans have to make sure that the language is translated the right way back home.

—Reported by Nina Burleigh/
Janesville, Anne Palmer Donohoe/Salt Lake City
and Paul Krueger/Imperial Beach

Mr. President

THE PRESIDENT HAS SEEN

Hicken → Sen Kennedy's
argument against
what we did last
night B. J. G.

Democrats are finally beginning to feel we're getting through to the country on our terms after the disaster of the last election. We're winning on our three key issues -- protecting Medicare and protecting education from extremist Republican budget cuts in order to pay for the Republican tax cuts for the rich.

We're uniting on this message. We feel it's beginning to bite hard against the Republicans, and we should let it keep biting for the foreseeable future.

Every poll I know of shows we're getting through more and more effectively to more and more people. I've rarely seen any polls this good. I know of no poll that shows we're beginning to lose support. There's not a cloud in the sky -- why put on a raincoat now?

Two new polls are coming out this week. The Wall Street Journal on Thursday and the AARP on Friday will show we are winning the debate. The AARP poll shows that half of Americans haven't even heard yet that the Republicans are planning these medicare cuts. So we have many more people to reach.

[If you change signals now, you'll leave us high and dry in Congress. You'll give the Republicans cover. You'll help them get off the defensive and go on the offensive again. Inevitably, they'll claim that you're finally on board, and that their differences with you are minor. Our fighting President will become their me-too President. The last thing we need is a headline that says "President Clinton signs on to the Contract With America."

I also know of no poll that shows you're getting hurt by not having an alternative position. No poll shows you're losing ground in terms of perceived leadership by not having a budget. People are for a balanced budget in the abstract, but not for the high price the Republicans want them to pay.

You do have a position. You're on the side of real people -- students, working families, and senior citizens. You're fighting against extremist Republican budget schemes to pay for tax cuts for the rich.

[Reject the Inside-the-Beltway editorial writers who want you to govern more and campaign less. By fighting harder now, you'll govern better later.

The American people need to see you fighting back, fighting hard for them. This is the Bill Clinton they love and vote for.

It's the 1990's analogy to Harry Truman. He ran against the "Do Nothing" Republican Congress. You're running against the Extremist Republican Congress.

The groups who support us are just getting their sea legs. They're gaining strength and mobilizing their grass roots. Their biggest doubt is whether you'll stay the course. AARP, the Medical Colleges and Teaching Hospitals, the Nurses Association, and others will be increasingly effective. We've learned from the mistakes of health reform. We can do better.

I urge you to postpone any decision on an alternative budget for a least a few weeks. Give us more time to test this strategy. Give us more time to prove that our message will become more effective, not less effective. You have nothing to lose.

Any Democratic budget put out now will be not only a political mistake, but a policy mistake too -- because it will become the starting point for further and even more unacceptable compromises.

I know there are some who want you to run against liberal Democrats as well as against conservative Republicans. But we're your base. This somersault would be especially resented, because just when we feel we have a solid majority of the country on our side, you yank it out from under us.

We've only just begun to fight. It's too early to retreat. Timing is everything, and now is the wrong time.

Shirley

LL

THE PRESIDENT HAS SEEN
6/15/95

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TAB D

95 JUN 9 P2:02

MEMORANDUM TO THE PRESIDENT

FROM: MARK GEARAN *wey*
RE: HARVARD COMMENCEMENT ADDRESS OF
PRESIDENT VACLAV HAVEL
DATE: 9 JUNE 1995

In advance of your dinner tonight with President Havel at Ambassador Albright's home, I thought you might be interested in the commencement address he gave at Harvard yesterday. He made an interesting point of the "media's double-edged power" and the power of television.

attachment

for it's wey

Back to Gearan?

KANCELÁŘ PREZIDENTA REPUBLIKY
OFFICE OF THE PRESIDENT

TISKOVÝ ODBOR
PRESS DEPARTMENT

ČESKÁ REPUBLIKA



CZECH REPUBLIC

Address
by
Václav Havel,
President of the Czech Republic

Harvard University
Cambridge, Massachusetts, USA

June 8, 1995

Embargo until delivery
Check against delivery —

Delivered
Verbatim

DR

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Mr. President,

Mr. Vice-President,
Ladies and gentlemen,

One evening not long ago I was sitting in an outdoor restaurant by the water. My chair was almost identical to the chairs they have in restaurants by the Vltava River in Prague. They were playing the same rock music they play in most Czech restaurants. I saw advertisements I'm familiar with back home. Above all, I was surrounded by young people who were similarly dressed, who drank familiar-looking drinks, and who behaved as casually as their contemporaries in Prague. Only their complexion and their facial features were different - for I was in Singapore.

I sat there thinking about this and again - for the umpteenth time - I realized an almost banal truth: that we now live in a single global civilization. The identity of this civilization does not lie merely in similar forms of dress, or similar drinks, or in the constant buzz of the same commercial music all around the world, or even in international advertising. It lies in something deeper: thanks to the modern idea of constant progress, with its inherent expansionism, and to the rapid evolution of science that comes directly from it, our planet has, for the first time in the long history of the human race, been covered in the space of a very few decades by a single civilization - one that is essentially technological. The world is now enmeshed in webs of telecommunication networks consisting of millions of tiny threads or capillaries that not only transmit information of all kinds at lightning speed, but also convey integrated models of social, political and economic behaviour. They are conduits for legal norms, as well as for billions and billions of dollars crisscrossing the world while remaining invisible even to those who deal directly with them. The life of the human race is completely interconnected not only in the informational sense, but in the causal sense as well. Anecdotically, I could illustrate this by reminding you - since I've already mentioned Singapore - that today all it takes is a single shady transaction initiated by a single devious bank clerk in Singapore to bring down a bank on the other side of the world. Thanks to the accomplishments of this civilization, practically all of us know what cheques, bonds, bills of exchange, and stocks are. We are familiar with CNN and Chernobyl, and we know who the Rolling Stones, or Nelson Mandela, or Salman Rushdie are. More than that, the capillaries that have so radically integrated this civilization also convey information about certain modes of

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human co-existence that have proven their worth, like democracy, respect for human rights, the rule of law, the laws of the market-place. Such information flows around the world and, in varying degrees, takes root in different places.

In modern times this global civilization emerged in the territory occupied by European and ultimately by Euro-American culture. Historically, it evolved from a combination of traditions – classical, Judaic and Christian. In theory, at least, it gives people not only the capacity for worldwide communication, but also a coordinated means of defending themselves against many common dangers. It can also, in an unprecedented way, make our life on this earth easier and open up to us hitherto unexplored horizons in our knowledge of ourselves and the world we live in.

And yet there is something not quite right about it.

Allow me to use this ceremonial gathering for a brief meditation on a subject which I have dwelt upon a great deal, and which I often bring up on occasions resembling this one. I want to focus today on the source of the dangers that threaten humanity in spite of this global civilization, and often directly because of it. Above all, I would like to speak about the ways in which these dangers can be confronted.

Many of the great problems we face today, as far as I understand them, have their origin in the fact that this global civilization, though in evidence everywhere, is no more than a thin veneer over the sum total of human awareness, if I may put it that way. This civilization is immensely fresh, young, new, and fragile, and the human spirit has accepted it with dizzying alacrity, without itself changing in any essential way. Humanity has evolved over long millennia in all manner of civilizations and cultures that gradually, and in very diverse ways, shaped our habits of mind, our relationship to the world, our models of behaviour and the values we accept and recognize. In essence, this new, single epidermis of world civilization merely covers or conceals the immense variety of cultures, of peoples, of religious worlds, of historical traditions and historically formed attitudes, all of which in a sense lie "beneath" it. At the same time, even as the veneer of world civilization expands, this "underside" of humanity, this hidden

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dimension of it; demands more and more clearly to be heard and to be granted a right to life.

And thus, while the world as a whole increasingly accepts the new habits of global civilization, another contradictory process is taking place: ancient traditions are reviving, different religions and cultures are awakening to new ways of being, seeking new room to exist, and struggling with growing fervour to realize what is unique to them and what makes them different from others. Ultimately they seek to give their individuality a political expression.

It is often said that in our time, every valley cries out for its own independence or will even fight for it. Many nations, or parts of them at least, are struggling against modern civilization or its main proponents for the right to worship their ancient gods and obey the ancient divine injunctions. They carry on their struggle using weapons provided by the very civilization they oppose. They employ radar, computers, lasers, nerve gases, and perhaps, in the future, even nuclear weapons – all products of the world they challenge – to help defend their ancient heritage against the erosions of modern civilization. In contrast with these technological inventions, other products of this civilization – like democracy or the idea of human rights – are not accepted in many places in the world because they are deemed to be hostile to local traditions.

In other words: the Euro-American world has equipped other parts of the globe with instruments that not only could effectively destroy the enlightened values which, among other things, made possible the invention of precisely these instruments, but which could well cripple the capacity of people to live together on this earth.

What follows from all of this?

It is my belief that this state of affairs contains a clear challenge not only to the Euro-American world but to our present-day civilization as a whole. It is a challenge to this civilization to start understanding itself as a multicultural and a multipolar civilization, whose meaning lies not in undermining the individuality of different spheres of culture and civilization but in allowing them to be more completely themselves. This will only be possible, even conceivable, if we all accept a basic code of mutual co-existence, a kind of common minimum we can all share, one that will enable us to go on living side by side. Yet such a code won't stand a chance

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if it is merely the product of a few who then proceed to force it on the rest. It must be an expression of the authentic will of everyone, growing out of the genuine spiritual roots hidden beneath the skin of our common, global civilization. If it is merely disseminated through the capillaries of this skin, the way Coca-cola ads are - as a commodity offered by some to others - such a code can hardly be expected to take hold in any profound or universal way.

But is humanity capable of such an undertaking? Is it not a hopelessly utopian idea? Haven't we so lost control of our destiny that we are condemned to gradual extinction in ever harsher high-tech clashes between cultures, because of our fatal inability to co-operate in the face of impending catastrophes, be they ecological, social, or demographic, or of dangers generated by the state of our civilization as such?

I don't know.

But I have not lost hope.

I have not lost hope because I am persuaded again and again that, lying dormant in the deepest roots of most, if not all, cultures there is an essential similarity, something that could be made - if the will to do so existed - a genuinely unifying starting point for that new code of human co-existence that would be firmly anchored in the great diversity of human traditions.

Don't we find somewhere in the foundations of most religions and cultures, though they may take a thousand and one distinct forms, common elements such as respect for what transcends us, whether we mean the mystery of Being, or a moral order that stands above us; certain imperatives that come to us from heaven, or from nature, or from our own hearts; a belief that our deeds will live after us; respect for our neighbours, for our families, for certain natural authorities; respect for human dignity and for nature: a sense of solidarity and benevolence towards guests who come with good intentions?

Isn't the common, ancient origin or human roots of our diverse spiritualities, each of which is merely another kind of human understanding

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of the same reality, the thing that can genuinely bring people of different cultures together?

And aren't the basic commandments of this archetypal spirituality in harmony with what even an unreligious person - without knowing exactly why - may consider proper and meaningful?

Naturally, I am not suggesting that modern people be compelled to worship ancient deities and accept rituals they have long since abandoned. I am suggesting something quite different: we must come to understand the deep mutual connection or kinship between the various forms of our spirituality. We must recollect our original spiritual and moral substance, which grew out of the same essential experience of humanity. I believe that this is the only way to achieve a genuine renewal of our sense of responsibility for ourselves and for the world. And at the same time, it is the only way to achieve a deeper understanding among cultures that will enable them to work together in a truly ecumenical way to create a new order for the world.

The veneer of global civilization that envelops the modern world and the consciousness of humanity, as we all know, has a dual nature, bringing into question, at every step of the way, the very values it is based upon, or which it propagates. The thousands of marvelous achievements of this civilization that work for us so well and enrich us can equally impoverish, diminish, and destroy our lives, and frequently do. Instead of serving people, many of these creations enslave them. Instead of helping people to develop their identities, they take them away. Almost every invention or discovery - from the splitting of the atom and the discovery of DNA to television and the computer - can be turned against us and used to our detriment. How much easier it is today than it was during the First World War to destroy an entire metropolis in a single air-raid. And how much easier would it be today, in the era of television, for a madman like Hitler or Stalin to pervert the spirit of a whole nation. When have people ever had the power we now possess to alter the climate of the planet or deplete its mineral resources or the wealth of its fauna and flora in the space of a few short decades? And how much more destructive potential do terrorists have at their disposal today than at the beginning of this century.

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In our era, it would seem that one part of the human brain, the rational part which has made all these morally neutral discoveries, has undergone exceptional development, while the other part, which should be alert to ensure that these discoveries really serve humanity and will not destroy it, has lagged behind catastrophically.

Yes, regardless of where I begin my thinking about the problems facing our civilization, I always return to the theme of human responsibility, which seems incapable of keeping pace with civilization and preventing it from turning against the human race. It's as though the world has simply become too much for us to deal with.

There is no way back. Only a dreamer can believe that the solution lies in curtailing the progress of civilization in some way or other. The main task in the coming era is something else: a radical renewal of our sense of responsibility. Our conscience must catch up to our reason, otherwise we are lost.

It is my profound belief that there is only one way to achieve this: we must divest ourselves of our egoistical anthropocentrism, our habit of seeing ourselves as masters of the universe who can do whatever occurs to us. We must discover a new respect for what transcends us: for the universe, for the earth, for nature, for life, and for reality. Our respect for other people, for other nations, and for other cultures, can only grow from a humble respect for the cosmic order and from an awareness that we are a part of it, that we share in it and that nothing of what we do is lost, but rather becomes part of the eternal memory of Being, where it is judged.

A better alternative for the future of humanity, therefore, clearly lies in imbuing our civilization with a spiritual dimension. It's not just a matter of understanding its multicultural nature and finding inspiration for the creation of a new world order in the common roots of all cultures. It is also essential that the Euro-American cultural sphere - the one which created this civilization and taught humanity its destructive pride - now return to its own spiritual roots and become an example to the rest of the world in the search for a new humility.

General observations of this type are certainly not difficult to make, nor are they new or revolutionary. Modern people are masters at describing

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the crises and the misery of the world which we shape, and for which we are responsible. We are much less adept at putting things right.

So what specifically is to be done?

I do not believe in some universal key or panacea. I am not an advocate of what Karl Popper called "holistic social engineering", particularly because I had to live most of my adult life in circumstances that resulted from an attempt to create a holistic Marxist utopia. I know more than enough, therefore, about efforts of this kind.

This does not relieve me, however, of the responsibility to think of ways to make the world better.

It will certainly not be easy to awaken in people a new sense of responsibility for the world, an ability to conduct themselves as if they were to live on this earth forever, and to be held answerable for its condition one day. Who knows how many horrific cataclysms humanity may have to go through before such a sense of responsibility is generally accepted. But this does not mean that those who wish to work for it cannot begin at once. It is a great task for teachers, educators, intellectuals, the clergy, artists, entrepreneurs, journalists, people active in all forms of public life.

Above all it is a task for politicians.

Even in the most democratic of conditions, politicians have immense influence, perhaps more than they themselves realize. This influence does not lie in their actual mandates, which in any case are considerably limited. It lies in something else: in the spontaneous impact their charisma has on the public.

The main task of the present generation of politicians is not, I think, to ingratiate themselves with the public through the decisions they take or their smiles on television. It is not to go on winning elections and ensuring themselves a place in the sun till the end of their days. Their role is something quite different: to assume their share of responsibility for the long-range prospects of our world and thus to set an example for the public in whose sight they work. Their responsibility is to think ahead boldly, not to fear the disfavour of the crowd, to imbue their actions with a spiritual dimension (which of course is not the same thing as ostentatious attendance at religious services), to explain again and again - both to the public and to

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their colleagues - that politics must do far more than reflect the interests of particular groups or lobbies. After all, politics is a matter of serving the community, which means that it is morality in practice. And how better to serve the community and practise morality than by seeking in the midst of the global (and globally threatened) civilization their own global political responsibility: that is, their responsibility for the very survival of the human race?

I don't believe that a politician who sets out on this risky path will inevitably jeopardize his or her political survival. This is a wrongheaded notion which assumes that the citizen is a fool and that political success depends on playing to this folly. That is not the way it is. A conscience slumbers in every human being, something divine. And that is what we have to put our trust in.

Ladies and gentlemen,

I find myself at perhaps the most famous university in the most powerful country in the world. With your permission, I will say a few words on the subject of the politics of a great power.

It is obvious that those who have the greatest power and influence also bear the greatest responsibility. Like it or not, the United States of America now bears probably the greatest responsibility for the direction our world will take. The United States, therefore, should reflect most deeply on this responsibility.

Isolationism has never paid off for the United States. Had it entered the First World War earlier, perhaps it would not have had to pay with anything like the casualties it actually incurred.

The same is true of the Second World War: when Hitler was getting ready to invade Czechoslovakia, and in so doing finally expose the lack of courage on the part of the western democracies, your President wrote a letter to the Czechoslovak President imploring him to come to some agreement with Hitler. Had he not deceived himself and the whole world into believing that an agreement could be made with this madman, had he instead shown a few teeth, perhaps the Second World War need not have happened, and tens of thousands of young Americans need not have died fighting in it.

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Likewise, just before the end of that war, had your President, who was otherwise an outstanding man, said a clear "no" to Stalin's decision to divide the world, perhaps the Cold War, which cost the United States hundreds of billions of dollars, need not have happened either.

I beg you: do not repeat these mistakes! You yourselves have always paid a heavy price for them! There is simply no escaping the responsibility you have as the most powerful country in the world.

There is far more at stake here than simply standing up to those who would like once again to divide the world into spheres of interest, or subjugate others who are different from them, and weaker. What is now at stake is saving the human race. In other words, it's a question of what I've already talked about: of understanding modern civilization as a multicultural and multipolar civilization, of turning our attention to the original spiritual sources of human culture and above all, of our own culture, of drawing from these sources the strength for a courageous and magnanimous creation of a new order for the world.

Not long ago I was at a gala dinner to mark an important anniversary. There were fifty Heads of State present, perhaps more, who came to honour the heroes and victims of the greatest war in human history. This was not a political conference, but the kind of social event that is meant principally to show hospitality and respect to the invited guests. When the seating plan was given out, I discovered to my surprise that those sitting at the table next to mine were not identified simply as representatives of a particular state, as was the case with all the other tables; they were referred to as "permanent members of the UN Security Council and the G7." I had mixed feelings about this. On the one hand, I thought how marvelous that the richest and most powerful of this world see each other often and even at this dinner, can talk informally and get to know each other better. On the other hand, a slight chill went down my spine, for I could not help observing that one table had been singled out as being special and particularly important. It was a table for the big powers. Somewhat perversely, I began to imagine that the people sitting at it were, along with their Russian caviar, dividing the rest of us up among themselves, without asking our opinion. Perhaps all this is merely the whimsy of a former and perhaps future playwright. But I wanted to express it here. For one simple reason: to emphasize the terrible gap that exists between the responsibility of the great powers and their hubris. The architect of that seating arrangement - I

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should think it was none of the attending Presidents - was not guided by a sense of responsibility for the world, but by the banal pride of the powerful.

But pride is precisely what will lead the world to hell. I am suggesting an alternative: humbly accepting our responsibility for the world.

There is one great opportunity in the matter of co-existence between nations and spheres of civilization, culture and religion that should be grasped and exploited to the limit. This is the appearance of supranational or regional communities. By now, there are many such communities in the world, with diverse characteristics and differing degrees of integration. I believe in this approach. I believe in the importance of organisms that lie somewhere between nation states and a world community, organisms that can be an important medium of global communication and co-operation. I believe that this trend towards integration in a world where - as I've said - every valley longs for independence, must be given the greatest possible support. These organisms, however, must not be an expression of integration merely for the sake of integration. They must be one of the many instruments enabling each region, each nation, to be both itself and capable of co-operation with others. That is, they must be one of the instruments enabling countries and peoples who are close to each other geographically, ethnically, culturally and economically and who have common security interests, to form associations and better communicate with each other and with the rest of the world. At the same time, all such regional communities must rid themselves of fear that other like communities are directed against them. Regional groupings in areas that have common traditions and a common political culture ought to be a natural part of the complex political architecture of the world. Co-operation between such regions ought to be a natural component of co-operation on a world-wide scale. As long as the broadening of NATO membership to include countries who feel culturally and politically a part of the region the Alliance was created to defend is seen by Russia, for example, as an anti-Russian undertaking, it will be a sign that Russia has not yet understood the challenge of this era.

The most important world organization is the United Nations. I think that the fiftieth anniversary of its birth could be an occasion to reflect on how to infuse it with a new ethos, a new strength, and a new meaning, and make it the truly most important arena of good co-operation among all cultures that make up our planetary civilization.

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But neither the strengthening of regional structures nor the strengthening of the UN will save the world if both processes are not informed by that renewed spiritual charge which I see as the only hope that the human race will survive another millennium.

I have touched on what I think politicians should do.

There is, however, one more force that has at least as much, if not more, influence on the general state of mind as politicians do.

That force is the mass media.

Only when fate sent me into the realm of high politics did I become fully aware of the media's double-edged power. Their dual impact is not a specialty of the media. It is merely a part, or an expression of the dual nature of today's civilization of which I have already spoken.

Thanks to television the whole world discovered, in the course of an evening, that there is a country called Rwanda where people are suffering beyond belief. Thanks to television it is possible to do at least a little to help those who are suffering. Thanks to television the whole world, in the course of a few seconds, was shocked and horrified about what happened in Oklahoma City and, at the same time, understood it as a great warning for all. Thanks to television the whole world knows that there exists an internationally recognized country called Bosnia and Herzegovina and that from the moment it recognized this country, the international community has tried unsuccessfully to divide it into grotesque mini-states according to the wishes of warlords who have never been recognized by anyone as anyone's legitimate representatives.

That is the wonderful side of today's mass media, or rather, of those who gather the news. Humanity's thanks belong to all those courageous reporters who voluntarily risk their lives wherever something evil is happening, in order to arouse the conscience of the world.

There is, however, another, less wonderful, aspect of television, one that merely revels in the horrors of the world or, unforgivably, makes them commonplace, or compels politicians to become first of all television stars.

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But where is it written that someone who is good on television is necessarily also a good politician? I never fail to be astonished at how much I am at the mercy of television directors and editors, at how my public image depends far more on them than it does on myself, at how important it is to smile appropriately on television, or choose the right tie, at how television forces me to express my thoughts as sparsely as possible, in witticisms, slogans or sound bites, at how easily my television image can be made to seem different from the real me. I am astonished by this and at the same time, I fear it serves no good purpose. I know politicians who have learned to see themselves only as the television camera does. Television has thus expropriated their personalities, and made them into something like television shadows of their former selves. I sometimes wonder whether they even sleep in a way that will look good on television.

I am not outraged with television or the press for distorting what I say, or ignoring it, or editing me to appear like some strange monster. I am not angry with the media when I see that a politician's rise or fall often depends more on them than on the politician concerned. What interests me is something else: the responsibility of those who have the mass media in their hands. They too bear responsibility for the world, and for the future of humanity. Just as the splitting of the atom can immensely enrich humanity in a thousand and one ways and, at the same time, can also threaten it with destruction, so television can have both good and evil consequences. Quickly, suggestively, and to an unprecedented degree, it can disseminate the spirit of understanding, humanity, human solidarity and spirituality, or it can stupefy whole nations and continents. And just as our use of atomic energy depends solely on our sense of responsibility, so the proper use of television's power to enter practically every household and every human mind depends on our sense of responsibility as well.

Whether our world is to be saved from everything that threatens it today depends above all on whether human beings come to their senses, whether they understand the degree of their responsibility and discover a new relationship to the very miracle of Being. The world is in the hands of us all. And yet some have a greater influence on its fate than others. The more influence a person has - be they politician or television announcer - the greater the demands placed on their sense of responsibility and the less they should think merely about personal interests.

Ladies and gentlemen,

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In conclusion allow me a brief personal remark. I was born in Prague and I lived there for decades without being allowed to study properly or visit other countries. Nevertheless, my mother never abandoned one of her secret and quite extravagant dreams: that one day I would study at Harvard. Fate did not permit me to fulfil her dream. But something else happened, something that would never have occurred even to my mother: I have received a doctoral degree at Harvard without even having to study here.

More than that, I have been given to see Singapore, and countless other exotic places. I have been given to understand how small this world is and how it torments itself with countless things it need not torment itself with if people could find within themselves a little more courage, a little more hope, a little more responsibility, a little more mutual understanding and love.

I don't know whether my mother is looking down at me from heaven, but if she is I can guess what she's probably thinking: she's thinking that I'm sticking my nose into matters that only people who have properly studied political science at Harvard have the right to stick their noses into.

I hope that you don't think so.

Thank you for your attention.

Granah

THE PRESIDENT HAS SEEN
6/15/95

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to connect this to friendly
columnists, editorial
writers

Boe

From Eli Segal

THE PRESIDENT 6/15/95

Government

COMMUNITY SERVICE

"Will make You Smile"

A SOCIAL PROGRAM CEOs WANT TO SAVE

AmeriCorps has the passionate support of even GOP execs

It's not like Erie Chapman to defend a federal do-gooder program. After all, he's a CEO, a loyal Republican, and a fundraiser for House Budget Committee Chairman John Kasich (R-Ohio), leader of the GOP budget-cutting effort. Yet the head of Columbus-based U.S. Health Corp. says Kasich is wrong to target President Clinton's national service program, AmeriCorps, for extinction.

U.S. Health has pledged \$150,000 over three years to City Year, a nonprofit that sends AmeriCorps members to work at community projects in Columbus and five other cities nationwide. Chapman argues that AmeriCorps will recoup more than its \$376 million cost this year by giving youths skills to become productive adults. He has even protested the planned cuts at a Washington press conference and congressional hearing. "It's tragic to cut these programs," he says. "Why shoot a bunch of innocent kids just to get at the President?"

CALLS AND LETTERS. Chapman has plenty of company among execs lobbying their Republican pals to save Clinton's pet program. Since AmeriCorps' creation by Congress in 1993, corporations have ponied up cash, equipment, and employee volunteers to help 20,000 young adults aged 18 to 25 perform services that range from rehabbing low-income housing to cleaning up rivers. A list of donors reads like a who's who of Corpo-



TUTORING IN NEWLAND: Atlanta's Home Depot is giving \$125,000

rate America: BellSouth, Microsoft, NationsBank, Procter & Gamble, and American Express—to name a few.

It's no accident that execs find the project appealing. Unlike most bureaucratic social programs, AmeriCorps tries to operate like a business. It's run by a nonprofit company—the Corporation for National Service—rather than a federal agency. Moreover, the process of choosing the 350 service programs that are assigned to AmeriCorps participants is competitive. Thousands of local groups

submit proposals—with goals and concrete ways to measure success—and state boards pick the winners.

Besides, business is already intimately involved in the program. By law, non-government sources—usually businesses—must pay at least 25% of operational costs and 15% of the \$7,200 stipend each AmeriCorps member gets for a year of service. Participants also get a \$4,725 education grant at the end of service. Says Eli J. Segal, the former exec who heads AmeriCorps: "This translates into the kind of business buy-in that other

federal programs have not had."

MORE BANG. CEOs particularly like the way AmeriCorps' pool of full-time, community-service workers allows them to leverage their own charitable efforts. Timberland Co., for example, says AmeriCorps participation was key to its five-year pledge of \$5 million in cash and equipment to City Year, whose youths nationwide are dressed in Timberland outfits. "As the program gets bigger, our investment goes further," explains Ken Freitas, vice-presi-

dent for community enterprise.

To save AmeriCorps from the GOP budget scalpel, corporate chiefs ranging from Shell Oil's Philip J. Carroll to Anheuser-Busch's August A. Busch III have written letters to Capitol Hill lawmakers. Tenneco Gas's Steve Chesebro not only sent letters to his two Republican senators—Texans Phil Gramm and Kay Bailey Hutchison—but lobbied other Houston CEOs to kick in money for the local AmeriCorps program. "We didn't say that we liked big government or that government should take care of this through handouts," he says. "We have seen that this is productive and proven."

Home Depot CEO Bernard Marcus has written to two dozen lawmakers, including House Speaker Newt Gingrich, who represents a district in the company's home state of Georgia. One of Home Depot's favorite programs is Hands-On

AMERICORPS' CORPORATE FRIENDS

Corporate America has been a big backer of programs using AmeriCorps members. Among the supporters:

GENERAL ELECTRIC Contributed \$250,000 to 11 United Way chapters for projects, including literacy training and food pantries.

TENNECO GAS Has given \$35,000, plus printing and accounting services, to Serve Houston Youth Corps, an AmeriCorps affiliate.

NIKE Promised \$150,000 for programs in six cities to set up fitness-oriented projects, such as sports leagues and renovating playgrounds.

FANNIE MAE Gave \$100,000 to three housing groups to train AmeriCorps members to counsel low-income renters on homeownership.

DATA: AMERICORPS

Atlanta, a clearinghouse for volunteers. The company had already given \$10,000 a year to the group, but with AmeriCorps involvement, Home Depot has expanded its support by \$125,000 over three years. Now, 65 AmeriCorps members are aides in three urban schools—a program not possible with the non-profit group's part-time volunteers. Why is Home Depot so interested? "We need people to hire," says Suzanne Apple, director of community affairs. "This program will help build self-sufficiency, self-esteem, and the leaders of tomorrow."

One of those future leaders may be 27-year-old Paul P. Promadhat, a computer aide in a Harlem elementary school. As part of his AmeriCorps-backed training, he works at Project First, a program designed by IBM and the nonprofit Public Education Fund Network. Big Blue gives \$100,000 in computers and cash and provides retirees to train aides. When his AmeriCorps stint ends in July, Promadhat hopes the school system will hire him full time as a computer troubleshooter. "This gave me an opportunity to do something I believe in," he says.

OUT FOR BLOOD? So far, such testimonials haven't moved Republicans, who seem bent on destroying the Clinton program. There may be more than money at stake: Killing AmeriCorps would yield under 1% of the more than \$1 trillion in savings the GOP needs to balance the budget by 2002, but it would be a big slap at the President. Budget Chairman Kasich denies that the GOP attacks are aimed at Clinton. "It's a matter of policy, not politics," he says. "The AmeriCorps program is expensive, inefficient, and top-heavy with bureaucracy."

AmeriCorps' opponents argue that young people should volunteer for community service without getting stipends and that the program's per-member cost is an inefficient \$30,000. "When we're cutting basic welfare to the poor, Medicare, and Head Start, you can't sustain the argument for funding AmeriCorps," says John P. Walters, president of the New Citizenship Project, a conservative policy group.

AmeriCorps officials say the program costs closer to \$18,000 per member—about 88,000 youths are expected to take part next year at a federal cost of \$575 million. And a new study by professors at the universities of Michigan and Iowa finds that each dollar spent on the program reaps \$2.60 in reduced welfare costs, increased earnings, and other benefits. With returns like that, many CEOs aren't ready to throw in the towel. So this may yet be one do-gooder program the Republicans spare.

By Susan B. Garland in Washington, with Mary Beth Regan



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CONGRESSMAN DICK ARMEY
 26TH DISTRICT, TEXAS

MAJORITY LEADER

April 12, 1995

Dear Mr.

CEO!

As you are undoubtedly aware, corporations give millions of dollars to charity every year. Most of this money supports traditional, service-providing charities like the Boy Scouts, Red Cross, and Salvation Army. Increasingly, however, many companies are using their philanthropic budgets to support public policy advocacy groups.

One might expect corporate contributions to favor advocacy on behalf of free market policies. But the evidence, gathered in the enclosed eighth edition of Capital Research Center's annual study, *Patterns of Corporate Philanthropy*, suggests the opposite: big business is firmly behind the welfare state.

Corporations gave liberal advocacy groups \$3.42 for each dollar that went to conservatives in 1992, the most recent year for which records were available. In fact, they gave the top five liberal grant recipients over \$1 million more than they gave to all 87 right-of-center groups listed. Author Stu Nolan argues that among the most entrenched special interests, liberal groups like the Brookings Institution received six dollars for every dollar given to conservative groups like the American Enterprise Institute.

Unfortunately, *Patterns of Corporate Philanthropy*, which includes a preface by Malcolm S. Forbes, Jr., places among companies that support expansion of the welfare state.

Voters have demanded an end to big government's high taxes, heavy-handed regulation, and welfare-driven cultural decay. With your help, we can reinforce the work ethic and rebuild a prosperous America.

Sincerely,

Dick

Dick Armeay

~~Confidential~~ For your eyes only!

May 30, 1995

Memo To: President Bill Clinton

From: Toni Casey *Toni*

As you may remember, I am representing four biotech companies in California regarding legislative issues. In this capacity, we are sponsoring legislation with Senator Al Alquist as our author. Consequently, I am in Sacramento on a weekly basis and am very tied in to the political network and climate in California politics, both Republican and Democrat. In addition, I serve on the California DLC Board of Directors, am Chair of the Silicon Valley Chapter, am on Martha Whetstone's DNC Board, and finally a council member on the Los Altos Hills Town Council. With these hats, I hear and see a lot regarding politics in California.

I believe very strongly that you must have a truly superior person in charge of your campaign in California - one that is smart, highly articulate, known in political circles, and well respected among the factions within the Democratic party. Tom Umberg is this person.

I know Tom personally. As an assembly member, he was very effective and highly respected on both sides of the aisle in the California Legislature. He has superior recognition because he ran state-wide in the last election. After his loss, he joined the prestigious law firm of Morrison and Forester.

Tom espouses the DLC philosophy thus positioning himself well among business leaders and is also held in high regard with the more traditional leaders of the Democratic party, not an easy feat. He is personable, articulate, bright, and ethical beyond a doubt. He will be an enormous asset to your re-election. In my estimation, he would be totally devoted and committed to your re-election, not using the position to advance his own political career.

However, I have concern regarding Jon Emerson. Based upon my own assessment from personal experience and from discussions with others, Jon lacks credibility with California leaders. The perception of many is that he is someone who is interested in his own political advancement rather than his ultimate loyalty to you. I hope you will give serious consideration to having Tom Umberg play a major role in your re-election effort in California. We will win, but we need the best and the brightest. Jon Emerson is not the right person. Tom Umberg is.

*Look forward to seeing you in Ca
soon!*

DETERMINED TO BE AN ADMINISTRATIVE

MARKING INITIALS: DB DATE: 5/23/18

THE PRESIDENT HAS
6/15/95

To Leon/Helen

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President Labels Criminal Illegal Aliens Least Wanted

Officials in California, Florida Disagree on Worth of Program to Increase Deportations

By John M. Goshko
Washington Post Staff Writer

President Clinton, looking ahead to the 1996 presidential campaign, is taking new action on the politically sensitive immigration issue by targeting people who have not only entered the country illegally but also committed a crime here.

"It simply doesn't make any sense for us to have illegal aliens in our custody in our courts and then let them go back to living here illegally," the president said during his May 6 radio address announcing the plan.

Immigration has been a perennial but traditionally low-priority issue in presidential campaigns. But Clinton's actions and the partisan response to them indicate this year will be different. That is especially true in the two states that have the biggest illegal immigration problems—California and Florida—both of which are key to Clinton's hopes for reelection.

Clinton has been praised by officials in Florida, which has a Democratic governor. But in California, where Republican Gov. Pete Wilson is Clinton's chief political antagonist on this subject and a potential presidential candidate, officials charge that Clinton's response is too little and too late.

California Attorney General Daniel E. Lungren and Joe G. Sandoval, Wilson's corrections chief, charged in a letter to Attorney General Janet Reno that the federal government's alleged failure to move against large numbers of alien felons is a "theater of the absurd."

In both states, there is deep-seated resentment among taxpayers who feel that the federal government's failure to deal adequately with illegal immigration causes an unfair drain on local resources.

Working to reverse that perception, the administration's latest initiative takes aim at illegal aliens who are regarded by the general public as criminals: those who are serving prison sentences and those who were deported and then sneaked back into the country. They range from petty stickup artists and drug couriers to brutal rapists; while the INS campaign involves all aspects of illegal immigration, it is this criminal class that the administration has

been emphasizing most recently in its public statements and its lobbying for congressional support.

The overall goal, said T. Alexander Aleinikoff, INS general counsel, is to triple the total number of deportations from approximately 37,000 this year to more than 110,000 in 1996, with 58,200 of that number being criminal aliens. That is to be done by increasing the federal government's capacity to detain and transport those to be deported, adding more lawyers to work on deportation proceedings and establishing "absconder removal teams" to pursue those declared deportable by an immigration judge.

But probably the biggest weapon in the INS arsenal, Aleinikoff added, is expansion of the Institutional Hearing Program, which gets deportation orders for criminal aliens while they are serving prison sentences. That enables the INS to deport them immediately upon their release. Although these programs apply to all states, the emphasis has been on California, Florida and such other states with high concentrations of illegal aliens as Texas, New York, Illinois, New Jersey and Arizona.

In Florida, where officials long have complained about inadequate federal help in coping with illegal immigration from Haiti and other parts of the Caribbean, Mark Schlackman, special counsel to Gov. Lawton Chiles (D), said: "We still feel that much remains to be done by Washington, but the federal government has been responsive and cooperative to a degree that seems unprecedented."

Schlackman noted that Chiles has been unsuccessful in his efforts to get Washington to transfer some 650 dangerous Cuban criminals who came to Florida in the 1980 Mariel boatlift from state to federal prisons. The "Marielitos" cannot be deported because of Cuban President Fidel Castro's refusal to accept them, and Schlackman estimates that keeping them in Florida prisons costs the state about \$100 million.

In other respects, though, the state and INS have worked amicably to speed up deportations. Most notable has been an agreement between Chiles and the INS under which alien felons imprisoned for nonviolent offenses can have their sentences commuted by the governor if they agree to immediate deportation.

THE PRESIDENT HAS SEEN
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California is a very different story. Leslie Goodman, a key Wilson aide, charged that most of the administration's efforts are "simply a response to lawsuits filed by the state. . . . We have an enormous problem of crisis proportions—one where one in five inmates in our criminal justice system is an illegal alien with the total number costing us more than \$400 million a year—because of federal slowness and outright failure to deport them."

Goodman said the Wilson administration has a "strong philosophical difference" with Florida's approach of releasing prisoners early if they accept deportation. "We believe you shouldn't cut deals but make convicted felons serve their full sentences—whether 15 years, 20 years or whatever," she said.

In some cases, California officials add, the INS has failed to take what they charge are the most elementary, common sense precautions for dealing with criminal deportees. That was what prompted Lungren's "theater of the absurd" complaint to Reno.

In his letter, sent on May 2, Lungren charged that an estimated 1,226 illegal alien felons who had been deported have returned to California and actually checked in with their old parole officers. Yet, he said, the INS has failed to arrest them. "They [the illegal aliens] apparently fear a violation of parole more than exposure to federal felony prosecution," Lungren wrote.

On May 5, Reno shot back. She wrote that "the number of prosecutions of criminal aliens who reentered after being deported has increased dramatically since this administration took office."

As to the other criticisms from California, one senior administration official said, "What can you expect from a state where the governor hopes that he'll be running against Bill Clinton?"

Is the Grants March South ...

Congress Moves to Cut Technology Program That Small Startup Firms Saw as a Lifeline

By Peter Behr
Washington Post Staff Writer

It's tough for mad scientists to raise money from private investors, says Andrzej K. Drukier, and he concedes there is something ambitiously mad about his quest to create a radically improved device for detecting dangerous viruses and other infectious agents.

So when Wall Street dismissed his requests for funds, he and his colleagues turned to rich Uncle Sam.

Drukier and co-workers at tiny Biotraces Inc. in Fairfax won a \$1.7 million grant in 1992 from the Commerce Department's Advanced Technology Program (ATP). Biotraces is one of 177 companies and technology coalitions around the country that have received a total of \$556 million under the program since 1990.

The ATP grants are one of the battlefields in the escalating budget wars between the

Clinton administration and the Republican-controlled Congress.

Under Clinton, ATP funding has tripled, symbolizing the administration's efforts to use the federal research and development budget to help generate new high-tech products.

To GOP budget cutters, led by House Science Committee Chairman Robert S. Walker (Pa.), the ATP is a wasteful example of corporate welfare and government meddling in decisions best left to business.

The budget plans passed by Republican House and Senate majorities would wipe out the ATP, which is based at the Commerce Department's National Institute of Standards and Technology (NIST) in Gaithersburg. It would take a highly unusual action in Congress to restore the program.

The core issues are, these: Do a relative handful of government-backed projects really make a difference to the nation's high-tech

competitiveness? Would these projects die if ATP funding were cut off?

Drukier and his partner, Biotraces President E. James Wadiak, said their company would not exist without the ATP funds, at least not in this country. "ATP was a kick-start for us," said Wadiak, interviewed at Biotraces' offices.

Before the grant, Biotraces was essentially an idea that grew out of Drukier's earlier research on identifying infinitesimal particles.

The same methods, he felt, could be adapted to produce a thousand-fold advance in equipment used to spot viruses, for example. The increased sensitivity of the devices would permit doctors to make a genetic diagnosis of a fetus from samples of a woman's blood or perhaps her urine, instead of the amniotic fluid of the womb, a far riskier procedure, said Wadiak.

"Now we have a story to tell," said Wadiak. Working prototypes of the equipment have been developed and investors are beginning to listen, Wadiak said.

NIST considers Biotraces one of the ATP's bright prospects, along with a Rockville firm, Optex Communications Corp., which is working on manufacturing reusable compact discs for computer information storage.

Without ATP, the Polish-born Drukier would have sought funds in Europe and the project's fruits would not have been harvested in this country, he and Wadiak agreed.

When ATP provides money first, private investors and major corporations are much more likely to follow, said Leonard A. Batterson, a partner in a Chicago investment fund that specializes in entrepreneurial companies. The \$556 million in

ATP grants have been more than matched by private funds.

Venture capitalists "much prefer to invest in real products that address real markets. It is very difficult to get seed capital that takes an idea and develops it into a prototype and finally into a marketable product," said Batterson.

Batterson—an early investor in America Online Inc., the Fairfax-based interactive computer services company—is a major investor in Nanophase Technologies Corp., a Chicago area company that is another of the success stories NIST claims.

Nanophase is using technology first developed at federal laboratories to manufacture products from microscopic particles. The applications range from powerful sunscreens to durable ceramic parts for automobile engines that can be produced far more quickly and cheaply than current methods permit.

"What we're trying to do is incredibly high-risk," said Nanophase President Robert W. Cross. "But we now have a product we can drop on the desks of the engineers at Ford and show them it's real," he said.

"He's sitting on a potential billion-dollar company," said Batterson. Caterpillar Inc. and Lockheed Corp. now support Nanophase, said Batterson. "Without ATP, there would have been no company," he added.

But the political change on Capitol Hill caught Commerce and NIST in midstream, pouring funds into ATP, a program that has not yet produced irrefutable success stories.

"Everybody should understand there aren't good answers yet" from NIST, said Christopher T. Hill, a technology policy analyst at George Mason University.

Without that evidence, ATP is a work in progress, involving a fraction of overall U.S. industrial research.

Rep. Constance A. Morella (R-Md.), whose district includes NIST's headquarters, also chairs the House Science subcommittee that oversees ATP. Although she has supported ATP in the past, she has not held hearings on the program nor publicly challenged her party's intentions to kill it.

A draft study of ATP by the General Accounting Office concluded that some of the progress cited by NIST was not well documented, according to sources who have read the still-unreleased report. NIST responded last month saying it "strongly disagreed" with the draft report's conclusions, calling it rife with "unbelievable errors."

The major lobbying organizations of big business have not rallied behind ATP, although private-sector engineers have expressed support in surveys.

Tax reduction is a higher priority for business executives, and they appear unwilling to side with Commerce Secretary Ronald H. Brown in a battle with congressional Republicans over ATP.

And ATP's beneficiaries, entrepreneurs such as Cross, have done almost no lobbying on behalf of the program, they acknowledge.

"Many of them don't even know who their congressional representative is," said Mary Good, undersecretary of commerce for technology.

Even Republican critics acknowledge that ATP grants have been awarded on merit. "So far they've been able to keep pork completely out of it," Hill said.

That's part of the problem, Good noted. "Having done it that way, we have no constituency," she said.

THE PRESIDENT HAS SEEN

6/15/95

THE WASHINGTON POST
SATURDAY, JUNE 3, 1995

Handwritten note:
Lama for
some clues in
the Clinton
to Mount
Defect -
ATP

Hicken/Somnich
Felt he was going to die!

THE PRESIDENT HAS SEEN
6/15/95

Ron SH. 6/19

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BUDGET POLITICS: A PRELIMINARY EDGE TO THE DEMOCRATS

Washington has a new political reality check...mid-May surveys reaffirming that the public's abstract support for deficit reduction isn't matched by support for the specific, huge seven-year cuts in public spending and the role of government just proposed by the Capitol Hill Republicans. This voter skepticism increases the likelihood of the upcoming budget debate emerging as 1995's most divisive national ideological battle — and not just between the parties but also within the GOP. Politically, at least, Bill Clinton may be off to a good start in threatening to veto the \$16.4 billion spending rescission just sent to him, as well as in refusing to negotiate on the seven-year GOP budget blueprints (see p. 5).

For now, sizeable popular majorities oppose *both* the Senate and House packages. Not surprisingly, the more radical House program spurs the greatest opposition — a weakness that could signal further escalation of intra-GOP differences, even including the explosive possibility of GOP House Speaker Newt Gingrich mobilizing this summer and autumn

to replace Phil Gramm as Bob Dole's principal 1996 GOP nomination rival (see p. 5). Meanwhile, Bill Clinton's job approval numbers are rising again, as is public trust in him versus the Congress (see p. 3). Here are the key circumstances and trends:

1) **Overall Voter Opinion of the GOP Deficit Reduction Proposals:** It's negative, according to the most recent *specific* sampling — May 11-14 ABC/Washington Post data which found 56% of Americans opposing the Senate package, with its roughly \$1 trillion in cuts, while 60% opposed the House program, which involved almost \$1.3 trillion in spending reductions and a \$350 billion cost for tax cuts. Some related numbers are even more revealing...the Washington Post (5/16) notes that six of ten persons interviewed said they preferred neither the Senate nor the House proposal — "a view shared by seven of 10 self-described Democrats, six of 10 political independents and more than four of 10 Republicans." This could be a major opening for the more restrained White House approach. It's also a dubious augury for future GOP unity...rank-and-file Republicans oppose many proposed cuts (see p. 4). Meanwhile, the fiscal probes in other polls were less specific. Gallup/USA Today sampling for the same May 11-14 period, which broadly asked "Are Republicans on the right track in proposals to cut federal spending?", turned up 49% saying right track and 39% saying wrong track. In turn, Time/CNN polling for May 10-11 merely gave respondents two unlabeled general alternatives — "a plan that balances the budget by cutting popular programs like Medicare and farm subsidies" got 47% while "a plan that would

protect popular programs but continue to run large deficits drew 36%. Analyzing the three surveys together, support for the GOP approach looks to be somewhere in the 30-49% area, albeit specific responses illustrating public protectiveness of education, Medicare and the three federal departments that GOPers hope to scrap, as well as possible doubts about welfare cuts, may well shrink the reliable range of support for the actual GOP proposals to 30-35% — and as the full details become known, enthusiasm is more likely to decline than grow.

2) Ambiguous Popular Support for the House Tax Cut Proposals: This refers to the \$350 billion worth of cuts over 7 years — in personal income taxes, corporate taxes and the capital gains rate — proposed in the House package but not in the current Senate blueprint (although Senate tax cut proposals will follow soon). Here's where the real tactical quicksand begins. Because voters see the House tax cuts as principally helping the upper brackets — in Gallup's new data, 57% of respondents say they'd mostly benefit the rich — the Clinton White House is already scoring points by charging that House GOPers seek to cut programs for the poor and middle class to pay for reducing taxes on the wealthiest Americans. Some of the polling, to be sure, includes seeming contradictions. On one hand, according to the Time/CNN survey, 65% of voters prefer "a smaller tax cut that would take effect in the future if a balanced budget were assured" while just 23% prefer an immediate tax cut. On the other hand, though, when Gallup asked "should Republicans drop attempts to cut taxes in their plan to reduce the deficit?," 55% preferred to *keep* tax cuts. Our assumption from this varied data...that while voters think the House GOP version favors the rich, they'd like some targeted ordinary-voter tax cut if it can be managed with fiscal safety. The central weakness for the GOP...how voter doubts about the bias and fiscal irresponsibility of the House tax reductions give the Democrats a potent political argument against any spending cuts that would affect the poor or middle class while being used by Republicans to fund tax cuts seen as designed for business and the wealthy. Yet the GOP will also be hurt — both in terms of

key constituencies *and* promise-keeping credibility — if it drops the tax cuts for families. Overall, Gallup's new data shows a substantial December-May shrinkage in the Republicans' earlier large edge over the Democrats in handling taxes, dealing with budget and managing the economy:

Who do you have more confidence in when it comes to handling the following problems?

	Clinton	Republican Leaders
<i>Taxes</i>		
Dec. 16-18	36%	54%
Feb. 24-26	37	50
Mar. 27-29	38	48
May 11-14	42	45
<i>Federal Budget Deficit</i>		
Dec. 16-18	37	47
Feb. 24-26	32	52
Mar. 27-29	37	49
May 11-14	39	42
<i>The Economy</i>		
Dec. 16-18	36	52
Feb. 24-26	39	51
Mar. 27-29	41	48
May 11-14	44	44

3) Medicare and Social Security: This one isn't just quicksand...it's a minefield for the GOP. In Gallup's data, 68% say Social Security shouldn't be cut even if it increases the deficit, while 59% say the same about Medicare. The Time/CNN poll found huge percentages of Americans saying it was important to prevent the following programs from being significantly cut: Social Security (84%), Medicare (81%), Medicaid (71%). On Medicare, Gallup found Clinton moving into a large lead — 49% to 36% — over the GOP in terms of public confidence in who could manage it. Even some GOP House leaders are blaming Speaker Gingrich for fumbling this aspect. Time (5/15) quotes House GOP Conference Chairman John Boehner (Ohio) as saying "We were doing fine until Newt stumbled." As for Social Security, the House GOP proposal to reduce the cost of living increases for recipients in 1999 looks very

unpopular...the Time/CNN poll found 62% to 34% nationwide opposition, including a solid majority of rank-and-file Republicans (see p. 4).

4) Elimination of the Energy, Commerce and Education Departments: The newest round of polls confirms the public skepticism already visible in previous sampling. Consider the Time/CNN numbers:

To reduce the deficit, do you favor or oppose eliminating		
	favor	oppose
Department of Energy	38%	50%
Department of Commerce	37%	48%
Department of Education	20%	77%

The Commerce Department clearly remains a plausible target. What's revealing, though, is that voters apparently aren't turned on by the basic concept of junking major federal departments. The budgetary attack on the Education Department, moreover, is a *major* loser.

5) Education, Welfare and Farm Subsidies: Not all the measurements agree. To begin with, however, *no* survey shows serious support for reducing education outlays. In the Time/CNN poll, a whopping 77% said it was important to *prevent* significant cuts. This angle looks like a Democratic opportunity. As for farm subsidies, the Time survey found 46% favoring cuts while 48% urged preventing reductions. Voter sentiment on welfare is less clear...the ABC/Post poll reported that *opposition* to further welfare cuts rose from 34% in January to a 52% *majority* in May. But in the Time/CNN data, 65% favored significant cuts while just 29% urged preventing them. For GOP legislators, cutting welfare generates the least opposition inside the Republican coalition (although even here, backlash potential exists with women and moderates).

6) Relative Public Support for Clinton Versus Congress: Gallup's May data shows approval of Clinton at its highest margin over competing public approval of Congress since the 104th Congress began — Clinton's rating is 16 points higher. Next, note the ABC/Post poll, which back in January

showed the Republicans in Congress trusted over Bill Clinton by 54% to 30% to deal with national problems. By April, that edge had dropped to 49% to 41%. By this week, ABC/Post pollsters found the two neck-and-neck at 42%. Interestingly, although there's no comparable poll detail for *previous* Congresses that faced presidents of the other party — since 1947-48, invariably *Democratic* Congresses versus *Republican* presidents — we suspect that the Capitol Hill GOP's January-May ebb versus Clinton in voters' comparative trust represents the largest early loss of ground by an opposition Congress in decades. If so, then it fits a pattern that APR has been hypothesizing for some time; namely, that since 1991, U.S. politics has been moving into a new cycle of volatility. Congressional Republicans may now be in the same credibility erosion that savaged Bush in 1991-92 and Clinton in 1993-94.

7) The Budget and the Business Cycle: As we've noted here before, one vital key to the 1996 election is how the business cycle behaves in the next 12 months — remember that Year Five of the aging recovery began in March — and which side gets blamed for any downturn. Normally, the party in the White House rather than the party in Congress gets blamed — the GOP lost seats during the recession or near-recession downturns of 1958, 1970, 1974, 1982, 1986 and 1990 despite whole or partial Democratic control of Congress. In 1948, however, voters held unpopular economic policy against the GOP 80th Congress instead of Democratic President Truman, and as of 1995, awareness of a GOP Congress has again made such a splash that voters think that the GOP, not Clinton, dominates Washington. Given the substantial decline in voter support of the GOP Congress and its economics, 1995-96 Republicans could face a similar risk. Political blame for any downturn is one of the highest stakes in the present budget maneuvers, which probably further supports the apparent White House strategy of avoiding any compromise to keep the GOP's unpopular socio-economics in the

spotlight.

8) Budget-cutting, the Welfare State and the International Cautions for Conservatives: This is another subject we've touched often enough — see APR for Mar. 10 and for Aug. 26, 1994 — that this will be no more than a quick recap. Most of the other G-7 nations have larger budget deficits as a percentage of GDP than the United States, and conservative governments — not least in Canada and Britain — have had great recent difficulty in cutting them, even though at 4-5% of GDP their level of fiscal crisis has been greater than our own current circumstances at slightly over 2% of GDP. The problems of the British and Canadian conservatives, however, have been aggravated by a fiscal philosophy of trying to combine income tax cuts and shifts to regressive levies (VAT, GST, Mrs. Thatcher's hoped-for poll taxes, etcetera) with major cutbacks and user fees on social welfare programs. The governing Canadian Progressive Conservatives were smashed in the 1993 elections and Britain's current Conservative government is experiencing massive repudiation in the opinion polls and local elections. Although middle-class voters in both countries turned against their Conservative parties, GOP strategists dismiss any analogies as irrelevant...Spring's U.S. polls suggest otherwise.

9) Republican Budgetary Dissent in the United States: Anger hasn't yet reached British or Canadian levels, but it's significant. In addition to the prior surveys we've cited on what percentage of Republicans are saying they're not getting what they voted for (26%), that the GOP is too much for the rich (34%) or that Gingrich is too extreme (44%), we'd add the following from the new May polls: four out of ten Republicans don't want either the House or Senate budget (ABC/Post); 72% of Republicans say it's more important to *prevent* Medicare from being significantly cut than to make significant cuts to balance the budget (Time/CNN), 73% of Republican take the same view on student loans and other educational programs, 59% say likewise on Medicaid, 48% on farm programs and 45% on mass transit subsidies. In addition, majorities of Republicans *oppose* eliminating the Department of

Education (74%) and even the Department of Energy (50%). The Time/CNN poll also has 57% of Republicans opposed to the House GOP's proposal to reduce the cost-of-living increases in Social Security benefits in 1999. The indication...that GOP elites are as much out of sync with rank-and-file party voters on these issues as the Democratic elites of 10-25 years ago were with their party rank-and-file on cultural issues. These various circumstances suggest that the socio-economics of the budget debate could emerge as an important wedge issue for U.S. Democrats. But Democrats themselves have a checkered enough fiscal record that it's no sure thing.

10) Republican Strategic and Tactical Problems: There are five — all related. First, the GOP is overplaying the present deficit level as a national threat and crisis (voters don't see things as that pressing...and when the Republicans wanted to cut taxes and spend on defense in the early and mid-1980s, many of them dismissed deficits); second, it's hard to sell a national crisis demanding broad sacrifice when the sacrifice in the House and Senate approaches is mostly aimed at poor and middle-class programs while corporations, the top 1%, defense and the CIA et al take no hit (long lists of cuttable business subsidies and tax breaks have been left on the table); third, the House package sets up a particular vulnerability by having to cut a lot more spending to pay for controversial upper-bracket and business-tilted tax cuts; fourth, the GOP's proposals to cut Medicare without reforming health care not only offend voters but play into Clinton's hands; and finally, the GOP's budget numbers pay no attention to inevitable 1995-2002 ups and downs in the business cycle. Given that deficits have been building for 25 years, periodically enlarged by downturns, it would make more sense to try to get the deficit down to (say) 2.0% of GDP in this coming fiscal year and then shoot to get it down to 1.4% or 1.5% of GDP towards the end of the next recovery cycle. The reason Republicans want to go so much farther so much faster — or so

★ Democrats can plausibly argue — is that GOPers are using the deficit as an excuse to shrink government to an extent the average American doesn't favor.

11) Democratic Strategic and Tactical Problems:

Clinton's 1993-94 handicap was that deficit reduction and tight fiscal policies were losers, as previous conservative economics had been for the few Democratic administrations that tried them over the last hundred years....Grover Cleveland in the late 19th Century and Jimmy Carter in 1977-80. The Democratic Party flourishes in situations where it can spend money to pump the economy and/or attack economic elites. In contrast, Democratic administrations that have to court Wall Street or the bond market don't do well — and Clinton's emphasis on deficit reduction and the bond markets in 1993-94 has been widely chronicled. This 1993-94 emphasis on deficit reduction is now a two-edged sword. On one hand, prior rhetoric has trapped him into a language of deficit reduction that now partly ties his hands in certain criticisms of the GOP. And his OMB director, Alice Rivlin, has no political smarts.

On the other hand, however, Clinton — who got little or no 1993-94 credit from the electorate — can now say that whereas he pursued moderate deficit reduction, the new Republican blueprints are much too extreme. Moreover, his tactics over the last few days have been shrewd. He should profit from his hardline veto threat on the 1994 spending rescissions

— April ABC/Post polling showed 72% of Americans opposed to what was then a \$17 billion cut — both in public opinion terms and as evidence of a new toughness coming into play on behalf of education, Medicare and the like. Clinton's refusal to compromise with the GOP until party leaders make major retreats on taxes, Medicare and education also makes sense. Clinton has the polls on his side, and with the GOP voter coalition far more divided than the Democratic voter coalition, the spotlight on the GOP's proposals will be harsher than voter reaction to the president for not compromising.

12) Budget Politics and the Republican Presidential Nomination: As the new Gallup data on p. 6 shows, Bob Dole is losing his early lead over President Clinton in 1996 trial heats as intra-

party pressures force him to the right. Dole's shift on issues ranging from fiscal policy to religion is appealing enough to party conservatives to maintain his huge 30-40% lead over GOP nomination rivals, but Dole appears to be undercutting his general election prospects. The upcoming tax-and-budget brouhaha, in which he'll again be forced to the right by pressure from Phil Gramm and House conservatives, will continue this trend. With Gramm's presidential candidacy not going anywhere so far, the latest rightward ideological pressure is coming via rising discussion that June's trip to New Hampshire by House Speaker Gingrich could be the prelude to his own 1996 presidential candidacy. This would displace and doom Gramm, but it could also create a very messy situation for Dole — a House Speaker and Senate Majority leader opposing each other in their party's presidential primaries is unprecedented and potentially explosive. This keeps pressure on Dole, too. There's also another Machiavellian side...if the White House can keep the GOP disagreeing and dividing over the budget through summer and thereby force Gingrich into the race against Dole, the President could greatly increase the odds on his own 1996 success.

In short, while the budget may be a dry subject, its potential 1995-96 political importance is hard to overstate.

NATIONAL POLITICS

1) Clinton Job Approval: He's climbed again in May, with the latest numbers as follows:

	Gallup/ USA Today (5/11-14)	ABC/ Post (5/10-14)	Time/ CNN (5/10-11)
Approve/positive	50%	56%	52%
Disapprove/negative	42	41	41

	Sindlinger (week ending) 5/4	5/11	5/18
Approve/positive	49.4	48.2	48.1
Disapprove/negative	41.9	43.2	42.0

Thanks office. I see you
didn't get this. I sent
a copy in a ~~memo~~ Thursday.

Actly / CC
we can show help
in they conf ~~OK~~

THE PRESIDENT HAS SEEN
6/15/95

THE PRESIDENT HAS SEEN
6/15/95

MEMORANDUM

TO: PRESIDENT CLINTON
FROM: FRANK GREER
DATE: APRIL 27, 1995
RE: THE NEXT STEP

You have been a superb President in the face of this tragedy. You have comforted and inspired the nation. You have been caring and compassionate yet tough and decisive and firm.

"The Lord Works in Mysterious Ways."

Out of this tragedy and suffering, I believe we have an opportunity to fundamentally change attitudes in this country. If we seize the challenge, it can be a turning point for America and for your Presidency.

What we as a nation need to hear is not just denunciation -- we need inspiration.

"What we saw in Oklahoma City was not only the forces of hatred and violence and division. We saw the best of the American spirit ... caring and compassion ... concern for one another ... neighbor helping neighbor ... understanding and tolerance and love -- A true resurgence of community. That's the American Spirit. That's what keeps the American Dream alive for our children."

"And now we need to unite and inspire the nation with a Crusade to Stop the Violence and Rebuild the American Community."

I believe you could launch this crusade with your speech at Michigan State University on May 4th. You could issue a challenge to the nation -- to communities and neighborhoods plagued with crime, to parents and teachers in our homes and schools, to Ministers and Rabbis in our churches and synagogues, to the media and the movie

makers, the writers and the talk show hosts... To leaders of every political persuasion -- left or right.

"Now is the time to put aside partisan politics and unite this country in a campaign to Stop the Violence and Rebuild the American Community and restore the American Dream. The message is clear -- Let us unite to condemn hatred, intolerance and violence. Let us rebuild a sense of community with understanding, tolerance and respect, caring and compassion and love for one another, neighbor helping neighbor. We can restore a sense of civility and civil order. We can become a national family again."

This does not require legislation. It requires a volunteer mobilization on a massive scale. Beginning with a White House summit, State summits convened by the Governors, City summits with the Mayors.

You could ask for a Hollywood summit to challenge the movie and television industries to reduce violence on air and screen. Churches, synagogues, schools and universities would be asked to develop programs to find ways to reduce violence and teach tolerance. Every American could be asked to spend time learning and then teaching peaceful conflict resolution ... the possibilities are tremendous.

I believe you have an opportunity to seize the "bully pulpit" and unite the nation in a crusade to Stop the Violence and Rebuild the American Community.

Let's seize it.

cc: HAROLD ICKES
ERSKINE BOWLES
GEORGE STEPHANOPOULOS
MARK GEARAN
DON BAER

THE PRESIDENT HAS SEEN
6/15/95

As Delivered
Emerging Issues Forum
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RENEWING THE AMERICAN SPIRIT

John W. Gardner

Informed Americans are all too familiar with the list of grim problems facing this nation today—violent crime, racial conflict, neglected children, unemployment, inadequate health care, environmental degradation, the deficit, a troubled educational system, political corruption, international crises and so on.

I think we're all a little tired of hearing about those problems, even a little bored by them. So we have to remind ourselves of something we learned in school and may have forgotten. Societies decline. Civilizations die. There are more dead civilizations than live ones.

The problems are frightening but in themselves are not as perplexing as the questions they raise concerning our capacity to gather our forces and act. A fraction of the electorate votes. The prevailing mood is cynicism. To mobilize the required resources and bear the necessary sacrifices calls for a high level of motivation. Suppose that our shared values have disintegrated to the point that we can no longer lend ourselves to any worthy common purpose.

Do we still have the guts and character to create a future worthy of our past?

Not to face those questions with seriousness would be remarkably foolish. Despite the troubles, our vast society hums with a reassuring steadiness. The morning paper is delivered on time. One's favorite TV program is predictably there. The chain stores are stocked and the highways crowded. It is hard to imagine that under that great throbbing busyness, the clock of doom might be ticking—as it has ticked for every other great civilization in history.

I'm not going to talk about our problems. I'm going to ask how we can regain the motivation, the will, the vitality to tackle our problems.

Vitality depends upon the release of human talent and energy, so let's begin with that.

The greatest asset any society has is the effectiveness and capacity, the quality and dynamism of the human beings in the system.

The release of human talent and energy involves effort along many lines, among them

- First, removal of the caps on energy and talent imposed by poverty, racism, illness, joblessness, dysfunctional families and the like.
- Second, lifelong education that seeks out hidden gifts and sets everyone on a path of self directed learning and growth. Education liberates. As someone said, if ignorance is bliss, there should be more happy people.
- Third, redesign of large-scale organizations (corporate, governmental and nonprofit) that smother individual talent and energy under the weight of bureaucratic rigidities.

In addition to the consequences for the individual, the release of human possibilities can have powerful economic consequences. Released talent and energy builds civilizations.

But talent and energy are in themselves morally neutral. We have some remarkably talented and energetic crooks. What we seek is release within a framework of law and shared values. And that framework will exist only to the extent that a measure of community exists. I'll return to that subject.

In all of us there are undiscovered gifts, untested strengths. It is natural to suppose that those with undiscovered or undeveloped gifts are mainly the unfortunate of the world. But the loss occurs on a large scale in corporations, in government agencies, in nonprofit organizations. We are just beginning to see that the individual's potentialities may be blighted by a diminished sense of self-worth, by excessive pressures for conformity, by narrow specialization, by a lack of opportunities to grow. We are just beginning to recognize how even those who have had every advantage and opportunity unconsciously put a ceiling on their own growth, underestimate their potentialities or hide from the risk that growth involves.

There are great untapped reservoirs of human energy and capacity awaiting leaders who can tap them, and societies that deserve them.

The effort must continue through all stages of the life cycle, including midcareer counseling and renewal in later life. The goal is to offer people opportunities favorable to the flowering of whatever gifts they may have. We can create the conditions and a climate of challenge, expectation and

opportunity. We can remove the obstacles, unearth the buried gifts and release the world-renewing energies.

But often the release of talent and energy in the individual is hampered by an aging society or a decaying organization. So let me say a word about renewal at the organizational and societal level.

Societies and organizations do age. Historians tell of Greece and Rome. Business journals recount the growth and decay of commercial enterprises. Motivation tends to run down. Values decay. Group loyalties block self-examination. The processes involved in the rise and fall of human institutions are universal; but renewal is possible. And we know a great deal about the renewal of human institutions.

The quite successful corporate renewal efforts of the past two decades, and the recently launched movement to "re-invent government" are familiar to informed Americans. In contrast, virtually invisible and unknown to the American people is an extraordinary wave of renewal that is occurring at the grassroots in just about every area of domestic concern today. There are promising innovations in every field, from prenatal care to parent education, from affordable housing to rebuilding a sense of community. The innovators represent a great diversity of racial, religious and occupational backgrounds. The instances are local, so they get virtually no national attention—but cumulatively they are a national event.

These instances of renewal—corporate, governmental and social are heartening, but whether they are moving rapidly enough to counter the rampant social disintegration is another question. So we had better press on.

In my judgment, no other society in the world is better designed for continuous renewal than ours. But we would be stupid to take it for granted. Renewal requires that we look beyond tomorrow, and we have shown a growing reluctance to invest in our own future.

One vital ingredient in social renewal is the dispersion of initiative and responsibility. In circles that debate organizational questions, one hears much discussion of the merits of decentralization, of whether the direction of ideas and initiatives is "top-down" or "bottom up" and so on. The 1960s radicals cried "Power to the people." Louis XIV said "L'état, c'est moi," I am the State—and a century later revolutionary leaders beheaded his descendant Louis XVI as a way of expressing their conceptual disagreement with that view. The corporate executive suite in New York tries to decide how much freedom to give the branch manager in Tucson. All these are varied expressions of a crucial question for any social system: to what extent are power and initiative dispersed throughout the system?

In the mid-1970s, American corporations faced up—reluctantly—to the fact that Japan and West Germany were outperforming us on several industrial fronts. Responding to the challenge, American industry has in the past 15 years undertaken a major overhaul of its structure and processes. The battle is far from over, but the record is really quite remarkable. And one of the clear themes was the necessity of spreading initiative and responsibility.

✓ A decade ago far-sighted experts in public administration recognized that a comparable process of renewal was long overdue in government; and the Clinton Administration has launched an official effort to carry out the objective. And again, a significant theme is the spreading of initiative and responsibility downward and outward.

In the large intricately organized systems through which we pursue contemporary purposes—and I am speaking of all large-scale systems, corporate, governmental and others—dispersion of initiative and responsibility is an inescapable requirement. There must be in every segment and at every level of the system individuals *able to, trained to and motivated to* make leaderlike decisions with respect to problems in their part of the system. Otherwise, the system will eventually flounder.

Unfortunately, this idea has been caught in the political sloganeering of Washington, D.C. but it is not an item of political ideology. It is a verifiable attribute of large human systems.

✓ So what lies ahead, regardless of which political party is in power, is less centralization of decision-making in Washington. This is not the old battle cry "The less government the better!" I am not a Washington basher. Nevertheless, less centralization in Washington and a greater role for America's communities. And this comes at a time when—for quite different reasons—there is a new appreciation of the idea of community.

X The difficulty that the American people are experiencing in the accomplishment of group purpose is traceable in part to a disintegration of shared values; and unfortunately, the soil in which such values are rooted and nurtured—family and community—is being blown away in the dust storm of contemporary life. We are witnessing the shredding of the social fabric—and it is profoundly disturbing.

Most of the problems that afflict this nation we can endure. We are pretty resilient. But a final disintegration of our shared values—that we won't survive. That will end the great venture. Bring down the curtain.

Lee Atwater, the tough, battle-hardened political warrior who managed George Bush's rough, no-holds-barred campaign in '88, wrote some sentences as he lay dying of brain cancer—sentences we all might do well to memorize:

"My illness helped me to see that what was missing in society is what was missing in me: a little heart, a little brotherhood . . . It took a deadly illness to put me eye to eye with that truth, but it is a truth that the country, caught up in its ruthless ambitions and moral decay, can learn on my dime. I don't know who will lead us through the 90s, but they must be made to speak to this spiritual vacuum at the heart of American society, this tumor of the soul."

Heart piercing words from a dying man.

But shared values cannot be regenerated by talking about them. We must rebuild the social contexts in which shared values arise and are nurtured. We must rebuild community.

✓ (We are coming to recognize that we must rebuild a sense of community in families, schools, congregations, neighborhoods, with particular attention to the community's role in the protection and nurture of children. A healthy community is an arena in which we learn responsibility to and for others. It is a network of trust and social support and nurtures a sense of the common good.

A vital community reconciles group purposes with individual diversity. On the larger scene the diversity is supplied not by individuals but by sub-groups—national, ethnic, religious, linguistic, whatever. *In either case the goal is to achieve wholeness incorporating diversity.* That is the transcendent task for our generation, at home and worldwide.

A central part of the task, of course, is to deal with conflict. In recent decades we have developed impressive new techniques of dispute resolution, and they should be taught in every educational system. The ancient human impulse to hate and fear the tribe in the next valley, the ethnic group on the next block, those who are "not like us" is deep-seated, and—if not curbed—profoundly destructive.

That is why our interest in local community building is inevitably linked with a concern for collaborative processes. We know that communities and the sense of community can be revitalized through collaborative problem-solving, using well-tested techniques.

—Collaboration is crucial to local governance. In line with the principle of devolving initiative and responsibility, the role of local government will have to be strengthened. And federal legislation and regulations must be so designed as to leave ample room for ground-level creativity and collaboration.

It is essential to relate all levels of government to the corporate and nonprofit worlds in mutually fruitful partnerships; and to relate local government to all segments of its community—racial, linguistic, occupational and the like.

Americans should not look to government as the only hope for solving their problems. We shall save ourselves or we won't be saved. But government is one instrument at our disposal, and it must play its part. We must help government to revitalize itself at every level.

And that brings me to my final topic: citizen involvement. Citizen action and community service are sources of morale. In a huge and complex society the sense of impotence on the part of the individual grows like a great, life-endangering tumor. All too many citizens feel hopelessly separated from the centers of decision, hopelessly jerked around by circumstances they can't even understand much less combat. For them to act—in their own behalf and in behalf of the community—is curative. Even the simplest civic act helps—something in their own community, something doable, something the consequences of which they can see with their own eyes.

People want meaning in their lives; but in this turbulent era a context of meaning is rarely handed to us as a comfortable inheritance. Today we have to build meaning into our lives, and we build it through our commitments—to our religion, to our conception of an ethical order, to our loved ones, and to our community.

Every citizen should be involved in some form of citizen action or community service. An old farm proverb says "The footprint of the owner is the best manure." The footprints of citizens should be all over community affairs.

How can the American people be awakened to a new sense of purpose, a new vision and a new resolve?

A movement to wake up America would have to be like the nation itself—not monolithic, not hierarchical, not dependent on a powerful, charismatic leader rousing the masses, but upon leaders dispersed through all segments of society and down through all levels of the society, and upon an even greater number of vital and responsible citizens who share leadership tasks. Local responsibility is crucial. The rebirth of this nation will rise up out of the nation's communities. Periodically, throughout our history, "the folks out there," out and around America, far from power but close to the good American earth have shown not only their creativity but their capacity to move the nation. This is such a time. The next America will be forged "out there" in American communities.

All segments of the society must be involved—all religious and ethnic segments, the professions, government, the nonprofit world, business, labor, the educational world and so on. Everyone must help. And in the same spirit, the benefits must be widely shared. No one can be left out.

Whether you are an Asian immigrant seeking citizenship, a Hispanic pursuing upward mobility, an African American fighting for racial justice, a descendant of earlier immigrant groups (including the Mayflower passengers) or a Native American whose ancestors immigrated before recorded history—you have a stake in the health of this society. We're all in this together. Our tradition has been one of continuous renewal by streams of newcomers. The many ways in which the newcomers have contributed is itself a part of our tradition.

If we are to accomplish the painful tasks before us today we will require a positive public mood, a charge-ahead mood, a we-can-do-it mood. We'll have to put behind us the cynicism and negativism so prevalent today. There will have to be an extraordinary resurgence of spirit on the part of the American people, a fierce commitment to the common good, a willingness to sacrifice. If we don't have it in us to respond, social disintegration awaits.

Many Americans now alive remember how we rose to the fierce demands of 1942-1945. The present challenge is smaller in scale but conceivably even more dangerous. External enemies are more readily responded to. Most civilizations die from within, and are conquered less often by traitors within the gate than by traitors within the heart—loss of belief, corruption, cynicism, loss of a sense of control and disintegration of shared purposes.

I believe that Americans will welcome a new burst of commitment. The old spirit is still there—buried, but waiting for a wake-up call to lift us out of our sourness and self-doubt. We have the opportunity for a new cast at history—the rebirth of a nation. We have it in us to re-create a nation committed to deeply held values, highly motivated in pursuit of its shared purposes, economically vital, renewing itself continuously, and committed to the release of human possibilities; a nation that has mastered within its own boundaries the secret of wholeness incorporating diversity and is helping the world master it.

We must redefine patriots as men and women who tackle the problems, resolve the conflicts and renew the values of their communities. This conference has dealt with issues on a much broader stage—the world stage. But Americans who have had to represent their country overseas know that social disintegration at home undermines our capacity for strong, steady leadership abroad. If the spirit is faltering the hand cannot be steady.

Nothing good can issue from the sourness and negativism of the general public today. Nothing. I don't believe that Americans even like themselves in that frame of mind. We are a positive-minded people. We always have been. We're sick and tired of being sick and tired. Let's return to the style and spirit that suits us best.

Let's tell people that there is hope. Let's tell them there's a role for everyone. We can save the family and the children. We know how. We can demand and get accountable government. We can counter the mean-spirited divisiveness that undermines positive action. We can regenerate our shared values. We can release human talent and energy, and renew our institutions.

Now is the time to reach within ourselves, each to his or her own deepest reservoirs of faith and hope. Let's say to everyone who will listen:

"Lend a hand—out of concern for your community, out of love for our dear country, out of the depths of whatever faith you hold. Lend a hand."

As a people we are capable of laxity and self-indulgence. We are also capable of greatness. We have tremendous resources of strength and spirit—but we need to strike a spark to release that spirit. The time has come.

✓
THE PRESIDENT HAS SEEN
6/15/95

CORPORATE WELFARE: USER FEES AND SALES AT BELOW MARKET PRICES

Learn how to determine how to proceed now! PK

Three major components of corporate welfare with a budgetary impact:

- tax expenditures
- direct subsidies
- "hidden subsidies," including provision of services that benefit particular industries without charging fees that recover costs and selling resources at below market prices.

Failure to charge user fees and market prices has adverse consequences:

- Economic inefficiencies
 - Distorts resource allocation
 - Some services may not be worth costs of providing them
- Inequities
- Adverse budgetary impact

Widespread acceptance

- General principle of charging fees for certain services well accepted (drivers' licenses and court fees)
- General principle that as trustee of natural and other resources in public domain, government should obtain from these resources their full market value widely (but not universally) accepted.
- Polls show strong support for reducing corporate welfare
- Some reforms along these lines have been included in both House and Senate Budgets.

Limitations

- In some cases, legitimate social purposes are served by some of these implicit subsidies; distinguishing between those that are simply "special interest" benefits and those that serve broader social purposes may be difficult and contentious.
- In most cases, there are strong constituency groups that would be adversely affected by the removal of the implicit subsidy (charging market prices).
- In some cases, charging (or raising) user fees will be criticized as akin to raising taxes.

The attached list has not been vetted in terms of either politics or policy. Many of these proposals have been raised and rejected in the past, either by the Administration or Congress. We have, however, taken off the list most items relating directly to agriculture. The list is largely a compilation of proposals (including the National Performance Review, the Progressive Policy Institute, as well as conservative think tanks who have responded to Secretary Reich's call for an examination of Corporate Welfare) that have surfaced in one or more fora in the last year.

Some of these items have already been included in your Budget. These could be cited as representing your commitment to ending Corporate Welfare.

Categories of proposals

- Auctions
Spectrum, mining rights, ^Xrights to increased utilization of hydroelectric sites
- Charging royalties, where public resource has already been transferred to the private sector without charge
Radio and TV spectrum
- Raising prices to market levels
Uranium enrichment services, timber sales
- Raising interest rates to market rates
Ex-Im Bank subsidies
- Recovering economic benefits conferred by implicit government guarantees to GSE's
- Charging for government provided services benefitting particular industries
User fees for civil aviation
Charging fees for compliance and enforcement costs (bank examination fees, SEC)
- Government provided services benefitting many industries, but for which there are *particular beneficiaries*
Patents and trademarks
Import administration
Export administration

Conclusion

A review of the attached list makes it clear that we should be able to raise [\$25] billion over 7 years. We need to be aware, however, that many of the items are "hot button" items and have been tried before. We would not contemplate presenting a detailed list with the Budget Proposal, but selected items, such as those that we have already included in the President's FY 1996 Budget, could be mentioned as illustrative of the kinds of reforms that we had in mind.

OMNI 1: DATABASE OF REGO-RELEVANT AND CBO USER FEE OPTIONS
Auctions

Auction mining rights
Auction grazing rights
Auction unallocated water rights
Auction Export Enhancement subsidies
Auction quotas (e.g., sugar)
Auction hydroelectric development rights
Oil and gas auction improvement

94-A Page	SAVINGS 1-yr	SAVINGS 5-yr	CBO 5-yr	Industry	Dept	Type	Sub- Type	Existing Proposals
				NATU	DOI	A		C: other
				AGRI	DOI	A		
				AGRI	DOI	A		
				AGRI	USDA	A		
				AGRI	USDA	A		
				ENER		A		
				NATU		A		

Raising Prices to Market Levels

End below-cost timber sales from National Forests
Charge mkt. rates for water to grow surplus crops; surcharge on Bur.Recl. water
Raise grazing fees on public lands to market-based rates

390	\$	0.020	\$	0.255	\$	0.250	NATU	USDA	B	
693	\$	0.830	\$	4.300			AGRI	DOI	B	
686			\$	0.200			AGRI	DOI	B	

Raising Interest Rates to Market Rates

User-fund FHLMC (Freddie Mac) borrowing to offset implicit interest subsidy from Treasury
Charge other GSE's for benefit of implicit guarantee
User-fund Ex-Im Bank
User-fund export credit program loan guarantees
Charge companies who owe for timber purchased but now are allowed to default

1258			\$	0.297			CONS	HUD	L	
							CONS	HUD	L	S
1058							MISC		L	H: risk-related fees
							AGRI	USDA	L	
390	\$	0.135	\$	0.675			NATU	USDA	L	

Charging for Government-Provided Services Benefitting Particular Industries

Charge user fees for Agricultural Marketing Service
Fully-fund nuclear waste disposal through fees (hi: \$0.324)
Index for inflation gov. fees to dispose of utilities' nuclear wastes (non-add)
User-fund Civilian Radioactive Waste R&D
Recoup coal R&D costs incurred by gov't for tech. used for profit
User-fund half of National Marine Fisheries Service [NMFS] (Commerce)
Fund Forest Service via fees (for timber extraction, etc.) (non-add)
User-fund the Bureau of Mines
Service-fund Minerals Management Service (BLM)
Require fees to cover costs of land mgmt. (BuRec & BLM) (non-add)
Establish charges for takeoff and landing slots
Inland waterways: full user-funding
Enforce fee collection for Corps of Engineers harbor maintenance
Raise coast guard fees for commercial/pleasure boats
Raise fees for private media using FCC services (enough to cover costs)
User-fund spectrum mgmt. & COMSAT in NTIA [Nat'l Telecomm. & Info. Admin.]
Service-fund Authorization of FCC's Service & Enforcement (non-add)
Service-fund Manufactured Home Inspection & Monitoring
Service-fund Interstate Land Sales regulation (HUD)
Charge for FDIC examinations of state-chartered banks

308	\$	0.051	\$	0.204			AGRI	USDA	F	S
	\$	0.015	\$	0.255			ENER	DOE	F	S
			\$	0.300			ENER	DOE	F	S
577	\$	0.001	\$	0.003			ENER	DOE	F	S
							ENER	DOE	F	S
	\$	0.112	\$	0.336			NATU	DOC	F	S
390	\$	1.750	\$	8.750			NATU	USDA	F	S
708	\$	0.180	\$	0.980			NATU	DOI	F	S
688	\$	0.202	\$	0.606			NATU	DOI	F	S
	\$	0.160					NATU	DOI	F	S
855	\$	0.300	\$	1.500	\$	2.500	TRAN	DOT	F	S
522	\$	0.590	\$	3.140	\$	2.460	TRAN	DOD	F	S
511	\$	0.065	\$	0.230			TRAN	DOD	F	S
858	\$	0.700	\$	3.800			TRAN	DOT	F	S
1066	\$	0.105	\$	0.575	\$	0.390	COMM	Other	F	S/R
	\$	0.012	\$	0.036			COMM	DOC	F	S/M
1066	\$	0.059	\$	0.177			COMM	Other	F	R
	\$	0.007	\$	0.021			CONS	HUD	F	R
	\$	0.001	\$	0.003			CONS	HUD	F	R
1067	\$	0.255	\$	1.400			FINA	Other	F	R

OMNI 1: DATABASE OF REGO-RELEVANT AND CBO USER FEE OPTIONS

Service-fund all of SEC but limited research and analysis activities
 Raise SEC fees to cover costs of registering & monitoring securities (non-add)
 Fully fund Indian Gaming Commission via fees (now only 65%)
 Service-fund enforcement & assessments at Mine Safety & Health Admin.
 Service-fund FRA's enforcement program (civil enf. & track inspection) (DOT)
 Service-fund NHTSA's enforcement program (not safety defects) (DOT)
 Service-fund Aviation Regulation and Compliance (DOT)
 Permanently extend vessel tonnage fees due to expire in FY94
 Charge 12.5% mining royalty on pub. lands & extend hardrock mining holding fees
 Charge fees for exploration permits on BLM lands
 Allow private producers to cogenerate electricity at federal civilian facilities

94-A Page	SAVINGS 1-yr	SAVINGS 5-yr	CBO 5-yr	Industry	Dept	Type	Sub- Type	Existing Proposals
1140	\$ 0.250	\$ 0.750		FINA	Other	F	R	
1140	\$ 0.044	\$ 0.200		FINA	Other	F	R	C ?
749	\$ 0.002	\$ 0.006		NATU	DOI	F	R	
801	\$ 0.147	\$ 0.441		NATU	DOL	F	R	C (similar)
839	\$ 0.035	\$ 0.105		TRAN	DOT	F	R	
835	\$ 0.009	\$ 0.027		TRAN	DOT	F	R	
853				TRAN	DOT	F	R	
18	\$ -	\$ 0.067	\$ 0.098	TRAN	DOT	F	R	H
689		\$ 1.200		NATU	DOI	F	M	
688				NATU	DOI	F	M	
	\$ 0.090	\$ 0.480		ENER	MUL	F		

Charging for Government-Provided Services Benefitting Many Industries

User-fund all of the Patent Office (PTO)
 Extend expiring patent and trademark user fees
 Superfund: require polluting firms to pay more of cleanup costs
 User-fund half of remaining costs of ITA (Commerce) (non-add)
 User-fund more (1%) of the Corps of Engineers (DOD) (non-add)
 User-fund the Export Admin. (Commerce)
 Establish user fees for SBDC (Small Bus. Development Center) services
 Partial user-funding (10%) for NIST (Nat. Inst. of Standards & Tech. -- Commerce)
 Fully user-fund EPA Abatement, Control & Compliance
 Service-fund half of NLRB's C&E activities
 Service-fund Labor-Management Standards [Labor]
 Service-fund C&E at Pension & Welfare Benefits Admin.
 Service-fund C&E in Bureau of Alcohol, Tobacco & Firearms (Treasury)
 Bureau of Alcohol, Tobacco & Firearms: fees & fines to cover inspections
 Service-fund Fed. Trade Commission enforcement activities
 Extend Customs fees that expire after 1995

429	\$ 0.103	\$ 0.309	\$ 0.238	MISC	DOC	F	R	
				MISC	DOC	F	R	done?; H
	\$ 0.440	\$ 1.930		MISC	EPA	F	S	
	\$ 0.108	\$ 0.324		MISC	DOC	F	S	
511	\$ 0.030	\$ 0.090		MISC	DOD	F	S	C: smaller
	\$ 0.024	\$ 0.072		MISC	DOC	F	S	C: cuts
	\$ 0.017	\$ 0.068		MISC	SBA	F	S	C: cuts
433	\$ 0.002	\$ 0.006		MISC	DOC	F	S	
		\$ 6.600		MISC	EPA	F	R	
1112	\$ 0.085	\$ 0.255		MISC	Other	F	R	
792	\$ 0.026	\$ 0.078		MISC	DOL	F	R	
793	\$ 0.053	\$ 0.159		MISC	DOL	F	R	
	\$ 0.086	\$ 0.258		MISC	Treas	F	R	
	\$ 0.005	\$ 0.025		MISC	Treas	F	R	
1086				MISC	Other	F	R	
		\$ 2.400		MISC	Treas	F		C?(auction)
		\$ 43.893						

Key

A -- auction
 B -- below-market prices
 L -- loan subsidies
 F -- user fees
 S -- services (other than regulatory)
 R -- regulation
 M -- management of resource
 D -- downsizing; one-time sales or privatization
 C&E -- compliance and enforcement

C -- Clinton
 S -- Senate
 H -- House

OMNI 1: DATABASE OF REGO-RELEVANT AND CBO USER FEE OPTIONS

ACTIONS ALREADY PROPOSED BY THE CLINTON ADMINISTRATION

	94-A Page	SAVINGS 1-yr	SAVINGS 5-yr	CBO 5-yr	Industry	Dept	Type	Sub- Type	Existing Proposals
Auction concessions in U.S. parks					NATU	DOI	A		
Privatize Naval Petroleum Reserve	579				ENER	DOE	A		C:\$.9; S:\$.7; H
Sell (part of) Strategic Petroleum Reserve	579			\$ 1.170	ENER	DOE	A		C:\$1.6; S:\$.9;
Require royalties from spectrum users (or auction licenses) (FCC)	1066	\$ 1.850	\$ 10.300		COMM	Other	F/A	M	C:\$5
Broaden FCC authority to auction spectrum (non-add)				\$ 8.400	COMM	Other	A		S; H
Sell/privatize USEC					ENER	DOE	D		C; S:\$1.5; H
Recover cost of enriching uranium for nuclear power firms	577		\$ 1.600		ENER	DOE	F	S	
Sell four PMAs					ENER	DOE	D		C:\$2.9; S:\$1.6; H
Auction power from PMAs					ENER	DOE	A		
Privatize FAA	852				TRAN	DOT	D		C; S
Partially service-fund FAA via fees on airlines and private plane owners (non-add)	852		\$ 6.800	\$ 7.245	TRAN	DOT	F	S	
Increase FAA fees for inspection of foreign repair facilities	852	\$ 0.002	\$ 0.008		TRAN	DOT	F	S	
Eliminate SBA loan subsidies					MISC	SBA	L		
Charge market rates on loans to rural utilities					ENER		L		
Fund Food Safety & Inspection Service via service fees	303	\$ 0.227	\$ 1.135		AGRI	USDA	F	R	C (some); H
FDA Inspections & approvals; increase cost support via fees & fines	601	\$ 0.472	\$ 1.416	\$ 0.482	AGRI	HHS	F	R	
Fees for meat and poultry inspection (Packers & Stockyards Admin.)	313	\$ 0.100	\$ 0.500		AGRI	USDA	F	R	C
Fund compliance activities of Federal Grain Inspection Service via fees	305	\$ 0.005	\$ 0.025		AGRI	USDA	F	R	C?
Service-fund Animal and Plant Health Inspection Service (APHIS)	301	\$ 0.440			AGRI	USDA	F	R	
Extend Nuclear Reg. Commission fees					ENER	DOE	F	R	S
Fee on CFTC futures-exchange transactions to cover oversight costs (CBO:&options)	1049	\$ 0.045	\$ 0.310	\$ 0.442	FINA	Other	F	R	C ?
Permanently extend rail safety fees	839	\$ -	\$ 0.155	\$ 0.226	TRAN	DOT	F	R	C; H
Eliminate USTTA or fund from non-immigrant visa fees (\$3 each on 7.5m/year)		\$ 0.020	\$ 0.060		MISC	DOC	F	S	
User-fund Fishermen's Guarantee Fund	824				MISC	Other	F	S	

lcher
6/15/95
The President has SE™
taken to run on phone
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to be surgeon general.

It is women who have responded most strongly to the administration's arguments that in cutting \$1 trillion-plus from projected spending, the Republican budgets would most hurt society's aged and defenseless. In the aftermath of the Oklahoma City bombing, Clinton's strong talk about volunteer militias and anti-government violence has resonated well with men, but done even better with women, polls show.

All these together lifted Clinton's job approval rating into the mid-50s range recently, to its highest point this year.

"When it comes to worrying about the social welfare net, and putting the whammy on the good old boys out at weekend target practice, there's no question where the vote comes from," said Kevin Phillips, the conservative political analyst. The White House, he said, "has every reason to take pains with them."

Women voters even tend to respond more favorably than men to Clinton's foreign policy, seeing prudent flexibility in diplomatic moves that many men would read as weakness. Women aren't as likely to be alienated by Clinton's Vietnam era draft history, pollsters say.

In the view of some analysts, the White House has been helped greatly this year by the ham-handedness of the House Republican leadership, which tilted noticeably in the direction of male sensibilities.

(Begin optional trim)

In its marketing of plans to reduce growth in school lunch spending, and in its expressions of sympathy for anti-government militias, the Republican leadership "came up with a strategy tailor-made to help the White House," said Phillips. "They couldn't have helped the White House more if they had tried to make one up."

For the moment, Clinton seems to have the jump with women on the apparent GOP front-runner, Senate Majority Leader Bob Dole, R-Kan. Some polls show Clinton with an edge of nearly 15 points over Dole.

(End optional trim)

Yet the White House quest for women's support isn't likely to remain this easy.

In the midterm election, Clinton and the Democrats simply failed to stir women enough to get them to the polls in sufficient numbers. Women made up only 51 percent

The issue could still re-emerge in some form before the election. A federal appeals court is now considering whether the sexual harassment lawsuit brought by Paula Corbin Jones can begin a pre-trial discovery, or fact-finding, phase within months.

Democratic analysts question how much punch this issue still may have. But few professionals deny that Clinton is threatened by any development that could narrow the big edge he needs among women.

"If there's not a substantial gender gap, this president's in serious trouble," said Tony Podesta, a political analyst and consultant with ties to Democratic groups.

Clinton to Hold West Coast Economic Conference (Washn) (c) 1995, Los Angeles Times=

WASHINGTON President Clinton will spend a day this month publicly analyzing the West Coast's economic problems with prominent figures from industry, show business, government and nonprofit organizations.

In the second of a series of regional economic conferences, Clinton will appear June 27 at Portland State University with a guest list that includes Creative Artists Agency Chairman Michael S. Ovitz; SKG DreamWorks co-founder David Geffen; Rockwell International Corp. Chairman Donald Beal; Boeing Corp. Chairman Frank Stronitz and GM Hughes Electronics Chairman C. Michael Armstrong. Others scheduled guests are Bank of America Chairman Richard Rosenberg, retired Intel Corp. Chairman Gordon Moore and Genentech Chairman Kirk Raab.

The full-day session in Oregon is to focus on how to improve the functioning of the economy for working families. Clinton held a regional economic conference in Atlanta on March 29, and other regional sessions are planned.

Clinton Opposes Flag-Burning Amendment (Washn) By Melissa Healy= (c) 1995, Los Angeles Times=

WASHINGTON The Clinton administration, picking a fight

Possible items for Monday meeting 5/15/95

1. ✓ Annual readjustment of census

2. ✓ Colorado gay rights case

- Colorado Supreme Court voided amendment to Colorado Constitution
- 20 May deadline to file amicus
- very close case

3. ✓ Meeting of religious/moral leaders

- Contract with America's Families to be announced this week

4. ✓ Harris Wofford - meeting with the President re National Service

- James Joseph, current Chair of National Services Corp., possible Ambassador to South Africa

5. ✓ Mark Gearan - Peace Corp.

6. ✓ Illinois medicare waiver

7. ✓ Secretary Ron Brown - Tuesday/Wednesday

8. U.S. Attorney, N.D. Mississippi

- Buck Buchanan (Black) (recommended by Cong. Thompson)
- Josh Bogen (white)

- N.D. Alabama

- . Harris died in office
- . Raymond Johnson (Black)
- . Greg Hawley (white)
- . Walter Broswell (white)
- . Carol Priet (white)

- M.D. Alabama

- . Redding Pitt (white)

- S.D. Alabama

- . Foster (white)

9. Position in budget/medicare debate

Notes for 5/15/95 meeting with the President

10. Lobbying reform

11. Karen Shepherd - FEC

- Gephardt choice?
- Sherry Swirsky
- reappointment of John McGarry

Sherry Swirsky

12. ✓ Neil Hartigan

- poll

13. ✓ Deportation meeting on 10 May with Gorelick/Waxman

14. ✓ Cong. Torricelli - letter re Guatemala

15. Marc A. Schwartz -- Dick Morris wants DNC to hire him

16. Piscataway teacher's case

17. Frank Greer

- role
- access to meetings
- retainer

18. President's/HRC's vacation -- where?

19. ✓ ILGWU/Amalgamated live satellite to merger convention 29/30 June, Florida

20. Mayor Wellington Webb

21. Dick Morris re "vetting" of radio addresses and speeches

- deportation radio address, Japan trade sanction radio address and speech on 5/15 to police officers all pablum because of being undercut by bureaucracy
- wants a "vetting" czar

THE PRESIDENT HAS SEEN
6/15/95

During
can all that
be resolved?
BC



EXECUTIVE OFFICE OF THE PRESIDENT
COUNCIL ON ENVIRONMENTAL QUALITY
WASHINGTON, D.C. 20503

THE PRESIDENT HAS SEEN
6/15/95 #2

Kathleen A. McGinty
Chair

May 24, 1995

MEMORANDUM TO THE VICE PRESIDENT

FROM: KATHLEEN A. MCGINTY *for*

RE: THE BIG PICTURE ON TIMBER

This memo is intended to provide you with an overview of the current situation in the Pacific Northwest, the potential effects of timber salvage language in the rescissions bill and an outline of a commitment to demonstrate to the Hill that timber salvage can be achieved in an environmentally sound manner.

The President feels that we are not moving timber, which jeopardizes his prospects for success in the Pacific Northwest. And, he feels strongly that he is not receiving cooperation from the agencies, nor is he getting a straight story. I understand that he called Jim Lyons of USDA last night and spoke with him for over two hours.

In addition, he lacks perspective on why we face the current situation, and what came before.

I. BACKGROUND ON THE PACIFIC NORTHWEST

After years of gridlock, the President's Forest Plan, which was upheld by the courts in December, has finally brought a measure of stability to the region. This is a significant accomplishment. To quote a May 21st Oregonian story, "six years after the northern spotted owl raised the specter of massive job losses in the Pacific Northwest, the fear of Appalachian poverty is more phobia than fact." (attachment 1)

It is important to understand that harvest off public lands has fundamentally changed -- it will never return to the levels of the 1980's and much of the cacophony associated with the issue is an inability to accept this fact -- coupled with, in some cases, a desire to exploit the new political lay of the land on the Hill. Between 1985 and 1989, an average of 4.5 bbf of green and salvage timber was sold in the Pacific Northwest. By way of contrast, by the end of this Fiscal Year, the agencies will offer for sale a total of 1 bbf region wide. More can be done. But, not at the levels of the 1980's.

By Fiscal Year 1997, the Forest Plan will reach its target of 1.1 billion board feet (bbf) of timber harvested from public lands West of the Cascades -- lands which provide habitat for the spotted owl. 1.1 bbf represents a sustainable level of harvest providing economic stability and environmental protection for the region. It is important to note that while the spotted owl is the poster child species, the unrestrained cutting of past decades has had significant impacts on other species as well. Of particular note is the current petition to list coastal coho salmon, from the Canadian border down to Central California. While one cannot assert that timber harvest is the only cause, runoff into streams and destruction of habitat has contributed to the decline of these runs.

Contributing to the anxiety that timber is not moving is a decline in the normal backlog of timber in the pipeline. Traditionally it takes between 3 - 5 years to prepare a timber sale and, as such, there has historically been up to 12 bbf of timber in the pipeline. During the period between 1990 and 1994, when injunctions were in place, the pipeline was diminished considerably -- now it holds approximately 1 bbf. In an effort to respond to concerns raised by the President and others, the agencies are preparing timber sales in about a year.

The timber industry, especially small mill owners and labor, are facing the pressure of slow and diminished timber sales. The Northwest Congressional delegations are responding to that pressure. It is important to understand that the large timber companies are generally not impacted to the same degree because they are not entirely dependent on public lands. In fact, some of the large timber companies have been willing participants in efforts to protect species voluntarily on private lands and prevent other listings. On the other side is the environmental community who view "sufficiency language" as heresy. Although there are hard-hit timber dependent communities, the general public is not crying out for timber salvage; however, it is difficult for them to understand why dead and dying timber is left to rot. Unfortunately, this can be the case when sales are challenged in court. Additionally, because of the tremendous fires experienced in western states last year, every resource was directed to fire fighting. Sales were slowed tremendously.

II. THE RESCISSIONS BILL

The Justice Department feels very strongly that this language will result in litigation which potentially bring downs the President's Forest Plan and other ongoing efforts to protect listed species throughout the Pacific Northwest. Senator Hatfield does not believe this to be the case -- his lawyers tell him that the "sufficiency language" should prevent suits from occurring. Furthermore, Hatfield believes it is fundamentally impossible for the agencies to move this timber without such language because of the litigation associated with almost every sale. Given the significant changes in fish and wildlife habitat caused by implementation of this measure, litigation challenging other existing decisions on land and water use throughout the Columbia Basin is almost inevitable. This is the case because most land and water decisions are, at some level, premised on biological assumptions about available fish and wildlife habitat. Those assumptions and the plans might be invalidated. At a minimum, the environmental community will attempt to make this argument in court. See the comments of the Washington State Commissioner on Natural Resources. (attachment 2)

This is what
between
the
lines

The rescissions bill affects the entire nation. I have focussed here primarily on the Northwest because that, in fact, is the area that is driving public opinion as well as concerns within the White House.

III. MOVING TIMBER

The perception seems to be that there timber is not moving in the Pacific Northwest. This is not the case. By way of example, only two weeks ago, several sales of salvage timber were offered in Idaho (~~You should know that the President feels that timber moving in Idaho is irrelevant to his needs in the coastal Northwest~~). In Oregon, Washington and Northern California, by the end of Fiscal 1995, almost 1 bbf of green and salvage sales will have been offered for sale. It is important to note that once the timber has been sold, it falls to the purchasers discretion as to when to cut that timber. In fact, the contracts allow purchasers 3 to 5 years to cut purchased timber. At the moment, timber profits are up considerably; however, the price of timber is dropping. As a result, decisions to cut may be delayed until prices go up and interest in sales like the one mentioned above in Idaho was not great. In fact, there were no competitive bids on any of those sales.

We are currently working to prepare an announcement of a 200 mmbf sale to be announced in early June by Secretary Glickman. Governors Lowry and Kitzhaber both want to stand with the Secretary to announce that sale.

IV. OUR SUBSTITUTE PROPOSAL FOR RESCISSION BILL

Leon Panetta has said that both the House and Senate Appropriators reject, out of hand, our request to delete the timber language. They have also refused to include our suggestions that would preserve the President's Forest Plan. In fairness, Senator Hatfield believes that the conference language would allow us to continue with the Plan and would allow us discretion to harvest according to environmental laws if we so choose. That is in dispute.

At Leon Panetta's request, Jim Lyons of USDA and I prepared a memo outlining a proposal that could be offered in lieu of the language currently in the bill. In a nutshell, the components of such a proposal are a commitment to expedite process while protecting citizen's access to the courts and adhering to all environmental laws, a proposal to release remaining 318 sales, a commitment to accelerate the President's Forest Plan and, finally, a salvage goal beyond the 4.5 bbf over three years already committed to by Agriculture. Please see the attached memo for further details. (attachment 3.)

The Sunday Oregonian

May 21, 1995

NW loses fewer timber jobs than forecast

■ However, the losses are disastrous for the economies of many small logging towns and their former millworkers

By PETER D. SLEETH
of The Oregonian staff

George Bush and the timber industry were wrong.

For that matter, so were the environmentalists.

Six years after the northern spotted owl raised the specter of massive job losses in the Pacific Northwest, the fear of Appalachian poverty is more phobia than fact.

The number of timber jobs lost since 1988, as environmental restrictions began kicking in, has been less than one-third of industry predictions, according to a study of employment statistics by The Oregonian.

In the past six years, 16,636 direct wood products jobs were lost in Oregon, Washington and Idaho.

That's far below the 65,700 direct jobs predicted to be lost by the Northwest Forest Resource Council in 1988, based solely on reduced timber harvests in Western Oregon and Washington. It's even below the government forecasts of at least 20,000 lost jobs.

Yet the fact remains that in the isolated pockets where job losses have been concentrated — towns such as Burns and Hoquiam, Wash. — the misery and social upheaval are far more severe than many in the environmental movement want to face.

The issue of job loss has long been the

driver in the Northwest's timber debate.

The forest products industry has used the threat of widespread job losses to bolster its arguments for continued logging of national forests at historic levels. It maintains the worst is yet to come, and some state forecasters agree.

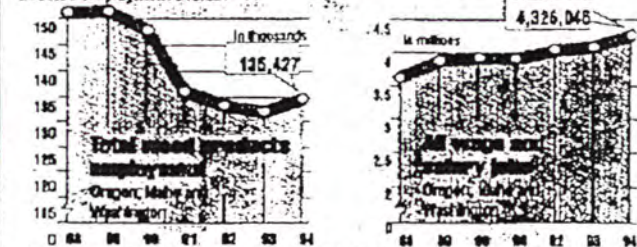
Environmentalists, meanwhile, often have avoided the painful subject, underestimating the economic impact or glossing over the job losses as a natural function of a dying industry, not unlike the losses seen in the coal and steel industries.

To be sure, the dramatic cutback in

Please turn to
JOBS, Page A18

NORTHWEST TIMBER JOBS

The Northwest has lost fewer timber jobs than predicted while strong economies have boosted employment broadly.



The Oregonian

Post-it Fax Note 7671

To: Tom Johnson

From: Jeff Peterson

Call: 503-253-2000

Phone: 503-253-2000

Fax: 503-253-2000

Date: 5/19/95

Time: 10:00 AM

Jobs: Unemployment brings rise in social problems

Continued from Page One

logging to protect wildlife and habitat has created areas of misery in the region, primarily in towns far from the economic lifeline of the Interstate 5 corridor. Broken families, forced migrations for work and the loss of income have been widespread.

"In our case, it has translated into population loss," Judge Dale White says of Eastern Oregon's Harney County.

When jobs go, social problems erupt, White says. "We've seen the physical and sexual abuse, the drug and alcohol problems affecting families, the mental health problems."

But even in these troubled towns, hope has brightened after several dark years. None of the worst-case scenarios has materialized, primarily because of increased logging on private lands and a healthy regional economy.

A combination of new residents from out of state, retirees and urban refugees is bolstering property values and economies in towns like Hoquiam and Aberdeen, Wash. Throughout the region, retraining money from the Clinton administration is helping former timber workers find new jobs.

1.1

When then-President Bush predicted in 1992 that every millworker would be out of a job due to the spotted owl, his campaign rhetoric fed into what has turned into the myth of the missing lumberjacks.

Some workers have indeed dropped from the industry, many forced to leave their hometowns for new work, leaving behind communities hobbled by job losses. But the damage so far has been far less than predicted.

According to the numbers gathered by The Oregonian, Washington state lost 4,900 direct wood products jobs between 1988 and 1994. Oregon lost 13,000 jobs, and Idaho gained 2,034 jobs.

Economists such as Weyornaeuer's Brian Greber say an additional 1,700 jobs probably were lost among workers who were self-employed and not tracked by state statistics.

Most of the losses have come from logging and sawmills, where the bulk of the damage has been done to the industry. But many other jobs are considered direct employment by economists because they rely on the supply of available wood. One area is in the pulp and paper industry, where employment has remained stable through the past six years.

The biggest job gainers were secondary products manufacturing and mobile home construction. Secondary manufacturers use finished lumber to make things such as door frames, while the mobile home industry is a big user of lumber for factory construction.

In the sometimes contentious game of counting job losses, some economists do not include pulp and paper, secondary wood products or mobile home manufacturing.

Secondary jobs are not always available for rural workers, says



Robert Lee, a University of Washington professor who has done extensive research on the effects of timber shortages. Lee says most of those jobs are concentrated in urban areas, although in Oregon many secondary jobs are located in rural towns such as Madras.

The Oregonian relied on numbers from the Oregon, Washington and Idaho employment departments to compile this job figures. Those departments lump all wood products manufacturing jobs together — be they making window frames or 2x4s. To get a fuller measure, The Oregonian added pulp and paper mills, because their raw material comes from the same source — forests. Jobs in trucking and indirect jobs related to the wood products industry were not counted because of the difficult nature of tracking them.

It also must be noted that jobs in primary wood products manufacturing have been shrinking for years. Long before the spotted owl was listed under the Endangered Species Act and before other environmental issues began affecting timber jobs east of the Cascade Mountains, timber was a constricting trade.

In 1972, for example, 171,500 people worked in forest products jobs in the three-state region. By 1992, the count was 134,400. By 1998, it had climbed to 152,097 with near-record federal timber sales, before dropping to 135,427 in 1994.

The effects of more efficient machinery to cut and mill logs, combined with the closure of inefficient mills, have steadily eroded the industry's job base. What would have happened without the environmental cutbacks is unknown.

1.7

For Jack Brooks — a Hoquiam native whose father had been thrown out of a dying plywood industry 30 years earlier — it was a call he was not prepared for.

"I got a message on my answering service saying the mill no longer existed," he said. A big man, red-faced with gray-black hair, Brooks was 57 and three years from retirement. "I made \$50,000 a year one minute. The next minute, none."

His hometown of Hoquiam lies on the flat lowlands of Grays Harbor, with hills behind shorn of their

once-dominant fir trees. Log decks and cedar bolts decorate the waterfront, interspersed with abandoned, timber mills from a fading era. The town is a good hour's drive from Olympia over a two-lane highway.

Timber and fish were the mainstays since settlement days. The loss of those underpinnings has shaken the community to its core.

"This city got gutted," says Hoquiam Mayor Phyllis N. Shrauger. She almost spits out the words: "Damned owl."

She is a gray-haired woman, short and as certain in her way as a chain saw. She ticks off the damage federal timber restrictions have done to her town like a shopping list of despair: high unemployment, declining incomes, city funding shortages, stories of personal losses among her friends.

"I guess I just know so many dog-gone people that got hurt," Shrauger says. "It's the 55-, 56-year-old guys that got hit the hardest."

These people are intensely private, she says in relating the story of one millworker who used to make \$60,000 a year and now waits the counter at a local restaurant. She won't give their names. But their plight is plain throughout town.

Grays Harbor County, where Hoquiam sits, has seen its unemployment level rise from 9.5 percent in 1988 to 11.6 percent last year. And the numbers understate the problem in coastal Washington. Many workers were self-employed and do not show up on unemployment rolls.

The regional food bank, for example, has seen its requests for help soar. In 1991 the food bank distributed 300,000 pounds of food. Last year it handed out 1.6 million pounds, says Jim Coates, a former millworker and director of the food bank.

"A lot of them are pillar to post," Coates says.

Yet property values are rising as urban refugees seek out the small-town atmosphere of the Washington coast. That means a growing tax base. New jobs are being created — some with the assistance of federal funds under the Clinton timber plan.

"It's going to take us awhile to build back, but we are showing signs of getting better," Shrauger says.

Brooks became one of the nearly 17,000 timber workers who left the industry. He chose retraining. His wife went to work for \$5 per hour as a retail clerk. Together, they now make about one-half what he earned at the paper mill.

Brooks is going to school and working part time counseling others who have lost their mill jobs.

When the paper mill reopened recently, Brooks was offered his job back.

"I didn't take it," he says, smiling. He prefers being free from the monotony of millwork.

In his counseling job, Brooks says he runs into plenty of folks afraid to take the plunge. They either like the millwork or are afraid to change.

"Anybody who stays on the job is called a tree hugger," he says, laughing at his own joke. "They don't change."



“

*This city got gutted.
Damned owl. I guess I just
know so many doggone
people that got hurt.*

Phyllis H.
Shrauger,
Hoguen may or

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*Here I was, 50-some-odd
years, and going through
training. They didn't hire
people that age.*

Jim Lawrence,
former millworker,
mostly unemployed
since 1990

”



“

*I got a message on my
answering service. I made
\$50,000 a year one
minute. The next minute,
none.*

Jack Brooks,
former millworker, now
counseling unemployed
lumber employees

”

“We still haven't had the full impact,” warns Chris West of the Northwest Forest Resource Council. “The train wreck hasn't happened yet.” The “train wreck” term is used by

many in the timber industry for a time they thought would come long ago—a time when the assorted cars of the forest products industry would run into the wall of shrinking timber supply. The ensuing carnage would include widespread mill closures, unemployment and economic disasters for timber towns.

West, and many others, believe it's still coming.

If Congress does not mandate a timber harvest beyond current Clinton administration plans, the next couple of years could bring rapid job

Please turn to
JOBS, Page A12

TIMBER TALLY

Jobs: Many eastside mills close

■ Continued from Page A18
loss, they say.

John Shelk, the owner of Ochoco Lumber in Prineville, says he thinks the damage is more severe than job numbers illustrate.

Environmental restrictions have slowly choked Eastern Oregon for more than a decade, he says, making for a cumulative effect that is worse than the job figures since 1988 portray. His company just had its worst financial performance ever. He says he is struggling to stay in business on lands east of the Cascades where most of the timber is publicly owned.

Mill closures have been numerous. The names of the towns roll off his tongue like a lesson in Eastern Oregon geography — Klamath Falls, Lakeview, Chiloquin, Prineville, Bend, La Grande.

"We're losing something over here," he says. "In the rural part of Oregon, timber supports an awful lot of things that you don't know are gone until they're gone, like schools."

West of the Cascades, Roseburg hugs the rugged drainage of the Umpqua River. At a homeless shelter along the railroad tracks, a search for former timber workers finds just one — Dave Burton, age 34. He has lived more than two years at the mission and hasn't worked in the woods for years.

"I just more or less gave up on it; sold my caulk boots and tin hat," Burton says over a meal at the King's Table.

Jobs are available, he says — choker-setting jobs, but at wages Burton considers too low for the danger and hard work.

"Eight bucks an hour? It just ain't worth it."

In towns like Roseburg, timber is still king even though new employers are moving to town and diversifying the economy.

Roseburg is in pretty good

“
Timber supports an awful
lot of things that you don't
know are gone until
they're gone . . .

John Shelk

owner, Ochoco Lumber in Prineville

shape," says Norman Gershon, a former state representative and president of Umpqua Training and Employment Inc.

A book distribution company, a nearby Indian casino and other employers have created new jobs here on the I-5 corridor. Mills are still operating, stocked with private timber and what federal timber remains available.

"The real crash ended about a year ago," says Gershon.

Roseburg's timber troubles hit about 1991 and lasted about three years. About 3,500 people were laid off during the crisis. Less than a thousand sought assistance from Gershon.

"We saw some really incredible tragedies," he says. "We saw marriages break up; we saw them lose their homes. Some people went to Alaska, even New Zealand."

Others hung on, still searching for that mill job.

One is Jim Lawrence, 56, of Yoncalla, a small town north of Roseburg. Training never suited Lawrence. He couldn't find anything that fit a lifelong millworker.

"Here I was, 50-some-odd years, and going through training," he says, shaking his head. "They didn't hire people that age."

With only limited skills, Lawrence does not qualify for most positions in sawmills, which today are run with computers and laser-guided saws. He has been in and out of several mill jobs since 1990. His bushy

moustache and ever-present baseball cap are frequent guests in local employment offices.

In Hoquiam, they might call him a tree hugger.

Despite the statistics so far, Oregon's state economist sees a glum future. The March 1995 Oregon economic and revenue forecast calls for 1,800 job losses this year in the Oregon forest products industry, 3,200 in 1996, 1,700 in 1997 and 1,400 in 1998.

For perspective, that is about two-thirds of the jobs Oregon lost from 1982 to 1994.

The job losses will stem from continued declines in federal timber sales, higher interest rates that slow demand for housing lumber and an expected dip in the economy.

But the prognostications come with plenty of caveats.

The same Oregon forecast in 1994 foresaw 2,000 jobs being lost. Yet the industry actually gained 1,000 jobs in 1994.

A mandated increased timber harvest now being considered by Congress, as well as continued harvest of private timberlands, could make the state's dismal job outlook as wrong as the 1994 forecast.

As for the timber industry's forecasts, John Hampton, an Oregon lumberman and past president of the Northwest Forest Resources Council, says, "We didn't make those numbers up. We got some sociologists and some experts to give us reliable numbers."

Hampton also thinks that private timber harvests helped prevent larger job losses.

"I do believe the major impact is yet to come," he says. "I believe this will be a continuing controversy."

"It will not go away."

Peter D. Sleeth covers the environment, timber and forests for The Oregonian. He can be reached at 294-4119, by fax at 294-5159, by e-mail at dsleeth@uicll.com or by mail at 1320 S.W. Broadway, Portland 97201.

Resources chief backs species laws

A Washington official says if U.S. environmental rules change, activists will sue to stall profitable logging in state forests

The Oregonian 4/30/95
By SCOTT SOMMER
The Associated Press

WASHINGTON — Jennifer Belcher has an interesting pitch for Northwest Republicans in Congress who want to rewrite U.S. environmental laws.

Washington state's natural resources commissioner says the laws must remain intact if logging of state-owned forests is to continue.

It's a fairly well-kept secret that 600 million board feet of timber were sold from those lands last year.

That's more than the 40 million board feet of timber the Forest Service offered for sale last year on all of the national forests in Oregon and Washington.

"What we're doing on state lands is working in general because we haven't faced lawsuits," Belcher said. "We are selling enough timber in the state of Washington to the point we have a backlog in all the log yards."

"The message to the delegation is they could embroil us in controversy and send us to court if they change the laws."

Belcher, a Democrat, said President Clinton's Northwest forest plan — "Option 9" — soon will begin allowing harvest of about 1 billion board feet of

Timber: Official warns changes could lead to chaos

Continued from Page B1

timber annually on federal forests in Oregon, Washington and Northern California that include habitat of the threatened northern spotted owl.

If Congress alters Clinton's plan and orders more logging on federal lands, environmentalists likely would seek beefed-up protection for fish and wildlife on state lands, she said.

The result? Lawsuits against the states, Belcher said.

In meetings with members of Washington's congressional delegation, she said she has "tried to impress upon them the importance of letting the president's plan go forward."

"If Option 9 is overturned, or significant restrictions are placed on the Endangered Species Act, all that really does is throw it back to the state level," Belcher said.

"Even if you repeal the Endangered Species Act, you still have endangered species. There just wouldn't be any guidance."

State lands were not overharvested to this extent, national forests were during the past three decades, Belcher said — largely because Congress set unrealistically high harvest levels for federal lands.

State officials came under heavy criticism when state harvests started declining — from nearly 800 million board feet to less than 600

million board feet — after the northern spotted owl was listed as a threatened species in 1990, she said.

"But we stopped going down, and now we're going back up," she said. "It would be absolutely criminal if we were to wipe out two years of success."

Rep. George Nethercutt, R-Wash., said, "I'm not so sure I can agree with Jennifer about that. I think we need to have certainty on the federal lands as well, and we don't have certainty on federal lands and timber harvesting."

"I was just up in Republic," Nethercutt said, referring to a timber town in his 5th District. "There is great concern about the lack of a

real cohesive forest policy that allows industry to do some out-year planning. Now it is just day by day and appeal by appeal."

Rep. Jack Metcalf, R-Wash., also advocates legislation to ease federal environmental regulations and force the Clinton administration to allow more logging of national forests in the West.

Metcalf serves on a House GOP task force expected to propose changes in the Endangered Species Act this spring.

"We need to protect species. But that act protects lawyers and lets judges make the rulings. That isn't what you need," he said. "We are going to have to revise that."

OPTIONAL FORM NO. 10 (7-90)

FAX TRANSMITTAL

1 of pages 1

To: Michelle	From: Tom
dept/agency	Phone #
Fax # 602-2710	Fax #

NSN 7540-01-517-7361

5090-10

GENERAL SERVICES ADMINISTRATION

Oregonian 4/3/95

Please turn to
TIMBER, Page B7



EXECUTIVE OFFICE OF THE PRESIDENT
COUNCIL ON ENVIRONMENTAL QUALITY
WASHINGTON, D.C. 20503

May 23, 1995

MEMORANDUM FOR LEON PANETTA

FROM: KATHLEEN A. MCGINTY *KAM*
JAMES R. LYONS *JR*

RE: TIMBER SALVAGE

As per your instructions, in conjunction with the land-management and consulting agencies, we have prepared the following background information on actions we can take to demonstrate the language in the rescission bill is unnecessary. Our proposals will expedite timber salvage while adhering to environmental laws and protecting citizen's access to the courts. The components of such a proposal are as follows:

I. EXPEDITED PROCESSES

Contained in the detail that follows is an ambitious restructuring of the entire process for preparing timber sales. This process will result in salvage sales being prepared approximately five months sooner than would otherwise be the case. It is unclear what the actual time frame would be under the conferees language.

Upon enactment, each national forest and BLM administrative unit would designate Forest Health Emergency Areas, subject to the criteria contained in our proposal. Under our proposal, we are eliminating the Forest Service's administrative appeals process for these sales which saves us 105 days. Under the ESA, consultation on sales must be completed in 90 days; however, the agencies may file for a 60 day extension. We will drop the extension and direct the agencies to expedite implementation of procedures concurrently to develop the necessary documentation to comply with NEPA, ESA and other relevant statutes. Presently, the Forest Service prepares the sale and then the consulting agencies begin the consultation work necessary. Our proposal will streamline this process considerably. The details of this process should not necessarily be written in the statute but should be handled administratively to achieve maximum flexibility. This change in process could reduce the time required to prepare and award salvage sales by as much as five months.

Know that environmentalists will react very negatively to this proposal because they lose their right to administrative appeals. Later, however, would prove sufficiency, but this is a signal to them that we are serious about moving timber.

II. 318 SALES

"Section 318 Sales" were sales authorized by the Congress in 1989, during the last battle over sufficiency. Pursuant to the 1989 interior appropriations bill is a group of sales which have, in fact, been sold; however, because of the listing of the marbled murrelet as an endangered species, the sales have not been harvested. A provision in the conference bill would require these sales go forward as originally sold. Because this undermines a critical habitat assumption in the President's Forest Plan, it could bring the President's Forest Plan down.

In lieu of the legislative language on this issue, the Administration will commit to releasing for harvest all 318 sales where no murrelets occupy the site. This means that 20 mmbf could be released today. An additional 35-40 mmbf could be released when surveys are complete at the end of July. Therefore, a total of 55-60 mmbf of the remaining 318 sales will be released. Essentially then, we will have cleared the way for all but 2% percent of the original 9.6 bbf proposed 318 sale. For this remaining 2% we propose to buy back the purchaser's contract. Estimates of the cost of this buy-back provision are \$80 to \$100 million. This must be paid directly from Forest Service appropriated funds or through reimbursement of the Justice Department judgment fund. OMB advises that current scoring estimates of the conferees provision will increase receipts by \$100 million in Fiscal 1996. For Forest Service 318 sales only, the Administration could propose authority to pay contract buy-back costs from timber salvage receipts and offset the pay-go cost through these increased salvage receipts.

If we are unable to get the 318 language dropped, at an absolute minimum, language on the endangered murrelet should be changed from "nesting" to "occupied." Because the term "nesting" is too narrow and lacks a well defined legal meaning, its use could prompt litigation.

III. A COMMITMENT TO ACCELERATE THE PRESIDENT'S FOREST PLAN

For timber sales prepared in Washington, Oregon and Northern California, pursuant to the President's Forest Plan, the Administration will commit to meeting its target of 1.1bbf (billion board feet) by the end of Fiscal Year 1996 -- one year ahead of schedule. This may require additional resources. First, as is already in the conference passed bill, the commitment may require rehiring of workers separated by the buy-out which USDA and NOAA plan to use. Second, additional personnel for the land-management and consulting agencies may be necessary. OMB is evaluating whether opportunity exists to accommodate additional FTE's (up to 80.) In addition to the FTE's, NMFS has requested \$2.3 million additional Fiscal 96 funding, which could be achieved through reprogramming within NOAA. DOI has advised that the Fish and Wildlife Service efforts can be accomplished through existing resources. For the Forest Service we believe any necessary additional funds or FTE's could also come from reprogramming existing resources. All agency commitments are based on current program funding levels and could be significantly impacted under the Republican budget proposals.

IV. SUFFICIENCY

We believe we can make good on our promise to move timber without truncating the nation's environmental laws and restricting citizen's access to the courts. The Forest Service and BLM stand by its capability statement, submitted to the Hill, of 4.5 bbf & 230 mmbf respectively over the next three fiscal years. As a measure of good faith, should the land management agencies fail to prepare and offer for sale 4.0 bbf of salvage timber by December 31, 1996 – due to relief granted to plaintiffs pursuant to litigation brought under environmental laws – future salvage sales would be exempt from further judicial review for the period of time that this Act is in effect or until the goal has been met. For sales that are exempted from judicial review, the administrative appeals process would be reinstated. This agreement could be included in the statement of managers report language.

*Done
Fyl - for Morkow's
Coca Cola*

Environmental conditions for doing business in Russia by foreigners

ENVIRONMENTAL FACTOR	POSITIVE TRENDS	NEGATIVE TRENDS
SOCIAL	1. Consumers - quality conscious 2. Increased consumer demand 3. Large population 4. New job opportunities for Russians 5. New lifestyle 6. Increased purchasing power for younger	1. Birth rate decrease and ageing population 2. Xenophobia 3. Unemployment 4. Low income level 5. Decreasing purchasing power for older gener. 6. Crime
ECONOMICAL	1. Business infrastructure developing 2. Low price of resources (labor, energy) 3. Expanding customer base 4. Increased disposable income for rich 5. Free access to privaization and foreign trade	1. High rate of inflation 2. High taxation 3. Under developed infrastructure 4. Lack of financial resources for investment 5. Low disposable income 6. G.D.P. decreasing 7. Limited role of small business 8. High rate of state and military plants
POLITICAL	1. Improving legislation 2. "Some kind" of democracy 3. Positive attitude toward investments at most levels 4. Emerging involvement of foreign advisors 5. Good relations with foreign countries	Still unstable situation Anti western activities of political extremists Legislation constantly changing Unstable state structure Unfavorable business legislation Non consequent political discussions Some countries discriminate trade with Russia Corruption, organized crime

REVENUE GAIN FROM PUBLIC PROPOSALS REGARDING CORPORATE TAX EXPENDITURES

VERY PRELIMINARY 1/

THE PRESIDENT HAS SEEN
6/15/95

Leon
need to discuss
when to go next
on this - Be

Proposal 2/ 3/	06/04/95 05:59 PM	1996-2002	Fiscal years 1996-2005 (\$ billions)	2005
Repeal export incentives (FSC and sales source)		23.6	34.3	3.6
Repeal special rules for business income earned in U.S. possessions		16.8	27.0	3.4
Require 20% of advertising costs be depreciated over 4 years		20.2	22.0	0.6
Repeal tax exemption for interest from private activity bonds		11.7	21.6	3.3
Repeal low-income housing credit		8.0	15.0	2.3
Tax credit union income		9.2	15.0	1.9
Repeal cash accounting for farmers		13.6	14.4	0.3
Repeal percentage depletion		7.6	12.0	1.5
Change depreciation of rental housing from 27.5 yrs. to 40 yrs.		4.2	9.0	1.6
Repeal alcohol fuel credit and exemption		4.5	7.0	0.8
Repeal deduction for business entertainment expenses		3.1	6.0	1.0
Repeal alternative fuel production credit of \$3 per barrel (generally expires in 2002)		4.8	6.0	0.4
Require capitalization of multiperiod timber growing costs		4.2	6.0	0.6
Require amortization of exploration and development costs - all minerals		3.4	4.0	0.2
Require depreciation of multiperiod livestock and crop production costs		1.8	2.2	0.1
Repeal special Blue Cross/Blue Shield exemption		1.2	1.9	0.2
Require capitalization of certain agricultural capital outlays		1.4	1.8	0.1
Tax small life insurance companies like other life insurance companies		1.0	1.5	0.2
Repeal investment credit for rehabilitation of structures		1.0	1.4	0.1
Repeal enhanced oil recovery credit (tertiary recovery)		0.4	0.7	0.1
Repeal deferral of income for shipping companies that are U.S. flag carriers		0.3	0.6	0.1
Repeal credit and deduction for clean-fuel vehicles and property		0.5	0.6	0.0
Repeal exclusion for "cancellation of indebtedness" income		0.4	0.4	0.0
Repeal credit and 7-year amortization for reforestation		0.1	0.3	0.1
Require depreciation of magazine circulation expenses		0.1	0.2	0.0
Repeal exclusion for cost-sharing payments		0.1	0.2	0.0
Require depreciation of cost of tertiary injectants		0.1	0.2	0.0
Repeal special accounting rules for magazine, paperback book, and record returns		*	0.1	0.0
Repeal alternative tax for small property and casualty insurance companies		*	0.1	0.0
Repeal tax deferral on sales to minorities of broadcasting facilities (moot)				
Repeal deferral of income of U.S.-controlled foreign corporations (Net method)		-3.1	not available	
Total		140.2	211.5	22.7

- Notes:
- * Less than \$50 million
 - 1/ ESTIMATES WERE DONE VERY QUICKLY AND IN MOST CASES PROVIDE ONLY A ROUGH APPROXIMATION OF THE ORDER OF MAGNITUDE OF REVENUE GAIN.
 - 2/ Proposals generally would apply to all new expenditures and would grandfather all old expenditures. For example, interest on private activity bonds issued in 1990 would continue to be tax exempt. But 1997 timber-growing expenditures for trees planted in 1990 could not be expensed.
 - 3/ Estimates assume a 1/1/96 effective date.

Largest Tax Expenditures, FY95
(\$billions)

Individual Provision	Estimate
Exclusion of employer contributions for medical insurance premiums and medical care	56.
Net exclusion of employer pension contributions and earnings	55.
Deductibility of mortgage interest on owner-occupied homes	54.
Step-up basis of capital gains at death	28.
Deductibility of nonbusiness State and local taxes other than on owner-occupied homes	25.
Deductibility of charitable contributions (all types)	17.
Exclusion of OASI benefits for retired workers	16.
Deductibility of State and local property tax on owner-occupied homes	14.
Deferral of capital gains on home sales	14.
Exclusion of interest on life insurance savings	8.
Exclusion of interest on public purpose State and local debt	7.
Preferential treatment of capital gains (normal tax method)	6.
Exception from passive loss rules for \$25,000 of rental loss	5.
Net exclusion of Individual Retirement Account contributions and earnings	5.
Earned income credit ¹	5.
Corporate Provision	Estimate
Accelerated depreciation (normal tax method)	21.
Exclusion of interest on public purpose State and local debt	5.
Graduated corporation income tax rate (normal tax method)	3
Exclusion of interest on State and local debt for various non-public purposes	3
Tax credit for corporations receiving income from doing business in U.S. possessions	2
Expensing of research and development expenditures (normal tax method)	2
Deductibility of charitable contributions (all types)	1
Special ESOP rules (other than investment credit)	1
Deferral of income from controlled foreign corporations (normal tax method)	1
Exclusion of income of foreign sales corporations	1
Inventory property sales source rules exception	1
Credit for increasing research activities	1
Excess of percentage over cost depletion, fuel and nonfuel minerals	1
Alternative fuel production credit	0
Credit for low-income housing investments	0
Expensing of certain small investments (normal tax method)	0

Source: FY 95 Tax Expenditure Budget

1. The effect on outlays is \$15,795 million.

Note: Tax expenditures estimates do not reflect taxpayer behavior or interaction effects, and may significantly differ from revenue estimates.

REVENUE GAIN FROM PUBLIC PROPOSALS REGARDING CORPORATE TAX EXPENDITURES
VERY PRELIMINARY 1/

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POSSIBLE CONGRESSIONAL OPTIONS

VERY PRELIMINARY ESTIMATES 1/

Proposal 2/ 3/	06/04/95 06:04 PM	Fiscal years			2005
		1996-2000	1996-2002	1996-2005	
		(\$ billions)			
1996 Budget Proposals					
1 Deter expatriation tax avoidance		2.2	3.6	6.9	1.2
2 Tighten rules for taxing foreign trusts		2.4	3.5	4.9	0.5
3 Deny EITC to undocumented workers/related compliance measures		1.9	2.9	4.4	0.5
Subtotal		6.5	10.0	16.2	2.2
Possible Modifications of Public Proposals					
4 Tax income of large credit unions (assets > \$100 million)		2.7	4.7	8.4	1.2
5 Reduce export incentives (FSC and sales source) by 20%		2.6	3.8	5.8	0.7
6 Require capitalization of multiperiod timber growing costs - 3 yr. phase-in		2.1	3.3	5.1	0.6
7 Lower existing volume caps for private activity bonds by 20%		1.1	1.9	3.4	0.5
8 Reduce caps on low-income housing credit by 20%		0.8	2.2	3.0	0.3
9 Reduce percentage depletion for non-fuel hard minerals					
a. Limit percentage depletion for non-fuel minerals to basis		0.9	1.3	1.9	0.2
b. Repeal percentage depletion for mercury, asbestos, uranium, and lead		0.1	0.1	0.2	0.0
10 Repeal 10% credit and 20% credit for rehabilitation of structures not on historic register		0.1	0.1	0.2	0.0
11 Require capitalization of exploration and development costs for non-fuel minerals		0.1	0.1	0.2	0.0
12 Repeal cash accounting for certain farmers			not available		
Subtotal (includes only 9 a.)		10.4	17.4	28.0	3.5
Corporate Finance					
✓ 13 Disallow interest deduction on certain corporate debt with equity-like features (e.g., Lyons)		1.0	1.8	4.2	0.8
14 Reduce dividend-received deduction to 50%		1.7	2.5	3.7	0.4
15 Extend pro-rata disallowance of tax-exempt interest rules to all corporations		0.2	0.4	0.6	0.1
16 Defer OID deduction on convertible preferred stock until paid		0.1	0.2	0.4	0.1
17 Require 45-day holding period per dividend to receive DRD		0.1	0.1	0.2	0.0
18 Tighten rules for taxation of large built-in gains on conversion from C-corps. to S-corps.			not available		
19 Tighten rules for corporate stock redemptions			not available		
Subtotal		3.1	5.0	9.1	1.4
Other Corporate					
✗ 20 Restrict NOL carrybacks to 1 yr.; allow 20 yr. NOL carry forward		7.1	9.2	12.5	1.1
21 Disallow deduction for discrimination payments that are excludable from income by recipient		0.8	1.2	2.0	0.3
22 Deny creditability of foreign taxes on certain foreign oil income to extent they exceed taxes on non-oil income		0.5	0.7	1.1	0.1
Subtotal		8.4	11.1	15.6	1.5

POSSIBLE CONGRESSIONAL OPTIONS

VERY PRELIMINARY ESTIMATES 1/

Proposal 2/ 3/	06/04/95 06:04 PM	Fiscal years			2005
	1996-2000	1996-2002	1996-2005		
	(\$ billions)				
Compliance					
23 Math error treatment for dependency exemptions and filing status (new proposal)	1.1	1.5	2.5	0.3	
24 Compliance initiatives affecting individuals	0.9	1.3	2.0	0.2	
25 Compliance initiative for gambling	0.9	1.3	2.0	0.2	
26 Require Federal agencies to issue information returns to corporate service providers	0.2	0.4	0.7	0.1	
27 Reporting penalties related to non-corporate independent contractors (HSA version)	0.1	0.1	0.1	0.0	
28 Strengthen penalty for substantial understatements		not available			
29 Corporate tax shelter reporting		not available			
30 Corporate options reporting		not available			
Subtotal	3.2	4.6	7.3	0.8	
Other					
31 Treat foreign-excluded earnings under section 911 as an AMT item	3.1	4.3	6.2	0.6	
32 Limit benefits attributable to certain life insurance investments					
a. Limit annual investment in annuities with tax deferral (\$100,000 - joint, \$50,000 - single)	0.8	1.1	1.8	0.2	
b. Treat businesses as being in constructive receipt of cash value of life insurance contracts	0.4	0.5	1.2	0.2	
33 Repeal credit for wine and flavors used to make distilled spirits	0.5	0.7	1.1	0.1	
34 Parking cash-out (\$80/month de minimis)	0.2	0.4	0.5	0.0	
35 Deny like-kind exchange for U.S. and foreign equipment		not available			
Subtotal	5.0	7.0	10.8	1.1	
TOTAL	36.6	55.1	87.0	10.5	
TOTAL (excluding budget proposals)	30.1	45.1	70.8	8.3	
Extensions					
36 Extension of oil spill liability trust fund tax	1.3	1.7	2.4	0.2	
37 Extension of superfund corporate environmental income tax	2.4	3.5	5.1	0.6	
38 Extension of FUTA surcharge	1.9	4.1	7.4	1.1	
TOTAL (extensions only)	5.6	9.3	14.9	1.9	

* Less than \$50 million

Notes: 1/ ESTIMATES WERE DONE VERY QUICKLY AND IN MOST CASES PROVIDE ONLY A ROUGH

APPROXIMATION OF THE ORDER OF MAGNITUDE OF REVENUE GAIN.

2/ Proposals generally would apply to all new expenditures and would grandfather all old expenditures. For example, interest on private activity bonds issued in 1990 would continue to be tax exempt. But 1997 timber-growing expenditures for trees planted in 1990 could not be fully expensed.

3/ Estimates assume a 1/1/96 effective date.

HOUSE BUDGET RESOLUTION

Chairman Kasich has indicated that Ways and Means would be instructed in reconciliation to find savings for deficit reduction amounting to \$25 billion over 7 years from closing corporate loopholes. But the reconciliation instructions in the budget resolution itself made no specific reference to additional revenues for deficit reduction from corporate loopholes.

While Kasich promised to provide in the committee's report four examples of such tax benefits -- and released four illustrative options to the press -- only three of these were included in the report itself.

The three options included in the committee report were:

- . A corporate tax shelter reporting requirement;
- . A corporate options reporting requirement; and
- . A change in the treatment of certain corporate redemptions that already has been introduced as legislation (HR 1551).

One option on Kasich's list -- repeal of the exception that allows certain family-owned corporate farms to defer payment of an income adjustment necessitated by a change in accounting method from the cash to the accrual method -- was dropped from the report. Among the taxpayers affected by this change would be large operations such as Tyson Farms and Perdue Farms.

Rep. Retreat

BUDGET COMMITTEE OPTIONS FOR ELIMINATION OF TAX PROVISIONS CONSIDERED AS "CORPORATE WELFARE"

I. THE CHAIRMAN'S OPTION - \$25 BILLION OVER 7 YEARS (See Attachments)

A) Modification of Section 936 of the Federal Tax Code - \$9 Billion

B) Modification or Elimination of International Provisions as Follows - \$16 Billion-7 Years

i) Exclusion of Income of Foreign Sales Corporations (FSCs) - \$9.4 Billion-7 Years**

ii) Deferral of Income of Controlled Foreign Corporations - \$8.5 Billion-7 Years*

iii) Inventory Property Sales Source-Rule Exception - \$23.3 Billion-7 Years**

II. REQUEST WAYS AND MEANS TO RAISE \$25 BILLION FROM CORPORATE TAX EXPENDITURES AT THEIR DISCRETION

III. NO TAX EXPENDITURE PROVISIONS - RAISE \$25 BILLION FROM ADDITIONAL SPENDING REDUCTION OPTIONS THAT ARE CATEGORIZED AS "CORPORATE WELFARE"

IV. INCLUDE LIST OF TAX PREFERENCES AS GIVEN IN OVERVIEW OF THE FEDERAL TAX SYSTEM. COMMITTEE ON WAYS AND MEANS REQUEST THAT WAYS AND MEANS RAISE \$25 BILLION FROM THIS LIST

*Source: Congressional Research Service

This is the revenue loss. In general, the loss is less than the revenue gain that would occur if the provision were repealed.

**Source: Joint Committee on Taxation

6/15/95
6TH STORY of Level 1 printed in FULL format.Copyright 1995 Council on Foreign Relations, Inc.
Foreign Affairs

1995, Spring

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Be → *future*

SECTION: ESSAYS; Profile; Pg. 69

LENGTH: 6238 words

HEADLINE: Japan's Invisible Leviathan

BYLINE: Eamonn Fingleton; EAMONN FINGLETON is the author of *Blindside: Why Japan Is Still on Track to Overtake the U.S. by the Year 2000*, forthcoming in March from Houghton Mifflin, from which this article is adapted.

BODY:

THE MINISTRY OF FINANCE

PERCEPTIVE WESTERNERS may be forgiven a touch of cognitive dissonance in looking at the Japanese economy. They read daily that Japan has been badly damaged by a terrible economic slump, yet the evidence tells a different story. What are they to make, for instance, of the yen's conspicuous strength? In the last five years, it has risen nearly 40 percent against the U.S. dollar. Meanwhile, Japan's exports have risen 40 percent, giving Japan a current account surplus of \$ 127 billion in 1994. The export surge is even more remarkable because for more than three years the Jeremiahs of the Western press have been predicting disastrous scenarios on the assumption that a high yen would soon price Japanese exports out of world markets. Yet how can a country be an economic has-been if it boasts one of the strongest currencies in the world while it racks up the largest trade surpluses ever recorded?

The truth is that Japan did not collapse in the early 1990s. Far from it. In the five years to the end of 1994, Japan's total output at current exchange rates shot from 55 percent of U.S. CNP to nearly 70 percent. In other words, while the Western press has talked of collapse, Japan has quietly remained on track toward its reputed goal of surpassing the United States to become the world's biggest economy by 2000.

This is not to say everything has gone smoothly in recent years. In particular, Japan's financial markets have had a bumpy ride. After peaking at the end of 1989, the Tokyo stock market plunged 63 percent over the next two and a half years. In any other advanced nation, such a financial crash probably would have triggered massive damage throughout the economy. Not surprisingly, therefore, when the Tokyo market fell, Western economic commentators gloomily described the Japanese economy as "out of control." But the Japanese economy was never out of control. The Japanese economy does not follow Western logic, whatever Western forecasters say, for the simple reason that it is not a Western free-market economy. The Japanese have discovered that basic changes in the way wealth is created in the twentieth century—specifically the rise of information as a critical factor of production—require a radically different approach to economic management. Thus they have invented a type of economics that behaves in ways that confound the predictive powers of Western observers.

Understanding Japanese power is the critical first step toward understanding the Japanese economy. While Westerners have focused on the mystery,

Foreign Affairs, March, 1995

dysfunction, and even chaos that seem to characterize Japanese power, Japanese society is actually one of the most carefully and intelligently structured hierarchies in history.

THE PATH TO POWER

HOW DOES one identify the locus of power in Japan? A clue is the career aspirations of its most ambitious youths. All Japan's brightest students fight to get into Tokyo University, and if they make it, the very best of them invariably opt to study law. Where do they go when they graduate? The trail leads directly to a six-floor fortress of a building in the Kasumigaseki, or Foggy Gate, administrative district of central Tokyo. Most foreigners do not recognize this building because it is one of the few in central Tokyo with no English-language identification. Its name is displayed only in three barely readable ideograms (see next page). This is the Okurasho: literally, "the Ministry of the Big Storehouse." In English, it is known as the Ministry of Finance (MOF). It is the pinnacle of Japan's administrative system, so far above the political and bureaucratic clouds that few Japanese-and even fewer foreign observers -- understand its significance. But everyone in the higher reaches of Japan's administrative and commercial life understands. A son who wins entry to the MOF's elite track at the age of 22 or 23 earns his family as much distinction as if he had won a Nobel Prize. To Westerners unfamiliar with Eastern attitudes toward power, this assertion may seem hyperbolic, but it is not. MOF men truly are Nobel-caliber: brilliant, creative, tenacious, public-spirited. Many of them would probably win Nobel Prizes if they chose careers that tend to catch the eye of the Royal Swedish Academy of Sciences. And they are among the vital factors that make the MOF the source of the extraordinary will to win that Westerners have long sensed lies behind Japan's relentless quest for economic expansion.

The MOF is the capstone of a Confucian system of power that is roughly pyramidal. Just under the MOF are big banks; a group of key bureaucratic agencies, of which the Ministry of International Trade and Industry (MITI) is the best known in the West; and the cabinet. The next layer includes big industrial corporations, lesser bureaucratic agencies, the securities industry, the press, and the main political parties.

Measured merely by its formal statutory powers, the MOF is a titan among Japanese government agencies. In regulating the financial system alone, it gathers under one roof powers that in the United States are dispersed among the Federal Reserve, the Department of the Treasury, the Federal Deposit Insurance Corporation, the Office of the Comptroller, and the Securities and Exchange Commission. Moreover, the MOF controls the Japanese tax system through the National Tax Agency, one of its divisions. (Historically, the MOF's designation as the Ministry of the Big Storehouse derives from the days when the Japanese paid taxes in rice.)

Yet another crucial MOF lever of power is Japan's national budget. Contrary to appearances, the Diet, Japan's parliament, has no substantive budget powers; it merely rubber-stamps MOF-written legislation. The scope of the MOF does not end there. The MOF controls the Defense Agency via, among other things, staffing; the agency's top ranks are seeded with career MOF officials, and its head is generally a MOF man.

Add it all up: the MOF controls taxing, spending, and defense. Since antiquity, these have been the three defining functions of government.

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WHO'S IN CHARGE HERE?

IF THE MOF is so powerful, why has one not heard of it before? In the Confucian tradition, the MOF believes that power is exercised most effectively when it is least obtrusive. Thus its near-invisibility has helped spawn many myths attributing supreme power to other parts of the establishment.

One of the more enduring myths about Japan is that big business runs the country. It is easy to see how Japanese policymaking might sustain such an illusion. Foreign business executives in particular are often impressed by how quickly Japanese business leaders can open doors. After years of futile efforts to break into the Japanese market, a foreign corporation finally decides to do a joint venture with a Japanese partner. Suddenly, as if by magic, the new venture partner effortlessly cuts through previously impenetrable red tape. But the Japanese partner is far from all-powerful. He merely understands the Japanese bureaucracy's industrial policy and can recast the foreign company's project to win official support by, for instance, making sure that the foreign company transfers vital, sought-after technologies to Japan. Civil servants often go to some lengths to sustain the illusion of big business' supremacy. Among other things, this allows them to disclaim responsibility for their sometimes controversial economic policies.

Some observers have canvassed a theory that Japan's farmers enjoy a veto power over national policies. But how strong can the farmers' lobby be? Japan's farm population has been deliberately reduced by threequarters in the last four decades by policies detrimental to farmers. The government has presided over the virtual demise of Japan's silk-growing industry. It saw no point in keeping the industry on life-support after demand fell in the 1950s, so Japan now imports most of its silk from Thailand and other cheap labor countries. That the markets in rice and other foodstuffs have not been similarly thrown open to foreign suppliers is a reflection less of the farmers' power than of the bureaucracy's concern to maintain food security. If Americans had nearly starved in 1945, their government might also be concerned about food security.

Westerners often fail to understand such nuances because in Japan the direction of causality between policymaking and lobbying is reversed. Whereas in America vested interests tend to create policy, in Japan policy tends to create vested interests. For instance, a preexisting policy of promoting rice production sustains a vociferous rice lobby. If the bureaucracy were to abandon the policy, the rice lobby would dwindle as quickly as the silk lobby did in the 1950s.

Many noted Japan watchers consider MITI the supreme agency of Japanese power. MITI is indeed a powerful agency, particularly (as its name suggests) in shaping the international side of the Japanese economy. Moreover, as Chalmers Johnson has documented, MITI has originated many of the strategies driving Japan's economic growth. But MITI'S ideas cannot be implemented without the MOF's financial support. MITI proposes, and the MOF disposes.

In recent times another myth has superseded the "mighty MITI" story: the void-at-the-top theory. This myth states that the various power centers in Japan are constantly warring with each other and no power center ever establishes permanent superiority. Thus Japan is leaderless and incapable of charting a rational course. This theory appeals to Western believers in

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laissez-faire economics, who mistakenly believe that Japan's economy is chaotic and assume that any government that presides over such "chaos" must be dysfunctional.

THE MAKING OF A LEVIATHAN

THE MOF is Japan's oldest surviving power center. Founded in 1869, just after the collapse of Japan's feudal system, it was the successor organization to the deposed shogun's tax-gathering apparatus. The MOF's only rival in seniority is the Bank of Japan. By comparison, the Diet, the courts, the Defense Agency, and MITI are relative parvenus in the Japanese power system. The MOF began playing a pivotal role in Japan's administration right from the start. In fact, the MOF's first recruits included no less than four of the half dozen or so oligarchs who were to dominate Japanese government for the next half-century. These founding fathers -- Toshimichi Okubo, Hirobumi Ito, Shigenobu Okuma, and Masayoshi Matsukata were crucial in launching Japan's quest for great power status in the last decades of the nineteenth century. Okuba was de facto prime minister in the 1870s and coined the catch phrase, "Rich country, strong army"; Hirobumi crafted Japan's first constitution and was a three-time prime minister; Okuma was prime minister twice and is regarded as the father of modern Japanese mercantilism; Matsukata, twice prime minister, was founder of the Bank of Japan. They are big names in Japanese history, roughly the counterparts to George Washington, Thomas Jefferson, Alexander Hamilton, and James Madison in American history.

In the early years of the twentieth century, the MOF found itself increasingly upstaged by the military and the Home Ministry, an octopus of an agency that, among other duties, ran Japan's formidable secret police. For a time, the MOF's main function seems to have been to gather the taxes needed to finance Japan's military machine. But the militarist years left the MOF with one valuable legacy: in the 1930s, it was given massive regulatory powers over the Japanese financial system. These powers, devised to enable the MOF to direct vast amounts of capital into Japan's burgeoning munitions industries, remained on the books after World War II and formed the basis of the MOF's tight regulatory control of the financial system in the postwar era.

The MOF's climb to undisputed leadership began with Japan's surrender in 1945. The Americans sent General Douglas MacArthur to head an ambitious program to reform Japanese public life. MacArthur quickly shut down the Japanese military and the Home Ministry, creating a power vacuum that the MOF eagerly filled. Another of MacArthur's objectives, the reform of Japan's economy, also played into the MOF's hand. The centerpiece of this effort was a plan -- similar to trustbusting campaigns in the United States -- to break up the zaibatsus, the huge holding companies that had dominated the Japanese economy. The breakup suited the MOF just fine because the wealthy families who owned the zaibatsus had long been an irritating counterweight to its power in shaping economic policy.

The Americans' antagonism towards the zaibatsus was well advertised before the war ended. Thus, with characteristic foresight, the MOF was ready when MacArthur arrived. In the days just after Japan's surrender, it covertly launched its characteristically counterintuitive preparations for the zaibatsu breakup by ordering an extraordinary round-the-clock program of printing banknotes by the truckload. It even commandeered several of Japan's largest printing factories for the task. Then it warehoused the money at secret locations while it negotiated the breakup details with MacArthur. Japanese

and American negotiators quickly agreed that the Japanese government would buy all shares in the zaibatsu holding companies, and the owners would receive a special issue of government bonds in return.

Then the MOF delivered the coup de grace: it released the new banknotes into circulation by the ton, deliberately detonating hyperinflation. The zaibatsu owners' bonds became virtually worthless as the yen lost 95 percent of its purchasing power in the next four years. For Japanese citizens with a long memory, all this was *deja vu*. Seventy years earlier, in compensation for loss of feudal privileges, the samurai class was given bonds that were reduced by inflation to almost nothing. On that occasion there had been some doubt about whether the inflation was intended. On this occasion, however, the MOF clearly knew what it was doing.

The MOF closed the loop by imposing a savage wealth tax that took away as much as 90 percent of the assets of some families. Right under the noses of the Americans, the MOF pulled off one of the great power plays in history. When the dust settled, control of industry had been transferred almost painlessly from the capitalist class to a handful of big banks and insurance companies, who in turn were controlled by the MOF. Under the guise of trying to open up Japan to the forces of individualism, MacArthur had instead helped concentrate power in a robust pyramid headed by the MOF. Unwittingly, MacArthur had created a leviathan.

LORDS OF THE BUDGET

IN A recent book, prominent Tokyo journalist Takao Kawakita reported that the MOF dubs itself "the Ministry of the Ministries." n1 The nickname accurately reflects the MOF's near-total control over Japan's \$ 600 billion national budget. MOF officials draw up the main lines of the budget in intense negotiations with civil servants in other ministries. A striking sign of the MOF's preeminence is the protocol for budget negotiations with other ministries. The rule, as recorded by Kawakita, is that other ministries must send an official two ranks higher than the MOF official they are meeting. Thus a senior MITI official, for instance, must suffer the indignity of being treated as an equal by a MOF official who may be 15 years his junior.

n1 Takao Kawakita, *Okurasho: Kanryo Kiko no Choten*, Tokyo: Kodansha, 1989.

As the American political scientist John Creighton Campbell has pointed out, the MOF's preeminence is enhanced by the fact that it screens virtually every new government policy in Japan for budget implications, even negligible ones. n2 Other agencies must get the MOF's permission merely to reassign money from one purpose to another. Moreover, the MOF holds other agencies to a 'legendarily high standard of parsimony in spending taxpayers' money.

n2 John Creighton Campbell, *Contemporary Japanese Budget Politics*, Berkeley: University of California Press, 1977.

The MOF's budget-setting prerogatives are hard to reconcile with Japan's presentation of itself as a Western democracy. Where do elected representatives fit in? In drafting the budget, the MOF takes some soundings in the Diet, but the elected representatives' hands-on involvement begins only after the budget's basic shape is already a *fait accompli*. Their power to amend spending provisions is limited to minor pork barrel items, such as construction of local bridges and tunnels. In taxation and other key areas of national policy,

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their role is mainly to rubber-stamp the MOF's decisions.

THE INFORMAL LEVERS OF POWER

MOF BUREAUCRATS outrank elected representatives for many reasons. For one thing, the bureaucrats designed the system (and for the most part masterfully frustrated MacArthur's efforts in the latter half of the 1940s to institute reform). An important part of the design was to create a tremendous community of interest among Tokyo University's old boys. Tokyo University graduates dominate not only the bureaucracy but the major banks and many of the biggest corporations. The essential dynamic here is classic Japanese group logic: the Tokyo University people form a powerful clique, and through peer pressure they almost automatically back each other up. By comparison, politicians generally come from a host of lesser universities. Thus they lack a deep sense of group loyalty and make easy prey for the Tokyo University crowd's divide-and-rule tactics.

The bureaucracy also buttresses its authority by dispatching its retirees to important jobs in the banks and large corporations. Ironically, the Western press has long regarded this retirement system, known as *arnakudari*, as one of the Japanese bureaucracy's weak points. The press has imagined that the system provides a means for the private sector to exercise improper influence by dangling promises of attractive post-retirement employment to key government officials. Press commentators, however, have characteristically grasped the wrong end of the stick. They mistakenly assume that individual bureaucrats are free to choose their post-retirement careers. In group-oriented Japan, this assumption does not apply. Retired bureaucrats are obligated to accept jobs approved by their former ministry. In fact, their entire post-retirement career is usually decided by the ministry. Even the MOF's top bureaucrat must submit to this discipline when he retires; his future career is determined for him by his successor at the MOF.

Moreover, in contrast with Washington's revolving-door system, former Japanese bureaucrats do not see themselves primarily as lobbyists representing their new employers in influencing their old ministry. On the contrary, they see themselves as ambassadors from their old ministry making sure that their new employers abide by ministerial policy.

In addition to a carefully structured social system, the MOF bureaucrats benefit from many counterintuitive tools of power. Decades ago, the Diet vested the MOF and other agencies with almost complete freedom to write and rewrite Japan's regulations without further approval from elected representatives, thus underpinning the preeminence of MOF bureaucrats. Bureaucrats can more or less make up the law as they go along, even finetuning it to harass those who offend them.

Usually, however, MOF bureaucrats do not need to resort to such extremes. They dominate Japanese society by selectively enforcing existing regulations. Because regulations in Japan are written very restrictively, but enforcement is often deliberately lax, the bureaucrats can maintain a double standard: they tolerate certain kinds of tax evasion, for instance, but can strictly enforce Japan's formidable tax code against anyone they want to punish. When the Japanese car market was first opened to imports, for instance, tax officials made a habit of auditing buyers of foreign cars.

The significance of the tax system as a tool of Japanese power has long been hidden from the West by a widespread belief, voiced most notably by The Economist, that the National Tax Agency functions largely independently of the MOF. Anyone who checks the standard Japanese-language directory of the Tokyo bureaucracy, however, can see that this is nonsense. The tax agency is richly laced with career MOF officials, most of whom are destined to return to the MOF. There is not the slightest ambiguity regarding where their loyalty lies.

The shoguns' bureaucracy invented the concept of using selective enforcement in the feudal era as a tool of power, and to this day the ability to calibrate tax assessments individually gives Japanese officialdom great leverage over corporations and wealthy citizens. As the Japanese commentator Kenichi Ohmae reported a few years ago, if corporations flout the MOF's guidance, tax officials "can come in and ransack every single page of their books." One prominent Japanese businessman, only half jokingly, recently described the National Tax Agency as "Japan's KGB." The MOF uses selective enforcement not only in tax matters but in banking and securities regulation. Thus the MOF almost effortlessly dominates the corporate sector, which in turn controls Japan's elected representatives by providing them with much of their campaign money.

As if this were not enough, politicians are also subject to direct bureaucratic control via selective enforcement of Japan's election laws. Among other things, the bureaucracy heavily restricts corporate funding for elected representatives. It has also imposed restrictions on elected representatives' efforts to organize grassroots campaigns. Some of the rules are truly amazing. Door-to-door canvassing of voters, for instance, is outlawed in Japan.

How, then, do Japanese politicians win elections? In practice, they flout the rules, particularly those on electoral funding. They also often buy votes via an extraordinary network of local political strategems. Needless to say, purchasing votes is illegal. But as long as a politician remains on good terms with the MOF and other bureaucratic agencies, he or she can probably sleep soundly at night.

Selective enforcement is the hidden dynamic behind most of Japan's political scandals, including the Recruit scandal of the late 1980s, in which prominent people were accused of receiving shares at below-market prices, and the Nomura scandal, in which Nomura Securities was accused of misconduct in selling shares to institutional clients, of the early 1990s. Such scandals have been a constant in Japan for a century and follow a standard pattern. They begin with leaks to the press, usually concern securities violations or tax evasion, and are generally instigated by the MOF. Typically the victims are politicians or their supporters in business. These victims' real offense is usually that they tried to stand up to the MOF.

JAPAN'S NON-REVOLUTION

IF You are to believe the Western press, Japan's bureaucrat-dominated government is rapidly crumbling. Supposedly, in 1993 the Japanese electorate voted decisively for change and thereby triggered what press commentators in the United States billed as an earthquake. Actually, remarkably little has changed in Japan. The press presentation of the '93 election as an exercise in "throwing the bums out" was a heroic misrepresentation of reality. Virtually every incumbent politician of the formerly dominant Liberal Democratic Party who stood for reelection was victorious. Even LDP politicians who had been deeply

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implicated in various money-politics scandals were reelected. Whatever change took place stemmed mainly from the fact that, just before the election, some members of the LDP broke away to found a new party. They duly won election under new party labels, prompting the less observant in the Western press to proclaim a revolution. In essence, however, the same old bums had returned to the Diet. Not only that, they arrived via the same old smoke-filled rooms. Japan's voters, as usual, had not been given much choice in the matter.

Clearly almost everyone involved intends to create a new political structure that, in appearance at least, will approximate a Western twoparty system. Big business, which has long been somewhat embarrassed by Japan's designation abroad as a one-party state, will welcome such a system. What is less clear is whether the new two-party system will do much to rein in the prerogatives of the bureaucracy, particularly those of the MOF. The new system can be expected to win some token victories in battling the bureaucracy. The MOF, in particular, will probably play along. In fact, it has long been careful in its public dealings to preserve the impression that elected representatives have the last word. In drafting the budget, for instance, the MOF is adept at including unnecessarily unpopular provisions as bargaining ploys. It later makes a show of bowing to pressure from politicians in removing the offending provisions, thus preserving the impression that the popular will prevails. In the economic slowdown of the early 1990s, for instance, the MOF preposterously proposed a doubling of Japan's unpopular consumption tax -- and then backed off, ostensibly in response to elected representatives. If the MOF wants to give the new two-party system some power, that is the MOF'S decision to make. Moreover, the MOF will retain the power to change its mind later.

THE MOF'S MAGIC

AMID ALL the confusion about Japan's supposed revolutionary political changes and moribund economics, one thing is clear: the Japanese economy has emerged from the early 1990s stronger than ever. It is hard in the space of a few paragraphs to do justice to Japan's true strength but here are a few facts:

* Between 1989 and 1993, Japan rose from sixth in the world in per capita income to a close second, behind Switzerland? n3

n3 Kokusai Hikaku Tokei, Tokyo: Bank of Japan, 1994.

* Japan's per capita income is now more than 40 percent higher than America's. n4

n4 Kokusai Hikaku Tokei, 1994.

* According to Deutsche Bank, Japan in 1993 passed the United States to become the world's biggest manufacturing economy. n5

n5 Eamonn Fingleton, "Don't Let Up on Japan," The New York Times, April 9, 1994.

If these facts look startlingly at variance with those often cited in the Western press, there is a reason. Unbeknownst to the Western public, the press generally uses out-of-date exchange rates that value the yen at as little as half its recent market value. Thus it systematically understates Japan's recent economic performance. The justification for using such exchange rates is that the yen's internal purchasing power has not kept up with its external

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purchasing power. This is a highly debatable point. Even at today's exchange rates, some prices in Japan remain lower than in the United States (the Japanese spend less than Americans on health care, for instance). Overall, the Japanese clearly now enjoy one of the highest standards of living in the world. This is evident in their world-beating life expectancy rates, which have increased by nine years since 1964 and now surpass American rates by about three years.

In any case, the yen's internal purchasing power is largely irrelevant for anyone interested in Japan's -- and in particular the MOF's -- rapidly growing influence in the global economy. For that, the yen's external purchasing power, as measured by the current exchange rate, is unequivocally the appropriate yardstick. Driven by the rising yen, Japan's presence in, for instance, development assistance has enormously increased, so much that Japan now slightly outspends the United States, whereas a decade ago the United States outspent Japan two-to-one.

Perhaps the ultimate indicator is Japan's rapidly rising share of global savings. Japan in 1993 accounted for an astonishing 56 percent of the developed world's total net savings. By contrast, the U.S. share was just five percent. The implications of these figures are enormous. In foreign direct investment, for instance, Japan's outflows have increased fivefold in the last ten years (and remember that, by the early 1980s, Japan was already investing heavily abroad).

All in all, it is apparent that the MOF sits atop a growth machine that accounts for close to half of the world's industrial expansion each year. No organization in history has wielded more economic clout than the MOF does today.

THE REASONS TO WATCH

CLEARLY, THE MOFS an institution that should be watched at least as closely by the international press as the Federal Reserve and the Bundesbank. Its influence reverberates down from macroeconomic issues of global currency stability to pocketbook issues such as the interest rates that Americans must pay for credit cards and small loans. Its retirees run such globally important agencies as the Tokyo Stock Exchange, the Bank of Japan, the Fair Trade Commission, the National Finance Corporation, the Overseas Economic Cooperation Fund (which administers Japan's vast foreign aid budget), the Japan Development Bank, and the Export-Import Bank of Japan.

Under MOF leadership, the Japanese government has been consistently producing budget surpluses for many years. Indeed, Japan's tight budget policies are probably the ultimate proof that Japan is driven by a particularly resolute system of centralized power. The MOF deviates from fiscal rectitude only in years of poor consumer demand, when a fiscal stimulus is needed to support the lifetime employment system. The Japanese government has been an avid saver for most of the postwar era. According to figures compiled by the U.S. Congressional Budget Office, Japan's government savings rate averaged 4.8 percent in the 1970s and 4.6 percent in the 1980s. By contrast, the U.S. government savings rate fell from 0.4 percent in the 1970s to -2.1 percent in the 1980s.

The MOF's policy of maximizing government savings flies in the face of repeated efforts by Washington in the last decade to get Japan to increase government spending as a way of reducing America's trade deficit. It also runs counter to the wishes of Diet members. As The Wall Street Journal reported in

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April 1993, the MOF deliberately uses byzantine and archaic accounting methods to obscure the strength of the government's finances, thus bamboozling politicians into voting each year for the MOF's ultraconservative budgets. MOF officials boast openly about their role in frustrating elected representatives' spending proposals. One MOF official told The Wall Street Journal, "In your country, you at least have politicians in Congress who are fiscal conservatives. But we don't have any. Every politician wants to spend and spend."

Perhaps the best way to get a sense of the power the MOF derives from its savings is to use absolute money numbers. Measured by Western accounting methods, the Japanese government's savings in 1991 alone totaled about \$ 300 billion, more than two times the net savings of the entire American economy. The MOF, in effect, is the world's biggest saver. These savings help Japan maintain its historical disdain for foreign capital. The MOF's characteristically non-Western approach to industrial development was apparent from the start of Japan's economic drive in the nineteenth century. Whereas most other economically backward countries imported capital heavily, the MOF rigidly refused to borrow abroad. Two small loans were raised abroad in 1870 and 1873, but for the next 25 years the MOF maintained a virtual ban on foreign capital.

The MOF also led the Japanese establishment in eschewing direct investment in Japan by foreign capitalists. Thus the MOF violated one of the most cherished principles of Western economics, that unrestricted transfers of capital across borders serve to boost efficiency in recipient countries. The Japanese saw things differently, forming their opinion from practice, not theory. They were influenced in particular by the slow deaths of the Chinese and Ottoman empires in the latter decades of the nineteenth century. Both had thrown themselves open to foreign capital, which in the Japanese view had decapitated these once-proud empires and led to corruption and demoralization.

Although the MOF has no direct involvement in the broader aspects of industrial policy, there is little doubt that many of Japan's most important industrial initiatives -- targeting markets, for instance could not exist without the MOF's support. Just as a chief executive works through divisions and profit centers in the search for profitable new products, the MOF works to promote economic growth through cartels, banks, bureaucratic agencies, and keiretsus, the informally organized clusters of Japanese companies that intertwine their ownerships and cooperate regularly in each others' management decisions. Moreover, the MOF has been the mainspring of Japanese mercantilism since the 1870s, when it invented nontariff barriers. The MOF was, for example, the protagonist in a dispute with the United States over the size of Japan's current account surpluses. A few years ago, the MOF's international affairs vice minister, Makoto Utsumi, made a proposal that came to be known as the kuroji yuyo ron, "the theory that surpluses are useful." Utsumi argued that the American government needed Japan to run trade surpluses so that Japan could have the money to finance America's budget deficits.

Perhaps an even more telling insight into the MOF's mercantilist mindset is its decisive role in protecting the auto industry. Until 1973, it used its controls on foreign investment in Japan to block American and European automakers from establishing Japanese manufacturing operations. It used its taxing powers to levy duties on imported vehicles until 1978 and on imported auto parts until 1986. It even used its powers over the insurance industry to require Japanese motorists to pay three times as much to insure a foreign car

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as a domestic model. This discrimination was abolished only in 1988, years after Japanese automakers had passed their last remaining serious rivals, the Germans. The MOF's enthusiasm for mercantilism is reinforced by its private agenda. It has been the main beneficiary of mercantilism because Japan's thwarted purchasing power ends up in MOF-regulated savings institutions.

The MOF is also the mainspring of Japan's cartelization policy, thanks to its right to appoint top executives of Japan's Fair Trade Commission. MOF appointees at the commission, which administers Japan's antitrust laws, naturally turn a blind eye to most cartels.-. Employing these powers, the MOF has become a skilled exponent of limited monopoly. In its hands, a limited monopoly generally does double duty as a tool of power and a device to generate economic efficiency (via the "good" cartel, the ultimate limited monopoly). The MOF has even used limited monopolies to control the advance of foreign securities firms in Japan. Only a few foreign securities firms and financial organizations are allowed to participate in the Japanese financial services industry. With other applicants arbitrarily shut out, those on the inside enjoy monopolistic pricing opportunities. But because their right to participate is by grace, they must be careful to remain on the right side of the MOF.

Another key area in which the MOF's influence is widely felt is overseas aid. Disbursements of aid are often made on the understanding that the recipient country will make contributions to the reelection campaign funds of specified Japanese politicians. In the case of some recent Japanese financial aid to Indonesia, for instance, up to onethird of the money is said to have returned to Japan in the form of political contributions. According to the scholar Robert M. Orr, Jr., Japanese aid now accounts for 15 to 20 percent of the entire government budget of almost every East Asian country. Clearly, therefore, when the MOF speaks, East Asia listens.

RICH COUNTRY, STRONG BUREAUCRACY

JAPAN IS, of course, not the only country with a strong bureaucracy. It shares this characteristic with most of Europe's advanced societies, notably France, Germany, Switzerland, and Austria. A strong bureaucracy is also a feature of East Asia's most successful societies, including Taiwan, South Korea, Singapore, and Hong Kong. However, the Japanese civil service's power -- especially that of the MOF -- is in a league of its own. Japanese civil servants enjoy the priceless advantage of the moral high ground. As a Confucian society, Japan is avowedly paternalistic, and there is little sympathy for the essentially alien view that supreme power is rightfully the prerogative of elected representatives. Thus the bureaucrats do not have to apologize for overruling populist tendencies. As ever in Japan, politicians reign and bureaucrats rule.

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