Saturday, October 10, 1998

10-11-98

THE WHITE HOUSE
WASHINGTON

October 10, 1998

MR. PRESIDENT:

Attached are the following weekly reports:

(A) Weekly Economic Briefing

(B) Interest Rates/Update on Global Markets

(C) DPC Report

(D) NEC Report

(E) CEQ Report

(F) OSTP Report

(G) Climate Change Report

(H) Communications Report

(I) Legislative Report (*to be forwarded*)

(J) Public Liaison Report

(K) Intergovernmental Report

(L) Cabinet Affairs Report

(M) Political Report

Phil Caplan
Sean Maloney

Tab A - copied Yellen/Bowles

Tab C - copied Reed/Kagan/Bowles

Tab D - copied Sperling/Bowles

Tab E - copied McGinty/Bowles

Tab F - copied Lane/Bowles

Tab H - copied Lewis/Spector/Bowles

Tab I - copied Bowles/Stein/Craig Smith/Sperlin

Tab K - copied Ibarra/Bowles

EYES ONLY

10-11-98

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WEEKLY ECONOMIC BRIEFING OF THE PRESIDENT OF THE UNITED STATES

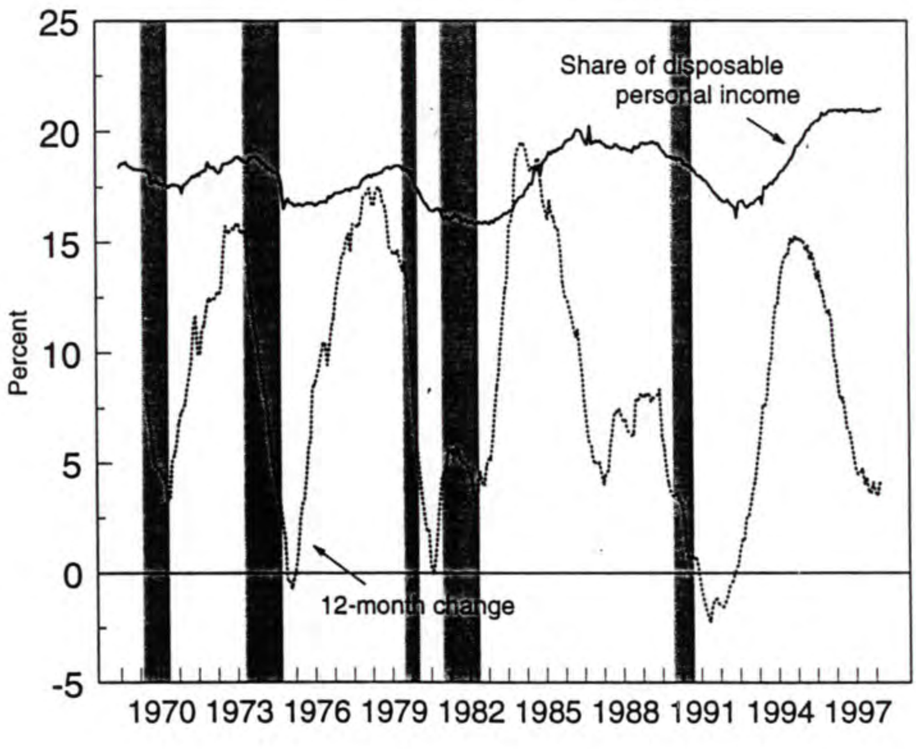
Prepared by the Council of Economic Advisers
with the assistance of the Office of the Vice President

October 9, 1998

Copied
Yellen
Bowles

CHART OF THE WEEK

Trends in Consumer Credit



Data released this week show that consumer credit increased at a relatively modest 4.1 percent pace over 12 months ending in August. Nevertheless, consumer credit as a share of disposable personal income remains high at 21.0 percent. Consumer credit covers most short- and intermediate-term credit extended to individuals, such as car loans and credit cards; it excludes loans secured by real estate.

EYES ONLY

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SPECIAL ANALYSES

ARTICLE

DEPARTMENTS

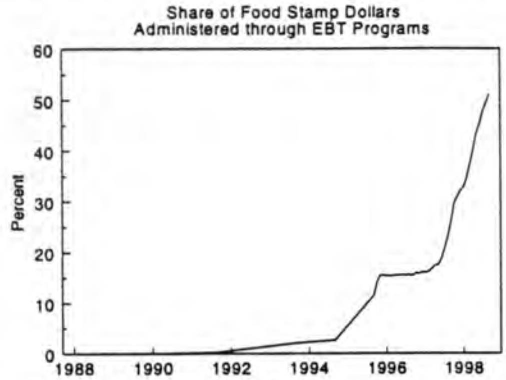
"I'm looking for a hedge against my hedge funds."

EYES ONLY

SPECIAL ANALYSIS

Electronic Benefits Cross 50 Percent Mark for Food Stamps

The latest estimates indicate that more than half of food stamp benefits were distributed through an electronic benefits transfer (EBT) system in September (see chart). By October 1, 2002, all states must replace the paper coupon system with an EBT system. Thus far, 20 states have a statewide system, and another 14 have an EBT system in some areas.



Preliminary evaluations indicate a favorable response to EBT from recipients, food retailers, and financial institutions. It remains an open question, however, whether the move to EBT will change people's behavior.

What is EBT? In the EBT system, recipients are issued plastic electronic benefit cards and a personal identification number for verification. Benefits are electronically credited to a recipient's account each month and grocery purchases are debited from the account through the EBT card. The primary goals of the EBT system are to reduce administrative costs and curtail food-stamp fraud.

Participation effects. The switch to an EBT system could increase participation by reducing participation costs and stigma. For many of the 30 percent of those who are eligible for food stamps but do not now participate, the level of available assistance may be too small to justify the time and effort required to register for and participate in the program. To the extent that the automatic monthly crediting of recipients' EBT accounts reduces these costs, it could make participation more worthwhile. In addition, because transactions conducted with an EBT card are identical to those conducted with a standard grocery store debit card, the EBT system could reduce embarrassment that might be associated with food-stamp use.

Food purchase effects. Although the EBT system might increase participation, it could reduce food consumption per participant. Research has found that an additional dollar of food stamps increases the typical recipient's net food expenditure by between 17 and 47 cents, compared with an increase of between 5 and 10 cents from an additional dollar of cash income. One reason might be that households spend more on food at the beginning of the month when their coupons arrive and then, after the coupons run out later in the month, they buy additional food with cash. Another possibility is that, within a household, the use of food stamps is more under the control of women, who tend to spend relatively more on food. Like food stamps, EBT cards are distributed to the heads of recipient households. But to the extent that recipients come to regard EBT cards as more like cash than like coupons, the switchover to EBT might lead to expenditure patterns more like those associated with cash income.

The "no change" effect. One aspect of EBT might lead to greater food consumption per participant. Under the paper coupon system, recipients could receive up to 99 cents in change for a given transaction. This money could then be spent on anything. The EBT system, by contrast, eliminates cash change by deducting the exact amount of the transaction from the recipient's account. This reduces the amount of food-stamp dollars that can be diverted to nonfood consumption and could result in an increase in food consumption.

Conclusion. The switchover to an EBT system for food stamps is now underway. Early evaluations suggest that the move is a popular one. But it will be some time before we know how participation and food consumption will be affected.

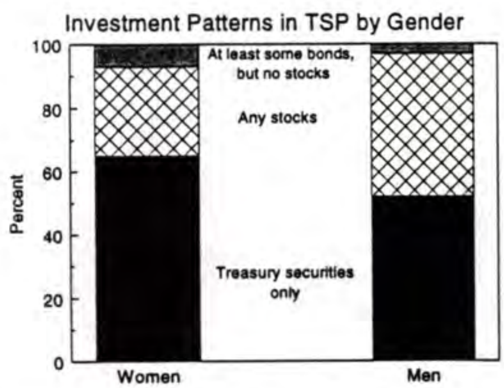
EYES ONLY

SPECIAL ANALYSIS

Gender Differences in Retirement Investments

Women appear to make more conservative retirement investments than men. As a result they are likely to end up with less wealth to finance their retirement.

Evidence from the TSP. Federal employees participating in the Thrift Savings Plan (TSP) can allocate their savings among three funds: one consisting of special short-term U.S. Treasury securities issued only to the TSP; a fixed-income index fund of government and corporate bonds; and a stock fund indexed to the Standard and Poor's 500 index. A study based on the 2 million participants in TSP in 1990 found that 65 percent of women and 52 percent of men invested *only* in the special Treasury securities fund—the one providing the least risk but also the lowest expected return (see chart). Only 28 percent of the women, but 45 percent of the men, participated in the common stock index fund.



Gender-specific differences. Virtually all studies of portfolio choice that are able to control for income and wealth find that lower-income and less-wealthy individuals invest more conservatively than those who are better off. Thus, some of the gender differences found in the TSP study may reflect the fact that women typically have lower earnings and less wealth than men. However, the TSP study found that men were more likely than women to invest in the stock and government/corporate bond index funds, even after controlling for salary, other family income, age, and marital status. Married women as a group made the most conservative choices while single men were least conservative. Married men and single women made similar choices.

The TSP study was not able to control for other assets. Some studies have found that women are *not* more conservative in their portfolio choices than men, once wealth as well as other determinants of investment behavior are taken into account. But these studies are not definitive. To the extent that there are gender-specific differences, one reason might be that the high divorce rate makes it risky for women to "invest" in their husbands' careers instead of in their own earning power, which leads them to choose more conservative financial investments in order to balance their overall "portfolios."

Implications. The (adjusted) gender-specific difference between the percentages of men's and women's contributions invested in the stock fund was estimated to be 14 points in the TSP study. As a result of women's more conservative choices, the men's accumulation was predicted to be 8 percent larger after 20 years and 16 percent larger after 35 years.

EYES ONLY

ARTICLE

Should All NO_X-ious Emissions Be Treated the Same?

The damage caused by some pollutants such as nitrogen oxides (NO_X), which contribute to the formation of ozone both locally and in downwind areas, depends upon where the emissions occur. For example, NO_X emissions from Ohio contribute to violations of ozone standards in heavily populated downwind areas including Pennsylvania and New York, while emissions from Florida do not.

New Environmental Protection Agency regulations to reduce NO_X emissions across 22 states plus the District of Columbia allow trading on a one-for-one basis between any sources in the region regardless of location. In principle, intelligent policy would aim to reduce emissions more from sources that cause greater harm, but practical implementation issues may justify EPA's decision to treat emissions from all sources equally.

Accounting for different damages. Permit trading encourages cost-effective pollution control by equalizing the incremental cost of reducing emissions across all sources. When the environmental damages caused by a unit of pollution are the same across all sources (as is the case with CO_2 emissions, for example), permit trading can minimize the cost of achieving any given level of environmental quality. The situation is more complicated, however, in the case of pollutants like NO_X, where the environmental damage per unit of emissions depends on where the emissions occur. In such cases, minimizing damages in a cost-effective manner requires weighing the relative damages caused by a unit of emissions from two sources in order to calculate a permit-trading ratio between the sources.

Practical difficulties. While desirable in theory, damage-weighted trading may be difficult to implement. In particular, it is often difficult to measure damages from specific sources objectively. For example, the contribution of NO_X emissions to ozone formation depends on the combination of wind patterns, temperature, sunshine and complex and incompletely understood air chemistry. Uncertainty over objective measures, combined with the lack of an easily applied principle like equal treatment of all sources, may create intense lobbying pressure. Even with full scientific understanding, basing trading prices on formulas that depend in part on weather conditions will subject sources to considerable uncertainty. In addition, the complexity of weighting trades according to damages will increase administrative costs.

Policy experience. For the most part, regulators have adopted simple rules that allow one-for-one trades among all sources, even when the location of emissions matters. Nevertheless, experience to date in the national SO_2 program indicates that trading has not increased emissions from places that cause higher damages, such as the Ohio River Valley. A similar outcome is anticipated for NO_X trading. One program that has taken the location of emissions into account is the RECLAIM trading program in Southern California, where the trading region is divided into a coastal and an interior zone. Because of the larger potential damages caused by emissions in the coastal region, a source in the interior region cannot trade the right to emit to a source in the coastal region.

Conclusion. For pollutants for which the location of emissions matters, it is potentially important to account for the difference in damages from different emissions sources. The trick in practice is to account for such differences in a workable, flexible, and simple regulatory scheme. One possibility that could account for large differences in damages while still being simple enough to implement might be to establish trading regions within which trades take place on a one-for-one basis (like the RECLAIM program), but to extend the idea by allowing trades between regions at a specified ratio that reflects relative damages.

10-11-98

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BUSINESS, CONSUMER, AND REGIONAL ROUNDUP

Large Firms Face Tighter Credit. In mid-September, the Federal Reserve conducted a special Senior Loan Officer Opinion Survey to assess the impact of recent financial turbulence on the bank loan market. The study found a fairly widespread tightening of standards and terms for loans to larger firms. For domestic banks, this tightening represented a shift from surveys as recent as mid-August; for foreign banks operating here it was a continuation of recent trends. The survey revealed little change in standards and terms for loans to small firms or in banks' willingness to provide consumer installment loans—though even this stability marks a modest departure from the tendency toward some easing shown in August. Banks that reported having tightened lending standards cited a less favorable economic outlook and worsening of industry-specific problems, as well as a reduced tolerance for risk. Despite this tightening of standards and terms, the volume of commercial and industrial loans issued increased in September, perhaps because weak demand for junk bonds has led companies to seek out more bank loans. With investors behaving more cautiously as a result of economic problems in Russia, Japan, and other Asian countries, only $21 billion of high-yield bonds were issued in the third quarter, compared with $100 billion in the first 6 months of the year.

Survey Finds Firms Take Minimum-Wage Hike in Stride. The latest minimum-wage hike, from $4.75 to $5.15 per hour, affected hiring or employment decisions at just 6 percent of small businesses, with 89 percent reporting no effect, according to a survey of 568 commercially and geographically diverse small businesses conducted by the Jerome Levy Institute. Among firms reporting that they were affected by the increase, 17 percent reduced new hires and 6 percent required layoffs. According to the survey, an increase to $6.00 per hour would affect hiring at 21 percent of small businesses and lead to layoffs at only 3 percent. Among firms paying entry-level wages at or near the minimum wage ($5.15 to $6.00 per hour), 87 percent reported no effect on hiring or employment from the most recent increase, and 60 percent predicted no effect from an increase to $6.00. Retail sales and trade, service, and food service industries were found to be most sensitive to wage increases.

Free Trade Can be Good for the Environment. A recent study of sulfur dioxide concentrations using data from 44 countries spanning the years 1971-1996 identifies three distinct channels through which freer trade affects the environment. The first is a *composition* effect: pollution will go up in countries in which trade shifts the pattern of production towards pollution-intensive goods and down in countries in which trade shifts it away from pollution-intensive goods. However, the study finds these composition effects to be small. The other two effects—*scale* and *technique*—stem from the increase in output and income that are likely to be stimulated by freer trade. The study finds that if trade liberalization raises GDP per person by 1 percent, the resulting increased scale of production raises sulfur dioxide concentrations by 0.3 percent, but the resulting higher income encourages cleaner production techniques that reduce concentrations by about 1.4 percent. Thus, on balance, freer trade improves the environment.

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INTERNATIONAL ROUNDUP

Surge in Yen May Be Evidence of Irrationality. This week the yen went from over 135 per dollar to 112 at one point, before coming back to about 120. IMF Managing Director Michel Camdessus is reported to have said that this reflected the irrationality gripping global markets. The appreciation of the yen came in the wake of a number of developments in Japan. Last week, Bank of Japan's quarterly survey of corporate sentiment (the "tankan") showed a disappointingly large drop in corporate morale. This week the Economic Planning Agency downgraded its forecast for this fiscal year from 1.9 percent growth to a 1.8 percent contraction, and the Ministry of Trade and Industry publicly called for 10 trillion yen in new spending. Perhaps in response, Prime Minister Obuchi instructed his cabinet to devise effective stimulus steps quickly. The biggest news, however, appeared to be a plan submitted to the Diet on Wednesday to use public money to recapitalize banks. Optimism that the plan might pass appeared to be behind a rare and dramatic 6.2 percent advance for the slumping Nikkei. Market enthusiasm waned Thursday, however, and the Nikkei gave back most of its gains. Few credited improved prospects for the Japanese economy for the sharp appreciation of the yen over these 2 days. Traders pointed instead to massive dollar sales by hedge funds seeking to liquidate risky bets against the yen and to protect against further losses.

Corruption Index Now Covers 85 Countries. A large number of countries scored poorly in the 1998 Corruption Perception Index recently published by the independent organization Transparency International. The index, which was instituted in 1995, now covers 85 countries. It draws upon numerous distinct surveys of expert and general public views of the extent of corruption in many countries around the world. Seven of the 10 least corrupt countries are European, with Denmark leading the list. The most corrupt country is Cameroon, followed by Paraguay and Honduras. The United States is ranked 17th, tied with Austria.

21st Annual World Development Report Analyzes the Role of Knowledge. The global explosion of knowledge now underway may lift hundreds of millions of the world's poor out of poverty—or it may create a widening knowledge gap, in which poor countries lag further and further behind. This is the challenge posed by *Knowledge for Development*, the 1998/99 World Development Report from the World Bank. The report focuses on two types of knowledge problems that are critical for developing countries: inadequate *how-to knowledge* in areas such as nutrition, birth control, engineering, and accounting; and inadequate *information* about such things as the quality of a product or the creditworthiness of a small firm, which could limit the effective working of markets. The report recommends that developing country governments adopt policies to close the knowledge gap that separates them from rich countries, including investing in education (especially of girls) and maintaining an open trading regime. The latter is important for a variety of reasons, including exporters tend to invest more in knowledge, and valuable knowledge spillovers are associated with direct foreign investment by multinational investors.

EYES ONLY

RELEASES THIS WEEK

No major releases.

MAJOR RELEASES NEXT WEEK

Retail Sales (Wednesday)
Producer Prices (Thursday)
Industrial Production and Capacity Utilization (Friday)
Consumer Prices (Friday)

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U.S. ECONOMIC STATISTICS

	1970-1993	1997	1997:4	1998:1	1998:2
Percent growth (annual rate)					
Real GDP (chain-type)	2.7	3.8	3.0	5.5	1.8
GDP chain-type price index	5.4	1.7	1.1	0.9	0.9
Nonfarm business (NFB) sector:					
Productivity (chain-type)	1.5	1.7	0.9	3.5	0.1
Real compensation per hour:					
Using CPI	0.6	1.9	2.8	4.1	2.0
Using NFB deflator	1.3	2.0	3.9	4.3	3.4
Shares of Nominal GDP (percent)					
Business fixed investment	10.9	10.6	10.7	11.0	11.2
Residential investment	4.5	4.0	4.1	4.2	4.3
Exports	8.2	11.9	12.0	11.6	11.3
Imports	9.2	13.1	13.2	13.1	13.1
Personal saving	5.2	1.5	1.2	0.9	0.3
Federal surplus	-2.7	-0.3	0.0	0.7	0.9

	1970-1993	1997	July 1998	August 1998	Sept. 1998
Unemployment Rate (percent)	6.7**	4.9**	4.5	4.5	4.6
Payroll employment (thousands)					
increase per month			118	309	69
increase since Jan. 1993					16745
Inflation (percent per period)					
CPI	5.8	1.7	0.2	0.2	N.A.
PPI-Finished goods	5.0	-1.2	0.2	-0.4	N.A.

**Figures beginning 1994 are not comparable with earlier data.

EYES ONLY

FINANCIAL STATISTICS

	1996	1997	August 1998	September 1998	Oct. 8, 1998
Dow-Jones Industrial Average	5743	7441	8479	7910	7732
Interest Rates (percent per annum)					
3-month T-bill	5.01	5.06	4.90	4.61	3.80
10-year T-bond	6.44	6.35	5.34	4.81	4.56
Mortgage rate, 30-year fixed	7.80	7.60	6.92	6.72	6.49
Prime rate	8.27	8.44	8.50	8.49	8.25

INTERNATIONAL STATISTICS

Exchange Rates	**Current level October 8, 1998**	**Percent Change from** Week ago	Year ago
Deutschemark-Dollar	1.606	-2.7	-8.4
Yen-Dollar	118.9	-12.4	-1.8
Multilateral $ (Mar. 1973=100)	92.14	-3.5	-4.9

International Comparisons [1]	**Real GDP growth** (percent change last 4 quarters)	**Unemployment rate** (percent)	**CPI inflation** (percent change in index last 12 months)
United States	3.6 (Q2)	4.6 (Sept)	1.6 (Aug)
Canada	3.1 (Q2)	8.3 (Aug)	1.0 (Aug)
Japan	-1.8 (Q2)	4.2 (Jul)	-0.2 (Aug)
France	3.0 (Q2)	11.7 (Jul)	0.7 (Aug)
Germany	2.5 (Q2)	[2] 7.4 (Jul)	0.7 (Aug)
Italy	1.1 (Q2)	12.4 (Apr)	1.9 (Aug)
United Kingdom	2.6 (Q2)	6.2 (Jun)	3.3 (Aug)

1/ For unemployment data, rates approximating U.S. concepts as calculated by the U.S. Department of Labor, Bureau of Labor Statistics.

2/ Rate for former West Germany. Using OECD standardized unemployment data, the unemployment rate for unified Germany for July 1998 is 9.6 percent.

10-11-98

THE WHITE HOUSE

WASHINGTON

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October 10, 1998

MEMORANDUM FOR THE PRESIDENT

FROM: Bruce Reed
Elena Kagan

SUBJECT: DPC Weekly Report

1. Education -- Charter Schools Legislation: The Senate approved bipartisan charter schools legislation on Thursday by voice vote, and we expect the House to pass the identical bill prior to adjourning. As you know, the bill (which we had a substantial hand in drafting) would amend the federal charter school grant program to (1) encourage states to issue more charters; (2) give charter schools greater flexibility while ensuring that they meet performance goals; (3) provide for charter schools to receive their fair share of funding from federal education programs; and (4) promote ways for high-performing charter schools to help revitalize other public schools.

2. Education -- Vocational Education Legislation: Congress passed the Carl D. Perkins vocational education reauthorization bill on Thursday. The bill is the third and final piece of legislation -- following the workforce investment act and adult education act -- carrying out your "G.I. Bill for Workers" proposal. The bill consolidates numerous existing programs and set-asides into a single grant to states that combines flexibility with strong accountability mechanisms. Consistent with your general approach on education issues, the bill focuses on ensuring that students meet high standards (both technical and academic) by requiring states to develop a standards-based plan and to use their new funds to implement it. In addition, the bill specifically allows vocational education funds to support School-to-Work and "Tech-Prep" activities.

3. Education/Crime -- White House Conference on School Safety: You are scheduled to host the White House Conference on School Safety on Thursday. Other participants in the Conference include the Vice President, the First Lady, Mrs. Gore, experts in education and youth violence, community leaders, teachers, parents, and students. The conference will be downlinked by satellite to almost 600 locations -- including Jonesboro, Paducah, Pearl, and Springfield -- and will be cybercast over the Internet.

In addition to releasing the first Annual Report on School Safety, you can announce at the Conference: (1) a plan to create a Federal School Crisis Response team, which will assist local communities in much the same way that FEMA assists communities in response to natural disasters; (2) a plan to overhaul the Safe and Drug-Free Schools program so that it targets funds to communities with the greatest need, rewards the use of proven practices, and requires schools to provide school safety report cards to parents and the public; (3) a set of grants totaling $60 million to provide 2,000 school safety officers to schools with serious crime problems; (4) a commitment to trace all firearms recovered in schools to their sources; (5) a demonstration program, with coordinated funding from the Departments of Education, Justice, and HHS, to help schools, law enforcement, mental health agencies, and community groups to develop and implement coordinated, community-based efforts to address school safety and youth violence problems; (6) a commitment by four retailers (K-Mart, Walmart, Dockers/Levi Strauss, and JC Penney) to give back a percentage of their profits from the sale of school uniforms to schools to develop comprehensive school safety plans; and (7) a year-long public awareness campaign by MTV focusing on the problems of and solutions to school and youth violence.

4. Children and Families/Welfare Reform -- Human Services Act: Congress passed the Human Services Reauthorization Act on Thursday. The bill reauthorizes Head Start (with a number of improvements we recommended), as well as LIHEAP and the Community Services Block Grant. Perhaps even more notably, the bill also includes the first-ever authorization for individual development accounts, which you long have promoted as a critical component of comprehensive welfare reform.

5. Housing/Welfare Reform -- Welfare-to-Work Housing Vouchers: Congress approved in the VA/HUD appropriations bill your full request for 50,000 welfare-to-work housing vouchers. These new housing vouchers are the first ever to be linked to welfare reform, which is probably why Congress approved them. (Prior to this action, Congress had not approved a real increase in housing vouchers for four years.) The new vouchers present an exciting opportunity to improve how local welfare, employment, and housing agencies work together. We are working with HUD on ways to highlight the availability of these new vouchers.

6. Welfare Reform -- Welfare-to-Work Partnership Survey: The Welfare-to-Work Partnership's second annual survey of businesses, released last week, shows continuing success in the employment of welfare recipients and some remaining challenges. The survey shows that welfare recipients hired by Partnership companies earned an average starting wage of $7.20 per hour, which is comparable to other entry level hires. About 76 percent of these recipients held full-time positions and 24 percent held part-time jobs, which also is comparable to non-welfare entry-level hires. Perhaps most striking, the Partnership companies promoted former welfare recipients at a significantly higher rate than is usual for non-welfare entry-level hires. According to the survey, the companies reported child care and transportation as significant barriers to hiring and retaining welfare recipients, but only about one-third offered services to overcome these barriers. The survey also found that non-Partnership companies are hiring former welfare recipients at an active rate: one-quarter had hired someone off welfare in 1997 and one-third expected to hire someone in 1998.

7. Tobacco -- CDC Report on Youth Smoking: The Center for Disease Control released a study on Thursday showing that between 1988 and 1996, the number of children who become regular smokers increased by 73 percent. This increase resulted in an additional 1.5 million children becoming regular smokers over the eight year period. The study also showed that in 1996 alone, 1.8 million Americans became regular smokers, of whom 66 percent, or 1.2 million, were under the age of 18. This means that in 1996, about 3300 young people became regular smokers each day; as you know, about one-third will die early as a result.

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THE WHITE HOUSE

WASHINGTON

THE PRESIDENT HAS SEEN
10-11-98

October 9, 1998

MEMORANDUM FOR THE PRESIDENT

FROM: **GENE SPERLING**

RE: **NEC WEEKLY REPORT**

cc: **ERSKINE BOWLES**

Head Start Reauthorization/Individual Development Accounts: On Thursday (10/8), the House and Senate unanimously passed the conference agreement on the Human Services Reauthorization, which strengthens and expands Head Start, reauthorizes LIHEAP and the Community Services Block Grant, and creates a new five-year $125 million Individual Development Account demonstration. We hope that you will be able to have a signing ceremony sometime in the next several weeks to highlight your long commitment to Head Start and IDAs.

Kennedy (Jeffords) Disability Bill: On Friday (10/9), Senator Jeffords withdrew his support for the bill due to the offsets. One of the offsets is a Medicare provision that limits payments for cancer drugs to providers' acquisition costs. This offset was used for our Medicare buy-in proposal in January, but the AMA and some of the cancer groups oppose it. Senators Roth and Jeffords are also contemplating moving forward with the "ticket-to-independence" piece (vocational rehabilitation reform) without the health options. There is pressure to do so because Representative Bunning (R-KY) wants the legislative victory; he sponsored this provision in the House. Although everyone supports the particular provision, a wide range of groups (e.g., disability, AIDS, and cancer groups) are opposed to the "ticket" moving by itself since it would make it look like a major victory on disability policy when it really isn't. This situation is evolving rapidly, and there should be some resolution to the issue Saturday (10/10).

Status of Senator Harkin's Skilled Nursing Facility (SNF) Issue: As you requested, we have been helping Senator Harkin on his request to alter current Medicare SNF reimbursement policy that assisted certain nursing homes who are caring for disproportionately unhealthy populations. Unfortunately, HHS concluded it did not have the legal authority to do so administratively. Therefore, we helped Senator Harkin, as well as Senator Daschle and Senator Kennedy; draft legislation to address this issue. You should know that Senator Harkin was greatly appreciative. We are helping him strategize as to how best to get it into the Omnibus bill. It appears clear that he will need assistance from the House Republican Leadership for two reasons. First, if it appears as though this is a Democrats-only fix, it has less chance of passing. And second, because Ways and Means Subcommittee Chairman Bill Thomas is opposing its inclusion on jurisdictional grounds, Senator Harkin is likely to need a push from Speaker Gingrich to get this provision in the final bill. We will keep you apprised of developments.

America Reads: The compromise child literacy legislation -- providing competitive grants to States to upgrade teacher skills in reading, provide tutoring, and promote family literacy -- passed the Senate by voice vote on Monday (10/ 5). Chairman Goodling's staff have been saying that he will not allow the bill to move in the House until the issue of the national test is resolved in his favor. But since he himself has not made that threat, we are publicly shrugging off that rumor and expressing hope that Congress will act on this important priority. The appropriations staff are telling us that the bill could be attached to the funding legislation if it is not passed separately.

Internet Tax Freedom Act: On Thursday (10/8) the Senate passed the Internet Tax Freedom Act 96-2. The bill contains a three-year moratorium, grandfathers existing state and local taxes, and establishes a commission to look at the broader issues raised by electronic commerce. State and local governments did not oppose passage of the bill as amended. The House must now decide whether they will pass the Senate version, or seek changes. If they seek changes, it is unlikely that the Senate would pass it again.

Financial Modernization: In a move to remove the Financial Modernization bill as a bar to other Senate business and to regain control of the Senate from Democrats who were filibustering over the Patient's Bill of Rights, Senator Lott effectively killed the bill on Friday (10/9). He moved to return the bill to the Banking Committee with instructions to amend it with legislation on education, IRAs, and the marriage penalty tax opposed by Democrats.

TAA/NAFTA-TAA Consolidation: On Thursday (10/8), Rep. Matsui and Bonior introduced our proposal to consolidate the Trade Adjustment Assistance (TAA) and NAFTA-TAA programs. Secretary Herman sent a letter strongly supporting their bill. You should know that this legislation is based on the commitments you made last November during the fast-track debate and you included in your FY 1999 budget. For example, it expands coverage of TAA to workers who lose their jobs when factories move to countries other than Mexico and Canada; it cuts the time it takes workers to be certified under TAA by one-third; it implements performance measures; it promotes "rapid response" to worker dislocations; and it creates a Presidential Commission on workers and economic change. This legislation is supported by the AFL-CIO and other unions because it expands the rich package of benefits (e.g., training *and* income support) offered by TAA.

Social Security: On Thursday (10/8), I met with Senator Gregg and Congressman Kolbe to discuss ways ro reach a bipartisan consensus around Social Security reform. In addition, we worked with Ken Apfel in preparing his presentation on reform options to the members of the Senate Democratic Social Security Task Force (attendees included Bingaman, Sarbanes, Robb, Reid, Harkin, Landreiu, Mikulski, Dorgan, Kennedy, Wellstone, Kerrey, Breaux, and Conrad). Our internal working group also continued to meet. This week, meetings focused on health and retirement trends, annuity and bequest options for individual accounts, and unified budget implications of reform proposals.

HEA Bill Signing: A number of newspapers covered Wednesday's (10/7) signing event. While most focused on the interest rate (such as the *Los Angeles Times* headline, "Clinton Signs Bill Cutting Student Loan Interest Rate"), the *Philadelphia Inquirer* appropriately focused on Fattah's victory with the headline, "Clinton signs bill with plan to get poor students in college." On Friday (10/9), the *Wall Street Journal* followed with an article emphasizing that people who are out of school, with outstanding loan balances, have a four-month window in which to refinance through the Direct Loan program or private lenders if they offer it.

Bankruptcy: This week, House and Senate Republicans reached a conference agreement on bankruptcy without Democratic participation (other than Rep. Boucher, a House-bill supporter). Senator Durbin, co-sponsor of the bill in the Senate, opposed the measure for abandoning the bipartisan, balanced approach of the Senate bill. Your senior advisors recommend a veto because the changes made to address some of our concerns with the House bill ultimately were not sufficient. Before we officially conveyed the veto threat, I met with the counsel to the Majority Leader and the Speaker to share a list of changes, most of which would be required for your advisors to recommend that you sign the bill. Our changes were not accepted and the House passed the Conference Report on Friday (10/9) morning by a veto-proof majority, although they lost about a dozen Democrats who had voted for the House bill in May. Facing Senator Durbin's delaying tactics on the Senate floor, Senator Lott agreed to forego a vote on final passage in favor of a strategy of appending it to the Omnibus Appropriations bill. Senator Grassley is deeply disappointed by our veto recommendation and has valiantly tried -- despite his own leadership's signal that no negotiations are possible -- to find a way to broker a compromise with us. It is possible that the Republicans will approach us again to negotiate.

Securities Litigation: The SEC, Senate, and House reached agreement Thursday (10/8) night on language for the statement of manager's to accompany the Securities Litigation Uniform Standards Act of 1998. The final statement will note: "It is the clear understanding of the Managers that Congress did not, in adopting the Private Securities Litigation Reform Act of 1995 (PSLRA), intend to alter the standards of liability under the Exchange Act. It was the intent of Congress, as was expressly stated during the legislative debate on the PSLRA and particularly during the debate on overriding the President's veto, that the PSLRA establish a heightened uniform federal standard on pleading requirements based on the pleading standard applied by the Second Circuit Court of Appeals." The SEC is satisfied that this language provides them with a new strong argument to use before the courts in the dispute over the impact of the PSLRA on the pleading standard.

NEC/NSC Personnel - Holly Hammonds: This week, Sandy and I appointed Holly Hammonds as Special Assistant to the President for International Economic Policy. Holly will develop and coordinate trade policy for both the NEC and NSC. As you may know, between 1993 and 1994, Holly worked for the NEC/NSC, as Director for International Economic Affairs, coordinating U.S. Trade policy relating to the conclusion of the WTO Uruguay Round and other matters.

Meeting with Russian Finance Minister Zadornov: On Wednesday (10/7), I met with Finance Minister Zadornov and Ambassador Zorontsov. Zadornov shared with us his version of the current Russian reform plan, which calls for tight fiscal policy, stepped up tax collection efforts (singling out the alcoholic beverages sector in particular) and longer term tax reform (cutting top rates and broadening the base), and responsible engagement with the foreign investment community. He indicated that the government would attempt to pay outstanding wage and pension obligations over time and expressed optimism that the government could meet domestic obligations through increased revenue proposals outlined above. At the same time, however, he acknowledged that covering debt obligations would be more difficult, particularly absent IMF or other external funding. Zadornov also indicated that their proposed package could expect support from Duma. While the overall message was positive, it is far from clear who in fact speaks for the government. It is also not clear that such a package could, in fact, garner real political support.

Meeting with Brazilian Finance Minister Malan: On Thursday (10/8), I met with Finance Minister Malan and discussed the recent developments over the past several days, including President Cardoso's election victory; your conversations with him on Wednesday and his subsequent announcements on a new fiscal package; and the statement issued by Brazil and the IMF on Thursday (10/8). That statement outlined, *inter alia,* Brazil's commitment to fiscal reform (with a primary surplus goal of 2.5-3.0% GDP for 1999), its current exchange rate regime, and its opposition to capital controls. Brazil and the IMF are expected to announce an IMF package in the next week. Malan emphasized the importance of Brazil's "owning" the IMF program (i.e., that it be seen not as a rescue package foisted on Brazil but rather as a responsible measure worked out by the IMF and Brazil with some deliberation). He expressed his appreciation for our continued and unwavering support.

APEC: We are in the last stages of preparing for Leaders Finance and Trade meetings at the APEC Summit in November. We are pushing to ensure that the meetings focus on restarting growth in the region and maintaining US-led momentum on open markets. A key objective is to maintain US control of the agenda, and not to allow Prime Minister Mahatir to use the meeting to advance his own currency/capital control initiatives. In addition, because of our grave political concerns with Prime Minister Mahatir, our focus in Malaysia will be squarely on underscoring your commitment to this important economic forum and to advancing our regional financial and trade agenda.

World Intellectual Property Organization (WIPO): The House and Senate conferees agreed to legislation that would implement the two WIPO treaties on intellectual property. This bill will extend intellectual property protection into the digital era, and help U.S. copyright-based industries that contribute $60 billion to the U.S. balance of trade. The legislation has passed the Senate, but it being held up by the House for political reasons. The Administration was successful in getting the conferees to drop a provision on database protection that was strongly objected to by the Justice Department and the science agencies.

EXECUTIVE OFFICE OF THE PRESIDENT
COUNCIL ON ENVIRONMENTAL QUALITY
WASHINGTON, D.C. 20503

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10-11-98

October 10, 1998

MEMORANDUM FOR THE PRESIDENT

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CC: ERSKINE B. BOWLES

FROM: KATHLEEN A. McGINTY wpw for KAM

SUBJECT: CEQ WEEKLY REPORT

RESOURCE STEWARDSHIP

Wetlands Announcement

Your announcement at the League of Conservation Voters dinner of the proposed changes to the wetlands program received favorable press and enthusiastic reception among environmental groups across the country. The *Los Angeles Times* ran an especially positive piece, which I have attached.

The incoming President of the National Association of Homebuilders (NAHB), with whom I met the morning after your remarks, was less enthusiastic about the announcement. Next week, Administrator Witt will meet with NAHB and others in the development community to stress the importance of these changes for our flood policy.

Baca Ranch

I concluded a deal with Senator Domenici today on the authorizing legislation necessary for our proposed Baca Ranch acquisition. Staff will finalize bill language tomorrow and it is likely that Senator Domenici, Senator Bingaman and I will then formally announce our agreement. This is a great win for us, made possible by your interest and attention to it as well as Erskine's efforts to help move it along.

Omnibus Public Lands Bill

On Wednesday, the House defeated the Omnibus Public Lands bill that the Administration opposed by a vote of 302-123. This victory is further proof of our ability to do well on the environment as the end of the Congressional session approaches.

THE PRESIDENT
10-11-98

PROTECTING COMMUNITIES FROM TOXICS

Right-to-Know Announcement

Today, the Vice President announced an agreement among the Environmental Protection Agency (EPA), the Chemical Manufacturers Association (CMA), and the Environmental Defense Fund, to provide the public with basic health data on 3,000 chemicals that are in high-volume industrial use. The agreement responds to the Vice President's Earth Day challenge to the chemical industry that it produce this data on a voluntary basis. It also highlights the Administration's efforts to work in partnership with industry to develop innovative, nonregulatory approaches to environmental challenges.

In addition, the Vice President's national security staff met with CMA to discuss how we might get CMA's competitors in the EU and Japan to carry out their share of the testing that will be required under the agreement. The Vice President, joined by Administrator Browner, challenged both the American Petroleum Institute (which had joined the event to provide its endorsement of today's agreement) and the CMA to work with us on a similar partnership to reduce greenhouse gases.

INTERNATIONAL LEADERSHIP

Climate Change Hearing

Today, I testified on climate change in front of the House Subcommittee on National Economic Growth, Natural Resources and Regulatory Affairs. This was one of a series of hearings being conducted by Chairman McIntosh as he attempts to challenge our climate change policy through an examination of internal Administration documents. Of course, the Administration record supports the positions we have taken on climate change and the hearing went very well.

BUDGET

Agriculture Appropriations

The Agriculture appropriations bill, which you vetoed for reasons not related to the environment, also contains a rider amending the Clean Air Act's methyl bromide provisions. The rider -- sponsored by Congressman Fazio -- would push back the current 2001 phaseout date to 2005 (the phaseout date under the Montreal Protocol).

Ok

Of course, using appropriations bills to amend the Clean Air Act is highly objectionable. Environmentalists and labor (especially in California) are strongly opposed to the provision. On the other hand, the environmental impacts of this change are minimal, and the Fazio amendment enjoys strong support from Republicans and farm district Democrats. The prospects for sustaining a veto based on this provision would be slim. In light of this, I have recommended you accept this provision but express concern in the accompanying statement when the bill is signed eventually.

10-11-98

Energy and Water Appropriations

The Energy and Water bill you signed into law earlier this week included many Administration priorities and had broad-based bipartisan support. However, a few key Administration environmental priorities were underfunded.

First, there is a shortfall in funding for the Kissimmee project in the Everglades, which the Army Corps of Engineers is seeking to fix through a re-programming of its budget. In addition, we are $35 million short for salmon recovery money in the Pacific Northwest and $40 million short for the Department of Energy's renewables program -- a critical component of our Climate Change Technology Initiative -- and should seek addbacks for these two programs in final budget negotiations.

VA/HUD Appropriations

Overall, we did well on environmental issues in the VA/HUD appropriations bill. Our big victory was getting all of our proposed increase in funding for the EPA piece of the Clean Water Action Plan that you announced earlier this year.

Unfortunately, we were unable to get an increase in funding for accelerating Superfund cleanups. In addition, we did not get much of an increase for climate change activities and should therefore try to get another $25 million during final budget negotiations.

Attachment

Los Angeles Times
THURSDAY, OCTOBER 8, 1998

Clinton Proposes Tighter Rules for Wetlands Projects

By ART PINE
TIMES STAFF WRITER

WASHINGTON—President Clinton announced new rules Wednesday intended to limit the ability of property owners to short-circuit the federal application process for developing wetlands, even in cases where their projects would have only a minimal effect on the environment.

The proposed regulations require developers to go through a full-scale application process—complete with hearings and an opportunity for public input—for most such proposals, particularly if the wetlands are near specially protected or low-quality waters.

The regulations also would cancel a proposal by the Army Corps of Engineers to allow developers to increase from 3 acres to 10 acres the maximum size of projects eligible for such short-cut procedures.

Administration officials said the president's decision, announced in a speech before the League of Conservation Voters, would take hundreds of thousands of acres out of the quick-permit program, including about half the wetlands in Louisiana, Mississippi and Florida.

They said the tightening was needed, not because of any widespread abuses, but because the cumulative effect of the short-cut procedure had resulted in the loss of far more wetlands than expected.

The White House Council on Environmental Quality has warned that widespread destruction of wetlands areas heightens the risk of flooding and makes it more difficult for authorities to maintain the quality of water in the area involved.

Environmental groups, which have been pushing vigorously for such action, praised the announcement. Drew Caputo, an attorney for the National Resources Defense Council, said the effect could be "significant."

Land developers, however, who have been among the principal users of the short-cut procedures, were expected to protest the action. Some have complained that the full-scale application process is too costly and time-consuming.

U.S. officials said the changes that Clinton announced will be made to a package of revisions to the wetlands regulations that the Corps of Engineers proposed last July. The revisions are due to go into effect next year.

Although destruction of wetlands has been reduced in recent years, White House officials said almost 100,000 acres disappear each year and more than half the wetlands in the 48 contiguous states already have been lost.

Officials said the restrictions announced Wednesday would prohibit the use of short-cut procedures on projects involving wetlands in a 100-year flood plain; in waters already impaired by wetlands losses; or in "pristine" areas that are under special protection.

EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF SCIENCE AND TECHNOLOGY POLICY
WASHINGTON, D.C. 20502

10-11-98

October 9, 1998

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MEMORANDUM FOR THE PRESIDENT

FROM: NEAL LANE *Neal*

CC: ERSKINE BOWLES

SUBJECT: OSTP WEEKLY REPORT

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PITAC Recommendations Well Received in Congress

I testified October 6 before the Subcommittee on Basic Research of the House Science Committee in a hearing on information technology. Ken Kennedy (co-chairman) testified on the interim report of your Information Technology Advisory Committee (PITAC). He emphasized their concern about the decade-long shift in federally funded programs away from long-term, high-risk projects toward short-term, applied research. My statement focused on your commitment to strengthening our investments in information technology R&D and NSTC's role in maximizing the impacts of those investments. Chairman Pickering was clearly enthusiastic about PITAC's leading recommendation: to increase investments in software research. He agreed with PITAC's recommendation that the Administration assign NSF to lead this research program. I am working with OMB and the research agencies to develop an FY 2000 information technology R&D budget proposal that will address Chairman Pickering's only challenge of the day -- to "show me the money."

Howard Students Contribute to Assessment of Mentoring and the S&T Workforce

I met with undergraduate science majors at Howard University on October 7 to talk about careers in science for members of underrepresented groups. Howard's administration agreed to help me with followup on your directive to NSTC to determine whether the federal government can do more to encourage women, minorities, and persons with disabilities to pursue education and careers in science and technology. Howard is a leading research university -- the only HBCU in that category -- and interaction with these students provided exactly the kind of "ground truth" we need to convert theory into practicable solutions. The students had very cogent views on things that influenced their decisions to study math and science and that will influence their decisions to stay on that track. The exchange was personally refreshing and valuable to NSTC's work.

New Fertility Treatment Raises Ethical Questions Related to Cloning

Today's *Washington Post* reported on an experimental fertility treatment that uses nuclear transfer to move the nucleus from an infertile human egg to a fertile human egg. The resulting egg still needs to be fertilized by sperm to create an embryo, therefore this technique does not result in the cloning of a human being. However, the technique raises ethical questions because, in effect, the new embryo contains genetic information from three parents -- two "conventional" parents contributing chromosomes through the nuclei of the egg and sperm, and an "unconventional" parent contributing the genetic information contained in the donor egg cytoplasm. So far, only two women have undergone these treatments. The first failed to become pregnant, and the second will be tested next week. The NYU physicians conducting these experiments have not violated any federal regulations banning embryo research. No federal funds are being used, and the university's Institutional Review Board approved the treatments in compliance with federal regulations. Also, neither your proposed anti-cloning legislation nor that introduced by congressional Republicans would have prohibited these experiments.

Hubble Sights Objects 12 Billion Light Years Away

Astronomers focused an infrared instrument on the Hubble Telescope on an area of sky previously photographed only in visible light and detected 100 new galaxies -- ten of them at extreme distances. Their readings show the galaxies as they were when the universe was only about five percent of its present age. NASA has plans for an even more advanced telescope that will help determine the exact age of these galaxies and extend our viewing capability to "zero time," the period between the Big Bang and the first formation of the stars.

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THE WHITE HOUSE

WASHINGTON

10-11-98

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October 10, 1998

MEMORANDUM FOR THE PRESIDENT

FROM: **ANN LEWIS AND STACIE SPECTOR** Ann

SUBJECT: **COMMUNICATIONS WEEKLY REPORT**

Amplification

For each of your message events we worked to ensure that the message got to local press, friends, constituencies and other networks.

This is very important. More. Good!

- **NAPO Event.** We are continuing to work with the cops groups, encouraging them to write op-eds and letters to the editors of their local papers and specialty journals about the event, their awards and your crime initiatives. In addition we are sending each of the participants photos with you for submission in local papers and journals.

- **One Day, One Vote for Education.** For last week's education event we distributed sample press releases to IGA to disseminate to 15 key mayors across the country to encourage them to write their own press releases supporting and highlighting the event in their local media. Press secretaries of 37 Members of Congress who attended the event have been asked to write op-ed pieces about one day, one vote for education in their hometown papers.

- **Clinton-Gore Administration Accomplishments.** We distributed updated general accomplishments documents and specialized accomplishments documents for African Americans, Asian and Pacific Americans, Hispanics and Women to Press and Outreach Offices and to our network of friends to disseminate to their constituencies.

Special Projects

- **Women.** Last weekend, Ann delivered the keynote address at the sixth annual conference of the the Carrie Chapman Catt Center for the Study of Women and Politics at Iowa State University. Ann spoke about the growing role and stature of women in politics, as well as the work of the Administration in promoting the issues that women care about. Ann also addressed the work of your Commission on the Celebration of Women in American History.

Ann has been working with the First Lady's office and Democratic Congresswomen to develop and implement strategies for women's vote projects.

- **School Safety.** For the upcoming School Safety Conference we have established 500 sites that will be participating in the conference via satellite. Additionally, we have distributed talking points and accomplishments documents to many of the satellite participants. We have launched a web site for this event that provides facilitator and participant guides for individuals who are involved on the local level.

Web

- **Privacy.** The White House has now posted a Privacy Policy for our web site. This policy informs users that we do not collect personal information about them (except in certain situations such as when they voluntarily e-mail a principal) and explains what generic information is collected when they visit our site.

- **Counsel's Office Documents.** We have posted a number of our Counsel's Office materials on the our web page. For the three memos that have been posted we have received over 170,000 "hits."

Speaking Engagements

- Ann will appear this Sunday on FOX News Sunday.

- Earlier this week Ann was on a televised panel about the press where she was able to use the information comparing press coverage of Whitewater with that of Social Security and Minimum Wage.

- Stacie spoke at the DNC Women's Caucus with Governor Romer and Maureen Shea.

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Craig Smith

THE WHITE HOUS

WASHINGTON

October 10, 1998

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10/13/98

MEMORANDUM FOR THE PRESIDENT

FROM: LARRY STEIN SS

SUBJECT: LEGISLATIVE WEEKLY REPORT

House of Representatives

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1. **VA/HUD Appropriations:** On Tuesday, the House approved (409-14) H.R. 4149, the VA/HUD Appropriations Conference Report. The bill contains some good victories (e.g., full funding for welfare-to-work vouchers and the Clean Water Action Plan, dropping the Riggs language penalizing San Francisco for its domestic partners policy). However, the Administration has concerns with the following provisions that remain in the conference report: improvements in funding for climate change, HOPWA, empowerment zones, CDFI, Boston Harbor, and GLOBE. The Senate has also approved the conference report, clearing the bill for your signature.

2. **Commerce, Justice, & State Appropriations:** On Tuesday, the House approved by voice vote, a motion by Mr. Mollohan (D-WV) to instruct conferees to not concur in any Senate legislative provisions or any extraneous legislative provisions, which are outside the scope of Conference, which could have the effect of causing a government shutdown. The tentative conference agreement appropriates $287 million for Legal Services, roughly $53 million below the Administration's request and $260 million for the EEOC, $19 million below the requested amount. The Senate is not expected to take up the bill, it is expected to be included in the omnibus appropriations agreement.

3. **Native American Legislation:** On Tuesday, the House passed by voice vote H.R. 4259, the Haskell Indian Nations University and Southwestern Indian Polytechnic Institute Administrative Systems Act of 1998. The Administration is opposed to the bill because it would provide Haskell Indian Nations University and Southwestern Indian Polytechnic Institute special authority to implement five-year personnel management demonstration projects. Specifically, the bill would exempt these universities from laws covering Federal employees' leave and benefits.

4. **Omnibus National Parks/Public Lands Act:** On Wednesday, the House defeated (123-302) H.R. 4570. This bill contains many anti-environmental provisions that have previously been strongly opposed by the Administration. Secretaries Babbit and Glickman and your Senior Advisers have recommended a veto of the bill in letters to Congress. Provisions in the bill would cause serious damage to our natural resources by, among other things, removing land from wilderness and other protective status to facilitate road building, motorized access, and airport construction.

5. **Intelligence Authorization Act:** On Wednesday, the House passed (337-83) H.R. 3694, the Intelligence Authorization Act Conference report. The whistle blower provision of the bill has been resolved, therefore, the Administration has withdrawn the veto threat on the bill.

6. **Treasury/Postal Appropriations:** On Wednesday, the House passed (290-137) H.R. 4101, the Treasury/Postal Appropriations Conference Report. The motion to recommit the conference report with instructions offered by Mr. Hoyer (D-MD) was defeated (23[illegible]-194). The motion to recommit language would have instructed conferees to include provisions in the conference report allowing for contraceptive prescription coverage under the Federal Employees Health Benefit Plan. The Senate is not anticipated to act on this bill, instead it will be included in the omnibus appropriation agreement.

7. **Labor, HHS and Education Appropriations:** On Thursday, the House began consideration of the Labor, HHS, and Education appropriation bill. The House also adopted (224-200) an amendment offered by Mr. Istook (R-OK) to prohibit title 10 funding to a family planning provider that knowingly provides contraceptives to a minor without the consent of a parent or legal guardian. The Administration has issued a veto threat on the bill in its current form. The bill cuts $2 billion from your overall request for education funding in programs such as Goals 2000, School-to-Work, Title I, Bilingual Education, America Reads, and Higher Education Initiatives. The bill does not provide for the Administration's request for increased funding for Adult Job Training and eliminates funding for the Summer Jobs Program, Unemployment Insurance Initiative, your Youth Opportunity Areas Initiative. The bill also does not provide adequate funding for HHS programs such as Head Start, Child Care, LIHEAP, and Bio-Terrorism. No further action is likely to be taken on the bill and it will be made part of the omnibus appropriation bill.

8. **Independent Counsel Report:** On Thursday, the House approved (258-176) H.Res. 581, a resolution authorizing the Judiciary Committee to continue its work with regard to the report from the Office of the Independent Counsel. 175 Democrats voted in opposition to the resolution and 31 supported the measure. A motion to recommit the resolution was offered by Mr. Boucher (D-VA) that would have required the committee to define standards for impeachment, limited the scope of the inquiry, and report the committee's findings back to the House no later than December 31, 1998. The motion to recommit was defeated (198-236), with 196 Democrats, 1 Independent, and 1 Republican (Dickey-AR) voting in support of the measure.

9. **Bankruptcy Reform Act:** On Friday, the House passed (300-125) H.R. 3150, the Bankruptcy Reform Act of 1998 conference report. Senior Advisers have recommended that you veto the bill because it imposes too rigid of a test as to what debtors are shifted into Chapter 13, and contains insufficient consumer protections.

10. **Continuing Resolution:** On Friday, the House passed H.J.Res.133, making further continuing appropriations for the fiscal year 1999 until midnight Monday, October 12. To date, Congress has completed action on the following six appropriation bills: Military Construction, Energy/Water, Agriculture/Rural Development, Defense, Legislative Branch, and VA/HUD).

All but one (Legislative Branch) of the six has been received by the White House. Of the five bills received, one has been vetoed (Agriculture/Rural Development) and two have been signed (Military Construction & Energy/Water). The remaining three await your signature.

11. **Other Legislation:** On Saturday, the House completed action on the following legislation: passed (voice vote) H.Res. 589, a martial law resolution, allowing for appropriation bills to be considered without the standard one-day layover requirement; passed (423-0) H.Res. 592, providing for the concurrence by the House with Senate amendments to H.R. 4110, a bill to provide a cost-of-living adjustment in rates of compensation paid to veterans with service-connected disabilities; passed (412-2) H.R. 4567, a bill to amend the Social Security Act relating to per visit payment limits for home health services under the Medicare program; and passed (369-50) H.R. 2616, a bill to amend the Elementary and Secondary Education Act of 1965 relating to charter schools. Lastly, the House began consideration of several bills under Suspension of the Rules on Saturday.

The Week Ahead

The Republican leadership has informed members that the House will be in a *Pro forma* session on Sunday. In light of the Continuing Resolution expiring on Monday at midnight, the House will convene that afternoon in order to act on an additional Continuing Resolution.

Throughout the weekend, key appropriators will continue to meet in an effort to reconcile differences and develop an omnibus appropriations bill. The omnibus is expected to include an emergency supplemental title and the following eight bills: Commerce/Justice/State, District of of Columbia, Foreign Operations, Interior, Labor/HHS/Education, Transportation, Treasury/General Government, and Agriculture/Rural Development.

United States Senate

1. **VA/HUD Appropriations Conference Report (H.R. 4194):** The Senate passed (96-1) H.R. 4194, the VA/HUD Appropriations Conference Report, with one Senator (Kyl) voting against. The bill was cleared to the White House on Friday awaiting your signature.

cc CEs

2. **Agriculture Appropriations Conference Report (H.R. 4101):** The Senate passed (55-43) H.R. 4101, the Agriculture Appropriations Conference Report. On Thursday, October 8, you vetoed the legislation because it fails to adequately respond to the crisis now facing farmers due to floods, drought and crop disease as well as insufficient funding for Black Farmers. We will be fighting to get additional funding in either a bill that can be passed separately or be included in the Omnibus Spending bill.

Successful? Continue ... today

3. **Treasury-Postal Conference Report (H.R. 404):** The Senate passed (58-39) a motion to proceed to the consideration of the Conference Report on the Treasury-Postal Appropriations Act. The Majority Leader indicated that it is likely that on Monday the language will be agreed to and it will be taken up as a free-standing bill.

4. **Internet Tax Freedom Bill (S. 442):** The Senate passed (96-2) S. 442, the Internet Tax Freedom Act, (Gorton, Bumpers voted against). The measure now goes back to the House for consideration. The legislation would impose a three year moratorium on taxation on Internet access and commerce while a special commission studies such issues and reports back to Congress with recommendations for a uniform national policy. It also broadens the commission's scope to include similar "remote" sales such as mail order and it exempts from the moratorium on any persons engaged in selling or transferring, by means of the World Wide Web, material that is harmful to minors who do not restrict such material from minors.

5. **Patients' Bill of Rights (H.R. 4250):** The Senate tabled (50-47) H.R. 4250, the Patients' Bill of Rights Act, which was previously passed by the House. Four Republicans (Bond, D'Amato, Faircloth, Specter) joined with all Democrats who were present in voting against tabling the bill.

6. **Financial Services Modernization Bill (H.R. 10):** On Wednesday, October 7, the Senate invoked (88-11) cloture to proceed to H.R. 10, the Financial Services Reform Bill. Following cloture, Senator Phil Gramm (R-TX) threatened to block the legislation with all procedural options over his opposition to a provision that would impose community lending requirements on the new financial conglomerates the bill would allow between the banking and insurance industries. Secretary Rubin has recommended that you veto the legislation in its current form and the full Senate will not consider it again prior to adjournment.

7. **Bankruptcy Reform Conference Report (H.R. 3150):** The Senate passed (94-2) the motion to proceed to the Conference Report on H.R. 3150, the Bankruptcy Reform Act. It is unlikely for the Senate will resume consideration of H.R. 3150 as a free standing bill. Republicans are attempting to include the legislation in the Omnibus Spending bill. The Administration has threatened to veto the current conference agreement.

8. **American Competitiveness Act (S. 1723):** Friday night, Senator Harkin objected to S. 1723, the American Competitiveness Act, sponsored by Senator Abraham, a bill to increase the number of H1B visas to allow highly skilled foreign workers into the U.S. The compromise was negotiated with White House input. Senator Harkin currently has a hold on the bill. If an agreement can be reached with Senator Harkin, the bill is expected to be passed by unanimous consent.

9. **Reading Excellence Act (H.R. 2614):** The Reading Excellence Act passed the Senate by unanimous consent and is currently being stalled by Representative Goodling in the House. This Administration supported proposal improves the reading and literacy skills of children and families by improving in-service instructional practices for reading teachers.

10. **Charter School Expansion Act (H.R. 2616):** The Charter School Expansion Act, sponsored by Representative Riggs, passed the Senate by unanimous consent and will be voted on in the House on Saturday. This bill improves and expands charter schools. It extends and expands the authority for the creation of charter schools.

11. **Human Services Reauthorization Act (S. 2206)**: The Human Services Reauthorization Act, sponsored by Senator Coats, passed the Senate by unanimous consent clearing it for your signature. This Administration supported bill expands Head Start, the Low-Income Housing Energy Assistance Program (LIHEAP), the Community Services Block Grant (CSBG), and Individual Development Accounts (IDA).

12. **Freedom From Religious Persecution Act of 1998(H.R. 2431):** The Senate passed (98-0) H.R. 2431, the Freedom From Religious Persecution Act of 1998, sponsored by Senator Nickles. H.R. 2431 now goes back to the House for final action. The legislation seeks to minimize diplomatic tensions by limiting disclosure about countries with incidents of religious persecution but that are not subjected to major sanctions. The legislation would also give you options for addressing problems abroad, including broader authority to waive sanctions if doing so is in the national interest. Undersecretary Stuart Eistentstat was instrumental in negotiating an Administration position on the National Interest Waiver Provision of the bill.

The Week Ahead

The Senate reconvened on Saturday to consider any legislative or executive items cleared for action. Throughout the weekend, key appropriators will continue to meet with Administration officials in an effort to come to agreement on the remaining spending bills. The Continuing Resolution for FY 1999 has been extended through midnight, on Monday, October 12th.

cc: The Vice President
Erskine Bowles
John Podesta
Rahm Emanuel
Maria Echaveste

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THE WHITE HOUSE

WASHINGTON

'98 OCT 10 AM 10:04

PRESIDENT

10-11-98

October 9, 1998

MEMORANDUM FOR THE PRESIDENT

FROM: Mickey Ibarra MI for MI

SUBJECT: Office of Intergovernmental Affairs Weekly Report - October 5 - October 9, 1998

Governors

- The Governors disagree with us on a number of budget issues. Notwithstanding that the year has had many successes for the states - most notably the signing of the TEA-21 Bill and the anticipated signing of the Internet Tax Bill - the remaining budget issues position us against the states on priority issues. Many Governors have called us, COS Bowles and others on four issues:

1. **Indian Gaming**. The Enzi Amendment which would prohibit the Secretary of the Interior from promulgating rules related to the scope of Class III gaming on the reservations, is universally and intensely supported by the Governors. They believe our position tramples 10th Amendment rights, and makes DOI - due to its inherent trust relationship to the tribes - a bias tribunal for the mediation of gaming compacts. We have told them that our position hasn't, and won't, change. The most vocal governors on this issue have been Bob Miller (D-NV) and Lawton Chiles (D-FL).

2. **Medicaid Cost Allocation**. The governors strongly oppose cuts in federal funds devoted to administrative costs of Medicaid. They argue that with the recent cuts in federal food stamp administrative funds, and the prohibition on the use of TANF or MOE funds to offset the cut, the federal reimbursement for shared administrative costs is essentially eliminated and the states will be forced to make up the loss with general revenue funds or reductions in benefits or outreach efforts.

3. **Ed-Flex**. You made the expansion of Ed-Flex the primary theme of your remarks to the Governors at the February NGA Roundtable here at the White House. As a result, we have been pushing very hard for the Administration to uphold its commitment on Ed-Flex during the closing budget negotiations.

4. **Tobacco Recoupment**. The Governors are eager to avoid a legal showdown with HHS over our claim for recoupment of Medicaid dollars won in tobacco litigation, and are seeking our help in crafting legislation to settle this issue. We have indicated to the states that we would be willing to discuss a settlement of these claims if the state money was dedicated to an identified menu of programs - the approach taken in the McCain tobacco bill. In the remaining days of the session they will be asking for more pro-active help in moving this idea, and possibly negotiating our menu of permissible programs.

Indian Country

- We are working very hard to keep anti-Indian country riders on Interior Appropriations out of the Omnibus bill. There are two critical issues remaining: Enzi-Sessions, which is the anti-gaming amendment, and provisions on contract support for tribes entering into agreements with the Indian Health Service. Other last minute problems: the bill elevating the Director of Indian Health Service to Assistant Secretary of HHS is being held hostage in House committee, and we oppose striking fees due to the Indian Gaming Commission from gaming tribes. We are working with OMB, the tribes, and BIA to resolve these issues.

Mayors & School Safety Conference

- The mayors are responding to your call to engage Americans on the subject of school safety on October 15 by holding meetings in their communities to downlink the satellite of your panel in the morning and the First Lady's session in the afternoon of the conference. There are more than 500 communities signed up for the downlinks. Many of the major cities will have sessions led by the mayors. All four of the communities that experienced the school shootings are telecasting the conference, and there will be representatives from each of the communities here at the White House.

Y2K

- We participated in the monthly Y2K Council meeting on Thursday. One of the agenda items was the National Y2K Action Week October 19-23. We are working with the state, local and tribal governments to obtain their support by allowing us to list their organizations names in the national advertising campaign and to conduct other supportive activity.

THE PRESIDENT HAS SEEN
10-11-98

Anzalduas Bridge

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- IGA , Cabinet Affairs and Legislative Affairs hosted a meeting with Rep. Rub Hinojosa (D-TX), Mayor Leo Montalvo of McAllen, TX , Mayor Beto Salinas of Mission, TX, and representatives of State, Transportation, Customs, Agriculture, GSA, and Treasury to discuss the Presidential Bridge Permit application for the proposed Anzalduas International Bridge which would span the Rio Grande into Mexico near the cities of McAllen, Mission, and Hidalgo. This was a prominent issue raised with you at your meeting with local officials in McAllen, TX on January 9. You directed that we assist in any appropriate way to ensure consideration. The local officials were very pleased with the opportunity to express their views to these relevant departments and agencies at one meeting. Progress was made. Their objective is to obtain the permit prior to a scheduled trip to Mexico by Rep. Hinojosa and others in late November.

Riverside Shooting

- Last Tuesday, a disgruntled former city park employee walked into the Riverside City Hall and shot Mayor Ron Loveridge, two Council members, and three officers. The Mayor had a minor wound and was released from the hospital. A Councilman is in serious condition. Another councilwoman is still in the hospital, and her condition is not believed to be serious. The shooter, Joseph Neale, was shot and is in serious condition. Letters from you to the victims are in preparation.

Insular Affairs

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- Governors Pedro Rossello (D-PR), Roy Schneider (I-VI) and several Members of Congress asked that Administration negotiators try to ensure that your proposals to (1) lift the cap on transfers of taxes on rum to Puerto Rico and the Virgin Islands and (2) fund all of the territories more equitably in the new Children's Health Insurance Program are included in a FY99 spending package.

- Governor Rossello and Congressman Carlos Romero-Barcelo (D) asked for support for Supplemental Appropriations to meet needs created by Hurricane Georges and for the Administration to try to ensure that Puerto Rico's needs are fairly considered in Congressional initiatives for such appropriations.

- The Senate Judiciary Committee passed over the nomination of a Commonwealth party member to the District Court for Puerto Rico because of the opposition of statehood party members, including national Democrats. Congressman Romero was the lead opponent.

IGA Outreach

- Twelve former governors from all sections of the country who served as governors with you issued a statement of support. In the letter they state that " . . . it is time for us to unite as people, get this matter behind us as quickly as possible and let the President, without further harassment, get back to doing the job he was elected to do." (See attached letter)

Week ahead

- On Wednesday, October 14 I will meet with Mayor Carlos Ramirez, from El Paso, TX. On Wednesday, October 15 we will conduct a briefing on the budget for members of the National Governors Association.

October 2, 1998

For Immediate Release

Twelve former governors from all sections of the country who served as governors with Bill Clinton have issued the following statement:

As former fellow governors who served with Bill Clinton, we express dismay at some of his private actions but at the same time express even greater dismay over an investigative process that seems to be interminable.

We do not believe that the interests of the American people will be properly served if this unprecedented process is allowed to drag on. The focus of our national attention needs to be on the larger problems that face us at home and abroad.

We believe that it is time for us to unite as a people, get this matter behind us as quickly as possible and let the President, without further harassment, get back to doing the job he was elected to do.

Bill Clinton has demonstrated his capacity as an astute and effective public leader during his long political career. It is now time to permit him to reassert that capacity in leading this nation through the next two critical years.

Toney Anaya, New Mexico
George Ariyoshi, Hawaii
Joe Brennan, Maine
John Y. Brown, Kentucky
Tony Earl, Wisconsin
Ned McWherter, Tennessee
Barbara Roberts, Oregon
George Sinner, North Dakota
John Waihee, Hawaii
David Walters, Oklahoma
Mark White, Texas
William Winter, Mississippi

THE PRESIDENT HAS SEEN
10-10-98

Draft 10/10/98 9:40am

PRESIDENT WILLIAM J. CLINTON

RADIO ADDRESS ON THE BUDGET

THE WHITE HOUSE

October 10, 1998

copied
Speechwriting

Good morning. In the next few days, Congress can make enormous progress to renew and strengthen our schools, as it completes work on the budget. There is no more critical task for our nation.

Ten days ago, we closed the books on our fiscal year -- and yet Congress still has not opened the books for the fiscal year at hand. Last night, for the second time in two weeks, I signed stop-gap legislation to keep our government running. But I cannot keep granting extensions indefinitely.

This week we saw partisanship defeat progress as 51 Republican senators joined together to kill the HMO Patients' Bill of Rights. Rest assured, I will ask the next Congress to guarantee your right to see a specialist, to receive emergency care, to keep your doctor throughout your course of treatment, keep yr. med records private – and have other basic health care rights. & hope next yr we will have a Cong that agrees –

I do not want to see Congress ~~do to~~ walk away fr. America's school children ~~what it did to~~ as it has walked away fr. America's patients. ~~This is a year when~~ We should be able to make real, bipartisan progress on education. We have created the first balanced budget and surplus in 29 years.

THE PRESIDENT HAS SEEN
10-10-98

Our economy continues to create jobs and broaden prosperity, despite economic turmoil abroad. We must use this moment of good fortune to make an historic investment in the quality of our public schools. We now have a few days to do so

Our nation needs 100,000 new, highly qualified teachers to reduce class size in the early grades. Studies confirm what every parent knows: smaller classes and better trained teachers make a big difference: better academic performance, fewer discipline problems, more individualized attention.

Of course, basic math tells us that smaller classes plus more teachers demand more classrooms.

THE PRESIDENT HAS SEEN
10-10-98

All across America, children are being forced to learn in school buildings that are crowded or even crumbling. Again, today, I call on Congress to help communities build or modernize 5,000 schools with targeted tax ~~cuts~~ credits. I can't think of a better tax cut for our country's future than one that gives our children a modern, safe, adequately equipped place to learn.

The budget should bring cutting-edge technology to the classroom, continuing our efforts to connect all classrooms to Int by 2000, and make sure that teachers are trained to use it. It should fund innovative charter schools, so that parents and teachers can bring the benefits of choice and competition to our public schools.

It should fully fund after-school programs, so young people learn their lessons in the classroom, not in the streets. It should expand Head Start for the early years and insist on high standards in the basics + provide for voc, [illegible] [illegible] to [illegible] program. It should fund our childhood literacy programs so that every child will be able to read well and independently by the end of 3rd grade. It should help bring out-of-school youth back into a learning environment. And it should support our new mentoring initiative to reach out to young people and encourage them to go to college.

Small classes, trained teachers, modern schools, high standards, public school choice, and more. This is the plan that can revolutionize education in America.

But the Republican majority in Congress hasn't even

passed ~~brought~~ the annual education investment bill ~~to a vote~~. When it comes to education, Congress must not settle for an "incomplete." I ask the Republicans in Congress to put progress over partisanship and send me a full education investment bill.

Remember: The budget Congress must now finalize will be the last complete budget of the 20th century. We cannot pass up this golden opportunity to invest wisely now, to help all our children seize the promise of the century to come. Thanks for listening.

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