THE WHITE HOUSE
WASHINGTON

Date 1/19

TO: Laura Marcus

FROM: The Staff Secretary

NSC says that you or John want to comment on this before it's signed.

True?

Phil

THE WHITE HOUSE

WASHINGTON

January 19, 1999

ACTION

MEMORANDUM FOR THE PRESIDENT

'99 JAN 19 PM8:

FROM: SAMUEL BERGER
LARRY STEIN

SUBJECT: Response to Senator Craig *et al* concerning Agricultural Exports to Iran

Purpose

Response to Senator Craig *et al* concerning Iran.

Background

Senator Craig wrote urging that you direct the Department of the Treasury to approve a sale of grain and other food commodities to Iran. Your reply notes that while we are encouraged by positive changes advocated by Iranian President Khatemi, progress has not yet reached the point to justify approving this sale.

RECOMMENDATION

That you sign the letter at Tab A.

Attachments
Tab A Letter to Senator Craig *et al*
Tab B Incoming Correspondence

cc: Vice President
Chief of Staff

A

SIGNATURE

THE WHITE HOUSE

WASHINGTON

Dear Senator Craig:

Thank you for your letter advocating approval of a sale by the Niki Trading Company of agricultural and food commodities to Iran. While I support efforts to create markets for surplus U.S. agricultural commodities, and I recognize the sizable nature of the proposed sale, I am not yet prepared to take steps to allow this exception to sanctions against trade with Iran.

I have been encouraged by many of the positive statements made by Iranian President Khatemi and I hope to see his words matched by changes in Iran's approach to the issues that divide us, most notably, support for international terrorism. Until I am convinced, however, that Iran has ceased all support for terrorism, I am reluctant to take any action that undercuts the longstanding sanctions regime. I fervently hope that Iran will take the necessary steps to allow for such sales in the future.

Again, thank you for writing and sharing your concerns with me on this issue.

Sincerely,

The Honorable Larry E. Craig
United States Senate
Washington, D.C. 20510-1203

B

E-515

LARRY CRAIG
IDAHO

U.S. CONGRESS

SENATE
WASHINGTON, DC 20510

HOUSE OF REPRESENTATIVES
WASHINGTON, DC 20515

December 16, 1998

The President
The White House
Washington, DC

Dear Mr. President:

During the 105th Congress, legislation was introduced in the Senate which would have removed by law economic sanctions from agricultural commodities. This issue will surely be revisited again during the next Congress.

A recent development has placed this issue in clear focus. It has come to our attention that the Government Trading Corporation of Iran has requested the Niki Trading Company, a U.S. corporation, to seek the necessary licenses for, and to purchase in the United States on its behalf substantial quantities of grain as well as other food commodities. This one cash transaction would (at current prices) amount to over $500 million in agricultural sales.

Current sanctions against trade with Iran pursuant to Executive Order 12959 would prohibit this transaction in the absence of a special license, which could be issued by the Department of the Treasury's Office of Foreign Asset Control. We are respectfully requesting that you consider directing that office to permit this transaction to move forward. We believe such action may result in several positive effects, including:

1) The stimulation of a positive and concrete examination of the effectiveness of sanctions as they apply to agricultural commodities.

2) The creation of a substantial market for surplus U.S. agricultural commodities and a significant economic boost for our farmers.

3) Demonstrating to the Iranian government an example of positive results which stem from acceptable standards of international behavior.

Max Baucus

Jo Ann Emerson

Mike Enzi

Earl Pomeroy

Jerry Moran

José E. Serrano

Chuck Hagel

Dick Lugar

Jim Ryun

Marion Berry

Kent Conrad

cc: The Honorable Robert Rubin, Secretary, U.S. Department of the Treasury
The Honorable Madeleine Albright, Secretary, U.S. Department of State
The Honorable Dan Glickman, Secretary, U.S. Department of Agriculture
The Honorable Charlene Barshefsky, Ambassador, U.S. Trade Representative

CoSigners

Larry Craig, R-Idaho
John Breaux, D-Louisiana
Bob Kerrey, D-Nebraska
Rod Grams, R-Minnesota
George Nethercutt, R-Washington
Tom Ewing, R-Illinois
Dirk Kempthorne, R-Idaho
Conrad Burns, R-Montana
Jo Ann Emerson, R-Missouri
Mike Enzi, R-Wyoming
Chris John, D-Louisiana
Jose Serrano, D-New York
Dick Lugar, R-Indiana
Marion Berry, D-Arkansas
Ray LaHood, R-Illinois
John Thune, R- South Dakota

Pat Roberts, R-Kansas
Bryon Dorgan, D-North Dakota
Craig Thomas, R-Wyoming
Kent Conrad, D-North Dakota
William Jenkins, R-Tennessee
John Cooksey, R-Louisiana
Mike Crapo, R-Idaho
Max Baucus, D-Montana
Tim Johnson, D-South Dakota
Earl Pomeroy, D-North Dakota
Jerry Moran, R-Kansas
Chuck Hagel, R-Nebraska
Jim Ryun, R-Kansas
Charles Canady, R-Florida
Nicholas Lampson, D-Texas
Helen Chenoweth, R-Idaho

Senate members: 15 (9 Republicans - 6 Democrats)
House members: 17 (12 Republicans - 5 Democrats)

U.S. Senator Larry E. Craig
Idaho

December 16, 1998
5:45pm

FAX TO:	The President The White House 202-456-6220 202-456-6221
SUBJECT:	Commercial Food Sale to Iran
PAGES TO FOLLOW:	4

(Original to Follow by Mail)

Copies Faxed to:	Secretary Dan Glickman	202-720-2166 / 202-720-8077
	Secretary Madeleine Albright	202-647-2762
	Secretary Robert Rubin	202-
	Ambassador Charlene Barshefsky	202-395-4656

THE WHITE HOUSE

WASHINGTON

December 18, 1998

MEMORANDUM FOR GLYN DAVIES
NSC Executive Secretariat

FROM: JANET MURGUIA
Legislative Affairs

SUBJECT: PRESIDENTIAL CORRESPONDENCE

Attached are copies of letters sent to the President by various Members of Congress. Since these letters address national security issues, we would appreciate your assistance in drafting the responses.

Thank you very much for your assistance. If you have any questions, please call Eli Joseph at x67500.

The following is a brief description of the letters:

1) Sen. Larry E. Craig (R-ID) and thirty-one other Members of Congress, recommending the removal of economic sanctions against trade with Iran with respect to agricultural commodities; and,

2) Sen. Trent Lott (R-MS) and five other Senators, concerning U.S. policy toward Iraq.

DEC 19 1998

Law Offices of
DANIEL A. GREGORY
1199 MAIN AVENUE, SUITE 213
DURANGO, COLORADO 81301
TELEPHONE (970) 247-3123
FACSIMILE (970) 247-8293
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Admitted in Colorado and Florida

238 East Colorado Avenue, Suite 1
Telluride, CO 81435
Telephone: (970) 728-1185
Facsimile: (970) 728-5898

'99 JAN 20 PM3:38

January 19, 1999

Via UPS Next Day Air

Ms. Betty Currie
Secretary to The President of the United States of America
1600 Pennsylvania Avenue
Washington, D.C. 20500

Dear Ms. Currie:

I have spoken to Tony Rodham who asked that I send the enclosed letter. I would appreciate it if you would personally hand the enclosed letter to our President. Thank you very much for your kind assistance.

Sincerely,

Daniel A. Gregory

DAG:cmp
Enclosure

1-20-99

Send to Burkhardt
(rather than handle as "Curry mail")

Yes ✓
No

C.

Law Offices of
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January 19, 1999

The Honorable William Jefferson Clinton
President of the United States of America
The White House
1600 Pennsylvania Avenue
Washington, D.C. 20500

Dear Mr. President:

My name is Daniel A. Gregory, and I am a practicing attorney in Durango, Colorado. I am licensed in both state and federal courts in Florida and Colorado, and have been practicing complex civil litigation for approximately the last sixteen years.

I had the honor to meet both you and the First Lady during a reception prior to the fair being held on the White House grounds earlier this year. My parents, Ed and Jo Gregory, are both friends and admirers of both you and the First Lady for many years. My younger brother, Donnie, very much enjoyed his recent game of hearts with you.

Although my primary emphasis has been civil litigation (and in particular construction and real estate litigation), as someone who has tried over fifty civil cases and is very familiar with the rules of discovery and the procedures of court, I have been both fascinated and concerned with what is happening in the overly zealous efforts to overturn your successful election. As an attorney, I have been captivated by the process itself, including but not limited to who and what can be subpoenaed, the assertions and ruling on executive and secret service privileges, and the procedure as the matter has made its way from the Judiciary Committee through the House and now into the Senate. I have been dismayed, however, by the rather questionable conclusions contained in Mr. Starr's report and echoed by the House Managers in their opening statements. As you know, Mr. Starr's report contained conclusions based on evidence which if objectively viewed would at the very least suggest an equally probable opposite conclusion, and at the very worst suggest a partisan, vindictive attempt to reverse the results of your two successful elections. I believe that the contrast between the presentation of the facts by the Special Prosecutor in the Watergate matter versus the adversarial conclusions by Mr. Starr in his report demonstrate the partisan nature of the process to date.

In following the process, I have been limited of course to what is available to the public. In order to fully understand both the charges and defenses, I have read essentially every piece of information that has become available including Mr. Starr's report, and the formal responses to that report filed on your behalf.

Although I was formerly a partner in a large law firm in Naples, Florida, for the last five years I have conducted my practice from my own two offices in Durango and Telluride, Colorado. In this position, I am occasionally able to carve out time to devote to other important endeavors. While your team is obviously eminently qualified and doing an excellent job on your behalf, I wanted to write this short letter to offer any help that I can provide in furtherance of your defense. I would be happy to do anything from being a mere aide or runner for counsel working on your defense to assisting them in any other manner they deemed appropriate. I would be happy to come to Washington, DC and work with your team at no cost just to be part of what I regard as both a very important process and a weighty issue to the country as a whole.

In closing, I am reminded of an old adage from the lawyer who was my mentor when I first started trying cases. He once told me, "Justice is when your side wins." I am both hopeful and optimistic that Justice will prevail in your trial.

Respectfully,

Daniel A. Gregory

DAG:cmp

FROM THE OFFICE OF GEORGE SOROS
Soros Fund Management
Soros Foundations
888 Seventh Avenue, Suite 3300
New York, New York 10106
Tel: (212) 397-5550
Fax: (212) 977-4057

'99 JAN 19 PM2:39

1-19-99

Send to Burkhardt?
Yes ✓
No

cc Waldman
Begala
Podesta
Berger

TO:	President William J. Clinton
AT:	The White House Washington, DC
Fax #:	(202) 456 2215
cc:	Mr. Michael Waldman Director of Speech Writing The White House Fax #: (202) 456 2505
FROM:	George Soros
DATE:	January 19, 1999
TOTAL:	2 pages (including this cover sheet) - ys
RE:	Kosovo State of the Union address

Please see the attached letter.

1-20-99

Send to NSC?
Yes ✓
No

(copy already sent to NSC to do reply.)

Carol.

GEORGE SOROS

136 CANTITOE STREET
KATONAH, NEW YORK 10536

'99 JAN 20 PM3:46

January 19, 1999

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

Dear President Clinton,

As a last minute addition to your State of the Union address tonight, I urge you to deal with Kosovo. Milosevic has challenged American values and leadership through his latest war crimes and massive violations of the October US/NATO agreement on Kosovo. Stating this in your address tonight would strengthen the hand of our negotiators with Milosevic and it would prepare public and congressional opinion for necessary moves in the coming days and weeks.

Yours sincerely,

George Soros

UNITED STATES COURT OF APPEALS
EIGHTH CIRCUIT

CHAMBERS OF
RICHARD S. ARNOLD
UNITED STATES CIRCUIT JUDGE
UNITED STATES COURTHOUSE
600 WEST CAPITOL AVENUE, ROOM 208
LITTLE ROCK, ARKANSAS 72201

[By Fax: 202-456-6703. Original to follow by mail.]

1. cc Jackie M.
Sylvia M.
John P. —
STAFF SEC
2. PRES.

1-19-99

Send to Burkhardt?

Yes ✓

No

C

anuary 14, 1999

00

'99 JAN 19 AM9:53

r troubling you at such a time, but I

OMB has once more put the Judicial Branch in jeopardy. A copy of my letter, dated today, to Bruce explains the situation.

I vividly remember your statement to me that "Leon Panetta will never again express an opinion about the budget of the Federal Judiciary." You will recall that Leon had become Chief of Staff and had left OMB by that time, so I understood you to mean that OMB would not attempt to change our budget request and, in fact, on those occasions when such an attempt has been made, you have never failed to come to our aid.

In the name of the Constitution, I appeal to you again to restore the proper balance between our two branches of government, and to instruct OMB not to attach to our budget request any "negative allowance." If I may make a suggestion, there is a way, perhaps, that the matter could be handled without doing undue violence to the interests of either branch. The overall amount of the negative allowance could be left as it is now, but a statement could be inserted in the budget document to the effect that this allowance is not to be taken against the Judiciary.

Of course I would like to discuss the matter with you on the telephone or in person, but I realize this may be difficult, so I am taking the liberty of sending on this letter.

UNITED STATES COURT OF APPEALS
EIGHTH CIRCUIT

CHAMBERS OF
RICHARD S. ARNOLD
UNITED STATES CIRCUIT JUDGE
UNITED STATES COURTHOUSE
600 WEST CAPITOL AVENUE, ROOM 208
LITTLE ROCK, ARKANSAS 72201

[By Fax: 202-456-2983. Original to follow by regular mail.]

January 14, 1999

Bruce Lindsey, Esq.
Assistant to the President and
Deputy Counsel to the President
The White House
Washington, D.C. 20500

Dear Bruce:

Forgive me for troubling you at a time like this, but OMB has not left me with a choice.

We learned this morning that our budget is again being subjected to a "negative allowance." OMB was not willing to give us the amount, although we have been told that the negative allowance is $109 million less than what it would otherwise have been.

The situation is even more disturbing this year than it has been in years past. Even the incomplete information that we now have has come to us several weeks after the time when such budget matters are normally resolved. It is hard to resist the inference that someone at OMB is deliberately withholding information from us. We have been told that the "database is locked," whatever that means. As I understand the budget process, heads of Executive-Branch agencies are given notice and an opportunity to appeal to the President before final decisions are made. It seems that OMB is attempting to deprive us of this avenue of appeal.

On the merits, the action is illegal, see 31 U.S.C. § 1105(b), contrary to instructions given by the President in the past, contrary to the agreement that I made with Leon Panetta, and inconsistent with the comity that ought to exist between the Executive and Judicial Branches.

If you could have somebody let me know what your decision is, I would be most grateful.

Respectfully yours,

Richard

Richard S. Arnold

RSA/bf
Encls.

THE PRESIDENT HAS SEEN
1-19-99

THE WHITE HOUSE
WASHINGTON

copied
Sperling
Reed
Cohen
Podesta
Echaveste

'99 JAN 7 PM1:17

January 5, 1999

January 14, 1998

MR. PRESIDENT:

Chris Edley sent you the attached memo as a follow-up to your phone conversation. He is quite critical of some of your most recent proposals. Bruce and Gene thought you should have, and I agreed, some background on Chris's criticisms. Therefore, DPC and NEC have prepared cover memos, which are attached at left.

Remember that Chris will be traveling to New York with you later today.

Phil Caplan Phil

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Attachment

1-19-99

'99 JAN 7 PM 1:17

THE HARVARD LAW SCHOOL
CAMBRIDGE MA 02138

January 5, 1999

Memorandum for the President

From: Christopher Edley, Jr. CE

Re: Your Request for Candid Further Discussion of Opportunity-Related Ideas in Relation to the Race Book, Budget and SOTU

More details are in the attachment. In brief, you and I discussed these items:

Education: ESEA/Title I accountability for results. I stressed that ESEA reform, to present a credible alternative to vouchers, must emphasize accountability for *results*, not just promises. The draft race book urges a specific national commitment to close racial disparities in achievement. I also questioned the "Nation's Superintendent" model of federal leadership which focuses on carrots to spur changes in education inputs and processes, rather than focusing the national debate on accountability for results while leaving state and local governments to choose the means.

Education: Ending social promotion, with associated supports/protections. I stressed the likely objections to this from progressives and the civil rights community without equally forceful rhetoric and measures to deter abuses. The National Academy of Sciences has reported on the risks of high-stakes testing and abusive retention policies. Won't districts claim the right policies but practice something that grabs political credit for toughness while avoiding the resource investments in early intervention, remediation, and improved instruction? I fear a reprise of the National Voluntary Test fiasco, when Administration officials dismissed the concerns of progressives (like me) who support high standards but want enforceable safeguards.

Economic Development, Trillion Dollars, etc. I credited the good will of the "Trillion Dollar" and HUD packages, but voiced concerns that the blizzard of proposals really offers little hope for the well-informed observer. These helpful ideas pale in comparison to the creation of FHA and FNMA. Twenty SBICs and three turtle doves do not a bold legacy make. The draft book recommends re-chartering the Federal Home Loan Bank Board GSE to focus on community development, with a broad set of tools financed off budget or on the mandatory side.

Jobs: I noted the book's "mountain top" goal is to break the back of hyper-unemployment among minority young adults, and contrasted this with a plethora of ideas lacking focus and edge. Something like DOL's new $250 million Youth Opportunity Areas program is not an answer, with 20 sites, each ten square blocks, serving only 60,000 kids nation wide: A drop in the swimming pool, impossible to scale up. The draft book recommends a challenge grant to leverage metropolitan reinvention; reinvention across bureaucracies; and accountability for results. I'm pleased that the budget is silent, because if your book says we must go to the moon, I don't want the budget to unveil the first step as the purchase of a wrench and two screws.

Attachment

ATTACHMENT

1. Education: ESEA/Title I accountability for results in closing achievement disparities

The DPC/Department reauthorization proposal as of 12/23 is exciting, but leaves the nagging concern that states/districts get and keep their money just by *planning and promising*. Or, arguably worse, we push them to change specific management practices or education inputs (interventions for failing schools, personnel policies) without holding anyone accountable for whether those actions in fact produce better learning outcomes. There are two conceptual problems:

a. Find the Stick. On a scale of incentives running from lofty exhortation to tactical nukes, either extreme is bad, but aren't we still far too soft? As between the "be patient" view of entrenched educrats and the "revolution, else vouchers" view of frustrated parents and business leaders, whose side are we on? I'm told that DPC is now working on options to add stronger consequences. I believe these must be both powerful and credible.

b. Superintendent, or President? Are we going to continue focusing on inputs – leaky roofs, teacher certification, Advanced Placement offerings, technology, class size – or should we try to shift the national discussion to the heart of the matter: *Everyone must be judged by results, and federal taxpayers will not subsidize failure or underwrite excuses.* All of the input interventions and regulations are individually sensible and many are research-based, but most strike me as the agenda for a superintendent of schools rather than a President -- particularly a President trying to demonstrate that New Democrats don't throw money at problems. I suspect you are focusing this way because an idea like fixing the roofs or shrinking class size has just enough intuitive appeal to trump conservative anxiety about an expanding federal role. The alternative conception of presidential leadership, however, is to focus public discourse on closing the achievement disparities and creating tough accountability for results, while stepping way back from top-down prescription of the means of achieving those results. And I think this alternative is the way to present a meaningful, values-based alternative to the Heritage Foundation agenda, striking a responsive popular and populist chord.

c. Connection to your race book. Finally, you have seen the draft chapter urging a focus on the "mountaintop" of eliminating the racial disparities in achievement. I urge that this "man on the moon" goal be explicit in the ESEA reauthorization, and that some dimension of accountability be tied to progress in achieving this goal. The draft chapter recommends a specific challenge fund for this purpose, on the theory that it is politically infeasible to put the larger body of Title I funding at risk when everyone pretty much thinks of that formula as a vital fiscal entitlement.

2. Education: Ending social promotion, with associated supports/protections.

We discussed the danger that, like your call for a Voluntary National Test, calling for an end to social promotion will generate a backlash from progressives who fear abuses – retention driven by the results of a single test, rather than a range of factors, and imposed without the various early interventions and remedial supports that you and the your advisers usually emphasize. In 1997 I urged an early amendment to the VNT proposal to build in protections against the kind of test misuse the expert testing community fears, but Administration officials were, frankly, polite but dismissive of my substantive and political concerns, even after hearing the same message in last minute consultations with civil rights advocates. The response of Congressional progressives, and the results of Congressionally-chartered analyses by the National Academy of Sciences [NAS] (in which I played a role) validated my 1997 concerns. I am right this time, too.

According to the NAS, retention is linked to significant and sometimes dramatic increases in drop-out risk, and while virtually every district has a written retention policy stating all the right things about multiple considerations and early interventions, actual practice is poorly understood but known to include abuses and, civil rights advocates believe, discrimination.

These violations of the professional standards of educators and testing experts are perfectly predictable, and so are the responses to your initiative. No important constituency favors social promotion. I and others fear, however, that it is politically easy for some state or local official to say he's for tough standards and then show it by flunking poor colored kids (we know something is wrong with them anyway). On the other hand, it is politically difficult to spend a lot of money on the interventions, supports, and summer school that will forestall or ameliorate retention. And even more difficult to hold someone other than the kid, like a teacher or principal, responsible for the failure to achieve.

I have heard no persuasive response to these concerns. I predict that, absent adjustment, important voices will be raised against the proposal. It will alienate many of the very interests you should be rallying to unite in a bold school reform strategy. I see no easy way out of it, especially at this late date. As a conceptual matter, however, retention policies are just one of the "inputs" to the achievement equation. If the Federal leadership is focused on results instead of inputs, a new categorical program about social promotion is a distraction. It should be a bully pulpit item, as should other particular solutions that a superintendent ought consider.

3. Economic Development, Trillion Dollars, etc.

You wanted my reaction to the various HUD and "Trillion Dollar Roundtable" proposals. The blizzard of elements gives clear and convincing proof of good will and commendable energy. From a Race Initiative perspective, however, the elements aren't bold enough to make an informed observer believe this will make much difference. They do not inspire an educated hopefulness.

As the draft race book suggests, your goal should be to harness the power of markets and financial institutions and put them to work for distressed communities. But now, judge the FY 2000 proposals by that standard, or the standard of policy historians. When past presidents identified home ownership as a goal, they created FHA, chartered FNMA, and transformed market forces and institutions. When rural depression seemed an intractable blight, past Presidents created the TVA and REA. These ideas were as important for the *structural* changes they wrought as for the incremental dollars involved. Today, your package expanding the SBIC program and so forth is not comparable in vision or boldness, notwithstanding great rhetoric about leveraging billions of dollars. Giving Andrew $100 million to promote "regionalism" is the substantively right direction, but an almost comic application of the aphorism that a journey of a thousand miles begins with a single step. If I were on the outside, I would write that the scale of the problem makes these measures too much like a handful of band aids, old-Democrat style. These initiatives aren't wrong or bad. Needy people will be helped and important policy principles underscored. But I believe you should offer a grander vision, while respecting fiscal discipline, and make clear that the proposals ready for announcement are part of that grander whole.

As I mentioned to you, the draft book suggests a major refocusing of the large housing-related GSEs -- FNMA, Freddie Mac and the Federal Home Loan Bank Board System. In particular, the FHLBB should be re-chartered as the **National Community Investment Bank**, with a new mission: working side-by-side with CDFIs to fuel economic revitalization in our most distressed communities through affordable financing of a range of community development and job-creating projects. In general, GSEs commonly assert that they are "private" and cannot be expected to make uneconomic investments. But their profitability is fueled by their access to "cheap" money via an implicit government debt guarantee tantamount to a discount Fed window. The FHLBB is the most egregious at playing loose with the public purpose, making much of its profit through arbitrage. Specifically, the Administration should propose to:

- First, adopt new regulatory and statutory provisions to **(a)** press the GSEs to focus more of their housing activity on severely distressed communities, and **(b)** give the GSEs more effective tools to promote targeted lending for community development purposes.

- More important, re-charter the FHLBB system as the *National Community Investment Bank* [NCIB] to stem arbitrage abuses and focus on investments and technical assistance that implement *comprehensive strategies for community economic development*, analogous to (good) IMF and World Bank missions in developing nations.

- Third, some or all of the fiscal impact of these Federal subsidies could be placed off-budget or on the PAYGO side; the *NCIB* could even be a source of financing outside the discretionary caps for CDFIs, SBICs, and many related efforts.

A thoroughly reinvented FHLBB/*National Community Investment Bank* could be a tremendous source of financial support and strategic planning assistance for distressed communities. As an intermediary, it could nurture secondary markets, allocate tax or other subsidies to attract private financing for SBICs and CDFIs, create insured equity investment vehicles, and more, subject to the existing government safety and soundness oversight.

4. Jobs: Breaking the back of endemic hyper-unemployment in distressed communities.

The point I made to you was that, from the perspective of the race book, there is a need for some focus on a clear goal. We should break the back of hyper-unemployment of minority young adults in distressed areas, raising their employment levels to that of non-minorities in the same metro labor market. The three structural challenges here are: *metropolitan reinvention* across political jurisdictions; *service delivery reinvention* across a wide range of bureaucracies (from schools to reverse commuting to childcare to welfare); and *accountability for results* in closing the employment disparities. The draft book proposes a honey pot of resources available in a competitive challenge grant to metro and state applicants.

In my budget discussions with staff, there was reasonable interest in the idea, but not enough to push other ideas (from HUD, DOL, DOT, NEC) off the table and make the new investment substantial enough to be meaningful. I withdrew the proposal, because I hope to persuade you to include the "Man on the moon" statement of ambition in the book. I don't want to make it hollow with a budget down payment that belies the seriousness of the vision, draining hope away.

1-19-99

THE WHITE HOUSE

WASHINGTON

Back to Gen / Bru

'99 JAN 12 PM6:37

January 13, 1999

MEMORANDUM FOR THE PRESIDENT

FROM: Bruce Reed
Mike Cohen

SUBJECT: Education Issues in Chris Edley's Memo

The attached memo from Chris Edley argues that our ESEA proposals do not go far enough in holding states and school districts accountable for results, while going too far in trying to end social promotion. We respectfully disagree with both criticisms, and believe that the alternative proposal Chris lays out is unlikely to achieve our policy objectives. Both the Department of Education and OMB share our views respecting these matters.

A. Ensuring Accountability

With all due respect to Chris, our ESEA proposal is simply not "too soft." The proposal requires all states -- on penalty of losing ESEA funds -- to identify and intervene in failing schools (including in appropriate cases by reconstituting or closing these school), prevent the use of unqualified teachers, end social promotion (more on this below), and issue school report cards. In short, our proposals require states to put into place the set of education reform measures that every recent study tells us works. In addition, our proposal includes specific, appropriate, and feasible bonuses and penalties for performance. At your request, we have developed a new mechanism for providing extra money to schools that make progress on state assessments over several consecutive years. Also in response to your concerns, we have developed a plan to deny administrative cost-sharing to school districts that do not make adequate progress.

It is important to understand two ways in which this proposal diverges from Chris's. First, Chris's proposal would leave Title I and all other programs now authorized under ESEA completely untouched. His proposal relates only to a currently non-existent funding stream, which is unlikely for many years (if ever) to comprise a substantial percentage of federal education funding. Second, Chris's proposal includes no requirements for specific school reforms; it is instead a block grant -- albeit one that can be taken away in certain circumstances -- for a broadly defined educational purpose (reducing racial disparities). Chris would make a virtue of this approach, arguing that it is more "Presidential." But we have never accepted the view that the federal government should leave all education policy decisions to the states; to the contrary, we have tried to use our education dollars to get the states to adopt certain policies we believe will improve performance (for example, reducing class size and modernizing facilities). As Chris himself concedes, we increasingly know what works in this area -- and we know that too few states are implementing these policies. To rely only on a far-off threat of removing federal money -- a threat that both past practice and common sense suggests is not altogether credible -- is to deprive the federal government of much of its leverage.

B. Ending Social Promotion

Our proposal to end social promotion is sound and will be effective. We do not share Chris's view that ending social promotion is "a distraction" from your education reform agenda. On the contrary, it is a central part of holding schools, teachers and students accountable for results, as you demonstrated in Arkansas and as Chicago, Boston, and other communities are demonstrating today. The policy focuses the attention of students, parents, teachers, schools, and entire school systems on getting students to meet standards, which is the core goal of our education policy. Recall that in Arkansas, passing rates on the eighth grade reading and math tests went from about 83 to about 96 percent once a no-social-promotion was put into effect.

We do not doubt that our proposal will be controversial in some quarters, particularly in the traditional civil rights community. Chris is right to note that some members of this community oppose the use of tests to hold students accountable for performance under almost any circumstance. They will not be happy with any policy to end social promotion that goes beyond paying lip-service to this goal.

We believe that the best way to respond to the concerns of the civil rights community is to insist that states and school districts end social promotion *the right way*. This means, as you have always said, coupling no-social-promotion policies with other steps to strengthen learning opportunities in the classroom, such as extended learning time for students who need it. It also means ensuring enforcement of the civil rights laws and putting in safeguards to prevent abuses. Our proposal that the Department of Education review and approve state plans to end social promotion -- as well as our proposal that states take up to five years to phase in these plans -- should help to ensure high-quality implementation. (By contrast, if we do nothing in this area, some states will adopt irresponsible ways of ending social promotion.) We may not be able entirely to persuade Chris and others, but we believe that our continued insistence on ending social promotion policy the right way will blunt their objections.

1-19-99

THE WHITE HOUSE

WASHINGTON

'99 JAN 14 AM 7:03

January 13, 1999

MEMORANDUM FOR THE PRESIDENT

FROM: GENE SPERLING

SUBJECT: Edley Memo

Chris's attached memo stresses two areas in economic opportunity and development where he feels our efforts so far are inadequate. While we will agree that if we had unlimited resources it would be good to do even more and while there are legitimate differences on how best to tackle these challenges, it is important to put his ideas in both areas in perspective.

Economic Development:

On top of your Empowerment Zones, the Community Reinvestment Act, the Community Development Financial Institution (CDFI) fund, you will announce on Friday the New Markets Initiative, which will dramatically expand capital investments in our underserved areas. This initiative will include:

- **A New Market Investment Tax Credit:** You will propose a new $1 billion tax credit, which will be available for qualified equity investments in a range of vehicles financing businesses in America's new markets. An investor will receive total tax credits up to a fixed percentage of his/her investment. This tax credit will leverage $6 billion in additional investment in our distressed communities.

- **The Creation of America's Private Investment Companies (APIC):** In response to concerns that the SBICs are too limited in size to meet the need for larger-scale investment in underserved areas, you will propose a new program to provide government guarantees for investment partnerships targeting larger businesses relocating or expanding in inner cities and rural areas. This initiative will allow government guarantees on debt up to two times the amount of equity investment allowing up to five investment firms each with up to $300 million to invest -- or up to $1.5 billion in investment.

- **New Markets Venture Capital Firms (NMVC):** To help small-sized firms in underserved areas that need investment *and* technical assistance, you will propose that SBA finance investment firms offering a new combination of investment and technical assistance to smaller businesses in targeted areas. The program should provide long-term, patient growth capital and facilitate critically needed technology and management skills development for these firms.

- **SBIC Targeting for Underserved Areas:** In order to meet better the needs of minority firms and underserved markets, SBA will hold a series of workshops throughout the country to educate the business and investment community about the SBIC program and to promote the formation of SBICs focused on equity capital for underserved areas. SBA will also provide a new financing mechanism and more favorable regulatory treatment, if an SBIC invests in businesses in underserved areas (or which draw a significant proportion of its employees from those areas).

- **250 Percent Expansion of Microenterprise Investment:** In many underserved areas, fostering opportunities for the smallest of entrepreneurs can help to build the job base and provide economic stability to a community. Your budget calls for a 250-percent increase in funding for technical assistance and lending to very small businesses.

Chris recommends re-chartering the Federal Home Loan Bank System (FHLBS) to create a National Community Investment Bank with the goal of promoting community development. While we share Chris's interest in the potential of GSEs doing more to meet public policy objectives, the issues involving Fannie Mae, Freddie Mac, and the FHLBS are complex and delicate. In the end, we believe that our chances are far greater to get a sound New Markets Initiative passed by this Congress than a prudent new GSE.

However, the complexity and unlikelihood that Chris's proposal will pass Congress in a sensible form are not sufficient enough reasons to exclude it from a visionary statement. You should know, though, that experts within your Administration have significant problems with the proposal on substance grounds.

For example, there is much skepticism that political dynamics will allow us to add new public purpose obligations on the FHLBS -- the off-budget subsidies of which Chris writes -- and reduce arbitrage significantly at the same time. More likely, some fear, the mission will be expanded and the leakage of federal subsidy to private hands will *grow*. Treasury has thus far insisted that these "abuses" be stemmed before any -- even modest -- mission expansion can go forward.

If you would like to pursue this idea further, we can convene a process to evaluate this option and develop a pro/con memo to inform your decision on how to proceed.

Youth Jobs:

We share Chris's goal of "breaking the back of endemic hyper-unemployment in distressed communities." However, we must respectfully disagree with Chris's belief that your Youth Opportunities Initiative is not a good answer because it is too concentrated in a few areas and will serve "only" 60,000 poor children this year.

The overwhelming weight of the academic research shows that in order to truly help out-of-school youth we need to saturate small areas with a lot of resources so that we change the culture of joblessness and high unemployment. This is precisely what the Youth Opportunity Initiative will do. It is important to note that serving 60,000 out-of-school youth nationwide is not a "drop in the swimming pool." For example, last year, there were 280,000 unemployed African-American teenagers. Therefore, we are taking an significant first step toward addressing the problem.

Finally, it is important to note that Youth Opportunities Areas was only one piece of your agenda to help politically powerless disadvantaged youth. Besides the $250 million in last year's budget for the new Youth Opportunity Areas, you won $120 million for GEAR-UP -- a program based on solid research on mentoring programs -- and $70 million more to help minorities prepare for college and stay in college through the TRIO program. In sum, you won $510 million more in FY99 than in FY98 -- an enormous one-year increase for investments in poor children.

If you include the doubling of GEAR-UP, a new $50 million regional youth initiative, the new $100 million Right-Track partnership, and the expansion of existing programs in your FY2000 budget, our investments in programs specifically targeted at poor children will be $902 million higher than in 1998. (See attached table) In the face of a partisan Republican Congress, this is quite significant progress and will certainly purchase more than "a wrench and two screws."

FUNDING FOR PROGRAMS THAT HELP DISADVANTAGED YOUTH					
	Actual FY1998	Actual FY1999	Proposed FY2000	Increase from 1998-2000	5-Year Total
Youth Opportunity Areas	--	$250 million	$250 million	$250 million	$1,250 million
GEAR-UP Mentoring Program	--	$120 million	$240 million	$240 million	$1,200 million
Right-Track Partnerships	--	--	$100 million	$100 million	$500 million
Regional Youth Initiative	--	--	$50 million	$50 million	$250 million
Rewarding Achievement in Youth	--	--	$20 million	$20 million	$100 million
TRIO -- Helping Minorities Go to and Stay in College	$530 million	$600 million	$630 million	$100 million	$500 million
YouthBuild	$35 million	$43 million	$75 million	$40 million	$200 million
JobCorps	$1,246 million	$1,308 million	$1,348 million	$102 million	$510 million
TOTAL				$902 million	$4,510 million