

Robert Reich

219-7659

29-

219-8271

arrival

confirmed

—

THE WHITE HOUSE
WASHINGTON

OFFICE OF THE STAFF SECRETARY

Fax Transmittal Sheet

TO: The Honorable Robert Reich

Fax Number: 219-7659 **Phone Number:** 202-219-6666

FROM: Todd D. Stern

SUBJECT: Presidential Note: "Do you know him? Have we ever
had him in here to talk? Do you
DATE: think there's anything here? BC"

NUMBER OF PAGES (including cover sheet): 7

MESSAGE:

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

The document accompanying this facsimile transmittal sheet is intended only for the use of the individual or entity to whom it is addressed. This message contains information which may be privileged, confidential or exempt from disclosure under applicable law. If the reader of this message is not the intended recipient, or the employee or agent responsible for delivering the message to the intended recipient, you are hereby notified that any disclosure, dissemination, copying or distribution, or the taking of any action in reliance on the contents of this communication is strictly prohibited.

Laura → Do you know him
Have we ever had him
in here to talk?
→ Do you think there's anything here? BC

cc Rubin, ^{Ron} Reich, Brown, M Kantor,
CEA

THE PRESIDENT HAS SEEN
7/17/95

219

7659

Reich

| SVA

THE PRESIDENT HAS SEEN
7/17/95

Taming Global Money

Howard M. Wachtel

The nation-state has been weakened in its influence over economic performance. An emerging supranational economic order is imposing a unified ideology of free markets on an historical setting to which it is ill-suited.

HOWARD M. WACHTEL is Professor of Economics at The American University and is the author of *The Money Mandarins: The Making of a New Supranational Economic Order*, M.E. Sharpe, 1990.

Of all the changes in the global economy over the past generation, none have occurred with such alacrity as those in global money and finance. And in no other policy sphere have governments lagged further behind in introducing effective supervision and regulation.

Walter Wriston, who (as Chairman of Citicorp) was in on the creation of this new world financial order, has written that this was a "new system . . . not built by politicians or economists . . . which in turn has allowed [the] creation of a new international monetary system. This state of affairs does not sit too well with many sovereign governments because they correctly perceive [it] as an attack on the very nature of sovereign power."

As political sovereignty is challenged by privatized global finance, economic performance in the industrial economies suffers. The results are: higher unemployment, as wealth forsakes capital formation for financial speculation; lower trade volumes to cover the higher costs of foreign-exchange risk; and higher real rates of interest, as countries position their

interest rates competitively to stabilize foreign-exchange values.

The Federal Reserve Board of New York estimates that, after allowing for resales, some \$650 billion in foreign-exchange transactions are completed each day in New York, Tokyo, and London. Only about 18 percent support either international trade or investment—the ostensible reasons for foreign-exchange markets. The other 82 percent is speculation, the sole purpose of which is to buy enormous volumes low and sell higher in order to make a small unit profit, but a large overall profit. These profits appear as ephemeral jottings on a computer screen.

A globalized money system that recognizes no geographic boundaries threatens the most fundamental economic *raison d'être* of the nation-state—the ability to control its money supply and influence the value of its money. Using the marvel of modern computer power and telecommunications technology that recognizes no national boundaries, this foreign-exchange system comprises the essence of a supranational economy—one that is governed by the

fundamental tension between the unbounded economic geography of a private global money system and the bounded political geography of nation states. While recognizing that this technological and institutional genie cannot be put back into the bottle, it is essential, nevertheless, that boundaries be placed on the effect of its operations. There are two compelling reasons for boundaries: (1) a potential for vast financial instability; and (2) the undermining of the 20th century's governing project of social democracy.

THE SCOPE OF THE PROBLEM

Several criteria for the policies that will be proposed for dealing with this problem ought to prevail:

- They should be kept simple;
- existing national policies should be extended where feasible;
- existing venues and organizations for international collaboration should be used and no new ones created;
- no new international treaty arrangements should be promulgated.

With these criteria in mind, I suggest we extend all existing national monetary controls, regulations, and supervision to this global money system. It escapes all such government policies now. Much of this unregulated money flows through the Eurodollar system and comes under no national regulatory authority. The system takes its name from, and is defined by, the phenomenon of currencies used outside the borders of any country. It is, therefore, outside the jurisdiction of its nation of origin.

The birth of this system goes back to the late 1940s, when the Soviet Union placed its dollar holdings in a French bank to avoid the possibility of having these accounts frozen, should the United States employ this strategy to wage the Cold War. The funds grew slowly, and their potential was not realized until the United States imposed capital export controls in the 1960s. Banks and their multinational corporate customers then found ways around the exchange controls by using the Eurodollar system. The system reached maturity in the 1970s by being the principal receptacle of some \$350 billion in surpluses earned by OPEC countries.

About 85 percent of this surplus is made up of dollars, with German marks and Japanese yen being the two other principal currencies. Technically, these currencies should be regulated in the jurisdiction in which

they are used—a practice ignored for fear that the operations would be moved to an unregulated venue, if a government began to regulate their activities. We do not even have a good accounting of the dollars in the Eurodollar markets. A rough estimate is that it is nearly \$2 trillion. But no agency of the United States government regulates or monitors its movements.

CENTRAL BANKING REFORM

Effectively, the Federal Reserve Board has abdicated its central function of control over the portion of the money supply that is influenced by the Eurodollar system. The principal control instrument is the power to set reserve requirements. These are set-asides against deposits that banks are required to sequester. For the dollars that circulate inside the United States, banks are required to set aside such reserves. This is what limits the expansion of the money supply, affords the Federal Reserve control over this crucial monetary function, and allows it to influence interest rates. But no such reserve controls exist for Eurodollars. The growth of this component of the money supply lies solely in private bank hands. Here, banks can theoretically lend out all of their deposits, even though they tend to hold small reserves—however, less than is required on domestic accounts. The ability to hold less idle reserves is what makes the Eurodollar system so attractive to banks. They can make all their deposits work for them, thereby receiving larger profits.

A globalized money system that recognizes no geographic boundaries threatens the most fundamental economic raison d'être of the nation state—the ability to control its money supply and influence the value of its money.

Because of these profits, they can charge lower interest rates than on domestic borrowing. The policy of extending reserve requirements to Eurodollars, therefore, would place them on an equal footing with domestic dollars. It would eliminate what is now an incentive for banks to hold and invest dollars outside the United States where they can earn higher profits, charge lower rates of interest, and escape regulatory and tax obligations.

The banks' arguments against such a policy change is that the United States does not have sufficient worldwide influence to effectively implement it and that German marks or Japanese yen would replace dollars in the Eurocurrency markets. In regard to the first point, when one government consistently controls 85 percent or more of the market, it has a "monopoly" position that allows it to dictate terms to the market. As to the second point, Germany and Japan have neither the desire nor the capacity to become the world's reserve currency. The real reason banks oppose this policy change is the loss of a major profit center. But this should not be the basis of a public banking policy, the purpose of which is to promote sound banking and economic stability.

? Reserve requirements on Eurodollars (combined with other policies) could encourage investment inside the United States and reduce the incentive now offered to investors outside the United States. The Eurodollar system presents the classic supranational dilemma for public policy. If banks are offered an unregulated and lower-taxed arena outside their nation of origin, and give up no domestic supports at the same time, they will opt to do business there rather than in the regulated and higher-taxed domestic economy. Without precluding banks from operating in the Eurodollar system, it is the job of our government to equalize the domestic and international structures in which banks do business. Otherwise, the outcome is predictable. Banks will protect their Eurodollar environment by investing outside the tax and regulatory scope of the U.S. government. The increasingly aggressive flight of capital from the United States in the past two decades is, in no small measure, induced by the skewed incentives provided by this abdication of public-policy responsibility.

WORLD TRADE

We shall see lower volumes of investment inside the United States and more investment outside as one outcome of the privatized and unregulated global financial system. A second outcome represents the higher costs placed on international trade and the resulting lower volume of world trade than would be the case, if public-policy boundaries were placed around foreign-exchange speculation. With speculation in foreign exchange comes risk for anyone dealing in future transactions that require conversion of currencies. This is as true for the lone tourist as it is for a large international-trade enterprise. The higher the volatility,

the greater the risk and the higher the cost of covering the risk. The volatility in exchange-rate fluctuations in the 1980s and 1990s has been far greater than anyone anticipated after the end of the Bretton Woods fixed-rate regime between 1971 and 1973 and the introduction of market-determined exchange rates. And with this volatility comes risk, higher costs of internationally traded goods, and a lower volume of world trade.

Risk is a cost that is added to the price of internationally exchanged products. The cost occurs when firms have to enter the futures markets to hedge their projected foreign-exchange transactions. While this adds to the employment and income generated in the peripheral financial sectors of the economy, the goods-production economy suffers as these higher costs are passed on in higher prices. And higher prices mean fewer goods and services sold and produced and lowered employment in those sectors. There is, consequently, a distributional shift in employment that arises from foreign-exchange speculation. Employment in the financial sectors of foreign exchange and futures markets that engage in speculation increase, but employment in the goods-producing segments of the economy suffers.

The increasingly aggressive flight of capital from the United States in the past two decades is, in no small measure, induced by the skewed incentives provided by the abdication of public-policy responsibility.

The most fervent advocates of free trade also resist most aggressively any efforts to place public-policy boundaries around the present foreign-exchange markets. But they fail to realize that these arrangements increase the cost of internationally traded goods and thereby lower the volume of international trade. Public policy that addresses foreign-exchange volatility and speculation is also trade policy in the best tradition of an open trading system—one that is shorn of the ideologically driven mantra of "free trade."

CURRENCY SPECULATION

Foreign-exchange speculation feeds off interest-rate differentials among the industrial countries. Even small differences in interest rates, after adjusting for

inflation and the risk associated with future exchange-rate changes, can trigger large movements of foreign exchange. Such a development can then take on a life of its own, magnify whatever differentials started the process, and end up destabilizing the structure of interest rates in the currencies that are in play. For example, when interest rates were lower in Great Britain than they were in Germany in 1993 (after taking account of risk and expected inflation) capital moved from Great Britain to Germany. This differential had arisen because of domestic policy decisions taken in each country. Capital moved from England to Germany, as speculators took advantage of the higher returns on the German mark.

Under ordinary circumstances, relatively small movements of currencies out of sterling and into marks would be of no consequence. But if the movement becomes a stampede, then both the mark and sterling will face destabilization. A large rush out of sterling will lower the pound's exchange rate vis-à-vis the mark. If it cannot be contained by intervention, pressure will be placed on British interest rates. First, the market will signal a drift upward in British interest rates to attract and retain capital. Eventually, it will have to be ratified by the central bank, thereby forcing a change in policy inside the British domestic econo-

One policy instrument—the domestic interest rate—cannot simultaneously stabilize foreign-exchange rates and achieve domestic macro policy objectives.

my. This scenario is not fiction. It happened to Great Britain in the summer of 1993.

The Bretton Woods arrangements were constructed, in part, to allow nations to follow their own domestic economic policies without having them distorted by foreign-exchange speculation. John Maynard Keynes, whose influence transcended all others at Bretton Woods, sought to take the price of money out of the play of the market. He did not believe the government should set prices. His one exception was the price of money, which has an internal and an external price. Its internal price is the interest rate, and its external price is the foreign-exchange rate—one nation's price of money in terms of another's.

Keynes's *The General Theory*, published in the mid-1930s, focused on the internal domestic economy. It ignored, for the most part, external economic rela-

tions in the international economy. Central to this work is the interest rate (the internal price of money)—its function, and how it should be determined. Keynes presented a persuasive case that the interest rate should be established by the central bank in order to achieve the objectives of high levels of employment. He insisted that the interest rate be taken out of the play of market forces and that it be one of the instruments of policy retained by the government. In *The General Theory*, this one price (and just this one price!) is set by government.

Keynes extended this reasoning at Bretton Woods. If the external price of money (the foreign-exchange rate) remained within the play of market forces, the domestic interest rate would be affected. It would be dragged into the market, be subjected to its influences, and would undermine the centerpiece of *The General Theory*. The creation of fixed exchange rates, established among governments in international accord, was designed to remove the external price of money from market forces, in order to promote international trade and quarantine domestic interest rates from external market forces.

The designers of Bretton Woods saw the two prices of money linked. If one were set free on the market, inevitably the other would be as well. This would not be a terrible fate, if one believed the market was more astute at setting the internal and external prices of money. But that is not what Keynes believed; nor was it the consensus of those who accepted fixed exchange rates at Bretton Woods.

All this collapsed between 1971 and 1973, when the fixed exchange-rate regime fell under its own weight. It was caused by the absence of imagination on the part of the industrial economies which, for more than a decade, had put off treating the fractures in the Bretton Woods fixed exchange-rate system. When a market-determined exchange-rate system replaced the fixed exchange-rate regime, external prices of money began to gyrate more widely with each cycle of exchange-rate fluctuations. By the end of the 1970s, domestic interest rates were pulled into this maelstrom and were used to stabilize exchange rates. One policy instrument—the domestic interest rate—cannot simultaneously stabilize foreign-exchange rates and achieve domestic macro policy objectives.

Just as Keynes had predicted, once the external price of money was left to float freely on the market, governments began to lose control over their domestic interest rates. In the 1980s and 1990s, the two prices of money have become linked more closely by tech-

nology and institutional changes in money markets. Policy managers have absorbed the lessons of the 1970s. They now try to calibrate domestic interest rates to foreign-exchange rate movements.

A NEW POLICY

The answer to this conundrum is to create a new exchange-rate regime that combines the best of the fixed and market floating systems—one in which the exchange-rate bands are wide enough to accommodate the market, but not so wide as to destabilize domestic interest rates. To make this work, however, a new policy instrument must be created—the coordination of interest-rate policies among the G-3, the United States, the European Union, and Japan. This will enable countries to pursue their own domestic interest-rate objectives, but not at the expense of the potential destabilization from other nations' interest-rate policies that is induced by the foreign-exchange rate-transmission mechanism at this time.

The important factors in the movement of short-term financial capital are the relative interest rates in any two countries. Their level is inconsequential. It should be possible, therefore, to engage in policy coordination over relative interest rates while slowly moving downward the absolute level of interest rates. Today, no one government can lower interest rates too much without threatening a run on their currency and capital flight. But coordination, which can be shown to be in the interest of each of the G-3 members, could restore government's policy capabilities.

The difficulties of such a new policy thrust shouldn't be minimized; nor should the obstacles be seen as insurmountable. The coordination need only occur among three countries—the United States, Japan, and the European Union (with Germany and France being the two major players in the Union). This is not a large group; nor is it one which does not already have formal and informal venues in which consultation goes on continuously. The key actors know each other very well and share a common financial culture and set of interests.

Nations have not pursued this collaborative interest-rate policy, because they have jealously guarded what they continue to believe is their exclusive franchise over the value of their money. But this has been only partially valid for nearly two decades. The more quickly countries abandon this fiction, the sooner will they be able to ask the appropriate questions about financial policy in the last decade of the 20th century.

AT THE CROSSROADS

The problems posed by this new supranational economic order extend beyond the boundaries of economic stability. Political stability is also threatened by a global regime in which the nation-state has been weakened in its influence over economic performance. This is true for the old as well as the new parliamentary democracies. The new parliamentary democracies in the post-Cold War era are in conflict with a supranational economic order that leaves scant room for economic improvement and imposes a unified ideology of free markets on an historical setting to which it is ill-suited. For the established market economies, a government that cannot control the internal value of its money—the interest rate—when its currency is under stress, or direct its economic destiny, has limited call on the public for support. In both instances, abstract forces emanating from the global economy appear to exercise more influence over personal economic futures than do elected governments.

The fragmentation of modern society and its accompanying resurgence of nationalism (seen most acutely in Europe) are, in no small measure, a result of the weakened economic influence of governments. Economic insecurity, rising levels of unemployment, and fear of the future all converge to destabilize political systems. They are seen to be ineffective in dealing with the erosion of economic vitality. Blaming others, hunkering down, and replaying old tapes of ethnic hatred are the result of governments having allowed the untamed forces of economic supranationalism to have their way with national economies.

Globalism begets tribalism. Governments no longer exercise dominion over their economies. The minutiae of nationalism's regression coexists with the grand scope of globalism's modernity. Tribal rituals have filled the security void left by public inaction. The threats to social stability spawned by the global economy, therefore, cut more deeply into society than the threat merely to economic stability. In the post-Cold War period, this threat has become translated into nationalism and its predilection to the balkanization of societies. By not attending to economic globalism, governments are encouraging the incubation of a nationalism that confronts them with a new security threat.

To order reprint, call 1-800-352-2210;
outside the United States, call 717-632-3335

M. KANTOR

395-3390

~~Revised~~

Arrived
confirmed



THE WHITE HOUSE
WASHINGTON

OFFICE OF THE STAFF SECRETARY

Fax Transmittal Sheet

TO: The Honorable Michael Kantor

Fax Number: 395-3390

Phone Number: 395-3204

FROM: Todd D. Stern

SUBJECT: Presidential Note: "Do you know him? Have we ever
had him in here to talk? Do you
think there's anything here? BC

DATE: July 18, 1995

NUMBER OF PAGES (including cover sheet): 7

MESSAGE:

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

The document accompanying this facsimile transmittal sheet is intended only for the use of the individual or entity to whom it is addressed. This message contains information which may be privileged, confidential or exempt from disclosure under applicable law. If the reader of this message is not the intended recipient, or the employee or agent responsible for delivering the message to the intended recipient, you are hereby notified that any disclosure, dissemination, copying or distribution, or the taking of any action in reliance on the contents of this communication is strictly prohibited.

Laura → Do you know him
Have we ever had him
in here to talk?
→ Do you think there's anything here? BC

cc Rubin, Reich, Brown, ^{Ron} M Kantor,
CETA

THE PRESIDENT HAS SEEN
7/17/95

Kantor

FAX

395 3390

|

THE PRESIDENT HAS SEEN
7/17/95

Taming Global Money

Howard M. Wachtel

The nation-state has been weakened in its influence over economic performance. An emerging supranational economic order is imposing a unified ideology of free markets on an historical setting to which it is ill-suited.

HOWARD M. WACHTEL is Professor of Economics at The American University and is the author of *The Money Mandarins: The Making of a New Supranational Economic Order*, M.E. Sharpe, 1990.

Of all the changes in the global economy over the past generation, none have occurred with such alacrity as those in global money and finance. And in no other policy sphere have governments lagged further behind in introducing effective supervision and regulation.

Walter Wriston, who (as Chairman of Citicorp) was in on the creation of this new world financial order, has written that this was a "new system . . . not built by politicians or economists . . . which in turn has allowed [the] creation of a new international monetary system. This state of affairs does not sit too well with many sovereign governments because they correctly perceive [it] as an attack on the very nature of sovereign power."

As political sovereignty is challenged by privatized global finance, economic performance in the industrial economies suffers. The results are: higher unemployment, as wealth forsakes capital formation for financial speculation; lower trade volumes to cover the higher costs of foreign-exchange risk; and higher real rates of interest, as countries position their

interest rates competitively to stabilize foreign-exchange values.

The Federal Reserve Board of New York estimates that, after allowing for resales, some \$650 billion in foreign-exchange transactions are completed each day in New York, Tokyo, and London. Only about 18 percent support either international trade or investment—the ostensible reasons for foreign-exchange markets. The other 82 percent is speculation, the sole purpose of which is to buy enormous volumes low and sell higher in order to make a small unit profit, but a large overall profit. These profits appear as ephemeral jottings on a computer screen.

A globalized money system that recognizes no geographic boundaries threatens the most fundamental economic *raison d'être* of the nation-state—the ability to control its money supply and influence the value of its money. Using the marvel of modern computer power and telecommunications technology that recognizes no national boundaries, this foreign-exchange system comprises the essence of a *supranational economy*—one that is governed by the

fundamental tension between the unbounded economic geography of a private global money system and the bounded political geography of nation states. While recognizing that this technological and institutional genie cannot be put back into the bottle, it is essential, nevertheless, that boundaries be placed on the effect of its operations. There are two compelling reasons for boundaries: (1) a potential for vast financial instability; and (2) the undermining of the 20th century's governing project of social democracy.

THE SCOPE OF THE PROBLEM

Several criteria for the policies that will be proposed for dealing with this problem ought to prevail:

- They should be kept simple;
- existing national policies should be extended where feasible;
- existing venues and organizations for international collaboration should be used and no new ones created;
- no new international treaty arrangements should be promulgated.

With these criteria in mind, I suggest we extend all existing national monetary controls, regulations, and supervision to this global money system. It escapes all such government policies now. Much of this unregulated money flows through the Eurodollar system and comes under no national regulatory authority. The system takes its name from, and is defined by, the phenomenon of currencies used outside the borders of any country. It is, therefore, outside the jurisdiction of its nation of origin.

The birth of this system goes back to the late 1940s, when the Soviet Union placed its dollar holdings in a French bank to avoid the possibility of having these accounts frozen, should the United States employ this strategy to wage the Cold War. The funds grew slowly, and their potential was not realized until the United States imposed capital export controls in the 1960s. Banks and their multinational corporate customers then found ways around the exchange controls by using the Eurodollar system. The system reached maturity in the 1970s by being the principal receptacle of some \$350 billion in surpluses earned by OPEC countries.

About 85 percent of this surplus is made up of dollars, with German marks and Japanese yen being the two other principal currencies. Technically, these currencies should be regulated in the jurisdiction in which

they are used—a practice ignored for fear that the operations would be moved to an unregulated venue, if a government began to regulate their activities. We do not even have a good accounting of the dollars in the Eurodollar markets. A rough estimate is that it is nearly \$2 trillion. But no agency of the United States government regulates or monitors its movements.

CENTRAL BANKING REFORM

Effectively, the Federal Reserve Board has abdicated its central function of control over the portion of the money supply that is influenced by the Eurodollar system. The principal control instrument is the power to set reserve requirements. These are set-asides against deposits that banks are required to sequester. For the dollars that circulate inside the United States, banks are required to set aside such reserves. This is what limits the expansion of the money supply, affords the Federal Reserve control over this crucial monetary function, and allows it to influence interest rates. But no such reserve controls exist for Eurodollars. The growth of this component of the money supply lies solely in private bank hands. Here, banks can theoretically lend out all of their deposits, even, though they tend to hold small reserves—however, less than is required on domestic accounts. The ability to hold less idle reserves is what makes the Eurodollar system so attractive to banks. They can make all their deposits work for them, thereby receiving larger profits.

A globalized money system that recognizes no geographic boundaries threatens the most fundamental economic raison d'être of the nation state—the ability to control its money supply and influence the value of its money.

Because of these profits, they can charge lower interest rates than on domestic borrowing. The policy of extending reserve requirements to Eurodollars, therefore, would place them on an equal footing with domestic dollars. It would eliminate what is now an incentive for banks to hold and invest dollars outside the United States where they can earn higher profits, charge lower rates of interest, and escape regulatory and tax obligations.

The banks' arguments against such a policy change is that the United States does not have sufficient worldwide influence to effectively implement it and that German marks or Japanese yen would replace dollars in the Eurocurrency markets. In regard to the first point, when one government consistently controls 85 percent or more of the market, it has a "monopoly" position that allows it to dictate terms to the market. As to the second point, Germany and Japan have neither the desire nor the capacity to become the world's reserve currency. The real reason banks oppose this policy change is the loss of a major profit center. But this should not be the basis of a public banking policy, the purpose of which is to promote sound banking and economic stability.

? Reserve requirements on Eurodollars (combined with other policies) could encourage investment inside the United States and reduce the incentive now offered to investors outside the United States. The Eurodollar system presents the classic supranational dilemma for public policy. If banks are offered an unregulated and lower-taxed arena outside their nation of origin, and give up no domestic supports at the same time, they will opt to do business there rather than in the regulated and higher-taxed domestic economy. Without precluding banks from operating in the Eurodollar system, it is the job of our government to equalize the domestic and international structures in which banks do business. Otherwise, the outcome is predictable. Banks will protect their Eurodollar environment by investing outside the tax and regulatory scope of the U.S. government. The increasingly aggressive flight of capital from the United States in the past two decades is, in no small measure, induced by the skewed incentives provided by this abdication of public-policy responsibility.

WORLD TRADE

We shall see lower volumes of investment inside the United States and more investment outside as one outcome of the privatized and unregulated global financial system. A second outcome represents the higher costs placed on international trade and the resulting lower volume of world trade than would be the case, if public-policy boundaries were placed around foreign-exchange speculation. With speculation in foreign exchange comes risk for anyone dealing in future transactions that require conversion of currencies. This is as true for the lone tourist as it is for a large international-trade enterprise. The higher the volatility,

the greater the risk and the higher the cost of covering the risk. The volatility in exchange-rate fluctuations in the 1980s and 1990s has been far greater than anyone anticipated after the end of the Bretton Woods fixed-rate regime between 1971 and 1973 and the introduction of market-determined exchange rates. And with this volatility comes risk, higher costs of internationally traded goods, and a lower volume of world trade.

Risk is a cost that is added to the price of internationally exchanged products. The cost occurs when firms have to enter the futures markets to hedge their projected foreign-exchange transactions. While this adds to the employment and income generated in the peripheral financial sectors of the economy, the goods-production economy suffers as these higher costs are passed on in higher prices. And higher prices mean fewer goods and services sold and produced and lowered employment in those sectors. There is, consequently, a distributional shift in employment that arises from foreign-exchange speculation. Employment in the financial sectors of foreign exchange and futures markets that engage in speculation increase, but employment in the goods-producing segments of the economy suffers.

The increasingly aggressive flight of capital from the United States in the past two decades is, in no small measure, induced by the skewed incentives provided by the abdication of public-policy responsibility.

The most fervent advocates of free trade also resist most aggressively any efforts to place public-policy boundaries around the present foreign-exchange markets. But they fail to realize that these arrangements increase the cost of internationally traded goods and thereby lower the volume of international trade. Public policy that addresses foreign-exchange volatility and speculation is also trade policy in the best tradition of an open trading system—one that is shorn of the ideologically driven mantra of "free trade."

CURRENCY SPECULATION

Foreign-exchange speculation feeds off interest-rate differentials among the industrial countries. Even small differences in interest rates, after adjusting for

inflation and the risk associated with future exchange-rate changes, can trigger large movements of foreign exchange. Such a development can then take on a life of its own, magnify whatever differentials started the process, and end up destabilizing the structure of interest rates in the currencies that are in play. For example, when interest rates were lower in Great Britain than they were in Germany in 1993 (after taking account of risk and expected inflation) capital moved from Great Britain to Germany. This differential had arisen because of domestic policy decisions taken in each country. Capital moved from England to Germany, as speculators took advantage of the higher returns on the German mark.

Under ordinary circumstances, relatively small movements of currencies out of sterling and into marks would be of no consequence. But if the movement becomes a stampede, then both the mark and sterling will face destabilization. A large rush out of sterling will lower the pound's exchange rate vis-à-vis the mark. If it cannot be contained by intervention, pressure will be placed on British interest rates. First, the market will signal a drift upward in British interest rates to attract and retain capital. Eventually, it will have to be ratified by the central bank, thereby forcing a change in policy inside the British domestic econo-

One policy instrument—the domestic interest rate—cannot simultaneously stabilize foreign-exchange rates and achieve domestic macro policy objectives.

my. This scenario is not fiction. It happened to Great Britain in the summer of 1993.

The Bretton Woods arrangements were constructed, in part, to allow nations to follow their own domestic economic policies without having them distorted by foreign-exchange speculation. John Maynard Keynes, whose influence transcended all others at Bretton Woods, sought to take the price of money out of the play of the market. He did not believe the government should set prices. His one exception was the price of money, which has an internal and an external price. Its internal price is the interest rate, and its external price is the foreign-exchange rate—one nation's price of money in terms of another's.

Keynes's *The General Theory*, published in the mid-1930s, focused on the internal domestic economy. It ignored, for the most part, external economic rela-

tions in the international economy. Central to this work is the interest rate (the internal price of money)—its function, and how it should be determined. Keynes presented a persuasive case that the interest rate should be established by the central bank in order to achieve the objectives of high levels of employment. He insisted that the interest rate be taken out of the play of market forces and that it be one of the instruments of policy retained by the government. In *The General Theory*, this one price (and just this one price!) is set by government.

Keynes extended this reasoning at Bretton Woods. If the external price of money (the foreign-exchange rate) remained within the play of market forces, the domestic interest rate would be affected. It would be dragged into the market, be subjected to its influences, and would undermine the centerpiece of *The General Theory*. The creation of fixed exchange rates, established among governments in international accord, was designed to remove the external price of money from market forces, in order to promote international trade and quarantine domestic interest rates from external market forces.

The designers of Bretton Woods saw the two prices of money linked. If one were set free on the market, inevitably the other would be as well. This would not be a terrible fate, if one believed the market was more astute at setting the internal and external prices of money. But that is not what Keynes believed; nor was it the consensus of those who accepted fixed exchange rates at Bretton Woods.

All this collapsed between 1971 and 1973, when the fixed exchange-rate regime fell under its own weight. It was caused by the absence of imagination on the part of the industrial economies which, for more than a decade, had put off creating the fractures in the Bretton Woods fixed exchange-rate system. When a market-determined exchange-rate system replaced the fixed exchange-rate regime, external prices of money began to gyrate more widely with each cycle of exchange-rate fluctuations. By the end of the 1970s, domestic interest rates were pulled into this maelstrom and were used to stabilize exchange rates. One policy instrument—the domestic interest rate—cannot simultaneously stabilize foreign-exchange rates and achieve domestic macro policy objectives.

Just as Keynes had predicted, once the external price of money was left to float freely on the market, governments began to lose control over their domestic interest rates. In the 1980s and 1990s, the two prices of money have become linked more closely by tech-

nology and institutional changes in money markets. Policy managers have absorbed the lessons of the 1970s. They now try to calibrate domestic interest rates to foreign-exchange rate movements.

A NEW POLICY

The answer to this conundrum is to create a new exchange-rate regime that combines the best of the fixed and market floating systems—one in which the exchange-rate bands are wide enough to accommodate the market, but not so wide as to destabilize domestic interest rates. To make this work, however, a new policy instrument must be created—the coordination of interest-rate policies among the G-3, the United States, the European Union, and Japan. This will enable countries to pursue their own domestic interest-rate objectives, but not at the expense of the potential destabilization from other nations' interest-rate policies that is induced by the foreign-exchange rate-transmission mechanism at this time.

The important factors in the movement of short-term financial capital are the relative interest rates in any two countries. Their level is inconsequential. It should be possible, therefore, to engage in policy coordination over relative interest rates while slowly moving downward the absolute level of interest rates. Today, no one government can lower interest rates too much without threatening a run on their currency and capital flight. But coordination, which can be shown to be in the interest of each of the G-3 members, could restore government's policy capabilities.

The difficulties of such a new policy thrust shouldn't be minimized; nor should the obstacles be seen as insurmountable. The coordination need only occur among three countries—the United States, Japan, and the European Union (with Germany and France being the two major players in the Union). This is not a large group; nor is it one which does not already have formal and informal venues in which consultation goes on continuously. The key actors know each other very well and share a common financial culture and set of interests.

Nations have not pursued this collaborative interest-rate policy, because they have jealously guarded what they continue to believe is their exclusive franchise over the value of their money. But this has been only partially valid for nearly two decades. The more quickly countries abandon this fiction, the sooner will they be able to ask the appropriate questions about financial policy in the last decade of the 20th century.

AT THE CROSSROADS

The problems posed by this new supranational economic order extend beyond the boundaries of economic stability. Political stability is also threatened by a global regime in which the nation-state has been weakened in its influence over economic performance. This is true for the old as well as the new parliamentary democracies. The new parliamentary democracies in the post-Cold War era are in conflict with a supranational economic order that leaves scant room for economic improvement and imposes a unified ideology of free markets on an historical setting to which it is ill-suited. For the established market economies, a government that cannot control the internal value of its money—the interest rate—when its currency is under stress, or direct its economic destiny, has limited call on the public for support. In both instances, abstract forces emanating from the global economy appear to exercise more influence over personal economic futures than do elected governments.

The fragmentation of modern society and its accompanying resurgence of nationalism (seen most acutely in Europe) are, in no small measure, a result of the weakened economic influence of governments. Economic insecurity, rising levels of unemployment, and fear of the future all converge to destabilize political systems. They are seen to be ineffective in dealing with the erosion of economic vitality. Blaming others, hunkering down, and replaying old tapes of ethnic hatred are the result of governments having allowed the untamed forces of economic supranationalism to have their way with national economies.

Globalism begets tribalism. Governments no longer exercise dominion over their economies. The minution of nationalism's regression coexists with the grand scope of globalism's modernity. Tribal rituals have filled the security void left by public inaction. The threats to social stability spawned by the global economy, therefore, cut more deeply into society than the threat merely to economic stability. In the post-Cold War period, this threat has become translated into nationalism and its predilection to the balkanization of societies. By not attending to economic globalism, governments are encouraging the incubation of a nationalism that confronts them with a new security threat.

To order reprint, call 1-800-352-2210;
outside the United States, call 717-632-3535

Secretary
Rubin

622-0073

arrival
✓ confirmed

—

THE WHITE HOUSE
WASHINGTON

OFFICE OF THE STAFF SECRETARY

Fax Transmittal Sheet

TO: The Honorable Robert Rubin

Fax Number: 622-0073

Phone Number: 202-456-1414

FROM: Todd D. Stern

SUBJECT: Presidential Note: "Do you know him? Have we ever
had him in here to talk? Do you
think there's anything here? BC"

DATE: July 18, 1995

NUMBER OF PAGES (including cover sheet): 7

MESSAGE:

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

The document accompanying this facsimile transmittal sheet is intended only for the use of the individual or entity to whom it is addressed. This message contains information which may be privileged, confidential or exempt from disclosure under applicable law. If the reader of this message is not the intended recipient, or the employee or agent responsible for delivering the message to the intended recipient, you are hereby notified that any disclosure, dissemination, copying or distribution, or the taking of any action in reliance on the contents of this communication is strictly prohibited.

Laura → Do you know him
Have we ever had him
in here to talk?
→ Do you think this is anything new? BC

cc Rubin, ^{Ron} Reich, Brown, M Kantor,
CETA

THE PRESIDENT HAS SEEN
7/17/95

622
0073

Rubin
| FAX

THE PRESIDENT HAS SEEN
7/17/95

Taming Global Money

Howard M. Wachtel

The nation-state has been weakened in its influence over economic performance. An emerging supranational economic order is imposing a unified ideology of free markets on an historical setting to which it is ill-suited.

HOWARD M. WACHTEL is Professor of Economics at The American University and is the author of *The Money Mandarins: The Making of a New Supranational Economic Order*, M.E. Sharpe, 1990.

Of all the changes in the global economy over the past generation, none have occurred with such alacrity as those in global money and finance. And in no other policy sphere have governments lagged further behind in introducing effective supervision and regulation.

Walter Wriston, who (as Chairman of Citicorp) was in on the creation of this new world financial order, has written that this was a "new system . . . not built by politicians or economists . . . which in turn has allowed [the] creation of a new international monetary system. This state of affairs does not sit too well with many sovereign governments because they correctly perceive [it] as an attack on the very nature of sovereign power."

As political sovereignty is challenged by privatized global finance, economic performance in the industrial economies suffers. The results are: higher unemployment, as wealth forsakes capital formation for financial speculation; lower trade volumes to cover the higher costs of foreign-exchange risk; and higher real rates of interest, as countries position their

interest rates competitively to stabilize foreign-exchange values.

The Federal Reserve Board of New York estimates that, after allowing for resales, some \$650 billion in foreign-exchange transactions are completed each day in New York, Tokyo, and London. Only about 18 percent support either international trade or investment—the ostensible reasons for foreign-exchange markets. The other 82 percent is speculation, the sole purpose of which is to buy enormous volumes low and sell higher in order to make a small unit profit, but a large overall profit. These profits appear as ephemeral jottings on a computer screen.

A globalized money system that recognizes no geographic boundaries threatens the most fundamental economic *raison d'être* of the nation-state—the ability to control its money supply and influence the value of its money. Using the marvel of modern computer power and telecommunications technology that recognizes no national boundaries, this foreign-exchange system comprises the essence of a supranational economy—one that is governed by the

fundamental tension between the unbounded economic geography of a private global money system and the bounded political geography of nation states. While recognizing that this technological and institutional genie cannot be put back into the bottle, it is essential, nevertheless, that boundaries be placed on the effect of its operations. There are two compelling reasons for boundaries: (1) a potential for vast financial instability; and (2) the undermining of the 20th century's governing project of social democracy.

THE SCOPE OF THE PROBLEM

Several criteria for the policies that will be proposed for dealing with this problem ought to prevail:

- They should be kept simple;
- existing national policies should be extended where feasible;
- existing venues and organizations for international collaboration should be used and no new ones created;
- no new international treaty arrangements should be promulgated.

With these criteria in mind, I suggest we extend all existing national monetary controls, regulations, and supervision to this global money system. It escapes all such government policies now. Much of this unregulated money flows through the Eurodollar system and comes under no national regulatory authority. The system takes its name from, and is defined by, the phenomenon of currencies used outside the borders of any country. It is, therefore, outside the jurisdiction of its nation of origin.

The birth of this system goes back to the late 1940s, when the Soviet Union placed its dollar holdings in a French bank to avoid the possibility of having these accounts frozen, should the United States employ this strategy to wage the Cold War. The funds grew slowly, and their potential was not realized until the United States imposed capital export controls in the 1960s. Banks and their multinational corporate customers then found ways around the exchange controls by using the Eurodollar system. The system reached maturity in the 1970s by being the principal receptacle of some \$350 billion in surpluses earned by OPEC countries.

About 85 percent of this surplus is made up of dollars, with German marks and Japanese yen being the two other principal currencies. Technically, these currencies should be regulated in the jurisdiction in which

they are used—a practice ignored for fear that the operations would be moved to an unregulated venue, if a government began to regulate their activities. We do not even have a good accounting of the dollars in the Eurodollar markets. A rough estimate is that it is nearly \$2 trillion. But no agency of the United States government regulates or monitors its movements.

CENTRAL BANKING REFORM

Effectively, the Federal Reserve Board has abdicated its central function of control over the portion of the money supply that is influenced by the Eurodollar system. The principal control instrument is the power to set reserve requirements. These are set-asides against deposits that banks are required to sequester. For the dollars that circulate inside the United States, banks are required to set aside such reserves. This is what limits the expansion of the money supply, affords the Federal Reserve control over this crucial monetary function, and allows it to influence interest rates. But no such reserve controls exist for Eurodollars. The growth of this component of the money supply lies solely in private bank hands. Here, banks can theoretically lend out all of their deposits, even, though they tend to hold small reserves—however, less than is required on domestic accounts. The ability to hold less idle reserves is what makes the Eurodollar system so attractive to banks. They can make all their deposits work for them, thereby receiving larger profits.

A globalized money system that recognizes no geographic boundaries threatens the most fundamental economic raison d'être of the nation state—the ability to control its money supply and influence the value of its money.

Because of these profits, they can charge lower interest rates than on domestic borrowing. The policy of extending reserve requirements to Eurodollars, therefore, would place them on an equal footing with domestic dollars. It would eliminate what is now an incentive for banks to hold and invest dollars outside the United States where they can earn higher profits, charge lower rates of interest, and escape regulatory and tax obligations.

The banks' arguments against such a policy change is that the United States does not have sufficient worldwide influence to effectively implement it and that German marks or Japanese yen would replace dollars in the Eurocurrency markets. In regard to the first point, when one government consistently controls 85 percent or more of the market, it has a "monopoly" position that allows it to dictate terms to the market. As to the second point, Germany and Japan have neither the desire nor the capacity to become the world's reserve currency. The real reason banks oppose this policy change is the loss of a major profit center. But this should not be the basis of a public banking policy, the purpose of which is to promote sound banking and economic stability.

? Reserve requirements on Eurodollars (combined with other policies) could encourage investment inside the United States and reduce the incentive now offered to investors outside the United States. The Eurodollar system presents the classic supranational dilemma for public policy. If banks are offered an unregulated and lower-taxed arena outside their nation of origin, and give up no domestic supports at the same time, they will opt to do business there rather than in the regulated and higher-taxed domestic economy. Without precluding banks from operating in the Eurodollar system, it is the job of our government to equalize the domestic and international structures in which banks do business. Otherwise, the outcome is predictable. Banks will protect their Eurodollar environment by investing outside the tax and regulatory scope of the U.S. government. The increasingly aggressive flight of capital from the United States in the past two decades is, in no small measure, induced by the skewed incentives provided by this abdication of public-policy responsibility.

WORLD TRADE

We shall see lower volumes of investment inside the United States and more investment outside as one outcome of the privatized and unregulated global financial system. A second outcome represents the higher costs placed on international trade and the resulting lower volume of world trade than would be the case, if public-policy boundaries were placed around foreign-exchange speculation. With speculation in foreign exchange comes risk for anyone dealing in future transactions that require conversion of currencies. This is as true for the lone tourist as it is for a large international-trade enterprise. The higher the volatility,

the greater the risk and the higher the cost of covering the risk. The volatility in exchange-rate fluctuations in the 1980s and 1990s has been far greater than anyone anticipated after the end of the Bretton Woods fixed-rate regime between 1971 and 1973 and the introduction of market-determined exchange rates. And with this volatility comes risk, higher costs of internationally traded goods, and a lower volume of world trade.

Risk is a cost that is added to the price of internationally exchanged products. The cost occurs when firms have to enter the futures markets to hedge their projected foreign-exchange transactions. While this adds to the employment and income generated in the peripheral financial sectors of the economy, the goods-production economy suffers as these higher costs are passed on in higher prices. And higher prices mean fewer goods and services sold and produced and lowered employment in those sectors. There is, consequently, a distributional shift in employment that arises from foreign-exchange speculation. Employment in the financial sectors of foreign exchange and futures markets that engage in speculation increase, but employment in the goods-producing segments of the economy suffers.

The increasingly aggressive flight of capital from the United States in the past two decades is, in no small measure, induced by the skewed incentives provided by the abdication of public-policy responsibility.

The most fervent advocates of free trade also resist most aggressively any efforts to place public-policy boundaries around the present foreign-exchange markets. But they fail to realize that these arrangements increase the cost of internationally traded goods and thereby lower the volume of international trade. Public policy that addresses foreign-exchange volatility and speculation is also trade policy in the best tradition of an open trading system—one that is shorn of the ideologically driven mantra of "free trade."

CURRENCY SPECULATION

Foreign-exchange speculation feeds off interest-rate differentials among the industrial countries. Even small differences in interest rates, after adjusting for

inflation and the risk associated with future exchange-rate changes, can trigger large movements of foreign exchange. Such a development can then take on a life of its own, magnify whatever differentials started the process, and end up destabilizing the structure of interest rates in the currencies that are in play. For example, when interest rates were lower in Great Britain than they were in Germany in 1993 (after taking account of risk and expected inflation) capital moved from Great Britain to Germany. This differential had arisen because of domestic policy decisions taken in each country. Capital moved from England to Germany, as speculators took advantage of the higher returns on the German mark.

Under ordinary circumstances, relatively small movements of currencies out of sterling and into marks would be of no consequence. But if the movement becomes a stampede, then both the mark and sterling will face destabilization. A large rush out of sterling will lower the pound's exchange rate vis-à-vis the mark. If it cannot be contained by intervention, pressure will be placed on British interest rates. First, the market will signal a drift upward in British interest rates to attract and retain capital. Eventually, it will have to be ratified by the central bank, thereby forcing a change in policy inside the British domestic econo-

One policy instrument—the domestic interest rate—cannot simultaneously stabilize foreign-exchange rates and achieve domestic macro policy objectives.

my. This scenario is not fiction. It happened to Great Britain in the summer of 1993.

The Bretton Woods arrangements were constructed, in part, to allow nations to follow their own domestic economic policies without having them distorted by foreign-exchange speculation. John Maynard Keynes, whose influence transcended all others at Bretton Woods, sought to take the price of money out of the play of the market. He did not believe the government should set prices. His one exception was the price of money, which has an internal and an external price. Its internal price is the interest rate, and its external price is the foreign-exchange rate—one nation's price of money in terms of another's.

Keynes's *The General Theory*, published in the mid-1930s, focused on the internal domestic economy. It ignored, for the most part, external economic rela-

tions in the international economy. Central to this work is the interest rate (the internal price of money)—its function, and how it should be determined. Keynes presented a persuasive case that the interest rate should be established by the central bank in order to achieve the objectives of high levels of employment. He insisted that the interest rate be taken out of the play of market forces and that it be one of the instruments of policy retained by the government. In *The General Theory*, this one price (and just this one price!) is set by government.

Keynes extended this reasoning at Bretton Woods. If the external price of money (the foreign-exchange rate) remained within the play of market forces, the domestic interest rate would be affected. It would be dragged into the market, be subjected to its influences, and would undermine the centerpiece of *The General Theory*. The creation of fixed exchange rates, established among governments in international accord, was designed to remove the external price of money from market forces, in order to promote international trade and quarantine domestic interest rates from external market forces.

The designers of Bretton Woods saw the two prices of money linked. If one were set free on the market, inevitably the other would be as well. This would not be a terrible fate, if one believed the market was more astute at setting the internal and external prices of money. But that is not what Keynes believed; nor was it the consensus of those who accepted fixed exchange rates at Bretton Woods.

All this collapsed between 1971 and 1973, when the fixed exchange-rate regime fell under its own weight. It was caused by the absence of imagination on the part of the industrial economies which, for more than a decade, had put off treating the fractures in the Bretton Woods fixed exchange-rate system. When a market-determined exchange-rate system replaced the fixed exchange-rate regime, external prices of money began to gyrate more widely with each cycle of exchange-rate fluctuations. By the end of the 1970s, domestic interest rates were pulled into this maelstrom and were used to stabilize exchange rates. One policy instrument—the domestic interest rate—cannot simultaneously stabilize foreign-exchange rates and achieve domestic macro policy objectives.

Just as Keynes had predicted, once the external price of money was left to float freely on the market, governments began to lose control over their domestic interest rates. In the 1980s and 1990s, the two prices of money have become linked more closely by tech-

nology and institutional changes in money markets. Policy managers have absorbed the lessons of the 1970s. They now try to calibrate domestic interest rates to foreign-exchange rate movements.

A NEW POLICY

The answer to this conundrum is to create a new exchange-rate regime that combines the best of the fixed and market floating systems—one in which the exchange-rate bands are wide enough to accommodate the market, but not so wide as to destabilize domestic interest rates. To make this work, however, a new policy instrument must be created—the coordination of interest-rate policies among the G-3, the United States, the European Union, and Japan. This will enable countries to pursue their own domestic interest-rate objectives, but not at the expense of the potential destabilization from other nations' interest-rate policies that is induced by the foreign-exchange rate-transmission mechanism at this time.

The important factors in the movement of short-term financial capital are the relative interest rates in any two countries. Their level is inconsequential. It should be possible, therefore, to engage in policy coordination over relative interest rates while slowly moving downward the absolute level of interest rates. Today, no one government can lower interest rates too much without threatening a run on their currency and capital flight. But coordination, which can be shown to be in the interest of each of the G-3 members, could restore government's policy capabilities.

The difficulties of such a new policy thrust shouldn't be minimized; nor should the obstacles be seen as insurmountable. The coordination need only occur among three countries—the United States, Japan, and the European Union (with Germany and France being the two major players in the Union). This is not a large group; nor is it one which does not already have formal and informal venues in which consultation goes on continuously. The key actors know each other very well and share a common financial culture and set of interests.

Nations have not pursued this collaborative interest-rate policy, because they have jealously guarded what they continue to believe is their exclusive franchise over the value of their money. But this has been only partially valid for nearly two decades. The more quickly countries abandon this fiction, the sooner will they be able to ask the appropriate questions about financial policy in the last decade of the 20th century.

AT THE CROSSROADS

The problems posed by this new supranational economic order extend beyond the boundaries of economic stability. Political stability is also threatened by a global regime in which the nation-state has been weakened in its influence over economic performance. This is true for the old as well as the new parliamentary democracies. The new parliamentary democracies in the post-Cold War era are in conflict with a supranational economic order that leaves scant room for economic improvement and imposes a unified ideology of free markets on an historical setting to which it is ill-suited. For the established market economies, a government that cannot control the internal value of its money—the interest rate—when its currency is under stress, or direct its economic destiny, has limited call on the public for support. In both instances, abstract forces emanating from the global economy appear to exercise more influence over personal economic futures than do elected governments.

The fragmentation of modern society and its accompanying resurgence of nationalism (seen most acutely in Europe) are, in no small measure, a result of the weakened economic influence of governments. Economic insecurity, rising levels of unemployment, and fear of the future all converge to destabilize political systems. They are seen to be ineffective in dealing with the erosion of economic vitality. Blaming others, hunkering down, and replaying old tapes of ethnic hatred are the result of governments having allowed the untamed forces of economic supranationalism to have their way with national economies.

Globalism begets tribalism. Governments no longer exercise dominion over their economies. The minutiae of nationalism's regression coexists with the grand scope of globalism's modernity. Tribal rituals have filled the security void left by public inaction. The threats to social stability spawned by the global economy, therefore, cut more deeply into society than the threat merely to economic stability. In the post-Cold War period, this threat has become translated into nationalism and its predilection to the balkanization of societies. By not attending to economic globalism, governments are encouraging the incubation of a nationalism that confronts them with a new security threat.

To order reprint, call 1-800-352-2210;
outside the United States, call 717-632-3335

Statement of Charge

Panel on Educational Technology President's Committee of Advisors on Science and Technology

July 9, 1994

PRELIMINARY DRAFT—NOT FOR DISTRIBUTION

The Panel on Educational Technology was created under the auspices of the President's Committee of Advisors on Science and Technology (PCAST) for the purpose of making recommendations to President Clinton with respect to the use of technology to improve the effectiveness of education and training in the United States. When fully impaneled, the group will include a subset of the current PCAST membership and a small number of outside members having expertise in various areas relevant to educational technology. The Panel's findings will be presented in the form of a written report, which is expected to be completed in January 1996.

For purposes of the Panel's work (and in the remainder of this statement), the term "education" will encompass preschool, K-12, college, and university education, along with on-the-job training, "school-to-work" programs, and "lifelong learning." The term "technology" will include computer hardware and software, computer networks (including the Internet) and other telecommunication systems, and interactive multimedia systems.

The Panel's work may be divided into two categories: (a) analysis of the current state of knowledge and practice in the field of educational technology, and (b) the formulation of recommendations to the President regarding the federal government's role in promoting the use of technology to address the nation's educational and training needs. The questions that follow are among those which may be addressed by the Panel in each of these two categories.

Current knowledge and practice

1. To what extent are various technologies currently being applied within the nation's educational enterprise?
2. What evidence is currently available regarding the impact of technology on educational outcomes?
3. What is currently known about the relative effectiveness of different approaches, systems, and techniques?
4. What costs (both direct and indirect, and both capital and operating) are typically associated with the introduction and ongoing use of various educational technologies?
5. What is known about the impact of technology on educational productivity and the management of educational costs?
6. What are the principal barriers to the development, adoption, and successful application of educational technologies?
7. To what extent have federal, state and municipal initiatives related to educational technology proven successful, and to what factors may their successes and limitations be attributed?

Recommendations for the future

1. What changes, if any, could be made to existing federal programs in order to accelerate the development, deployment and evaluation of effective educational technologies?
2. In light of involvement by the states, the municipalities, and the private sector in developing, deploying and evaluating educational technologies, what sorts of new initiatives might be most appropriately undertaken by the federal government?
3. What can the federal government do to facilitate the acceptance and utilization of educational technologies already known to be efficacious and cost-effective?
4. How can the life-cycle costs of effective educational technologies be brought within reach of those institutions who would benefit from their use?

5. How can educational technologies be used to enhance educational productivity, supporting a significant improvement in instructional effectiveness within the budgetary constraints now faced by the nation's educational institutions?
6. What measures could the federal government take to support, incent or otherwise stimulate research activities targeted toward the development and enhancement of educational technologies and of techniques for their effective utilization?
7. What can the federal government do to facilitate rigorous experimental research to evaluate the efficacy of alternative approaches, systems, and techniques?
8. How can educational technologies be exploited to address the needs of special student populations, including low-achieving, economically disadvantaged, learning disabled, behavior disordered, emotionally disturbed, and physically handicapped students?

THE PRESIDENT HAS SEEN

7/16/95

Crossed

Ft - some interesting
ideas could come out
of this when we
to '96 - Keep up
w/ - show & our
good friend -
Bob

THE PRESIDENT HAS SEEN

7/17/95

T. L. Tyson

*100 foreign
workers - can
discuss
regulation
B.C.*

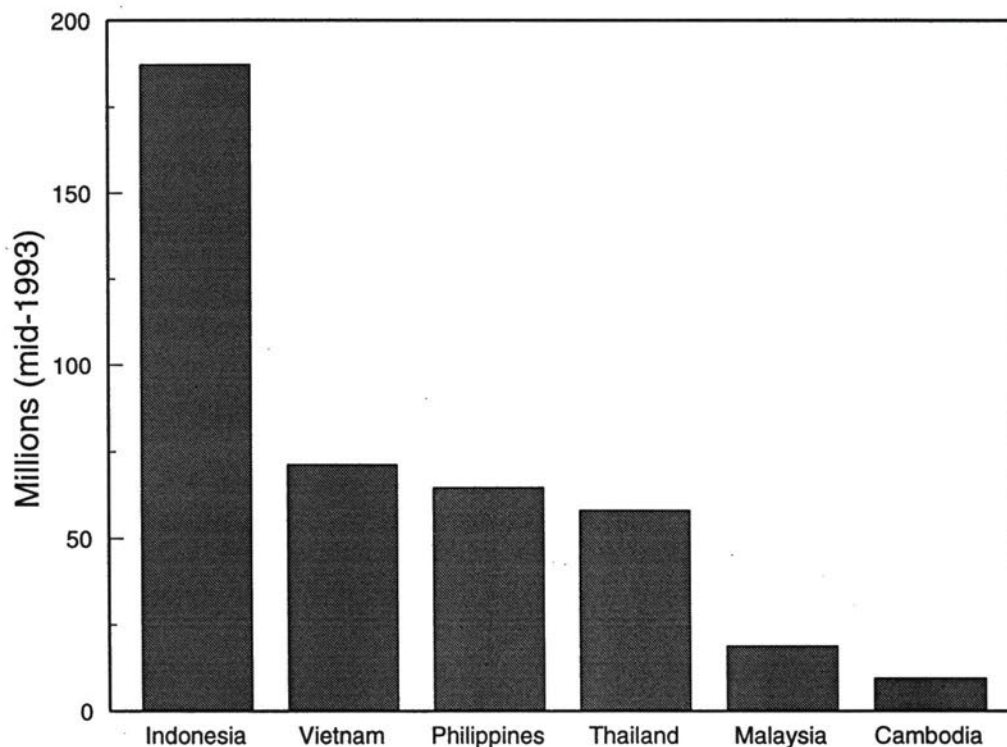
95 JUL 14 AM 50
**WEEKLY ECONOMIC BRIEFING
OF THE PRESIDENT OF THE UNITED STATES**

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

July 14, 1995

CHART OF THE WEEK

Population in Vietnam and Selected Asian Countries



At over 71 million, the population of Vietnam outranks all other Southeast Asian nations except Indonesia, making it an important potential future market for U.S. investment and exports. During the past several years, Vietnam has moved to encourage private enterprise, and it is now estimated that about 10 percent of the workforce is employed in the private sector. Although it is too soon to assess the final outcome of these policies, they have helped generate annual GDP growth above 8 percent for the past three years, a sharp contrast to the declines in GDP during this period for the economies of Central and Eastern Europe and the former Soviet Union.

BUSINESS, CONSUMER, AND REGIONAL ROUNDUP

(Flu) Bug Off! A new flu vaccine developed by MicroGeneSys, Inc., of Meriden, Conn., recently passed preliminary clinical trials with flying colors. The new vaccine proved as effective as existing ones and caused fewer side-effects. Flu vaccines currently available to the public—which are manufactured from chicken eggs—can take up to nine months to produce and cannot be adapted to season-specific flu strains. The new vaccine's reliance on genetic engineering will allow production in as little as three months and speedy updating to current strains. This improvement is important because epidemic outbreaks of the flu often cannot be halted if the strain emerges after the year's vaccine supply has been manufactured. According to the Centers for Disease Control, the flu infects 25 to 50 million Americans annually, about 20,000 of whom die from influenza itself or its complications. Current vaccines are 70-90 percent effective in young adults but less so in the elderly, who account for 85 percent of flu-related deaths. In addition to its public health benefits, a more effective vaccine would help reduce the economic cost of the flu, which a conservative estimate places at over \$1 billion yearly.

Sharp Demand for Mexican Bonds. An initial plan by the Mexican government to issue \$500 million in sovereign debt received offers from investing banks totaling \$1.8 billion, a response so strong that the debt sale was doubled to \$1 billion. The interest rate on the two-year notes is high relative to pre-crisis Mexican rates but significantly lower than rates at the peak of the crisis. Though the bonds carry no external guarantee of repayment, they will be collateralized. While the deal's size pales by comparison to the nearly \$40 billion pledged in late December by the United States and the IMF, it may be an indicator of renewed faith by financial markets in Mexico. Such a successful offering is a hopeful sign that, unlike the debt crisis of the early 1980s, Mexico's recent problems will not drag on for years. If all goes well, Mexico may see its borrowing costs fall in the future, possibly spurring much-needed economic growth.

Regulating Research. A recent change in regulations governing the hiring of foreign workers has caused a good deal of controversy among university officials. The change, which was the Labor Department's response to an administrative court's interpretation of labor law, requires universities to pay foreign workers on a wage scale comparable to the private sector's. As a result, required salaries for foreigners can significantly exceed—sometimes nearly double—those typically offered to U.S. citizens in the same job. The regulation originally was designed to prevent wage undercutting by foreigners. But educators say that just the opposite may happen—universities may be priced out of some important research if no qualified American is available, since the regulation makes foreigners too expensive.

*we must
to discuss
this issue*

(2)

Thus, in the long term, workers may bear a substantial portion of the corporate tax.

Consumers: Consumers also may bear the burden of the corporate income tax if corporations raise prices to maintain their after-tax profits in response to an increase in the tax. Vigorous competition from foreign and non-corporate producers, though, could limit price increases and block the ability of firms to pass the burden on to consumers.

Summary. Who ultimately pays the corporate income tax is unclear. Although persuasive arguments can be made that its burden rests on investors in the short term, arguments can also be made that workers (or even consumers) pay at least some of the tax in the long term.

Current Approaches to Assessing the Burden

Different views about the burden of the corporate income tax are reflected in different approaches to measuring its effect on after-tax incomes. The Treasury Department presently assigns the burden of the corporate tax entirely to investors. Other analysts, though, disagree. The Congressional Budget Office historically has assumed that 1/2 of the corporate income tax is borne by investors and the rest by workers. The Joint Committee on Taxation in the past has assigned the corporate income tax burden to investors, but in the new Congress the Committee staff has decided that there is too much uncertainty about the ultimate burden to assign it at all.

THE PRESIDENT HAS SEEN
7/16/95 5276

THE WHITE HOUSE
WASHINGTON

95 JUL 11 PM 12:42

July 10, 1995

MEMORANDUM FOR THE PRESIDENT

FROM: Laura D'Andrea Tyson *Laura D. Tyson*
Anthony Lake *Anthony Lake*

RE: Japan Civil Aviation Negotiations

*Good progress
Gardner - working
BR*

This Friday, July 14, is the last day for public comment on DOT's proposed order to impose sanctions on Japan for its failure to honor Fed Ex's application for the routes it needs for its Subic Bay hub. Expectations at Fed Ex are that Secretary Pena will impose the sanctions next week if we have not reached an agreement that gives Fed Ex its rights.

Last week's meetings in Washington with the Japanese produced some progress, but large differences remain. A delegation headed by Dan Tarullo will leave for Tokyo tomorrow morning to continue discussions.

We have told the Japanese that if they grant the seven contested Fed Ex routes without condition, we would enter into good faith negotiations on an all-cargo aviation arrangement that would remove limitations on their operations which they feel are an unfair legacy of the 1952 treaty. But they are concerned that such negotiations could continue for some time, with no tangible benefits for them. To alleviate this concern, we have offered a quick second stage after the Fed Ex rights are granted, in which they would get some additional rights and we would get a smaller amount of rights. Our concept is that this second stage would be limited in scope.

The Japanese have been insisting on removing many more limitations in the second stage than we contemplated. They are also insisting on a guarantee that if they grant the Fed Ex rights they would get their second-stage rights. Our concern, in turn, is that if we give too much in the second stage, Japan will have little incentive to continue into the broader all-cargo talks, in which we will be seeking better procedures for Fed Ex and new rights for some of our carriers. We also recognize that close linkage between stage one, during which Japan grants the Fed Ex routes, and our proposed stage two risks further requests for new rights from Japan the next time Fed Ex seeks new routes under the Agreement.

Today we held a meeting with Secretaries Christopher and Pena, and others in which we considered these problems. We concluded that the following negotiating instructions should be given to Tarullo:

- (1) The second stage should either be small enough to ensure that Japan would have incentive to negotiate stage three, or it should contain a time limit on the duration of at least some of the new rights granted. The time limit in turn would ensure that Japan would have incentive to negotiate a permanent agreement.
- (2) If a satisfactory stage two arrangement can be foreseen, Secretary Pena would be prepared to offer Minister Kamei, his counterpart in Japan, assurances that we would ratify the stage two deal more or less immediately upon the grant of the rights to Fed Ex.

This approach effectively ties the three stages together. It does risk projecting the appearance that we are paying for the Fed Ex routes. Fred Smith may be concerned that later applications filed by Fed Ex may also be subjected to bargaining with the Japanese before they are granted.

However, by structuring the arrangement so that both sides have incentive for a third stage of negotiations on a broader agreement, we are laying the groundwork for amelioration of the larger Fed Ex problems. Moreover, we cannot lose sight of the fact that getting seven new routes for Fed Ex in one package is both important to Fed Ex as a commercial matter and very unusual in Japan as a practical matter.

THE WHITE HOUSE
WASHINGTON

7/17/95

To VP

Liz Robey, Felix's wife,
wants to plug the involvement
of public libraries in the
Supremacy - can you give her
a call or have someone contact
her? —

Be

7/17/95

RM:

Original handcarried to VP's Ofc by
Carol Cleveland.

Carol Cleveland

THE PRESIDENT HAS SEEN
7/17/95

THE WHITE HOUSE

WASHINGTON

June 26, 1995

95 JUN 28 11:07

original to
Joelyn Tolley

MEMORANDUM FOR THE PRESIDENT

FROM: SUSAN BROPHY *SB*
OFFICE OF LEGISLATIVE AFFAIRS

SUBJECT: CONGRESSIONAL CORRESPONDENCE

Attached are letters from Senators and Members that I thought you would like to see:

- 1) Butler Derrick (D-SC), former member of Congress;
- 2) Steny Hoyer (D-MD);
- 3) Pete Geren (D-TX);
- 4) Patricia Schroeder (D-CO);
- 5) Byron Dorgan (D-ND);
- 6) Jim Kolbe (R-AZ) and Jon Kyl (R-AZ);
- 7) Tom Daschle (D-SD) and Harry Reid (D-NV); and
- 8) Kay Bailey Hutchison (R-TX).

→ April letters
were all gotten
new at end of June



THE WHITE HOUSE

WASHINGTON

7-17-95

Dear Senator

For some reason I have only just been shown your nice letter about the country music event and your letter concerning the erroneous News report on your alleged letter card.

I must say, after the last 2 1/2 years, being called the 'ham' in the White House, is one of the milder epithets I've heard!

Sincerely

Bill Clinton



UNITED STATES SENATE

WASHINGTON, D. C. 20510

KAY BAILEY HUTCHISON
TEXAS

95 MAY 30 P12:09

Dear President Clinton -

I enjoyed the country
music event last week and
appreciate your invitation.

I'm enclosing an erroneous
article attributed to me - but
later retracted by the paper.
In case anyone mentioned the
first item - but didn't mention
the correction, I wanted you to be all
of them. I may disagree with you -
but I would not send an offensive
card, such as the one described. *Kay Hutchison*

The Dallas Morning News

April 30, 1995

Tacky

Even some Dallas Republicans were taken aback at the Easter card they received from Texas Sen. Kay Bailey Hutchison. "Come to Washington for Easter," the card invited; inside, the inscription added, "there's a ham in the White House."

The Dallas Morning News

May 3, 1995

■ On Page 1J of the Sunday Reader section, a Weathervane item that reported on an Easter card sent under Sen. Kay Bailey Hutchison's name to a supporter in Dallas failed to include a response from the senator. Neither Ms. Hutchison nor any member of her staff sent the card, according to the senator's office. (See Ms. Hutchison's letter to the editor on Page 26A.)

The Dallas Morning News

May 3, 1995

Weathervane errs

I was quite taken aback to open up my April 30 *Dallas Morning News* and read that, according to "Weathervane," I was responsible for sending out a greeting card which consisted of a gratuitous insult to the president of the United States.

Neither I, nor any member of my staff, had anything to do with this card. If *The Dallas Morning News* had contacted me or my office before publishing the item, we would have assured you that this offensive and disrespectful message did not originate with us.

I may disagree with the president on matters of policy, but I would never take such a cheap shot. I regret that your paper did. Thank you for allowing me to set the record straight.

KAY BAILEY HUTCHISON,
U.S. Senator,
Washington, D.C.

The Dallas Morning News

May 7, 1995

Erase that
A Weathervane item in last Sunday's paper about an Easter card sent under Sen. Kay Bailey Hutchison's name should not have run. Ms. Hutchison said that neither she nor any member of her staff sent the card. *The Morning News* also did not call the senator for a response.

7-21-97
BUTLER DERRICK

April 28, 1995

Mr. President,

I have heard from
folks throughout the County.
now proved they are
of you. I agree. Yee



U. S. HOUSE OF REPRESENTATIVES p 5 : 48
55 MAY 4

STENY HAMILTON HOYER
5TH DISTRICT, MARYLAND

4/30/95

Mr. President,

Thank you for joining us
once again at the Fire Councils
Dinner. It was very timely
and very much appreciated
by all.

I attended the Southern Md.
Fire Association dinner on Sat.
night and they were all talking
very positively about your attendance.
THANK you!

Steny



HOUSE OF REPRESENTATIVES
WASHINGTON, D.C. 20515

PETE GEREN
TWELFTH DISTRICT
TEXAS

35 MAY 10 1995

May 5, 1995

Dear Mr. President,
Thank you for the honor of
joining you on Air Force One for
your trip to Dallas. It was an
experience I'll never forget and
I deeply appreciate your
including me.

My wife, Bechie, has enjoyed
sharing the photograph you
signed with friends and
family — I'm not sure some
of her pleasure does not

Come from using it to
remind me of some of
the challenges of being a
Congressional spouse (a "married
single mother", as she calls it).

Again, thank you for
the chance to travel with
you to Dallas.

Warmest regards,
Pet. Sun



HOUSE OF REPRESENTATIVES
WASHINGTON, D. C. 20515

PATRICIA SCHROEDER
FIRST DISTRICT, COLORADO

35 MAY 22 AM : 20

Dear Mr. President &
Hillary

The Women in Country
music was a wonderful
evening! Thanks so
much for including Jim
and me.

Fondly
Pat



UNITED STATES SENATE
WASHINGTON, D. C. 20510

BYRON L. DORGAN
NORTH DAKOTA

35 MAY 24 P5:48

May 19, 1995

The Honorable William J. Clinton
President of the United States
1600 Pennsylvania Avenue, N.W.
Washington, DC 20500

Dear Mr. President:

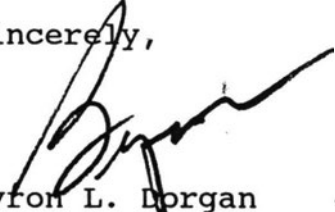
Thank you for leading the National Rural Summit to a tremendous success.

I think that your visit to Iowa, and Secretary Glickman's five state tour, demonstrated your continuing commitment to rural America.

I have heard only the most positive comments about your productive forum in Iowa. I also understand the attendance at the North Dakota forum exceeded that of any of the other four states on the Secretary's tour.

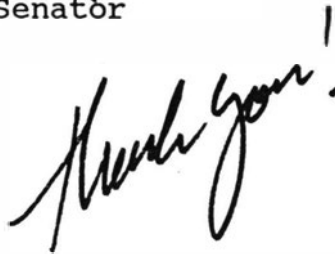
I know that a great deal of time and energy went into planning the forums, and those of us from rural America are deeply grateful for your leadership and participation.

Sincerely,



Byron L. Dorgan
U.S. Senator

BLD:ckk



Congress of the United States

WASHINGTON, DC 20510

05 MAY 24 05:52

May 18, 1995

Dear Mr. President:

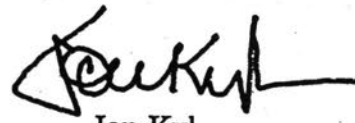
On behalf of the Mexican and American Delegations to the 34th annual meeting of the Mexico-U.S. Interparliamentary Group, thank you for receiving us at the White House.

We realize you have a full schedule and appreciate your taking the time to welcome us. It was a highlight of our trip and ended the conference on a positive note.

Sincerely,



Jim Kolbe
Chairman
House Delegation



Jon Kyl
Chairman
Senate Delegation

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

TOM DASCHLE, SOUTH DAKOTA, CHAIRMAN
HARRY REID, NEVADA, CO-CHAIRMAN
PAUL S. SARBANES, MARYLAND, VICE-CHAIRMAN
CHARLES S. ROBB, VIRGINIA, VICE-CHAIRMAN
PATTY MURRAY, WASHINGTON, VICE-CHAIRMAN
JOHN GLENN, OHIO, VICE-CHAIRMAN
ERNEST F. HOLLINGS, SOUTH CAROLINA
CLAIBORNE PELL, RHODE ISLAND
DALE BUMPERS, ARKANSAS
DANIEL PATRICK MOYNIHAN, NEW YORK
JOHN D. ROCKEFELLER IV, WEST VIRGINIA

United States Senate
Democratic Policy Committee

Washington, DC 20510-7050

(202) 224-5551

DANIEL AKAKA, HAWAII
BYRON L. DORGAN, NORTH DAKOTA
CAROL MOSELEY-BRAUN, ILLINOIS
RUSSELL D. FEINGOLD, WISCONSIN
JOSEPH I. LIEBERMAN, CONNECTICUT
PAUL WELLSTONE, MINNESOTA
J. BENNETT JOHNSTON, LOUISIANA
DIANNE FEINSTEIN, CALIFORNIA
WENDELL H. FORD, KENTUCKY, EX OFFICIO
(AS WHIP)
BARBARA MIKULSKI, MARYLAND, EX OFFICIO
(AS SECRETARY OF CONFERENCE)

May 17, 1995

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

Dear Mr. President:

We wish to express our sincere thanks for your participation in the Democratic Issues Conference recently held at the Kingsmill Conference Center in Williamsburg, Virginia. Thanks to you and the others who joined us, the weekend was a tremendous success.

Although we spend long hours in committee and in meetings focusing on the problems facing our nation, the opportunity to get together with other Democrats and informally discuss issues is unfortunately rare. Those of us who attended the conference very much enjoyed hearing your insights and found the discussion extremely valuable.

We appreciate your taking the time to join us, and we look forward to working with you to build on the weekend's successes.

With all best wishes,


Tom Daschle
Chairman


Harry Reid
Co-Chairman



U.S. Department of Justice

Civil Division

Deputy Assistant Attorney General

Washington, D.C.

July 14, 1995

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

My dear Mr. President:

It is with much regret that I write to inform you that I shall be leaving the Administration after my vacation in August. As you may recall, my family was forced to remain in Chicago during the first year I was here, and the additional expenses of maintaining two households and traveling back and forth have exhausted my savings much more rapidly than I expected. Accordingly, financial considerations require that I return to the private sector, and I shall be joining the law firm of Howrey & Simon in Washington.

My two years as the Deputy Assistant Attorney General in charge of appellate litigation in the Civil Division have been very rewarding and worthwhile. Among the cases I have argued in the courts of appeals are the "gays in the military" litigation; the Freedom of Access to Clinic Entrances Act (FACE) suits; and the Brady Act challenges. I also have been heavily involved in the Religious Freedom Restoration Act cases; the "Megan's Law" litigation; the lawsuits by Cubans and Haitians at Guantanamo; the litigation challenging the constitutionality of the 1990 census; and the Armstrong case concerning the status of White House computer records and of the National Security Council under the Freedom of Information Act. As you can see, it has been a busy and exciting time.

To serve in your Administration has been a source of pride and accomplishment, and I am honored to have had the chance to contribute to your important efforts. If possible, I would very much like to stop by to convey my regards and say farewell in person.

With my deepest thanks and best wishes.

Sincerely yours,

Mark I. Levy

Mark I. Levy
Deputy Assistant Attorney General

*Add -
Reply ASAP*

Plus 5/15/95

*ORIGINAL
HE*

de

*NW
OK
Baker
appreciate*

July 10, 1995

95 JUL 17 A10 : 23

BOEING

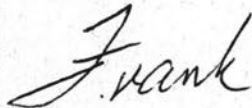
Dear Mr. President

Thank you for the opportunity to attend the White House meeting of corporate members of the National Minority Supplier Development Council. I have a long-standing previous commitment and will be unable to join you for the July 17 meeting.

Your efforts to promote the development of minority suppliers is commendable and on-target. Boeing was extremely proud to be named the 1994 Corporation of the Year by NMSDC, in recognition of our efforts to identify and develop minority suppliers. It is an honor we value highly. We share your feelings that building a strong minority supplier infrastructure is in the best interest of the nation's economy and its people.

Your support of NMSDC and its goals is a positive sign of support to the corporate and minority supplier communities. Please accept my best wishes for a successful and productive meeting.

Sincerely,



Frank Shrontz

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

7/17 sent to
DORSEY

coord. w/
Public
Liaison

THE PRESIDENT HAS SEEN

7/10/95
New #5 member
wrong by Utah
Be

Today's debate: CLOSING MILITARY BASES

Will politics pollute base-closing process?

OUR VIEW Previous base closings have kept politics out. President Clinton should resist the temptation also.

Politics or principle?

The White House is wrestling this week with a painful choice between the two:

► Should President Clinton fight to protect jobs at unneeded military bases in California, thus boosting his chances of winning a vital pile of electoral votes next year?

► Or should he let them close as the politically neutral base-closure commission wants, citing the interests of the nation?

Clinton has until July 15 to make up his mind. But one look at a "solution" offered Thursday by Defense Secretary William Perry — to privatize rather than close the bases — leaves little doubt as to the administration's leaning. And that would be a tragic departure, the first rejection of a base-closure list by a president for a single, compelling reason — his re-election.

With just 16 months to go, the last state Clinton's political advisers want to offend is the emir of the Electoral College. California's 54 electoral votes alone could deliver one-fifth the total needed for the presidency. Winning the state is virtually essential to Clinton's chances.

Unfortunately for the president, the commission slated six large California installations for closing, including two not offered up for sacrifice by the Pentagon — McClellan Air Force Base in Sacramento and Oakland Army Base. The loss of 42,270 jobs is not the kind of news any aspiring president wants to deliver.

But that's exactly why the base-closure commission was created: to keep politicians and politics as far removed from decision-making as possible.

The logic behind this is proven: If politicians don't have to make hard choices, they won't have to take heat for the results. If shielded from electoral wrath, they're less inclined to influence and interfere.

That simple strategy worked well in 1991 and 1993. Politicians howled every time a

Jobs lost to base closings

The top 10 areas that would be affected by the latest round of base closings, how many jobs they would lose and the percentage of total jobs that represents:

	Jobs	%
California	42,270	0.3
Texas	32,857	0.3
Utah	12,406	1.3
Alabama	7,541	0.4
Oklahoma	7,472	0.4
Pennsylvania	6,829	0.1
Connecticut	5,441	0.3
Guam	5,280	7.9
Missouri	5,103	0.2
South Carolina	5,008	0.3

Source: Defense Base Closure and Realignment Commission

military installation in their back yard was closed or downsized. But they, like their communities, were forced to accept the inevitable: With the Cold War over and the deficit untamed, the military must shrink. And who could better decide where the sacrifices should be made than a commission free from political considerations?

California got clobbered. It will, indeed, suffer economic losses. But it went into this competition with many more military jobs to lose, thanks to previous successes of its politicians in snaring these lucrative employment centers. And it is not the largest sufferer. Since 1988, military cutbacks have cost Guam 16% of all jobs on the island.

Preparing for this latest round of closings, the commissioners visited more than 200 military installations and held dozens of local and regional hearings. Everyone got a chance to make his pitch. Then the commission did its difficult job — fairly and impartially. It eliminated bases not needed for the national defense. Continuing wasteful spending to prop up local economies is not its goal.

That's an example President Clinton should emulate. It may be unnatural for a presidential candidate not to count electoral votes. But it's irresponsible for a president not to put the national interest first.

NSC memo 4585

Letter from Sen. Packwood, Rep. Wyden et al, concerning
foreign Spent Nuclear Fuel.

07/17

The original Lake memo,
including the signed
letter to Senator Pack,
and the several letters
that are waiting to be
signed, are all being
held in Staff Secy's ofc
awaiting your instructions
on how to handle.

7/17/95

THE WHITE HOUSE

WASHINGTON

95 JUL 14 P 1:17

July 14, 1995

ACTION

MEMORANDUM FOR THE PRESIDENT

FROM:

ANTHONY LAKE

PATRICK GRIFFIN

SUBJECT:

Letter from Senator Packwood, Representative Wyden, et al. Concerning Foreign Spent Nuclear FuelPurpose

To respond to a letter urging you to block the importation of spent nuclear fuel from foreign reactors.

Background

Senator Packwood and Representatives Wyden, Furse and Bunn of Oregon oppose a proposal to return U.S.-origin spent nuclear fuel from foreign research reactors to the United States. Admitting that spent fuel into the U.S. would advance our nonproliferation objectives because it contains over four metric tons (i.e., around 180 weapons-worth) of highly enriched uranium (HEU). Moreover, the Department of Energy's efforts to help convert foreign research reactors from HEU to safer, low-enriched uranium depends on our willingness to take back the spent fuel from these reactors. (That is why, in PDD-13, you directed the Secretary of Energy to accelerate this spent fuel takeback program.)

See PDD-13
Portland, Oregon is a possible port of entry for spent nuclear fuel coming from East Asia. The Department of Energy is currently circulating a draft environmental impact statement to affected municipalities for comment. A recommendation from the Secretary of Energy on a plan for the final disposition of this material is expected by the end of the year.

While this program supports an important nonproliferation objective and has received the backing of a number of arms control and environmental NGOs, it has met opposition from municipalities that are potential transit or storage points.

cc: Vice President
Chief of Staff

RECOMMENDATION

That you sign the proposed responses at Tab A.

Attachments

Tab A Proposed Letters

Tab B Incoming Correspondence

THE WHITE HOUSE
WASHINGTON

Dear Mr. Chairman:

Thank you for your letter concerning the disposition of spent nuclear fuel from foreign research reactors.

The Department of Energy, in consultation with the Department of State, is currently reviewing a proposal on the disposition of spent nuclear fuel of U.S. origin from foreign nuclear facilities. As this material contains over four metric tons of highly enriched uranium -- enough for as many as 180 nuclear weapons -- it is critical to our national security to see that it does not fall into the wrong hands. I am committed to the safe disposition of this material as part of our nonproliferation strategy.

I understand your environmental and cost concerns. As our laws require, the Department of Energy will take fully into account such concerns and any others received as comments from the municipal authorities in potential ports of entry on the proposed plan and its environmental impact.

Finally, I also can assure you that no non-U.S. origin material -- such as that currently in North Korea -- is being considered for shipment to the United States under this program.

Thank you for sharing your views on this important issue.

Sincerely,

A handwritten signature in cursive script, appearing to read "Bill Clinton".

The Honorable Bob Packwood
United States Senate
Washington, D.C. 20510

114458
4585

Congress of the United States
Washington, DC 20515

May 1, 1995

The President
The White House
Washington, DC 20500

Dear President Clinton:

We are writing to express our strong opposition to the U.S. Department of Energy's proposal for the United States to import spent nuclear fuel from foreign research reactors. The goal of this policy of reducing the potential for proliferation of nuclear weapons is laudable. However, it makes no sense for DOE to propose to import spent nuclear fuel from North Korea and other foreign countries when the United States has not determined how to manage the spent nuclear fuel generated in this country. In addition, DOE's proposal raises several additional concerns.

First, the sites where DOE proposes to store foreign nuclear fuel are ill-suited to handle this material. The Hanford Nuclear Reservation and the Idaho National Engineering Laboratory already have major environmental problems with storage of nuclear wastes. In fact, DOE's recent Baseline Environmental Management Report estimated that the costs of cleaning up existing contamination at the Hanford and INEL sites is over \$60 billion. With budget pressures challenging DOE's ability to comply with cleanup schedules the Department is legally obligated to meet, we are concerned about DOE undertaking additional waste management responsibilities that could impede current cleanup activities.

Second, we question the cost effectiveness of importing spent nuclear fuel for management in the United States. DOE's estimates of the total cost of acceptance and storage of foreign fuels in the United States range from \$1.4 to 1.65 billion. By comparison, DOE's analysis states that "in countries that do not have an existing nuclear infrastructure, it would cost tens of millions of dollars per country to set up a secure area, purchase storage casks, transfer the spent fuel to the cask, and maintain a secure area for 40 years." Accordingly, it would appear that the United States could fund the overseas storage of spent fuel for the same or lower cost as importing and managing this material at U.S. facilities. Moreover, overseas storage would have no domestic environmental impact.

The President
May 1, 1995
Page 2

Third, DOE's analysis of the potential hazards associated with importing and managing foreign nuclear fuel in the United States minimizes the risks to U.S. workers and the general public. DOE apparently limited its analysis to the risk of radiation exposure from accidents occurring during shipment of nuclear materials and ignored the threat of nuclear shipments becoming the target of a terrorist action in this country. Because much of the spent nuclear fuel can be directly used in nuclear weapons, terrorist groups may try to hijack or sabotage shipments of this material. The tragic consequences that could result if this material were to fall into the wrong hands would seem to warrant additional security measures to prevent this from occurring. However, DOE is proposing to off-load foreign nuclear fuel at public ports in Portland, Oregon, Tacoma, Washington and other large cities and to transport the fuel using commercial rail or truck carriers.

A final concern arises from DOE's willingness to make special arrangements for DOE facilities to accept responsibility for storage of spent nuclear fuel from foreign reactors when there is currently no DOE facility accepting spent fuel from domestic reactors.

In short, we seriously question the wisdom of implementing DOE's current proposal to import foreign spent nuclear fuel in the United States given the absence of a suitable facility for managing these wastes, the potential hazards to U.S. workers and the general public, and the costs of implementing this proposal.

Thank you for your consideration and we look forward to your response.

Sincerely,


RON WYDEN

Member of Congress


BOB PACKWOOD

United States Senator


ELIZABETH FURSE

Member of Congress


JIM BUNN

Member of Congress

Secretary Riley

401-2098

202-708-5366

1

202401-3000

Sec Riley

SAX#

401-2098

Working

arrival
confirmed

1

**THE WHITE HOUSE
WASHINGTON**

OFFICE OF THE STAFF SECRETARY

Fax Transmittal Sheet

TO: The Honorable Richard Riley

Fax Number: 401-2098

Phone Number: 202-708-5366

FROM: Todd D. Stern

SUBJECT: Presidential Note: "Make three copies of this and
the article. "

DATE: July 18, 1995

NUMBER OF PAGES (including cover sheet): 3

MESSAGE:

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

The document accompanying this facsimile transmittal sheet is intended only for the use of the individual or entity to whom it is addressed. This message contains information which may be privileged, confidential or exempt from disclosure under applicable law. If the reader of this message is not the intended recipient, or the employee or agent responsible for delivering the message to the intended recipient, you are hereby notified that any disclosure, dissemination, copying or distribution, or the taking of any action in reliance on the contents of this communication is strictly prohibited.

Make 3 copies of this
w. article → for UP
Sec. Policy
C. Davis

Send me back a copy
on 1 page - (info cont. on p. 2)

BUSINESS

Sunday, July 2, 1995

H1

One way to make huge sums in the stock market is to figure out which industries and companies will be thriving 10 years from now—and invest in them. That's not easy, of course, but consider the payoff. In 1986,

INVESTING

James K. Glassman

For example, a prescient investor might have looked at the infant personal computer business and concluded that a certain Redmond, Wash., firm that wrote systems software would boom. A \$15,000 investment in Microsoft Corp. back then would be worth more than \$1 million today.

My candidate for the hottest industry in 2005 is education. Right now, nearly all of the \$400 billion that's spent on it each year flows to government entities and to nonprofits, rather than to commercial firms. But it doesn't take a genius to predict that the folks who manage education today won't still have their near-monopoly in the next century.

By any objective standard, they have done a poor job—and the money to fund their inefficiencies is running out. For example, while elementary and secondary school enrollments rose less than 3 percent from 1980 to 1993, expenditures rose 161 percent. Quality? SAT scores are flat or falling. Any private business that performed that way would have submitted its Chapter 11 filing long ago.

The education market today

reminds us of what the health care business looked like 10 to 15 years ago," says Michael Moe, who heads the growth-company group at Lehman Brothers Inc. and is one of the few analysts who follow education stocks.

There's enormous resistance to change among entrenched in-

See GLASSMAN, H2, Col. 4

GLASSMAN, From H1

terests, he told me, just as there was in health. People would say, "You shouldn't make money off hospitals," just as they're now saying, "You shouldn't make money off a child's education." But changes are happening and it's inevitable that for-profit firms will enter what Moe calls "a gigantic market."

Some of them are already there. Here is how the tiny education industry shapes up:

■ **School management.** The big name here is Education Alternatives Inc., the Minneapolis-based firm that, under contract with city authorities, runs nine schools in Baltimore, will soon begin running at least five in Hartford and may add another 11 in Washington.

EAI takes a fee per student that's roughly the same as the public schools themselves spend, then tries to do a better job. I was impressed on my own visit a year ago to a Baltimore school run by EAI, but the company has to overcome severe political obstacles. The stock has tumbled by 70 percent after hitting a high of \$48.50 a share in late 1993; Moe believes it could double this year.

Other companies, notably Christopher Whittle's Edison Project, which is closely held and recently received an infusion of venture capital money, are starting to compete with EAI, but the market is certainly big enough. If private firms take only 20 percent of public elementary and secondary school revenue 10 years from now, they'll be grossing about \$100 billion.

■ **Private school chains.** Last week, Ohio Gov. George V. Voinovich (R) signed a bill creating a pilot voucher program in Cleveland that helps parents send their kids to private schools. In Milwaukee, a successful voucher program is about to be expanded.

Private education, perhaps with public subsidies, may be the wave of the future. But is it a business? The Edison Project, which originally planned to start a chain of low-cost private schools, evidently doesn't think so, but a few companies are making attempts.

The most prominent is Nobel Education Dynamics Inc., based in Media, Pa. The firm, traded over-the-counter, will own 52 schools across the country by year-end and will add at least 42 more in the next three years by upgrading child care centers into elementary schools, each with the fancy moniker Chesterbrook Academy.

Nobel even makes a profit: \$1 million on \$10 million in revenue for the first quarter. But it remains a tiny

DeVry has a low profile (when I asked Labor Secretary Robert B. Reich, he said he'd never heard of it), but it's probably the best of all the for-profit education firms. It currently educates 15,000 students—35 percent of whom are black or Latino—on 13 campuses around the country, offering post-secondary degrees up to an MBA. DeVry is extremely well run. Its tuition is only \$6,000, it gets no alumni contributions, and it last year generated \$12 million in profits on \$211 million in revenue.

According to an enthusiastic article in the spring issue of *Policy Review*, "At Hughes Communications, the nation's largest satellite company, 22 of the 30 engineers responsible for orbit maintenance are DeVry graduates. KLA Instruments, which designs quality control systems for the manufacture of microchips, boasts that a fifth of its 1,000 employees graduated from DeVry."

Writes Stephen Glass: "DeVry has found that the best way to attract more students—over half of whom are the first in their families to attend college—is to secure high-paying jobs for graduates."

There are lots of shady operators in the technical school business, but DeVry has maintained a good reputation because it actually delivers what it promises.

Other highly regarded, publicly traded technical school chains cited by analysts: the Apollo Group Inc., which operates the University of Phoenix, and ITT Educational Services Inc., which is 83 percent owned by ITT Corp. and six months ago offered the rest of its shares to the public. They've since jumped from \$10 to \$17. ITT/ESI, which earned \$4 million on revenue of \$51 million in the first quarter, operates 56 schools for 20,000 students in 25 states.

■ **Learning programs.** This may eventually be the best business of all, because it requires so little capital and uses technology that's getting better and cheaper by the minute.

TRO Learning Inc. of Schaumburg, Ill., appears especially well positioned, says Paris. The company sells interactive computer programs (mostly under the brand name Plato) for schools, especially community colleges, to train and test students in technical courses. TRO, however, has had a tough time making money; its stock has languished for the past two years.

Sylvan Learning Systems Inc., based in Columbia, sells its tutoring programs in both inner-city schools (where they're bought with federal funds) and in the suburbs, where students use them to catch up or get ahead. Sylvan's stock price has doubled in a year and a half.

Moe advised keeping an eye on Westcott Communications Inc., which produces educational programs that it broadcasts through private satellite television networks to businesses and classrooms. In 1994, the company earned \$12 million on revenue of \$90 million; sales have tripled in three years.

Ten years from now, will one of these companies be the Microsoft—or the Columbia-HCA Healthcare Corp.—of education? Perhaps, but none of the firms is very big, and all could be outstripped by a newcomer, Michael Milken, the former junk bond king of Drexel Burnham Lambert Inc., is among the smart investors who understand the opportunity. He told the *Wall Street Journal* on Friday that he's trying to build his own education company. "If we are successful," he said, "I really believe you can have a \$50 billion or \$100 billion company in the field of education."

Andrew Beja, who follows the sector for Advest in Hartford, agrees: "You don't know exactly what role the free-enterprise system will have, but I guarantee you it will be a lot greater than it is today."

The Inside Scoop

Through the end of May, only 6 percent of the managers of the 2,500 U.S. stock mutual funds tracked by Lipper Analytical Services Inc. had beaten the broad market averages. Steven Halpern, editor of *Dick Davis Digest*, says "investors should avoid most mutual funds."

Most, but not all. Halpern says these six funds, run by "exceptional managers," are worth consideration: Harbor International, Strong Opportunity, Mutual Shares, Brandywine, Longleaf Partners and Selected American Shares. The managers' common traits, besides great track records? Passion, inner strength, optimism.

— James K. Glassman

FUTURE GIANT?

A pioneer in a burgeoning industry, Educational Alternatives is off to a bumpy start.

Monthly stock prices closes



SOURCE: Bloomberg Business News

THE WASHINGTON POST

company, with a market value of less than \$30 million.

■ **Technical colleges.** "In successful investing," Alexander Paris of Barrington Research told me, "it's good to find a problem, then find a company that seems to be solving it." The problem is that too few Americans are being trained for well-paying high-tech or medium-tech jobs. The company with the solution, Paris and quite a few others believe, is DeVry Inc. of Oakbrook, Ill.

Make 3 copies of this

Sw. article → for U.A.

Sec. Dir. Chase

Chase

Send me back a copy

on 1 page - (is cont. on p. 2)

Done

BUSINESS

Sunday, July 2, 1995

H1

One way to make huge sums in the stock market is to figure out which industries and companies will be thriving 10 years from now—and invest in them. That's not easy, of course, but consider the payoff. In 1986,

INVESTING

James K. Glassman

for example, a prescient investor might have looked at the infant personal computer business and concluded that a certain Redmond, Wash., firm that wrote systems software would boom. A \$15,000 investment in Microsoft Corp. back then would be worth more than \$1 million today.

My candidate for the hottest industry in 2005 is education. Right now, nearly all of the \$400 billion that's spent on it each year flows to government entities and to nonprofits, rather than to commercial firms. But it doesn't take a genius to predict that the folks who manage education today won't still have their near-monopoly in the next century.

By any objective standard, they have done a poor job—and the money to fund their inefficiencies is running out. For example, while elementary and secondary school enrollments rose less than 3 percent from 1980 to 1993, expenditures rose 161 percent. Quality? SAT scores are flat or falling. Any private business that performed that way would have submitted its Chapter 11 filing long ago.

"The education market today reminds us of what the health care business looked like 10 to 15 years ago," says Michael Moe, who heads the growth-company group at Lehman Brothers Inc. and is one of the few analysts who follow education stocks.

There's enormous resistance to change among entrenched interests. See GLASSMAN, H2, Col. 4

GLASSMAN, From H1

terests, he told me, just as there was in health. People would say, "You shouldn't make money off hospitals," just as they're now saying, "You shouldn't make money off a child's education." But changes are happening and it's inevitable that for-profit firms will enter what Moe calls "a gigantic market."

Some of them are already there. Here is how the tiny education industry shapes up:

■ **School management.** The big name here is Education Alternatives Inc., the Minneapolis-based firm that, under contract with city authorities, runs nine schools in Baltimore, will soon begin running at least five in Hartford and may add another 11 in Washington.

EAI takes a fee per student that's roughly the same as the public schools themselves spend, then tries to do a better job. I was impressed on my own visit a year ago to a Baltimore school run by EAI, but the company has to overcome severe political obstacles. The stock has tumbled by 70 percent after hitting a high of \$48.50 a share in late 1993; Moe believes it could double this year.

Other companies, notably Christopher Whittle's Edison Project, which is closely held and recently received an infusion of venture capital money, are starting to compete with EAI, but the market is certainly big enough. If private firms take only 20 percent of public elementary and secondary school revenue 10 years from now, they'll be grossing about \$100 billion.

■ **Private school chains.** Last week, Ohio Gov. George V. Voinovich (R) signed a bill creating a pilot voucher program in Cleveland that helps parents send their kids to private schools. In Milwaukee, a successful voucher program is about to be expanded.

Private education, perhaps with public subsidies, may be the wave of the future. But is it a business? The Edison Project, which originally planned to start a chain of low-cost private schools, evidently doesn't think so, but a few companies are making attempts.

The most prominent is Nobel Education Dynamics Inc., based in Media, Pa. The firm, traded over-the-counter, will own 52 schools across the country by year-end and will add at least 42 more in the next three years by upgrading child care centers into elementary schools, each with the fancy moniker Chesterbrook Academy.

Nobel even makes a profit: \$1 million on \$10 million in revenue for the first quarter. But it remains a tiny

DeVry has a low profile (when I asked Labor Secretary Robert B. Reich, he said he'd never heard of it), but it's probably the best of all the for-profit education firms. It currently educates 15,000 students—35 percent of whom are black or Latino—on 13 campuses around the country, offering post-secondary degrees up to an MBA. DeVry is extremely well run. Its tuition is only \$6,000, it gets no alumni contributions, and it last year generated \$12 million in profits on \$211 million in revenue.

According to an enthusiastic article in the spring issue of *Policy Review*, "At Hughes Communications, the nation's largest satellite company, 22 of the 30 engineers responsible for orbit maintenance are DeVry graduates. KLA Instruments, which designs quality control systems for the manufacture of microchips, boasts that a fifth of its 1,000 employees graduated from DeVry."

Writes Stephen Glass: "DeVry has found that the best way to attract more students—over half of whom are the first in their families to attend college—is to secure high-paying jobs for graduates."

There are lots of shady operators in the technical school business, but DeVry has maintained a good reputation because it actually delivers what it promises.

Other highly regarded, publicly traded technical school chains cited by analysts: the Apollo Group Inc., which operates the University of Phoenix, and ITT Educational Services Inc., which is 83 percent owned by ITT Corp. and six months ago offered the rest of its shares to the public. They've since jumped from \$10 to \$17. ITT/ESI, which earned \$4 million on revenue of \$51 million in the first quarter, operates 56 schools for 20,000 students in 25 states.

■ **Learning programs.** This may eventually be the best business of all, because it requires so little capital and uses technology that's getting better and cheaper by the minute.

TRO Learning Inc. of Schaumburg, Ill., appears especially well positioned, says Paris. The company sells interactive computer programs (mostly under the brand name Plato) for schools, especially community colleges, to train and test students in technical courses. TRO, however, has had a tough time making money; its stock has languished for the past two years.

Sylvan Learning Systems Inc., based in Columbia, sells its tutoring programs in both inner-city schools (where they're bought with federal funds) and in the suburbs, where students use them to catch up or get ahead. Sylvan's stock price has doubled in a year and a half.

Moe advised keeping an eye on Westcott Communications Inc., which produces educational programs that it broadcasts through private satellite television networks to businesses and classrooms. In 1994, the company earned \$12 million on revenue of \$90 million; sales have tripled in three years.

Ten years from now, will one of these companies be the Microsoft—or the Columbia-HCA Healthcare Corp.—of education? Perhaps, but none of the firms is very big, and all could be outstripped by a newcomer, Michael Milken, the former junk bond king of Drexel Burnham Lambert Inc., is among the smart investors who understand the opportunity. He told the *Wall Street Journal* on Friday that he's trying to build his own education company. "If we are successful," he said, "I really believe you can have a \$50 billion or \$100 billion company in the field of education."

Andrew Beja, who follows the sector for Advest in Hartford, agrees: "You don't know exactly what role the free-enterprise system will have, but I guarantee you it will be a lot greater than it is today."

The Inside Scoop

Through the end of May, only 6 percent of the managers of the 2,500 U.S. stock mutual funds tracked by Lipper Analytical Services Inc. had beaten the broad market averages. Steven Halpern, editor of *Dick Davis Digest*, says "investors should avoid most mutual funds."

Most, but not all. Halpern says these six funds, run by "exceptional managers," are worth consideration: Harbor International, Strong Opportunity, Mutual Shares, Brandywine, Longleaf Partners and Selected American Shares. The managers' common traits, besides great track records? Passion, inner strength, optimism.

— James K. Glassman

FUTURE GIANT?

A pioneer in a burgeoning industry, Educational Alternatives is off to a bumpy start.

Monthly stock prices closes



SOURCE: Bloomberg Business News

THE WASHINGTON POST

company, with a market value of less than \$30 million.

■ **Technical colleges.** "In successful investing," Alexander Paris of Barrington Research told me, "it's good to find a problem, then find a company that seems to be solving it." The problem is that too few Americans are being trained for well-paying high-tech or medium-tech jobs. The company with the solution, Paris and quite a few others believe, is DeVry Inc. of Oakbrook, Ill.

THE PRESIDENT HAS SEEN
7-17-95

THE WHITE HOUSE
WASHINGTON

95 JUL 11 P1:32

5 July 1995

MEMORANDUM TO THE PRESIDENT
LEON PANETTA
DOUG SOSNIK

FROM: Harold Ickes *HI*
SUBJECT: Dwayne Andreas

Attached is a copy of a recent article from New York magazine, of 10 July 1995, about Dwayne Andreas' relationship with Senator Dole. The article also claims that the Environmental Protection Agency was originally in sympathy with environmental groups who think ethanol is a waste of time, but EPA did an "about-face" after the 1992 election when Andreas dollars began to flow to the DNC and ordered gasoline refiners to use ethanol instead of methanol which, according to the article, is cheaper and cleaner than ethanol. "In essence, the EPA determined that 10% of the gasoline sold in the US would have to contain ethanol."

*this is what I want
a 15% history of supporting
ethanol - try to document
was a piece in '92
campaign -*

Bob Dole's Sugar Daddy

Thanks to the Senate majority leader's good offices, Dwayne Andreas and Archer Daniels Midland are the nation's No. 1 corporate-welfare case.

BEFORE HE DIED, RICHARD NIXON gave Bob Dole some political counsel. To win the Republican nomination, Nixon advised, Dole should run "as far as you can to the right" because that's where the GOP primary voters are. But after winning the nomination, Dole should "run as fast as you can back to the middle." Dole—in all things Nixon's disciple—has so far followed the plan to the letter. He has savaged the merchants of rap, gleefully obstructed the nomination of Henry Foster, and repeatedly professed his devotion to "reining in government," as he terms it. So far, the right seems impressed; Dole's long history of moderate squishiness—his sponsorship of civil-rights bills and tax hikes—is fading from memory. But Bob Dole will deserve to be called a real conservative only when he denounces the purest boondoggle in the federal budget: the giant corporate-welfare apparatus that supports his friend Dwayne Andreas.

You may not know Andreas's name, but you've surely eaten his processed-food products. Andreas is the CEO and largest shareholder in Archer Daniels Midland, the agribusiness conglomerate that advertises itself on the Sunday-morning chat shows as "Supermarket to the World." ADM buys wheat, soybeans, and corn and converts them into those curious-sounding ingredients like high-fructose corn syrup and partially hydrogenated soybean oil without which Bugles, TV dinners, and Cheez Whiz as we know them would be impossible. Andreas is also the most adept cultivator of government subsidies since the railroads were built. There are few important elected officials he has failed to befriend and assist. But it is the Dole-Andreas relationship more than any other that stands as a case study in the legal corruption of politics, and as an explanation of why, in the midst of a budget-cutting frenzy, some of the juiciest handouts aren't even in jeopardy.

Dole has performed many services to ADM over the years, but none greater than advancing the cause of the synthetic fuel ethanol. Ethanol came into being

Why so smug, Dwayne?
One word: ethanol.



because the Decatur, Illinois-based company wanted to do something with corn by-products. But it needed political help, since its cost of production left ethanol uncompetitive with gasoline. In 1978, Dole secured the 54-cents-a-gallon exemption from the federal highway tax that made ethanol economically viable. Since then, he has introduced more than 50 bills to promote its use. He has extended the subsidy, prodded the Agriculture Department to donate its corn surpluses to ADM, demanded tariffs to block Brazilian ethanol, and fended off attempts by competing products to get in on the action. And though Bill Bradley and a few other noble souls have fought the ongoing subsidy, worth \$3.5 billion over the next five years, it seems truly ineradicable. In the words of a Prudential Securities research report of last year, "Ethanol's well-known exemption from the federal fuel tax through the year 2000 remains safe, in our opinion, as long as Senator Dole . . . retains his substantial political clout."

In the past, Dole has justified his defense of ethanol by claiming it as legitimate pork barrel—it helps corn farmers in his home state. But what of his avid defense of another Republican budget survivor, the sugar program? There aren't any sugarcane growers in Kansas. Dole's position makes sense only when you understand that the market for another ADM product, the corn-based sweetener fructose, depends on Congress's artificial-

ly inflating the price of its competitor, sugar. The sugar and ethanol causes are related, of course. "It's a cascading subsidy," says Rob Shapiro, an economic analyst at the Progressive Policy Institute. "They start out with a subsidy for corn and produce corn syrup, whose price is supported by the sugar quota. Then they take the refuse and make ethanol with a 60-cents-a-gallon subsidy. This is probably the least subtle case of corporate welfare out there."

Andreas essentially operates through legalized bribery. And sometimes not so legalized. In 1972, he gave a secret \$25,000 cash contribution to his close friend Nixon that found its way (via G. Gordon Liddy) into the account of one of the Watergate burglars. Two years later, he was indicted (though ultimately acquitted) of passing his close friend Hubert Humphrey an illegal contribution. A few years after that, he was revealed to have given a bundle of ADM stock to the family of yet another close friend, a Carter nominee to the Commodity Futures Trading Corporation. Since then, Andreas has tried to maintain a low profile, though he occasionally makes it into the news for doing things like buying Carter's peanut farm for \$1.2 million. He shuns the press and avoids having anything so gross as a Washington office or a registered lobbyist. He simply writes big checks.

Campaign cash is the least of it. Since individuals and corporate PACs can donate only limited amounts to candidates,

Andreas and ADM have given Dole less than \$100,000 in direct contributions over the years. But Andreas has found other ways to express his gratitude. Most notoriously, Andreas sold the Doles an apartment in an exclusive Bal Harbour, Florida, co-op he runs, at the below-market price of \$150,000. (Howard Baker, David Brinkley, and Bob Strauss are also Andreas-sponsored neighbors.) Dole has use of ADM's corporate jet, a privilege he has taken advantage of 29 times since 1993, according to *Newsweek*. When Elizabeth Dole became chairman of the American Red Cross, Andreas sent the charity a half-million-dollar check to welcome her, and another half-million the next year. He has given \$275,000 to Dole's foundation for the disabled, and \$100,000 to the recently closed Better America Foundation, a Dole front. "Despite all the money he's given, it's a drop in the bucket compared to the hundreds of millions that have accrued to Andreas and ADM because of his political connections," says Charles Lewis, director of the Center for Public Integrity, an anti-lobbying group. "It's chump change."

Dole, of course, has no monopoly on vice. Clinton's EPA was originally in sympathy with environmental groups that think ethanol is a waste of time since it may actually raise smog levels and a gallon of the stuff produces only as much energy as was used to create it. But after the 1992 election, when Andreas-bucks began to flow to the DNC in greater profusion, the Clinton EPA did an about-face, ordering gasoline refiners to use ethanol instead of methanol, which is cheaper and cleaner. In essence, the EPA determined that 10 percent of the gasoline sold in the U.S. would have to contain ethanol. Given that the bulk of the nation's ethanol-production capacity belongs to ADM, this amounted to a dirigiste allocation of market share to a single, favored company. When the issue came up for a vote in the Senate, Al Gore broke a 50-50 tie in ADM's favor. Oil companies subsequently sued to reverse the EPA's decision and in April won their case, but the EPA is appealing. Should it prevail, the total cost of the ethanol boondoggle will increase to \$1 billion a year, while boosting the price of gasoline as much as 7 cents a gallon.

In a rare interview last year, Andreas told the *Houston Post* that there was no such thing as a free market. "People who are not in the Midwest do not understand that this is a socialist country," he said. Maybe *this* is what Nixon had in mind for the general election: junk-food collectivism. Dole's slogan could be "Socialism in one company"—or perhaps "All power to the Soy-viets."

Unfortunately, Not All Body Improvements Can Be Achieved Through Diet Or Exercise.

Sit-ups. Step classes. Low-fat diets. Sometimes all of the effort in the world can't flatten your belly or tighten your buttocks.

Nor can exercise or diet remodel your nose or eliminate wrinkles. However, plastic surgery offers results with a lot less inconvenience or expense than you might have imagined.



nience or expense than you might have imagined.

So call 472-3300 for a free consultation with our caring, experienced Board Certified Plastic Surgeon. And let us

improve something more important than your face or figure. Your self-image.

Constructive SurgerySM

169 E. 69th St., New York, NY (212) 472-3300

© 1995 Constructive Surgery

LA VERANDA

Theatre Goers Haven



Dine In Elegance
At Moderate Prices
One Of The Best Italian
Restaurants In New York

FREE PARKING NEXT DOOR 5 P.M. to 1 A.M.

163 West 47 St. NYC Res: (212) 391-0905

HI LIFE

"CLASSIC NYC RESTAURANTS"

Big City Brasserie Cuisine

RESTAURANT & LOUNGE
1340 First Ave. at 72 St.
212-249-3600

BAR & GRILL
477 Amsterdam at 83 St.
212-787-7199

★ ★ "...Downtown Goes Uptown" New York Magazine

jo jo

"Happiness is a thing called JoJo..."
- Gael Greene, NYM

160 East 64th Street • (212) 223-5656
(between 3rd Ave. & Lexington)

Do something
positive
with your
negative.

CLICKS

Superb IHR Photo &
Digital Imaging

49 West 23rd St. New York
(212) 645-1971 • open 7 days

THE PRESIDENT HAS SEEN
7-17-95

THE WHITE HOUSE
WASHINGTON

95 JUL 11 P5:15

4 July 1995

MEMORANDUM FOR THE PRESIDENT
LEON PANETTA
ERSKINE BOWLES

CC: DOUG SOSNICK → *we need to discuss*
FROM: Harold Ickes (H)
SUBJECT: Meeting with Congressman John Murtha of Pennsylvania

On 28 June, Doug Sosnik and I met with Congressman Murtha at his office. He made a number of points.

(*) Jobs are the key to Pennsylvania. He suggested that you go to the Philadelphia shipyard sometime in September or October this year to focus on the transition of that yard from relying almost completely on public (defense) contracts to private contracts.

(*) It is critical to win western Pennsylvania, where gun control is a very tough issue. He suggests focusing on locks and dams, high-tech software in the Pittsburgh area, airports, which are a very large employer, as are hospitals and medical professionals. He also suggested focusing on education, stressing that universities are large employers, and the need to provide easier access to education through a decent student loan program which you have promoted.

He questioned the wisdom of having the Vice-President introduce you. In his view, it makes you look weak.

He said you should not, under any circumstances, overturn or change the BRAC's report. It will make you look political and weak.

He thinks you are doing the right thing with the Japanese.

On balance, he thinks you can win. The two critical issues, as far as he is concerned, are jobs and presidential strength/leadership/character.

Colin Powell: He does not think Colin Powell will run, but that he is under extreme pressure to do so. He urges that you call him from time to time and seek his advice. He thinks that certain Blacks in Congress are trying to get Powell to run.

Democratic State Committee: He thinks Mark Single will make a good state chairman, but he emphasizes that we will need our own person and operation in Pennsylvania.

He thought that Linda Rhodes, who is now at the Social Security Administration, did a very good job as State Chair, although she is a tad liberal for his district.

✓ He urged that we talk with Kathleen Baker Noll (Knoll) who is very well-liked by activist women in Pennsylvania and who did a very good job as Pennsylvania State Treasurer. Her daughter is currently running for Treasurer. (She may be pro-life.)

THE WHITE HOUSE
WASHINGTON

July 10, 1995

Mr. President:

This memo from Carol Rasco summarizes a report on modernizing Medicare by Lynn Etheredge. If you want to see the report itself, we'll send it up.

Rasco
Todd Stern

*How soon will
Squaw or the
Kasebrenny (Kasebrenny)
Gin -*
THE PRESIDENT HAS SEEN
7-17-95

THE WHITE HOUSE

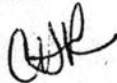
WASHINGTON

July 7, 1995

95 JUL 7 P 6:31

MEMORANDUM FOR THE PRESIDENT

FROM::

Carol H. Rasco 

SUBJECT:

Lynn Etheredge's Report on Medicare

Lynn Etheredge has just completed the attached report that provides solid recommendations about how the Medicare program can be modernized. It is a well-written and researched analysis that documents the current shortcomings of Medicare and provides specific suggestions about how we can move the program into the 21st century. In short, he advocates utilizing the best of private sector competition, quality and accountability innovations without undermining the program.

As you may recall, Lynn is a consultant who has worked closely with both Republicans (OMB career under Reagan) and Democrats (your health care transition team and as a consultant last year to Kennedy's Labor Committee.) Most recently, he has been associated with the Jackson Hole group. He is well respected by all sides and is shopping the concepts outlined in this paper to moderate Republicans and Democrats.

The good news is that much of what Lynn is advocating is consistent with the Medicare restructuring/managed care enhancement package you explicitly and/or implicitly included in your balanced budget alternative. His recommendations would empower beneficiaries and the Medicare program itself, without fundamentally destroying the current system that has gained the overwhelming support of the public. They would contribute to your goal of providing more efficient options without financially coercing beneficiaries into plans they otherwise would not choose. Most importantly, they represent an alternative to the status quo that can be used to counter Republican voucher proposals. In short, your proposal has choice with security, whereas the Republicans are financially coercing beneficiaries into capped managed care plans. The approach outlined by Lynn would likely have the added benefit of being well received by the business, the managed care, and the aging advocacy communities.

While we would probably have to push HHS on some of Lynn's recommendations -- particularly with regard to a timely implementation schedule -- we believe the current environment has made the Department much more receptive and encouraging of movement in this direction. Donna Shalala, in particular, would probably love to embrace them.

I wanted to share this with you now because I think it is particularly timely relative to the inevitable upcoming Medicare reform debate. I have asked Chris Jennings to stay in close touch with Lynn and to continue to have appropriate White House and Department representatives review our substantive and political positioning strategy vis a vis Medicare. Unfortunately, because of the perception that we (and HCFA in particular) are not sufficiently open to the types of suggestions Lynn has raised, we must be careful about how and when we move this type of agenda to ensure that the Administration gets its due credit. Attached is a one-page summary of Lynn's recommendations.

cc: Alice Rivlin
Laura Tyson

HIGHLIGHTS OF ETHEREDGE'S MEDICARE REFORM RECOMMENDATIONS

Medicare's mission philosophy needs to be revised to emphasize Medicare as a health plan. Most importantly, Medicare needs to become accountable, not just for insurance to pay bills and protect financial assets, but for improving the health of its enrollees, by providing preventive health measures and quality medical care.

Medicare should have new authorities to purchase health care on the basis of explicit quality and other criteria and competitive performance. To improve Medicare's performance, Congress needs to provide authority to move beyond the limits of regulatory rule-making and price-setting so that Medicare can adopt the same types of successful purchasing techniques pioneered by private-sector pay. (This is very similar to the Clinton Administration PPO and point of service options.)

Report cards that assess Medicare's performance on the basis of cost, quality, outcomes, and service need to be utilized so that the program can be held accountable by enrollees and policymakers. These measures need to reflect a wide range of criteria, including preventive care, quality of care, consumer satisfaction, and health outcomes, and should also apply to competing private health plans. Report cards should show national, state-level, and market-area performance.

Medicare needs to adopt competitive purchasing of standardized services and supplies, including durable medical equipment, laboratory testing, radiology, and outpatient surgery.

Medicare needs to significantly expand its use of centers of excellence and specialized services contracting. Medicare now uses such concepts in its coverage for transplant services; private-sector plans use selective contracting even more widely for many forms of surgery, cancer care, and mental health. Intelligent purchasing by Medicare would produce better quality, cost, and service competition among providers, to the benefit of Medicare beneficiaries and taxpayers.

A national strategy for clinical effectiveness and outcomes studies for the Medicare population needs to be implemented by analyzing the Medicare data to identify procedures with wide variations that seem likely to reflect overuse and underuse.

Medicare needs to be better empowered to drop providers who are contributing to a significant fraud and abuse problem in the program.

June 1995

Reengineering Medicare: From Bill-Paying Insurer to Accountable Purchaser

Prepared by

Lynn Etheredge
Consultant

Prepared for the Health Insurance Reform Project, George Washington University, with funding from the Robert Wood Johnson Foundation

Reengineering... is the fundamental rethinking and radical redesign of business processes to achieve dramatic improvements in critical contemporary measures of performance, such as cost, quality, [and] service.

—Michael Hammer and James Champy,
Reengineering the Corporation

At the time of its enactment 30 years ago, Medicare was patterned on the health insurance models widely used by private employers and insurers for the under-65 population. In this model, the primary administrative function of insurance companies and of the Medicare program was simply to pay bills. Today, Medicare remains essentially a bill-paying insurance program, with the addition of national formulas for hospital and physician payment rates.

In recent years, the private sector has moved beyond this traditional insurance model. Private-sector payers are no longer simply paying bills but are using a variety of evolving *purchasing* techniques, in a competitive marketplace, to restrain costs and improve quality and service. Among these purchasing strategies are many forms of selective, competitive contracting; capitation and risk-sharing arrangements; provider performance standards, with incentives, penalties, and continuous quality improvement goals; management of high-cost cases; centers of excellence for transplants, heart surgery, cancer care, and other treatment; prevention and chronic disease management initiatives; consumer information and incentives; specialized contracting for pharmaceutical benefits, substance abuse, mental health, and other services; and specialized claims-auditing firms to deal with fraud. Individuals with benefits offered by large employers—including, through the Federal Employees Health Benefits Program (FEHBP), the nation's political leaders and federal workers—are usually able to make choices among a number of health plans on the basis of provider networks, cost, quality, service performance, and other features.

In this new purchasing environment, private-sector employers and consumers are increasingly able to make informed choices—to hold providers (and the plans that contract with them) *accountable*—through the use of tools such as the National Committee on Quality Assurance's (NCQA's) "report cards," which are based on the Health Plan Employer Data and Information Set (HEDIS), and other quality measures, such as health outcomes. The HEDIS data set includes more than 60 quality, service access, patient satisfaction, outcomes, and other performance measures, including preventive care (such as immunizations, mammography screening, and eye exams for diabetics) and signal indicators for poor quality (such as inpatient admissions for asthma and treatment following heart attacks).

In the current political climate, there is great interest in the federal government's making available to the Medicare population a broader choice of competing private health plans that use such purchasing technologies. Today, health maintenance organizations (HMOs) and other private plans enroll only about 10% of the Medicare population. Among the many measures that could open up more plan options are an FEHBP-type "managed competition" approach that would allow Medicare beneficiaries to make informed choices among a wide range of HMO, preferred provider organization (PPO), Medicare Select, medigap, and other plans during an annual open season. Other options being discussed involve workers staying with employer/association plans after turning age 65 or some use of medical IRA accounts and catastrophic coverage. Much of the attention in Congress now centers on the policy questions involved in structuring new options for Medicare enrollees.

As a complete reform strategy, such options would fall short. They do not reform the basic Medicare program. Over 90% of Medicare's spending is through the fee-for-service model. As of January 1, 1995, 19 states had no Medicare HMO enrollees and 32 states had 1% or fewer of their Medicare-eligible populations

enrolled in HMOs. A handful of states—including California (42% of Medicare HMO enrollees) and Florida (17% of Medicare HMO enrollees)—accounted for most of the Medicare HMO membership.¹ Even with an FEHBP-type arrangement and optimistic growth assumptions about private plan enrollments, many factors make it likely that most Medicare eligibles in most states will still be in the program for the rest of the decade and beyond.² In its traditional bill-paying mode, the Medicare program has very few tools for dealing with the volume, intensity, and quality issues that are its major cost-drivers. Thus, devising a strategy for fundamental reform of the basic Medicare program—“reengineering” Medicare—is essential not only to deal with budget issues but also to achieve improvements for the 37 million people who depend on the program.

What should be done about the basic Medicare program? What would be in the best interest of its 37 million elderly and disabled enrollees?

This paper considers the question of whether Congress should give Medicare the same types of authorities that are available to its private-sector competitors—particularly authorities to use new purchasing techniques—and require performance accountabilities for their use through HEDIS-like quality and health outcomes measures. Should not the nation’s elderly and disabled, as well as taxpayers, ask for and expect a state-of-the-art Medicare program? If this approach were adopted, Medicare-eligible individuals would be able to enroll either in a Medicare program that is working hard to provide the best economy, quality, and services or in competing private-sector health plans that are paid equivalent (risk-adjusted) capitation amounts. One might expect that, over the long term, both taxpayers and Medicare-eligible persons would benefit by such competition.

At the most general level, reforming the Medicare program in this way would start with three fundamental changes:

- *A revised mission philosophy that emphasizes Medicare as a health plan.* Most importantly, Medicare would need to become accountable, not just for insurance to pay bills and protect financial assets, but for improving the health of its enrollees, by providing preventive health measures and quality medical care.³
- *The adoption of “report cards” that assess Medicare’s performance on the basis of cost, quality, outcomes, and service so that it can be held accountable by enrollees and policymakers.* These measures need to reflect a wide range of criteria, including preventive care, quality of care, consumer satisfaction, and health outcomes, and should also apply to competing private health plans. Report cards should show national, state-level, and market-area performance.

The measures that could be used by a reformulated Medicare can be illustrated by comparing current official data reports with new health-related data that could be a basis for the above-described report cards. The most extensive public accounting for Medicare’s operations is the *Medicare and Medicaid Statistical Supplement* published in February 1995.⁴ Its more than 370 pages are filled with statistics that emphasize financial, workload, and claims-paid data, such as hospital days of care and expenditures, that are appropriate to a traditional health insurance program. Nowhere are there measures of quality of care and improved health status or reports on enrollee satisfaction.

Two recent studies highlight the kinds of health-related measures that might be used to assess Medicare’s future performance as an accountable health plan. The Physician Payment Review Commission (PPRC) and the RAND Corporation have recently developed a set of approximately 50 quality measures that can be implemented, using claims data, for the current Medicare program. Several measures, which have been run against Medicare’s national claims data, are shown below in Table 1. A number of them are similar to the

NCQA's HEDIS measures used for private-sector health plans. In the view of the physician consensus panels developing the measures, these are "necessary care" indicators; that is, professionally acceptable practice should be near 100% compliance.

TABLE 1

**Clinically Based Indicators of
Quality of Care for the Elderly**
Medicare Claims Data, 1992 and 1993

Breast Cancer

For patients with breast cancer,
interval from biopsy to surgery
less than 3 months 64%

Mammography every year for
patients with a history of
breast cancer 61%

Mammography every 2 years
in female patients 39%

Diabetes

Eye exam every year for patients
with diabetes 38%

Heart Problems

Visit within 4 weeks following
discharge for patients hospitalized
with MI 84%

EKG during ER visit for
unstable angina 81%

Mental Diagnosis

Visit within 2 weeks following
discharge of patients hospitalized
for depression 95%

The PPRC-RAND study shows several quality indicators on which the care received by Medicare elderly patients merits an "A" (95%+) on a nationwide basis. But it also highlights a number of prevention indicators, such

as mammography and eye exams for diabetics, for which there should be failing grades, "D" or "F," as well as many indicators in the 60% to 85% range where care falls well below professional standards. The study also highlights particular problems for minority populations and for rural and underserved areas.⁵

Another recent study, by Lewin-VHI for the National Institute for Health Care Management, analyzed Medicare hospitalization rates for three diagnoses that are sensitive to good ambulatory care and preventive measures. For 1992, the study reported Medicare hospitalization rates for asthma to vary by more than 3:1 among states, hospitalization rates for diabetes by more than 5:1, and hospitalization rates for hypertension by more than 8:1. Even after statistical adjustments for demographic characteristics, several-fold variations still remained.⁶

Given such statistics, any presumption that Medicare has already become the "gold standard" of quality care and that it is up to its competitors to prove their superiority should be put aside. Medicare's performance needs to be measured and accountable on the same basis as its competitor plans, so its enrollees can make informed choices.

The third fundamental change that would need to occur for Medicare to become more like a state-of-the-art accountable health plan is the following:

- *Medicare should have new authorities to purchase health care on the basis of explicit quality and other criteria and competitive performance.* Within the many statutory constraints Medicare has to operate under as a government program, it has generally been run effectively, efficiently, and with continuing improvement and innovation. Given its constraints, Medicare is now about as good a program as it can be. But, in nearly every area—such as three-year-long rule-making processes, volume increases and quality assurance issues, fraud and abuse, and rapidly rising budget costs—it is clear that Medicare cannot deal as effectively as it

needs to with the complexity and pace of change in today's health system, nor can it hold physicians, hospitals, and other providers accountable for improving their performance. To improve Medicare's performance, Congress needs to provide authority to move beyond the limits of regulatory rule-making and price-setting so that Medicare can adopt the same types of successful purchasing techniques pioneered by private-sector payers. Such evolution could build incrementally through many Health Care Financing Administration (HCFA) initiatives, but, if fully reengineered, the Medicare program would be quite different a decade hence. Such changes will require a new bipartisan political consensus.

The next section elaborates on management challenges for the Medicare program's future if it is to be an effective health care purchaser. Following that is a discussion of specific legislative changes needed to allow Medicare to be an effective purchaser and competitive health plan. A third section sketches a research agenda for developing a Medicare management strategy to use these new statutory authorities. A final section discusses issues related to competition between a reengineered Medicare program and competing private-sector health plans.

THE CHALLENGE OF MEDICARE MANAGEMENT

For the federal government, serious efforts to manage Medicare as an accountable health plan would be among the most enormous and complex tasks it has ever undertaken. To put the task on the scale of private-sector enterprises, the Medicare program, with \$160 billion of spending in 1994, has passed General Motors—with \$154 billion in revenues, the nation's largest private company—to become the nation's largest business-type operation.⁷ In 1994, only three privately managed U.S. corporations (General Motors, Ford, and Exxon) had more than \$100 billion in revenues, 11 had \$50 billion or more in revenues, and 110 had \$10 billion or more in revenues. To-

day, 37 million persons depend on the Medicare program. Within 30 years, as the baby boom generation retires, Medicare will be purchasing health care for about 70 million persons, and its annual spending will be many times greater than it is today.

An understanding of the challenges of charting Medicare's future begins with an understanding of the scale involved. Nevertheless, there is a widespread misperception about the Medicare program that must be dealt with to understand just how difficult it will be to manage the program. That is the myth of uniformity, predictability, and gradual change.

Medicare can seem to be a deceptively simple and easy-to-reform program. Its enrollments, financing, and benefits are defined in statute. It has a centralized administrative structure (DHHS/HCFA); a uniform set of regulations; payment rates for hospitals, physicians, and other services that are specified by national formulas; and a national quality assurance/peer review structure, the Professional Review Organization (PRO) system. Individuals who are not health services researchers also tend to presume that health care is enough of a science that area-to-area rates of service use will be roughly uniform and that clinical practices change gradually, primarily as a result of the steady accumulation of scientific data. A misperception that the health care system is evolving in gradual, uniform ways is also reinforced by national health expenditure and Medicare actuarial data that aggregate a vast number of complex changes and variations into single categories such as "intensity."

The following selection of data illustrates how far assumptions of uniformity and steady change are from the Medicare program's reality.

- *Hospital use.* Even on a regional basis, Medicare enrollees' use of hospital care varies by a ratio of 2:1—from 1,735 days/1,000 enrollees in the western states to 3,455 days/1,000 enrollees in the northeastern states in 1992. As they have for years, hospital

lengths of stay continue to average about 50% longer in the northeastern states (10.4 days) than for the western states (6.7 days).⁸

- *Rates of change in hospital use by diagnosis-related groupings (DRGs).* In the 1988-1992 period, hospital discharges for Medicare enrollees rose by 8.3%. Of the 65 leading DRGs, however, only 12 had increases between 0% and 20%. Seventeen DRGs had increases of 20% to 40%, 9 rose by 40% to 60%, and 5 increased by more than 60% in the four-year period. The most rapid increases were reported for DRG 88 (chronic obstructive pulmonary disease), 219%; DRG 462 (rehabilitation), 103%; and DRG 214 (back and neck procedures with complications and/or comorbidities), 75%. Discharges declined for 22 DRGs. Eleven DRGs had declines of between 0% and 20%; 8 declines were in the 20% to 40% range; 3 declined by over 40%. The DRGs that decreased most were DRG 90 (simple pneumonia and pleurisy) and DRG 96 (bronchitis and asthma with complications and/or comorbidities), which had declines of 52% and 58%, respectively.⁹
- *Nursing home use.* Rates of nursing home use varied by 6:1 across states. Minnesota residents used 1,364 days/1,000 enrollees, Connecticut residents 1,235 days/1,000 enrollees, and Indiana residents 1,067 days/1,000 enrollees in 1992. Among the low-use states were Maine (248 days/1,000 enrollees), Oklahoma (326 days/1,000 enrollees), and New Hampshire (327 days/1,000 enrollees).¹⁰
- *Home health use.* The rate of home health visits per 1,000 enrollees varied by more than 17:1 among states in 1992. The high-use states included Mississippi, with 11,786 visits/1,000 enrollees and Tennessee, with 11,717 visits/1,000 enrollees. At the other end of the range were Hawaii, with 668 visits/1,000 enrollees, and South Dakota, with 969 visits/1,000 enrollees.¹¹
- *Growth rate in part B spending.* Over the 1986-1992 period, Medicare part B annual

expenditures rose at a national average of 8.8%. Here again, substantial national diversity, rather than uniformity, is the dominant pattern. The rate of increase varied more than 3:1 among states—from 4% to 5% annually in California and Hawaii to between 13% and 16% annually in South Carolina, Delaware, Kansas, Nevada, and North Carolina.¹²

- *Growth in physician procedures.* Over the 1991-1994 period, the growth rate of Part B services averaged 3.5% annually. Behind these averages, however, were quite different and rapidly changing patterns for different services. Echocardiograms increased at a 19.3% annual rate, angioplasty at 17.1% annually, MRIs at an 11.9% rate, arthroscopy at 9.1%, coronary artery bypass grafts at 8.8%, and joint prostheses at 7.3% per year. Among the declining procedures were transurethral prostate surgery, falling 9.9% annually, and cataract lens replacements, falling 2.3% annually.¹³

A common-sense view might be that high-use areas would probably also be areas of high overuse. This assumption was rigorously tested by RAND researchers using 1981 data for three procedures: carotid endarterectomy, coronary angiography, and upper gastrointestinal tract endoscopy. The rates per 10,000 elderly varied among three sites by 3.8 times for carotid endarterectomy, 2.3 times for angioplasty, and 1.5 times for upper gastrointestinal tract endoscopy. Their findings were that rates of inappropriate use were not much different between low-use and high-use areas. However, rates of inappropriate use for all three procedures were significant, ranging from 17% to 32%.¹⁴

One might be skeptical about some of the Medicare-reported trends. (Were there really major epidemics of chronic obstructive pulmonary disease and complicated back and neck problems requiring hospitalization of the elderly that escaped the national media attention in 1988-92?) But Medicare has spent a

great deal of effort and money to improve its data systems. To the extent that Medicare's payments do not accurately reflect the services being provided to its beneficiaries, then far more is wrong about provider billings (and Medicare administration) than data errors.

REENGINEERING MEDICARE MANAGEMENT

The only way we're going to deliver on the full promise of reengineering is to start reengineering management.

—James Champy

If Medicare were to be operated in a more business-like way, what important changes should Congress consider making in the Medicare program's authorities? Many government-sponsored activities do have flexibility similar to that found in private-sector businesses; these activities include the Tennessee Valley Authority and other power marketing authorities, the Government National Mortgage Association, and the Federal Reserve Board. But granting Medicare, with \$175 billion in purchasing power and 37 million enrollees, a freer rein will need to be done carefully and watched vigilantly.

In general terms, *Medicare needs the authority to select providers based on quantifiable measures of quality, outcomes, and service and to use competitive purchasing.* The heart of a private-sector plan's ability to improve quality and assure accountability is its capacity to decline to do business with poor performers and to move business toward better performers. In contrast, Medicare is the prime remaining example of the traditional insurance "any willing provider" philosophy. To be certified as a Medicare provider usually requires little more than state licensure or accreditation by certifying organizations that are provider-dominated. Congress has created a virtual entitlement for health care providers to participate in Medicare. Competitive procurement is a standard business method for assuring good quality,

cost, and service, and it should also be available for Medicare administrators.

Among the areas for possible use of such authorities are:

- *Competitive purchasing of standardized services and supplies*, including durable medical equipment, laboratory testing, radiology, and outpatient surgery
- *Establishment of explicit quality and service performance standards and refusal to do business with providers that do not measure up.* For the welfare of its beneficiaries, Medicare needs to move beyond the minimal participation requirements that are now set in legislation. New standards for providers should include the HEDIS-type "report card" and health outcomes measures for which the Medicare program will be accountable (for example, physicians who fell below certain standards in providing mammography screening for their patients would be dropped from the program).
- *Development and use of centers of excellence and specialized services contracting.* Medicare now uses such concepts in its coverage for transplant services; private-sector plans use selective contracting even more widely for many forms of surgery, cancer care, mental health, and so forth. Major expansions may be possible to develop disease management and preventive services for patients with chronic or high-expense illnesses and for disabled enrollees. Intelligent purchasing by Medicare could call forth better quality, cost, and service competition among providers, to the benefit of Medicare beneficiaries and taxpayers. To preserve Medicare's role in assuring a broad choice of providers, Medicare enrollees might still be able to go to non-preferred providers, but with higher co-payment rates.
- *Use of case management for high-cost patients.* Most private-sector health plans have the flexibility to work with high-cost patients to develop service packages, such as home

care, that can better meet their needs. The Medicare statute does not permit such flexibility, even when it would be in the best interests of the patient and the program. With so many frail elderly and disabled patients, Medicare might be able to make good use of such authorities.

- *Elimination of notice of proposed rule-making process for purchasing.* Like Gulliver tethered by many bonds, the Medicare program's effective use of its purchasing power is held back by numerous technical constraints, some of which are appropriate to a rule-making administrative style but not to a business-type operation. Most important of these is the Notice of Proposed Rule Making requirements that now involve at least a three-year process for major Medicare policy initiatives or changes. Such rule-making is frequently, in essence, simply a statement of contractual terms, that is, what Medicare will and will not pay for, under what terms, and in what circumstances. A private business that had to go through a three-year process any time it wanted to write or revise a contract with its suppliers would probably be in the same financial predicament as the Medicare program.
- *Authorization for Medicare simply to drop providers in the best interests of the program to deal with fraud and abuse.* In recent testimony, a Government Accounting Office (GAO) official noted that the Medicare program is "overwhelmed" by fraud and abuse and that it is a "particularly rich environment for profiteers."¹⁵ Among Medicare's many problems are the difficulties of kicking providers out of the program and the limited resources made available by the Department of Justice. A recent GAO study based on studies of claims denial rates for 74 services across 6 carriers noted that one-half of denied claims were submitted by between 2% and 11% of providers.¹⁶ Acting as a business-type purchaser, Medicare would have authority to simply stop doing business with any supplier, at its discretion. In areas of widespread fraud, Medicare might also be allowed to engage private-sector law firms to recover on behalf of the government.
- *Authorization for Medicare to organize and contract for quality assurance at its discretion.* Since 1965, the major initiative to improve Medicare quality has been enactment of the PRO system. It is an expensive program (costing some \$325 million in 1994), deals almost exclusively with inpatient hospital care, and has been of questioned effectiveness. The 53 PROs are provider-dominated organizations. Most are physician-sponsored, for example, by local medical societies, and typically have a board of directors composed primarily of physicians and other provider representatives. Medicare Part B services are largely subject to quality review by the claims-paying carriers. As noted in an Institute of Medicine report on Medicare quality improvement, the implementation of a new health-oriented mission for the Medicare program will require far-reaching administrative, contractual, and other changes that include reconsideration of PRO, carrier, and HCFA roles.¹⁷ Would a private-sector purchaser, intent on improving quality of care, want to be constrained to contracting with a medical society or provider-dominated organization?
- *Publicity about data on quality and service.* With the advent of HEDIS and buyers insisting on accountability, provider secrecy about quality problems is being replaced by publicized reporting in the private sector. Statutory change should also allow this approach to be adopted by the Medicare program. Such publicity about where physicians and hospitals stand compared to professional benchmarks and guidelines can be important acts in themselves to encourage better patterns of care and service.
- *Improvement of customer service.* The Medicare program has never had a strong customer orientation. As an adjunct to the Social Security Administration (SSA), it started with representatives in SSA's district offices, but

it lost these community-level staff when HCFA was established. Customer service is an area in which Medicare is at a competitive disadvantage vis-à-vis competing private health plans.

- *Enactment of special authorities for Medicare in the hiring, promotion, and compensation of employees.* There is no activity which is of larger budgetary consequence or greater management challenge for the federal government over the next half century than the Medicare program. Today, Medicare is bound by government-wide civil service procedures, promotion, firing, compensation levels, and personnel ceilings. In business-type operations, such as the Federal Reserve Board, Congress has been willing to make exceptions so that federal activities can be carried out with the required professional expertise. In particular, the Medicare program may need such flexibility if it is to compete with private-sector plans.

Certainly some health care providers—and competing health plans—will question the wisdom of such new Medicare authorities. But why would beneficiaries and taxpayers want to keep Medicare from being as good a program as it can be? If Medicare is expected to compete with private plans for enrollees, why should it not have comparable purchasing flexibility?

A STRATEGIC PLAN FOR MEDICARE MANAGEMENT

If the Medicare program, as an accountable health care purchaser, is to begin to use these authorities to deal with quality, service, and cost issues, where should it start and what should it do? Given the program's scale and complexity, a great deal of work will need to be done to devise an intelligent purchasing strategy before that question can be answered in a way that has wide professional and political support. As a matter of law, Medicare cannot deal with such problems in an arbitrary or capricious manner. Beneficiaries have rights to

due process and to judicial review for claims denials. Much of the needed research will be useful for competing private-sector health plans, since these plans will face the same issues and few yet have much special expertise in managing care for the Medicare populations.

Research might help Congress, the executive branch, and other interested parties in the following five basic areas:

- *A national strategy for clinical effectiveness and outcomes studies for the Medicare populations.* This strategy could be built by analyzing the Medicare data to identify procedures with wide variations that seem likely to reflect overuse and underuse or excessive rates of increase and by prioritizing a research agenda by potential payoffs in enrollee health and program costs. It also needs to include recommendations concerning funding for the effort, the appropriate methodologies to assure usefulness, and an ongoing system to automatically evaluate new technologies and clinical practices. The serious shortcomings of much of the published literature on medical treatment, well-known to clinical effectiveness researchers, was highlighted in a recent *New York Times* story of a Canadian assessment of treatment for whiplash injury that found only 62 of 10,382 studies met the evaluators' criteria for solid scientific evidence.¹⁸
- *Development of HEDIS-type "report card" measures for quality/health outcomes, consumer satisfaction, and service.* These data need to be collected at the state and market-area level, so that HCFA can manage its carrier/PRO contractors accountably and so that enrollees have comparable data to private-sector plans for making their enrollment decisions. These report card measures need to be selected for their validity and reliability and should include information that is important to consumers for making choices among health plans.
- *Studies of "best practices" in all major areas of costs, quality, and service.* Medicare is a vast program that has not been very amenable to

centralized, command-and-control management. Political decision-makers and the Medicare program have rightfully been extremely wary about trying to use government coercion to change medical practices. Perhaps the best way to foster desirable change in a competitive-choice market system is to make sure that patients, providers, and competing health plans are well-informed about the best practices and performance benchmark standards that they should look for in making purchasing decisions or should offer to be successful in the marketplace. The private sector's new purchasing techniques, and their applicability to Medicare's populations, need to be carefully assessed.

- *Effective communication strategies.* The development of a national research effort for effectiveness and outcomes studies, report card data, and identification of best practices need to be matched by strategies to be sure the information is effectively communicated and that it takes into account the range of sociological and other factors that need to be addressed for effective change. Good clinical research data on outcomes and effective communication seem to have been an effective strategy in the recent declines in prostate operations and cataract surgery, two procedures that had been increasing rapidly until better information was made available to clinicians and patients.
- *Assessment of where both Medicare and competing private health plans do and do not work well, and why.* One of the important open issues for health policy is to identify market conditions where health plan competition can improve health care and where such competition does not work well. In today's market, for example, while the Twin Cities area has one of the highest national rates of HMO enrollment for the under-65 population, only 9% of Medicare eligibles are enrolled. A possible reason is that HMOs cannot make much money or provide many additional benefits for 95% of the Medicare expenditures in this area. Some analysts

have also argued that managed competition will not work well in rural areas. If Medicare competition is opened up to a wide variety of options more attractive than HMOs—for example, PPOs, point-of-service (POS) plans, Medicare Select options, and other arrangements—market research on their comparative success can yield insights about how the Medicare program may need to be changed to better meet the needs and preferences of its enrollees.

In addition to these areas, there are a number of special study topics that could prove useful for devising a strategy for Medicare to operate as an accountable health plan.

- *Special studies of needs and service for Medicare's disabled populations.* Medicare's 4 million disabled enrollees have been badly neglected by health policy analysts and in Medicare policy discussions. Medicare publishes very little data on their characteristics, needs, and service use. Nevertheless, this is an important group for analysis, as its rate of growth (4.0% annually in the period 1982-1992) is more than twice that of the elderly population (a 1.9% annual increase during the same period); the under-45 disability group has been growing even faster, almost 11% annually over this period. With a benefit package focused on acute medical care, the Medicare program is not well-designed for totally and permanently disabled persons. Since this group is unlikely to be attractive to private health insurance plans, it is particularly important that the Medicare program, as an accountable health plan, make special efforts to be sure that they are being well served. Separate HEDIS-type measures may be needed for disabled subpopulations.
- *Special studies of high-use elderly populations.* As is the case with the under-65 population, Medicare's spending for the aged is highly skewed, with about 5% of enrollees accounting for about 50% of expenditures on care, 10% for about 70% of expenditures on care, and about 20% accounting for about 80% of

expenditures on care. Among the high-expenditure populations are important subpopulations with chronic illness. Trying to identify these groups and analyze potential improvements in their care will be of particular importance for dealing with Medicare spending issues. To the extent that such high-use groups remain with the Medicare program, it will be even more important for Medicare to have a scientifically strong clinical basis for assessing their needs and care.

- *Special studies of disease management and prevention initiatives.* It may seem unusual to think about prevention and long-term disease management for Medicare enrollees, but its elderly enrollees are in the program, on average, for over a decade, with some enrolled for up to 40 years; its disabled enrollees receive benefits for even longer. Among prevention initiatives reported by HMOs for the over-65 are activities to reduce falls, a leading cause of hospitalization in the elderly, and to identify inappropriate prescribing and potential drug-drug interactions. As an increasing number of pharmacy benefit management and other firms develop disease management expertise, it will be important to assess the potential of these developments for the Medicare population, particularly in light of the many studies that show misprescribing for the elderly.

- *Policy development for post-acute hospital care.* A particularly rapid part of Medicare's recent growth has been in post-acute hospital care. Between 1992 and 1993, Medicare spending for home health and skilled nursing care each grew by about 40%, to a total of nearly \$17 billion. Rehabilitation therapy claims are growing about 30% a year.¹⁹ This entire policy area needs careful review, in conjunction with the Medicaid program, which is the nation's largest financier of long-term care, to rationalize the service efforts. Standards of appropriateness of care are more difficult to come by in this area than for clinical effectiveness and outcomes studies of acute care.

- *Better risk-adjustment mechanisms and procedures.* It is predictable that the basic Medicare program will continue to have a less healthy population than competing private health plans, at least for the foreseeable future. This will be an ongoing area of research and policy analysis. Perhaps an independent or quasi-independent organization should manage the annual "open season" competition between Medicare and private health plans to help assure fair, well-informed choice by eligible individuals.

This is an outline for a very broad and multi-year research agenda. But such an effort is needed, by both public and private sectors. Over the past 10 years the primary focus of Medicare policy has been to design, implement, and refine its price controls—using DRGs and a resource-based relative value scale (RBRVS). Today, there is very little that is "on the shelf" that can be implemented in the short run.

CAN MEDICARE COMPETE SUCCESSFULLY?

Given new accountabilities, new management authority to purchase health care, and a strategic plan for its future, can Medicare compete successfully with private health plans for the benefit of the elderly and disabled? Why not just leave Medicare alone as a traditional billpayer and hope that it will wither away as beneficiaries choose better-managed private health plans? There will be those who believe that privately managed health care plans will out-perform any new-model, government-run Medicare program in head-to-head competition and that trying to manage Medicare as a competitive health program is hopeless or unwise.

Nevertheless, the Medicare program is still the choice of over 90% of its eligible population (and, in a majority of states, of 99% or more of eligibles), and it seems premature to predict Medicare's demise or to make an unchallengeable case about private health plans' interest and ability to compete, on a nationwide basis, for the Medicare population,

particularly its high-expense frail elderly, chronically ill, and disabled populations. Given the current situation, it would be a high-stakes risk to ignore upgrading Medicare and place all of the nation's Medicare budgetary bets on presumptions about the success of private-sector plans that may prove to be wishful thinking. In addition, the federal government has a number of strengths to build on in trying to make Medicare a better program. Among these strengths are:

- *Good track record.* It is fashionable to disparage government competence, but, compared to much of the private insurance industry, the Medicare program has an excellent track record for innovation and efficiency, within its statutory constraints. Through the use of DRGs and RBRVS, Medicare has led private payers in reducing payments for overpriced procedures and using purchasing power to restrain inflation and rationalize payment rates. Medicare has also led in investing in medical efficacy studies and protocol development to improve clinical practices reflecting outcomes research (through the Agency for Health Care Policy and Research [AHCPR]); publicizing information on comparative provider quality, for example, hospital mortality rates and nursing home reviews; setting up standardized data systems; establishing electronic submission of claims; and overall administrative efficiency. In all of these areas, Medicare still betters the private insurance norms. Among recent innovative steps are beneficiary surveys, a consumer information strategy (immunizations, mammography), a coronary artery bypass surgery demonstration with bundled payment rates, Medicare Select demonstrations, and performance contracts with PROs. With a new statutory mandate and authorities, Medicare may also excel in new competition vis-à-vis private health insurance plans.
- *Flexible administrative structure.* Medicare is normally thought of as a government-run program, but, in fact, no federal employees

actually pay claims. Federal employees oversee a system of some 74 private contractors (called intermediaries and carriers—mostly Blue Cross/Blue Shield plans or commercial insurers) that actually run the program on a day-to-day basis. These private-sector insurers—themselves now involved in developing and managing private health plans—bring administrative flexibility, staffing and subcontracting capabilities, and expertise in local markets. When Medicare was first established, its contractor system offered administrative capabilities the government did not possess and could not develop on the scale and in the time frame that was needed. A well-managed Medicare program might be able to take advantage of this flexibility, in new relations with its contractors. As discussed in a recent companion piece,²⁰ the Blue Cross Blue Shield Federal Employees Plan managed pharmacy benefits program offers a model for how state-of-the-art managed care programs can be developed and offered in a government-financed framework for public beneficiaries. Medicare might be able to cross-fertilize between HCFA's rule-making and bill-paying culture and the private payers' purchasing culture to produce hybrid plans through joint efforts with its primary contractors.

- *Public trust and freedom of choice.* While government, in general, may be viewed with distrust and suspicion by many voters, the Medicare and Social Security programs retain strong senior citizen support. Medicare remains the program of choice of the elderly. In the Medicare program, enrollees have much broader freedom to choose a provider than in private managed care plans. They also have legal rights and due processes that help to guarantee their benefits—and an ability to appeal to their members of Congress for assistance.
- *Enormous purchasing power.* Medicare is the nation's largest health care purchaser, with an estimated \$175 billion of spending in

1995. In 1993, it accounted for 19% of personal health care expenditures, including 28% of hospital care expenditures, 20% of physician care expenditures, and 39% of home health expenditures. The price discounts Medicare has been able to achieve through DRGs and RBRVS alone—although now undercut by HMOs in some markets—and its high assignment rate (over 96%) suggest a reasonable amount of optimism should be in order about the success of future purchasing strategies. If managed purposefully, Medicare should be able to strike economic terms that are at least as favorable as its competing health insurance plans, as well as use its purchasing discretion for upgrading quality and service standards.

- *Data and research capacity.* Finally, Medicare has an unsurpassed data system, including claims records on medical services use by some 37 million enrollees and a potential for service-profiling and quality-auditing most of the nation's health care providers. This is a unique resource for developing national management strategies and for rapid learning about the effectiveness of these providers. Medicare and AHCPR also have a strong tradition of health services research and can work with many professional groups in developing clinical quality indicators and improvement strategies.

How best to manage competition between competitive Medicare and private-sector plans, all trying their best to enroll Medicare eligibles with the most attractive benefits, costs, quality, and service, is a complicated topic in its own right. If reengineering Medicare, as described in this paper, is a primary challenge, another ongoing challenge of daunting complexity will be to assure that competition among Medicare and competing health plans works well. Congress is now in the midst of debating many major policy questions, including enrollee financial incentives and the potential for budget savings, and there are numerous questions which will require long-term learning agendas.

Thirty years after Medicare's enactment, a much-needed debate about Medicare's future is taking place; its focus is whether (and how) the Medicare program should be rethought in light of the private sector's transition from bill-paying insurance to accountable health care purchasing. Whether one favors Medicare reforms alone, more private plan options alone, or a "two-track" strategy that includes both approaches (the possibility raised in this paper), there are good reasons to proceed with caution in use of either Medicare's new business-type authorities or new competitive arrangements. The welfare of 37 million elderly and disabled individuals is at stake. While it is attractive to envision improving the Medicare program, it is also important to realize that discretionary authority can also be misused, and competitive forces can go awry. The Medicare program could be made worse if it is subjected to unrealistic budget pressures and its new authorities are used to ration services, or if competing plans "skim" the Medicare enrollment. As well, the American tradition of public management—based on the view that government officials should not be allowed to act in ways that are arbitrary, capricious, and unfair—has usually insisted on "a government of laws and not of men." But protection of Medicare enrollees in private plans from poor HMO practices should be no less an issue.²¹ With broader administrative discretion for political appointees also comes increased possibility for the application of political pressures, from Congress and other sources, and the pursuance of personal agendas. Perhaps the Medicare program is unmanageable or will prove to be so; perhaps private plan enthusiasm about the profit potential of Medicare enrollees will abate. For many such reasons, there will need to be a great deal of oversight and vigilance about Medicare and its competitors. Just as Congress established the Prospective Payment Assessment Commission and PPRC to advise on development of Medicare price regulation, it may also wish to establish a similar advisory commission for an implementation period of market-oriented Medicare reforms.

ENDNOTES

1. *Medicare: Opportunities Are Available to Apply Managed Care Strategies*, statement of Janet Shikles, GAO/T-HEH-95-81, February 10, 1995 (Appendix I).
2. About 77% of Medicare eligibles already have medigap, Medicaid, or other supplemental coverage, so switching enrollment to an HMO may provide them few additional benefits. Individuals may also be deterred from enrolling in an HMO because they would have less freedom of choice of physicians and other providers and would not be able to re-enroll in their current plans if the HMO were not satisfactory. Insurers' ability to compete with Medicare is also lessened because Medicare pays providers well below average private market rates.
3. An Institute of Medicine committee has also recommended that Congress make quality assurance, including improved patient health outcomes, a fundamental program goal. See Kathleen Lohr (ed.), *Medicare: A Strategy for Quality Assurance*, National Academy Press, 1990. The study, chaired by Steven Schroeder, M.D., was requested by Congress in OBRA 1986.
4. *Health Care Financing Review: Medicare and Medicaid Statistical Supplement*, HCFA Pub. No. 03348, February 1995.
5. Physician Payment Review Commission, *Monitoring Access of Medicare Beneficiaries*, Report No. 95-1 (forthcoming); S. Asch, et al., *Access to Care for the Elderly Project*, Final Report, RAND Corporation, April 13, 1995 (photocopy).
6. National Institute for Health Care Management, *Health Care Problems: Variation across States*, December 1994, pp. 34-36 (exhibits 4.4, 4.5, 4.6).
7. "The Fortune 500 Largest U.S. Corporations," *Fortune*, May 15, 1995, p. F-1.
8. *Medicare and Medicaid Statistical Supplement*, p. 199 (table 25).
9. *Ibid.*, pp. 208 (table 28).
10. *Ibid.*, p. 232 (table 37).
11. *Ibid.*, p. 252 (table 46).
12. Physician Payment Review Commission, *Expenditure Limits*, July 1993 (staff paper), p. 62.
13. Physician Payment Review Commission, *Annual Report to Congress: 1995*, p. 20 (table 1-1).
14. M. Chassin, et al., "Does Inappropriate Use Explain Geographic Variations in the Use of Health Care Services?" *J.A.M.A.*, November 13, 1987. Jack Wennberg has been among the pioneers in Medicare area variation studies.
15. Statement of Sarah Jagger, March 22, 1995 (cited in *BNA Health Care Policy Report*, March 27, 1995, p. 479).
16. *Medicare Part B Factors That Contribute to Variations in Denial Rates for Medical Necessity across Six Carriers*, GAO/T-PEMD-95-11.
17. Lohr, *Medicare: A Strategy for Quality Assurance*.
18. "Study Finds Most Treatments for Whiplash Are Ineffective," *New York Times*, May 2, 1995.
19. *Medicare: High Spending Growth Calls for Aggressive Action*, Statement of William Scanlon, February 6, 1995, GAO/T-HEHS-95-75.
20. Lynn Etheredge, *Pharmacy Benefit Management: The Right Rx?* Research Agenda Brief, Health Insurance Reform Project, George Washington University, April 1995.
21. Complaint rates vary by more than 25:1, from 1.8/10,000 enrollees for Group Health of Puget Sound to 45.8/10,000 enrollees at Humana (Florida).

THE PRESIDENT HAS SEEN
7-17-95

THE WHITE HOUSE
WASHINGTON

July 15, 1995

MEMORANDUM FOR THE PRESIDENT

FROM: TODD STERN^{TDS}
PHIL CAPLAN

SUBJECT: Recent Information Items

We have received the following information items:

✓ **Bowles note regarding Alex Miles.** In response to your note. Miles applied to be Director of the Arkansas/Louisiana/Mississippi Export Assistance Center. Phil Lader felt that helping Miles would be inappropriate as Miles is obligated to compete for the position and probably will not qualify. Erskine asks if you want to push for this.

✓ **Grant to AIDS Center in Hobson City, Alabama.** Forwarded by Erskine. Josephine Ayers, President of Partnerships Inc. in Anniston, wrote to you in May concerning the unfortunate destruction of the AIDS Service Center by fire; Ms. Ayers is also President of the AIDS Center. You asked Erskine to see if there was money available to help. He followed up with Secretary Shalala and HHS awarded \$200,000 to the AIDS Center late last month so that the Center can continue to serve patients.

⊙ **Letter from Alan Patricof on the Community Reinvestment Act.** Forwarded by Erskine. Patricof attaches a recent clip from the Wall Street Journal on the CRA. He notes that (i) CRA is a very high issue on the small business agenda; (ii) you have a real political opportunity right now to make the CRA a major issue; and (iii) that it would build credibility for you to do so.

✓ **Gibbons memo on the National Institute of Standards and Technology Report.** Jack believes the report demonstrates that you are delivering on your commitment to investment in technology development to create a more competitive U.S. economy and high quality jobs. As the NIST is being attacked, the report is full of ammunition to take on those in Congress who would terminate all of your investments in civil technology partnerships.

To Erskine
Do you agree
Do we need to
Do this?

Erskine
Can we do any
more with this?
B.

95 JUL 13 P2:00

ALAN J. PATRICOF
445 PARK AVENUE
NEW YORK, N.Y. 10022

POTUS / GS

June 30, 1995

The Honorable Erskine Bowles
Deputy Chief of Staff
White House, West Wing
1st Floor
Washington, DC 20500

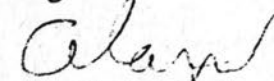
Dear Erskine:

Thank you for your many nice notes. It is
always nice to be appreciated.

I didn't want to run out for the weekend without
tossing an idea out to you. In the context of my
constant striving for the President to seize the
high ground, the CRA is a very, very high issue
on the small business agenda. This is one where
the President has always been out front. I think
he has a real political opportunity right now to
pound on this issue and make it a major point.
as I think it will build him a lot of credibility.

Have a great 4th.

Regards,


Alan J. Patricof

Attachment

Wall St Journal June 30 1995

Gutting Community Reinvestment Will Hit Whites, Too

Banking Bill in House Attacks Program as Form of Affirmative Action

By MICHAEL SELZ

Staff Reporter of THE WALL STREET JOURNAL

Proposed legislation to overhaul the Community Reinvestment Act could have a broader effect than many believe.

While a leading congressional proponent of the overhaul described the act as another form of affirmative action, proposed changes could deprive many white, as well as minority, business owners of capital. The changes could also thwart plans by the Clinton administration to use the act as a vehicle for increased small-business lending.

A broad banking-deregulation bill that won a House committee's approval on late Wednesday would exempt most banks from the act. The 1977 law requires banks to lend in underserved communities where they take deposits.

In addition to claiming that CRA is costly, burdensome and unnecessary, GOP leaders are portraying the law as a minority set-aside program. During debate earlier this week, Rep. Bill McCollum (R., Fla.), author of the key amendment to overhaul the CRA, said that the law is "being abused as an affirmative-action program."

While CRA borrowers tend to be minorities, white business owners account for a significant share of the group throughout the country, said Mark Pinsky, executive

director of the National Association of Community Development Loan Funds in Philadelphia. Indeed, in some areas, such as parts of Appalachia, most CRA borrowers are white. Even in some urban areas, it isn't unusual for whites to account for 25% of the borrowers, he added.

For instance, at Bankers Small Business Community Development Corp., a San Diego consortium of 28 banks that was formed in 1992 to comply with CRA, one-quarter of the borrowers are white business owners, said Jeni Burgess, the consortium's director.

The group's portfolio of 45 loans, totaling \$1 million, represents "a cross-section of ethnic minorities and whites, males and females," Ms. Burgess said. "If an applicant is deserving of a loan, race doesn't matter."

To qualify for a loan from the consortium, businesses must be located in San Diego County. Their owners also must show that their companies couldn't get conventional bank financing — something Michael Benjamin had little trouble proving. Mr. Benjamin and a partner, both of whom are white, in 1991 founded CCI Technologies Inc., which installs telecommunications systems. To initially fund the business, "we leveraged everything we owned," he said.

The entrepreneur said 13 area lenders

rejected his request for a business loan before he turned last year to Ms. Burgess's lending consortium. All said his company was too young to qualify for financing.

Last March, Small Business Community Development lent CCI \$45,000. The loan bears an interest rate equal to three percentage points over the prime rate. Since then, Mr. Benjamin said, his company has doubled annual revenue to \$500,000 and doubled employment to 11 people. It also has obtained, with the help of a loan guarantee from a state agency, a conventional credit line to fund working capital.

The CRA-inspired lending consortium "made it possible for us to take off," Mr. Benjamin said.

In Texas, a 17-member CRA lending consortium managed by the Southern Dallas Development Corp. serves a community of 450,000 people, 75% of whom are African-American or Hispanic, said Jim Reid, the group's president. Yet 26% of the three-year-old consortium's 50 loans, totaling \$3.3 million, have been made to white business owners, he said.

The Dallas group's lending "has nothing to do with affirmative action," Mr. Reid said. "It has to do with area development and access to capital."

The pending legislation is likely to discourage formation of CRA lending con-

sortiums, Mr. Reid predicted. It's doubtful, for instance, that his consortium would have been formed without the pressure to comply with CRA, he said.

In the mid-1980s, before regulators and community groups began using CRA to stall bank mergers, the city of Dallas tried to organize a consortium similar to the current one, said Mr. Reid, who was then city manager. The effort raised only \$19,000 from 20 banks.

Community reinvestment was among the 60 policy priorities that delegates at the recent White House Conference on Small Business sent to Congress and the president this month. Comptroller of the Currency Eugene Ludwig told business owners at the conference that the administration hoped to use recent CRA-related regulatory changes to spur increased bank financing of small firms. A key change will require banks to report in detail on small-business lending activity.

"There is a very clear tie between public disclosure of loan data and encouraging banks to increase their lending activity," said Ted Wysocki, who heads the Chicago Association of Neighborhood Development Organizations. Exempting most banks from complying with that and other provisions of CRA "guts the intent of the law."

MARKETING & MEDIA

ADVERTISING / By FARA WARNER

Liquor Industry Tackles Teenage Drinking

After years of "don't drink and drive" advertising, the liquor industry is starting to tackle the problems of binge drinking among teenagers and alcohol consumption

of the United States, or Discus, has revamped its code of good practices for advertising and marketing. The changes include a warning not to advertise in

portrayal of abusive relationships" in liquor advertising, says Elizabeth Board, director of the group's public issues division. The code also has been revised to discourage any advertising that contains

Warner Extends Its Publishing Ties To Rap Music Firm

By JEFFREY A. TRACHTENBERG
Staff Reporter of THE WALL STREET JOURNAL
NEW YORK — Although under fire for

THE PRESIDENT HAS SEEN
7-17-95

THE WHITE HOUSE
WASHINGTON

July 15, 1995

MEMORANDUM FOR THE PRESIDENT

FROM: TODD STERN^{TDS}
PHIL CAPLAN

SUBJECT: Recent Information Items

We have received the following information items:

✓ **Bowles note regarding Alex Miles.** In response to your note. Miles applied to be Director of the Arkansas/Louisiana/Mississippi Export Assistance Center. Phil Lader felt that helping Miles would be inappropriate as Miles is obligated to compete for the position and probably will not qualify. Erskine asks if you want to push for this.

✓ **Grant to AIDS Center in Hobson City, Alabama.** Forwarded by Erskine. Josephine Ayers, President of Partnerships Inc. in Anniston, wrote to you in May concerning the unfortunate destruction of the AIDS Service Center by fire; Ms. Ayers is also President of the AIDS Center. You asked Erskine to see if there was money available to help. He followed up with Secretary Shalala and HHS awarded \$200,000 to the AIDS Center late last month so that the Center can continue to serve patients.

○ **Letter from Alan Patricof on the Community Reinvestment Act.** Forwarded by Erskine. Patricof attaches a recent clip from the Wall Street Journal on the CRA. He notes that (i) CRA is a very high issue on the small business agenda; (ii) you have a real political opportunity right now to make the CRA a major issue; and (iii) that it would build credibility for you to do so.

✓ **Gibbons memo on the National Institute of Standards and Technology Report.** Jack believes the report demonstrates that you are delivering on your commitment to investment in technology development to create a more competitive U.S. economy and high quality jobs. As the NIST is being attacked, the report is full of ammunition to take on those in Congress who would terminate all of your investments in civil technology partnerships.

*Erskine
do you agree
do we need to
do this?*

*Erskine
can we do any
more with this?
B.*

THE WHITE HOUSE

WASHINGTON

July 10, 1995

95 JUL 11 A10 : 22

MEMORANDUM FOR TODD STERN

FROM:

STEVE SILVERMAN *SS*

SUBJECT:

National Institute of Standards and Technology report

Attached for your review and possible submission to the President is a progress report from the National Institute of Standards and Technology (NIST) on the National Export Strategy, as well as John Gibbons' comments on the report. When we sent the report to John Gibbons, he wrote back in praise of the report that it "merits the President's cognizance," and that the report marks a real success story for the Administration.

cc: *Witty*

EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF SCIENCE AND TECHNOLOGY POLICY
WASHINGTON, D.C. 20500

July 7, 1995

MEMORANDUM FOR STEVE SILVERMAN

FROM: JOHN H. GIBBONS *JHG*

SUBJECT: Comments on National Export Strategy Report

This National Institute of Standards and Technology report demonstrates that the President is delivering on his campaign promise for commitment to investment in technology development to create a more competitive U.S. economy and high quality jobs. The report is full of ammunition to take on those in Congress who would terminate all of this Administration's civil technology partnerships that invest in the future of the nation's economy.

The President should be proud of this effort on his behalf.

Steve - This merits the President's cognizance. The NST is one of the most savagely attacked initiatives of this administration. The attack is not meritless; rather it's ideological. A brief note from the President to Lou Brown would be helpful.

THE PRESIDENT HAS SEEN

7/17/95

FROM THE OFFICE OF GEORGE SOROS

Soros Fund Management
The Soros Foundations
888 Seventh Avenue - Suite 3200
New York, NY 10106
Tel: (212) 397-5550
Fax: (212) 977-4057

IMPORTANT

Please deliver the following pages as soon as possible to:

Name: Betty Curie
Organization: Executive Assistant to President Clinton
The White House
Fax no: (202) 456 6703
From: Yvonne Sheer - Assistant to Mr. Soros
Date: July 14, 1995
Total # of pages: 3 (including cover sheet)

RE: BOSNIA

Dear Betty:

Could you please forward the attached letter from George Soros to President Clinton
as soon as possible

Many thanks for your kind assistance.

Yours sincerely,

Yvonne Sheer
Assistant to Mr. Soros

Bony / Sandy
Interacting
[Signature]



EL MIRADOR

Dear Mr. President,

I am sending you a
advance copy of my op-ed
piece on Bosnia which is to
be published in the Post on
Sunday. I hope ya'll agree
with it.

Sincerely

Jay Byrnes

BOSNIA OP-ED**by George Soros****July 14, 1995**

U.N. intervention in Bosnia has been a dismal failure. It was driven by two contradictory impulses. One was not to be seen doing nothing when the horrors of ethnic cleansing were revealed on television; the other was to avoid military intervention at all cost. The solution, devised by clever British diplomats, was to introduce U.N. peacekeepers where there was no peace to keep. Their mission was to deliver humanitarian aid to the civilian population, but their function was to serve as hostages to prevent military action. The mission was impossible to carry out because mistreating the civilian population was an essential part of the Bosnian Serbs' military strategy. They manipulated UNPROFOR very much the same way as Nazi Germany used KAPOs in the concentration camps. Having to maintain a neutral stance in the midst of continuous aggression against the civilian population was an incredibly humiliating and debilitating experience for the U.N. troops and for the U.N. itself. When finally the U.N. called for NATO air strikes, its troops were used for the purpose for which they were put there in the first place: they were taken hostage.

The only success the U.N. could claim is that it did keep most of the civilian population alive in the so-called "safe havens" through two long winters, but the claim is somewhat hollow. The Eastern enclaves - Gorazde, Zepa and Srebrenica - were rendered militarily indefensible and Bihac was not resupplied at all, inducing the Bosnians to embark on their ill-fated attempt to break the encirclement. Sarajevo airport could be closed by the Serbs at will and recently all supplies had to go by a land route kept open by the Bosnian army.

I have been actively involved in keeping Sarajevo alive through my \$50 million gift in December 1992 and subsequent donations. The only supply of water and electricity currently available in Sarajevo was installed by Fred Cuny, our disaster expert who is now missing in Chechnya.

I believe President Clinton was right in dissociating the United States from the policies pursued by our European allies and looking for an alternative approach, although he allowed himself to be dissuaded too easily when he was told that Bosnia is a European problem. He also did the right thing when

he promised U.S. assistance through NATO for extricating the peacekeepers if and when it became necessary.

Now that Srebrenica has been militarily overrun and ethnically cleansed the moment of truth has arrived. French President Chirac, the only Western statesman who bears no responsibility for the present state of affairs, is ready to face the truth. He is prepared to defend militarily the remaining "safe areas," including presumably lifting the siege of Sarajevo. He is calling on Great Britain to provide ground troops and on the United States to provide air cover and logistic support. The alternative is French withdrawal and collapse of the U.N. peacekeeping mission. There are those who doubt his motives but he is entitled to be taken at his word.

President Clinton has a historic opportunity to justify his stance on Bosnia by endorsing the French initiative and asking for Congressional approval. Congress, which has been advocating the lifting of the arms embargo on Bosnia, cannot fail to endorse it, and public opinion, which has tried to ignore Bosnia, cannot fail to be aroused by this latest instant of flagrant aggression and inhuman behavior.

Firm action at this juncture could still reverse the outcome of the Bosnian conflict. It is not generally recognized that in terms of manpower and motivation the Bosnian government troops actually have the upper hand. There are only some 600,000 people left in Serb-occupied territory from the 1.5 million Serbs who lived in Bosnia before the outbreak of hostilities. By contrast, there are over 2 million people in Bosnian government-controlled territory, of which some 150,000 are Serbs. The Serb side has been able to score military victories only because of the heavy weapons inherited from or supplied by the Yugoslav army and the exposed position of the civilian population in the U.N. protected "safe areas".

Assisting the French would undoubtedly endanger American lives, but avoiding loss of life at any price is not a viable policy for a great power. How much better to provide aerial and logistic support for an action that may succeed than to provide ground troops for withdrawal after defeat! The collapse of the U.N. effort in Bosnia would have far-reaching consequences and in the long run cost many more American lives. It would encourage other aggressors just as the failure of the League of Nations in Abyssinia in 1935 did in the run up to the Second World War. The political will of President Clinton - and the United States - is being put to a severe test.

[816 words]

THE PRESIDENT HAS SEEN

7-17-95

Tamerton

95 JUL 17 P6:49

Clinton conference panned in advance

By PAUL FATTIG
of the Mail Tribune

Timber industry advocate Nadine Bailey and environmental activist Andy Kerr don't agree on much.

But the two, who are both attending separate rallies today in Portland to air their concerns during President Clinton's Pacific Rim Economic Conference, come to the same conclusion when they reflect on his last visit to the state.

That was two years ago, when both were panelists in the presi-

dent's forest conference.

"My daughter and I were like cardboard cut-outs designed to make Clinton look like he cared," Bailey said. "We were just a live soundbite to make him look good."

She and her daughter, Elizabeth, now 14, were touted by Clinton as examples of members of timber-dependent families whose concerns would be considered in drafting the forest plan.

Since that conference, Walter

see CLINTON, Page 3A

MEDFORD MAIL
TRIBUNE

6/27/95

*T. Emerson
can we n: r: r: r:
ROR*

from Page 1A

and Nadine Bailey have moved their family from the small northern California community of Hayfork in Trinity County to Redding. Walter Bailey, a timber faller who had been laid off, had more opportunities in that area, although his new job is only part-time.

"Our daughter had to leave all her friends she had grown up with," her mother said. "She'll barely speak to me now. How do you think she feels about him?"

Kerr, executive director of the Oregon Natural Resources Council, described the economic conference as another Clinton "dog and pony show."

"The environmental community has the same problem under Clinton as the religious right had under Bush — nowhere else to go," Kerr said. "But compared to Ronald Reagan and George Bush, sure, he's better."

"But we're going to call for the freeing of Al Gore," Kerr added. "He's been muzzled by the White House."

Kerr is also disappointed in the president's forest plan, known as Option 9, which grew out of the forest conference.

"Option 9 has a loophole you could drive a log truck through and run over a lot of salmon," he said.

"The boom of the timber industry came at the expense of commercial fishing jobs," he said. "Now we're in the decline of big timber and we've also screwed up our fishing industry."

Calling Clinton a better campaigner than a president, Kerr is concerned that Clinton may not stick to his veto of the rescissions appropriations bill that included a rider calling for 3 billion board feet of timber salvage from national forests. Another similar bill is gathering momentum in Congress.

Forest conference panelist Julie Norman, president of the Ashland-based Headwaters environmental group, is also worried about the salvage bill.

"Up until his veto of the rescissions bill, we really didn't know where he stood," she said. "With the negotiations occurring on a second rescissions bill, we're

ing he keeps his backbone."

She said she believes positive steps have been taken since the forest conference two years ago.

"We have made some very good progress," she said. "The Clinton plan increases environmental protection and allows for jobs in the woods. I think it was a sincere effort to help us make this difficult transition."

But Sharla Moffett, executive vice president of the Southern Oregon Timber Industries Association, sees only unfulfilled promises. Moffett attended the conference two years ago.

"President Clinton promised a solution in a timely manner," she said. "He promised a balanced solution. He promised to solve the forest management crisis in a fair and equitable way."

Clinton also promised in his forest plan to make available about 2 billion board feet of timber from public forestlands in the Pacific Northwest, she said, adding that only about 300 million has been sold.

"The president didn't deliver on the promises he made," Moffett said. "In terms of helping the communities of the Northwest, he did not deliver a fair and equitable solution."

She said it's ironic that Clinton is in Portland talking about economics after "completely ignoring the contributions of the Northwest's most vital industry."

"I tend to think these events are nothing but window dressing,"

she said.

Nadine Bailey agreed.

"President Clinton has the audacity to come to Oregon and say everything is great," Bailey said. "I'm beginning to wonder if Al Gore has created a little virtual reality helmet for Bill Clinton's head."

"Things aren't any better," she added. "The forest health isn't any better. Communities aren't any better."

She said a healthy timber industry and a healthy environment are compatible.

"The rhetoric that we can have only owls or jobs, that's not reality," she said. "The reality is we can go in and thin, and produce wood for our communities, for our jobs. We can also have a place where wildlife can thrive."

Bailey, who says her access to the White House was cut off after she came out in opposition to Option 9, agrees with Moffett that promises haven't been kept.

"The problem is that people make promises in a political campaign, then they feel like they don't have to follow through," she said. "I've taught my children to keep their promises. All I'm asking President Clinton to do is the same."

► ECONOMICS

Show outside conference full of anger, frustration

■ Mass dissent:

Virtually everyone has a gripe for the president in Portland.

By Alan Gustafson
Statesman Journal

PORTLAND, Ore. — Inside the stuffy conference room, the economic talks were polite and businesslike.

Outside, on jammed streets patrolled by hundreds of Secret Service agents and police officers, dissenting voices boomed with frustration and anger.

Just about everybody, it seemed, had a gripe for President Bill Clinton during sideshow protests to his West Coast economic conference.

Toyota employees trashed his threatened tariff on Japanese luxury cars, saying it would shove them off their jobs.

Laid-off loggers and mill workers bashed his forest conservation stance as they mourned the demise of the Northwest timber industry.

Environmentalists pleaded for the president to adopt stronger policies to save plundered salmon runs and dwindling stands of old-growth forests.

Early start

The chorus of complaints began Tuesday morning as about 200 people lined the street at the South Park Blocks near Portland State University, where the one-day conference was held.

Clinton, riding in the back of a black Lincoln limo that sported a batch of American flags, passed scores of chanting demonstrators.

The throng included dozens of

Oregon public employees. Disgruntled about their ongoing contract dispute with the state, they raised a ruckus as Clinton arrived, followed minutes later by Gov. John Kitzhaber.

Several workers said Kitzhaber, not Clinton, was their target. But the crush of news media drawn to the president's visit gave them another opportunity to rivet attention on their cause.

Warmer greeting

Not everyone appreciated the noisy greeting given to Clinton.

On impulse, Mary Helen Kincaid of Portland grabbed a U.S. flag from the AAA office where she works. She enthusiastically waved it as the presidential motorcade sped by.

"He's a world leader, the most well-known leader in the world," she said. "He should be given respect. To sit here and jeer him just isn't right."

Nevertheless, protest activity increased later in the day. A noon rally drew a strange melting pot of demonstrators, attention seekers and spectators.

The diverse lot included salmon savers and tree huggers, stump preachers and Bible thumpers, peace activists and rabble rousers.

Dissent came from the political left and right, and assorted other affiliations.

A man identifying himself as Harvey Post of Portland carried a sign bearing the acronym MAWIP, or Men Against Women in Pants.

"I feel that the values of our country are crumbling because women have too much power," Post said. "The only way to bring back America is for the men to wear the

pants."

Logger George Kirkmire of Olympia wore his work jeans and logging suspenders to the rally. He said he had an ax to grind with the president.

"When Clinton came here in '93 for the timber summit, he promised us a solution to the federal forest problem," Kirkmire said. "So far, all he's done is leave us with a bunch of empty promises. He's a liar."

Ted Ferrioli of the Oregon Lands Coalition also took Clinton to task, saying government policies and overregulation are strangling rural, timber-dependent communities.

"I really resent this whole theatrical presentation," he said, referring to the economic conference. "Clinton is using the economic health in the metro area as a showcase. It's a hoax. Rural Oregon is hurting."

Emotional outbursts

Police reported few problems related to protest activity, but emotions nearly got the best of some people.

An anti homosexual protester repeatedly drove a sign-emblazoned truck around a park where hundreds of people had gathered. Eventually, about 15 gay-rights activists formed a human roadblock, shouting, "We're here, we're queer, get used to it."

The truck's engine then died. Police arrived on the scene as a tense standoff between the driver and the activists threatened to turn ugly.

The man, who refused to give his name to police, claimed that he had been verbally abused and was the victim of a hate crime. Police saw it differently. They issued him a ticket for impeding the flow of traffic.

To: The President, I

Coming to Portland for regional economic meetings,
Clinton needs to face the realities of a divided economy

There was, just a little while ago, a searing phrase commonly used to describe some of the residents of this state: "The Other Oregon." The phrase meant that the state was dividing in two: prosperity and growth in the Portland metropolitan area, suffering and decline elsewhere.

That split came in the wake of Oregon's most crunching economic woe since the Great Depression. Now, the geographic division has faded, and the state is relatively wealthy with historically low unemployment levels and income tax revenues that consistently exceed projections.

But there are still two Oregons. President Clinton, in his West Coast economic summit in Portland Tuesday, needs to speak to both of them.

There is an Oregon, flying on the rise of high-technology industries and trade with the Far East, that is providing good jobs and profits at a rising pace. But there is also an increasing part of the Oregon population, limited in training, skills and opportunity, that can't find a way into that economy, and is dropping steadily further away from it.

There is an Oregon riding into the future on the Delta nonstop to Tokyo, and on the light-rail system being built to Washington County high-tech territory. And there's the Oregon that's barely moving at all.

University of Oregon economics professor Ed Whitelaw, in an article in the summer issue of Oregon Quarterly entitled "Rich Oregonian, Poor Oregonian," points out the steady widening of the economic gap in the state. As Whitelaw notes, steady economic growth in the mid-'80s and since 1991, against all previous patterns, have only extended the difference.

The changes, Whitelaw notes, have been even sharper in Oregon. Historically, this state has had a more even distribution of income than the rest of the country. But based on 1993 tax returns, he finds that Oregon's successful and struggling are now as far apart as in the rest of the country.

Oregon's prospects are growing stronger. But the prospects of too many Oregonians are growing weaker.

Heavily fueling Oregon's economic strength is international trade, the subject of one of the president's three workshop meetings. We will discuss that issue more fully on Monday, but Oregonians should be deeply concerned about a Clinton trade policy toward Asia that seems dangerously confrontational. The administration is right to insist on opening Asian markets, and the region has benefited in areas such as apples and wood products. But in a trade war between Tokyo and Washington, this region will take heavy casualties.

Part of the weakness is the decline of family-wage jobs in natural resources. Timber and fish issues will be covered in another workshop, on the regional economy, and they are issues we'll discuss in more detail Tuesday. Environmental quality is not the enemy of economic health, and maintaining our environment and its diversity is vital to the kind of state we want to be. One of the striking points raised in the recent U.S. Senate hearings on the Endangered Species Act in Roseburg was the interconnectedness of resources issues; what may save

jobs in timber can end up costing jobs in sport and commercial fishing. But what the region does need — and what it was promised in the president's forest summit here in April 1993 — was predictability. We haven't gotten it yet.

What has to be the key element in bringing the two Oregons together is education, training and retraining — the subject of the president's third workshop. The economic differences in this state largely reflect educational differences. For those with college degrees, incomes are generally rising. Those with less education are trapped in an economy rapidly becoming brutally exclusionary. Without enough education or training, they find fewer possibilities in this economy.

This is not, of course, true simply for Oregon. The July 1995 issue of California Journal reports that in that state, the major part of the West Coast regional economy, poverty is growing rapidly. Thursday, the Labor Department announced that over the past year, the average inflation-adjusted wages in America had declined by 2.3 percent.

There are things that Oregonians can tell the president about preparing people for a changing, more demanding workplace. He can hear about an emphasis on school-to-work programs, especially in Portland and Eugene, that are reducing drop-out rates and producing graduates already connected to the world of work. Oregon can tell him about a state welfare program, designed to get people back into the job market or school as quickly as possible, that has steadily reduced its welfare rolls. He can hear from some local business people, such as Gun Denhart from Hanna Anderson, about policies that regard workers as company assets rather than dispensable equipment.

But there are things that Oregon — and the rest of the country — needs to hear from him.

In a new political world, what is the federal government's realistic role — and ideas — on job issues? If the president considers job retraining vital, but most previous federal retraining programs have failed, what has the government learned about how to do it better? How much of a role will the federal government retain in helping

American students get to college — the single most reliable passport into the new economy? Short of House Speaker Newt Gingrich's proposal to give all poor people a laptop, is there a way the government can help to make high technology inclusive rather than exclusive?

President Clinton's policy of going out to talk to small groups around the country is a valuable tool for drawing and providing answers. But this

White House has had a tendency to confuse ends with means, to think that an appearance is the same as a policy.

Tuesday, people from this region will have plenty to tell the president, and hope to hear as much from him. The latest economic numbers, state and national, should be a great conversation starter.

Because there really isn't another Oregon.

There's just one, and it has to be kept together.

)*

THE PRESIDENT HAS SEEN
7/16/95 5276

THE WHITE HOUSE
WASHINGTON

95 JUL 11 PM 12:42

July 10, 1995

MEMORANDUM FOR THE PRESIDENT

FROM: Laura D'Andrea Tyson *Laura D. Tyson*
Anthony Lake *AL*

RE: Japan Civil Aviation Negotiations

look pretty good - worth it
BR

This Friday, July 14, is the last day for public comment on DOT's proposed order to impose sanctions on Japan for its failure to honor Fed Ex's application for the routes it needs for its Subic Bay hub. Expectations at Fed Ex are that Secretary Pena will impose the sanctions next week if we have not reached an agreement that gives Fed Ex its rights.

Last week's meetings in Washington with the Japanese produced some progress, but large differences remain. A delegation headed by Dan Tarullo will leave for Tokyo tomorrow morning to continue discussions.

We have told the Japanese that if they grant the seven contested Fed Ex routes without condition, we would enter into good faith negotiations on an all-cargo aviation arrangement that would remove limitations on their operations which they feel are an unfair legacy of the 1952 treaty. But they are concerned that such negotiations could continue for some time, with no tangible benefits for them. To alleviate this concern, we have offered a quick second stage after the Fed Ex rights are granted, in which they would get some additional rights and we would get a smaller amount of rights. Our concept is that this second stage would be limited in scope.

The Japanese have been insisting on removing many more limitations in the second stage than we contemplated. They are also insisting on a guarantee that if they grant the Fed Ex rights they would get their second-stage rights. Our concern, in turn, is that if we give too much in the second stage, Japan will have little incentive to continue into the broader all-cargo talks, in which we will be seeking better procedures for Fed Ex and new rights for some of our carriers. We also recognize that close linkage between stage one, during which Japan grants the Fed Ex routes, and our proposed stage two risks further requests for new rights from Japan the next time Fed Ex seeks new routes under the Agreement.

Today we held a meeting with Secretaries Christopher and Pena, and others in which we considered these problems. We concluded that the following negotiating instructions should be given to Tarullo:

- (1) The second stage should either be small enough to ensure that Japan would have incentive to negotiate stage three, or it should contain a time limit on the duration of at least some of the new rights granted. The time limit in turn would ensure that Japan would have incentive to negotiate a permanent agreement.
- (2) If a satisfactory stage two arrangement can be foreseen, Secretary Pena would be prepared to offer Minister Kamei, his counterpart in Japan, assurances that we would ratify the stage two deal more or less immediately upon the grant of the rights to Fed Ex.

This approach effectively ties the three stages together. It does risk projecting the appearance that we are paying for the Fed Ex routes. Fred Smith may be concerned that later applications filed by Fed Ex may also be subjected to bargaining with the Japanese before they are granted.

However, by structuring the arrangement so that both sides have incentive for a third stage of negotiations on a broader agreement, we are laying the groundwork for amelioration of the larger Fed Ex problems. Moreover, we cannot lose sight of the fact that getting seven new routes for Fed Ex in one package is both important to Fed Ex as a commercial matter and very unusual in Japan as a practical matter.

THE WHITE HOUSE
WASHINGTON

cc Doug
Mable
Sun 8:45 AM
Put on BNC
Daily FAX Unit
B.

July 12, 1995

Rose Crane
3006 North Pierce
Little Rock, Arkansas 72207

Dear Rose:

Thanks for your epistle from the interior. It was great to hear about all your activities. Your schedule sounds very hectic to me, and I'm not sure how you're doing everything. It seems worse than mine!

I hope you'll send me a copy of your next Report. I also appreciate your telling me about the trip to Rochester for Bob's mother's birthday and also for the recommendation of Lewis Thomas' books. The prospect that your manuscript may get published is exciting, and I hope you'll let me know more about it as it progresses.

Please give Bob my best, and tell him to hang in there. We're looking forward to seeing you soon.

Sincerely,

Bill

All the love of the
BNC fax — You'll be return
me to real life — Thanks

CRANE & ASSOCIATES

July 8, 1995

Dear Bill—

I have not forsaken my friend! I have really had my head down with work and this political report — Not to mention my confrontation with City Hall over saving the trees next to our lot —

After 43 years the three lots next to us are going to be developed — ugh. But, I am trying to save the big oaks that grow under the fence root-wise — We'll see.

Am sorry I didn't make the luncheon -
I should have - I felt like a slug
not going - You know I support you
with all I have - at least I
hope you know that.

I have requested the DMC to
put me on the fax list - I can
and will use that stuff in the
Newsletter - I hope they will -
I think one of the big reasons I
wanted to do the APR was to offset
some of the other stuff printed -
For you and for reason!

We trooped to Rochester, N.Y.
over the 4th - To celebrate Bob's
Mother's 80th birthday - His brother
is retired (last year) from Kodak and
saw the "court" there -

I did enjoy seeing the Eastman House and gardens and the film museum - And a trip to the bookstore - The Eastman House is one of the best restorations I have ever seen - but I suspect it has a lot to do with his original construction - The walls are 14" thick with steel reinforcing - he knew his vitrals were likely to come fire and accommodated that with "fire proof" construction which has created a time tested structure -

I also got a new (for me) Lewis Thomas book - The Fragile Species - I love the lines of a cell and look forward to this. He and Peter Druker are such clear thinkers I just relish reading them. And they are wise.

I probably have cut off my nose ...

I wrote in APR last time that the Ark. Policy Foundation was the "white
bong born on third base ~~club~~ club!"—

It is Wythe Walker, David Howell, Robert
Hunt and Steve (little jack) Stephens— I
doubt they have many ideas that
translate to the general public—

That group of "policy foundations"—It now
is a state-by-state GOPAC in
sheep clothing—

Oh, I want all the way to N.Y.
to discover a wonderful duo who
does children's songs and read the
package and they are out of Prairie
Grove, Arkansas— Their name is:

Trout Fishing in America— Trout hip,
501-761-3630— Their lyrics are great
and the music clever— You may
be aware of them— if not— do
give them a listen— they have a

video too -

I am deep into turning two nursing
shows around for Michael Morton and
the Timberidge Neurorehab Center in
Saline Co - too many projects all at once
for 1 person - Then you add in the
Newsletter and 4 days in N.Y. and you
know why I feel less than sane -

I am trying to build up my
reserves and grow Crane & Assoc.
so that if I end up the breadwinner
we won't be pitiful - I can't
stand pitiful - too many things
to do - I am well - if I can
just physically stand up to this
all will be well - and I think
I can -

Jim Morgan and Lyle are coming
to supper and swimming Saturday
night - He is finishing this current

Book and Beth just finished an assignment for Redbook - Now, Redbook is looking at a manuscript put together by Beth, Virginia Spines and me - Woman to Woman - survival Manual for the real world - Again, well see - Virginia said it would sell when it was hot - but we don't know which year ^{HA} or perhaps, which version - or to whom - keeps life interesting.

I hope you are feeling well and that you are scheduling some down time - from she who does a fairly poor job of that - and generally taking care of yourself!

Bob is approaching his task of no smoking and the right in the WH seems to be more of a carrot than I anticipated - he surprises me on those things.

From reports - in getting...

W. Hanks, Hugh Moore et al - folks
believe you'll win this next election -
I know it will take everyone doing
everything - I always say that
to others - But I like for them
to say you'll win - it puts good
energy in the air!

I love you all dearly and
promise not to be so long in
getting these epistles off - Dis-
appointed as they are they carry a
lot of good energy to you each and
everyone as you strive to do the
people's business - Thank you!

Much love,
Dusse

THE WHITE HOUSE

WASHINGTON

July 12, 1995

John E. Barnes
Vice President/Financial Consultant
Smith Barney
Two Financial Centre
10825 Financial Centre Parkway
Little Rock, Arkansas 72211

Dear John:

Thanks for your letter of July 10. It was good to hear from you and to get an update on all your activities. I appreciate your letting me know about the upcoming meeting of the Association of Community College Trustees' Board of Directors. While I never know what the schedule here will hold, I have shared your letter with Billy Webster, my scheduler, for his consideration.

I'm sorry I missed you when I was home last month, but I hope to have a chance to see you soon.

Sincerely,

Rin

*cc scheduling
Rin is to
bad idea and
someone should not
be sent - maybe*

John E. Barnes
Vice President/
Financial Consultant

501-221-6352 • 800-879-0089

SMITH BARNEY

A Member of Travelers Group

July 10, 1995

cc: Suk
Trey to reply

The Honorable William J. Clinton
President of the United States
The White House
1600 Pennsylvania Ave.
Washington, D.C. 20500

Dear Bill,

Thanks to your appointment to the board of trustees of Pulaski Technical College, I have become quite a proponent of community and technical colleges. As you are aware the Association of Community College Trustees is an outstanding organization dealing with the promotion of the community college movement throughout the country.

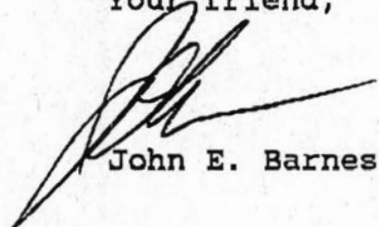
As you are also aware, there are several key budgetary items that could have a profound effect on the future of community colleges. As the enclosed letter indicates, the ACCT Board of Directors will be in D.C. during the last week of July.

I would consider it a personal favor if you could make time to meet with these people. Each makes a significant contribution to their respective schools and to the national organization with much of their time done so gratis.

Sorry I missed the fund-raiser in Little Rock, but this has been a hectic summer. My contribution will be forthcoming.

Also, please express my concern to Al regarding his mother. He was in the Oval Office the last time I was there, and I reminded him that I voted for his father during his last re-election bid for the Senate. It was the year Bill Brock defeated Mr. Gore.

Your friend,



John E. Barnes

July 10, 1995

Association of Community College Trustees
1740 "N" Street, NW
Washington, DC 20036
202.775.4667



Ms. Marsha Scott
Deputy Assistant to the President
The White House
Office of Political Affairs
Washington, DC 20500

VIA FAX: 456-7929

Dear Ms. Scott:

Lowell Junkins, Executive Director of the Iowa Association of Community College Trustees, suggested I contact you regarding the possibility of the ACCT Board of Directors meeting with the President and White House staff the last week of July.

As I understand it, the last week of July will be a critical juncture in the FY 1996 Appropriations process. The House will have passed the Labor-HHS-Education Appropriations bill, which we anticipate will freeze the Pell Grant program, limit access to student loans, and cut campus-based and institutional aid. The House will also have passed the VA-HUD and Independent Agencies Appropriations bill, which we anticipate will cut the National Service program. As you know, such cuts in education and training programs will decrease access to postsecondary education and skills improvement programs that are necessary for employment in the new economy.

Also during this period, the Senate will be analyzing the House appropriations bills, and will be poised to focus its attention on FY 1996 funding for education and job training programs.

Community college trustees are the public officials elected or appointed to represent the interests of the people of their communities and states. Their national board would be honored to publicly endorse the President's education priorities, and provide him with an opportunity to motivate the ACCT Board to call to action its 6,000 trustees, to speak out in support of investing in education and training.

The ACCT Board of Directors will be in Washington, DC, Thursday evening, July 27 through Sunday, July 29, for a retreat to set the next year's agenda for the association. A list of the ACCT board members is attached. Please contact me at (202) 775-4667 to discuss the possibility of connecting the trustees with the President.

Sincerely,

A handwritten signature in cursive script, reading "Ray Taylor", is written over a horizontal line.

Ray Taylor
President

cc: Nancy Harnreich
Lowell Junkins

JOHN E. BARNES

Vice President - Financial Consultant
Ph. 800-879-0089 or 501-221-6352
Fax 501-221-6160

SMITH BARNEY

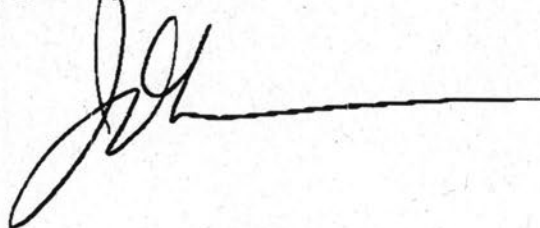
10825 Financial Centre Pky
#2 Financial Centre
Little Rock, AR 72211

FAX COVER SHEETDATE: 7/10/95ATTN: Nancy or Kelly

FAX #

(202) 456-~~6666~~ 6703TOTAL # OF PAGES INCLUDING THIS PAGE: 3**Message:**

Because of time factor, I am
Sending this to the President
Via you. Thanks



* If there is a problem with this fax, please call Diana Melvin at 501-221-6353 or 800-879-0089

This information has been obtained from sources we believe to be reliable, but we cannot guarantee its accuracy or completeness. This is not a solicitation to buy or sell. Past performance is no guarantee of future results. For informational purposes only.

cc Helms
for address
- Rebecca for AC
data from
operations
for phone
#

operators

operators

Dear Deb:

I'm really glad you were able to get to know Byron Trauger and Jim Doramus while you were in Tennessee. They really are good people, and you're right about Todd Campbell. He'll be an outstanding addition to the bench.

Sincerely,

Bän

July 6, 1995

Dear Mr. President,

Greetings from Little Rock! Bill's job has taken us on yet another adventure, this time "back home." He is working for K. & J. Sloane, which I believe you may have helped attract to the River Port area from California and Ohio some years ago.

While I was not anxious to leave Nashville or move again, I am looking forward to getting settled into our new home in the Foxcroft area and to finding something rewarding to do.

As you may have heard, I have been working with Byron Trauger, Jim Dramus, and Todd Campbell in Nashville. It was a wonderful experience, and they were joys to work with. I can certainly understand your long association with Byron. He is steadfast in his dedication to your efforts. Todd Campbell will serve us well as U.S. District Judge if we can get him confirmed. He has just the right demeanor, I think, to be excellent. They were very good to me and I look forward to long-standing friendships from these few months' associations.

We were sorry to hear about the
Vice President's mother's recent
heart attack and stroke. I have
heard nothing today but hope she
is doing better.

Our best to Hillary and Chelsea.

Always

Deb

New address:

6 Huntington Road
Little Rock, AR 72227

(501) 227-9225.

Process and
Assignments for
White House Working
Group to Promote
~~Back to~~ Clinton Budget
Sustain BC

THE PRESIDENT HAS SEEN

July 11, 1995

95 JUL 12 P12:56

MEMORANDUM FOR THE PRESIDENT

THROUGH: Leon Panetta

FROM: Erskine Bowles and Laura Tyson

SUBJECT: Process and Assignments for White House Working Group to Promote the Clinton Budget

The following memo lays out a proposal for the processes and staffing that we will need to set up a "floating war room" to develop and implement a strong attempt to convince the Congress and the American public that we have the best budget for helping working families prosper.

I. OVERALL OBJECTIVES

A. BASIC MESSAGE: The President's budget promotes his economic goals of creating growth, increasing opportunity and raising living standards, and empowering working families to win as a result of economic change. The budget that the President believes best promotes those goals is one that 1) increases national savings while protecting the economic expansion by moving toward fiscal balance in ten years, 2) invests more in key education and training programs; 3) addresses health care in a way that is fair to seniors while moving toward serious health reform, and 4) ensures that our tax system goes further to reward work for working families, instead of asking working families to sacrifice education and Medicare to pay for tax cuts for the most well-off.

B. GENERAL STRATEGY--TAKING OUR CASE TO THE PEOPLE: As the Republicans are in solid control of the Congress, if they go forward with a budget that defies our principles, our only hope for promoting the President's economic growth strategy is to take our case to the American people. *By taking our case to the American people, we will seek to ensure that we prevail if there is an ultimate show-down, or that if there is a early negotiation, it reflects our strength and their movement toward our priorities.*

C. STRATEGIC GOALS: To succeed in taking our case to the American people, so that the American people will take their case to the Republican Congress, we need to demonstrate the following:

- **Make clear we have a balanced budget plan that is the best one for working families.** Only we can make clear that we have a balanced budget plan that is pro-working families. Most others will only start by being against the Republican plan. We are in the strongest of positions: we have a balanced budget plan that shows that we can afford our priorities.

● **Increase leverage for our priorities:** Because the public supports a balanced budget plan that protects Medicare, education and has targeted tax cuts, when we take our case to the people, we will weaken their resolve to stay with an extreme budget, and we will strengthen the President's leverage to get a budget that promotes our priorities.

● **Show we have taken the bold steps toward cooperation, while they have chosen a different path:** Some may say that we are being as stubborn as they are. But we can easily make the case that we took a major step toward providing a framework for bipartisan cooperation through our 10-year balanced budget plan -- and took political heat for it. When we frame the debate this way, it makes clear that they are the ones that have chosen extremism over trying to work together on a reasonable framework.

● **Demonstrate strong commitment to our plan and our priorities:** Republicans want to say that our plan was just a political document with a one-week shelf life. Only by our energy and our action can we show they are wrong. The depth of our plan will show our conviction and show that we will fight for our priorities.

● **Show the clear pain, problems and wrong priorities of their budget:** We must continue to show the human pain of their plan in ways that people can comprehend, citing the number of people hurt, anecdotes that bring cuts to life, the specific places where projects will be cut, state-by-state and district-by-district analyses, etc.

● **Promote the specific positive proposals of our budget:** We must not forget to show the positive aspects of our proposals. We have exciting new proposals for working Americans, and we must sell them with energy and conviction. We must explain to people our new health care initiatives -- and not just show how painful their Medicare cuts are. The same is true for GI Bill of Rights for Workers, national service, education deduction etc.

● **Make clear that we want open, civil debate; they want to use the threat of trainwreck crisis to push through policies that would be a working families crisis:** If we only say that a trainwreck is bad, then we may unintentionally help build pressure for us to accept a bad budget that they pass. We must make clear that using a debt limit crisis to create a crisis of priorities is not acceptable and a budget that tries to do that should be vetoed.

● **Validate the credibility and support for our plan:** While we must draw clear lines, we must ensure that people see that our plan is real, politically viable, and credible.

D. THREE PART FRAMEWORK FOR ISSUES:

1) Main Distinctions: We must ensure that Americans understand that we have a *clear alternative that is better for the economy and more closely aligned with the interests of working families*. This requires a disciplined focus on the basic message: 1) education and training; 2) Medicare fairness, first steps to health care; 3) tax fairness; 4) economic expansion and the need for a 10-year plan;

2) Other Priorities: While we must make clear that there is a main emphasis on the above top priorities, we must take advantage of other priorities that we care about promoting and that can weaken the overall Republican alternative. Key issues that we must also play up include:

- **The environment and consumer safety:** Here, the gutting of environmental and health protections as part of a complete sellout to special interests should be a major focus.

- **Technology:** We need to stress the business support and growth policies behind our technology priorities.

3) Body Blow Strategy: Without diluting our main message, we must also facilitate--and certainly not discourage--reasonable efforts that weaken support for their overall approach. There are many issues that are outside our defining message yet are of critical importance to millions of Americans, who will be hurt more than is necessary because of their seven-year path and large tax cut for the well-off. Key parts of the body blow strategy could include: agriculture, veterans, homelessness, AIDS. Every critique in these will be another body blow that will move the public toward our reasonable 10 year plan.

II. WHITE HOUSE BUDGET/ECONOMIC PLAN WORKING GROUP STRUCTURE: INTERNAL PROCESS AND STAFFING

A. WHITE HOUSE WORKING GROUP STRUCTURE: At some point, we may need to have a separate room as there was in health care and the 1993 budget. Until that time, the only way to have a strong and orchestrated campaign for our budget is with the following two things:

1) Management and Staffing: We will need clear assignments of people who will run the day-by-day process and clear assignments as to who from each division in the White House will be responsible for the budget. While this may not need to be a full-time assignment, it should be each person's main assignment.

2) Planning Process: Strategy with Long-term Planning and Quick Response:

We must meet regularly to ensure that strategies are developed, coordinated, and executed. We need a budget calendar and budget process that allows us to make strategic short- and long-term plans and achieve some coordination. *Yet we must also have a process that allows us to make quick and even instant decisions. Entering a conflict that puts us on the side of our priorities within a given news cycle will often break through even more than a perfectly planned event.*

3) Combined Internal and External Calendar: It is extremely important that we maintain a comprehensive and up-to-date calendar of budget-related events. Externally, we need to know what is happening in Congress, from Committee meetings to votes to recesses. Internally, we must have a unified calendar so that we know what everyone is doing on budget related events. Our goal is to ensure that *we have major message events on our defining issues every week at the right times, and that we can make rational decisions about when to do what and where.* A second crucial goal is to ensure general coordination throughout the Administration. Erskine must have someone who monitors an overall calendar for him, and everyone around the White House must feed into the calendar in a disciplined way.

4) Presidential and Vice Presidential Involvement: While these planning efforts are essential, no part of our plan can work unless there is a strong sense that the President is personally promoting his plan, and drawing the four main distinctions (10 years, education, health care, tax fairness). We must therefore ensure that the budget strategy is linked tightly to Presidential and Vice Presidential scheduling and that where we do have Presidential events, we can build all of the other elements around that strategy.

B. IMPLEMENTATION/MANAGEMENT MEETINGS:

Erskine Weekly Planning Meeting and Twice-a-Week Check-In: Erskine would call all of the representatives from the different divisions together two or three times a week, with one meeting for longterm planning. One key goal of these meetings must be to prioritize communications strategy so that Mark Gearan, Lorrie McHugh and others know where they should be directing their efforts.

Daily Management Check-In: Decisions are made and key discussions take place at the 7:30 a.m. meeting and at Leon's evening meeting. Gene and Erskine should try to have at least two check-in meetings a day, with Gene providing a clear list of decisions that have to be made or considered for the next day. When possible George, Laura, John Angell, Jack Quinn, Alice or Jack Lew, Carol Rasco and the designee from the DNC could also be part of check-in meetings.

Daily Check-in with OMB/COS/VPOTUS/Treasury: To ensure that the campaign is coordinated closely with OMB, Gene would keep contact with **Jack Lew** and **John Angell** and **Jack Quinn** and **Mike Barr** at all times to ensure coordination and that **Leon**, **Alice** and **Laura** are up on what is happening each day.

Erskine-Leon--VPOTUS-POTUS: Ultimately, the whole process will only work if there is a regular process for getting information to **Leon** and the Vice President and President, getting approval, and proceeding.

C. STRATEGY AND POLICY MEETINGS:

NEC Budget/Leon Strategy Meetings: We should reinstate the twice weekly strategy meetings hosted by **Laura**, particularly to ensure an appropriations strategy that is fully coordinated with the Cabinet. **Alice**, would of course, have the lead on budget issues, and **Rubin** on tax issues, **Carol Rasco** on domestic issues, but we would have meetings so that strategy decisions could be thought through and discussed by the **COS**, economic team and political advisors.

Continuation of Budget Working Group: Gene has coordinated a budget working group that has included most of the best budget people in the Administration, including **Jack Lew**, **Martha Foley**, **Joe Minarik**, **John Angell**, **Barry Toiv**, **Larry Haas**, **Alan Cohen**, **Glenn Rosselli**, **Eric Toder**, **Chris Jennings**, **Barbara Chow**, **Paul Weinstein** etc. Gene would continue to hold these "working group" level meetings, but we would integrate them more with the principal level budget strategy meetings.

Rivlin Appropriations Coordination Meeting: **Alice** has begun chairing meeting with relevant cabinet members by appropriations sub-committee so that we can coordinate strategy and ensure that we are working as one team. These meeting would continue and feed into the overall Principals Budget Strategy process.

POTUS Strategy Meetings: Not having a forum to flesh out larger strategic issues with the President will paralyze us below. We need to have some ability for such issues to be discussed at NEC-type meetings with the President for his sign off.

D. OVERALL COORDINATION AND MANAGEMENT:

Erskine Bowles as CEO Reporting the Chief of Staff: Erskine would serve as the CEO on the working group, ensuring that everyone -- internally and externally -- knew the importance of the project. He would be the person responsible for reporting to and getting decisions from **Leon Panetta** and the President.

NEC Process/Laura Tyson Coordinating Budget Strategy: The campaign would concern itself with implementation. Policy decisions and strategy would still have to come from Leon Panetta, Alice Rivlin, Carol Rasco and the main NEC principals -- Rubin, Tyson, Stiglitz -- along with Stephanopoulos. Clearly, Alice and OMB would continue to play its usual role in leading the budget process. Yet, for a campaign to work, Laura would have to develop a "fast decision" mechanism in which Leon, Alice, George and the economic principals -- and other relevant White House staffers -- would be able to communicate so that decisions could be made as to how to respond to incidents or comments or strategic choices that could happen at any time.

Gene Sperling as Working Group Coordinator: Gene would work to implement the strategy and policy decisions made by Leon, Alice Rivlin and the NEC principals and senior policy advisors. His job would be to ensure that there were detailed long-run and short-run strategies to be presented for approval to higher ups, and to be in charge of ensuring that the short-term plans, long-range planning and quick response were carried out. Where a decision needs to be made on strategy or policy, he would be responsible for bringing it to the attention of Leon, Erskine, Alice, Laura, George and the NEC so the decision could be made.

Deputy Coordinator: Someone would serve as a deputy coordinator, working with Gene to plan and to ensure that assignments were carried out and that nothing was falling through the cracks. While Gene would focus much of his attention on the substantive responses, quick responses and issues were being taken care of, this person would particularly watch over all political outreach -- from cabinet affairs, to public liaison, intergovernmental and political.

Possibilities: David Lane, NEC

Additional Younger Person: In addition to a deputy, there should be a single young person who also focused on overall management. **Possibilities:** Jason Goldberg, Julia Moffett, Michael Warren of the Labor Department.

E. DIVISIONS: As with other such efforts, it is important that there be people who are responsible for particular areas. While at some point, we may need these people to devote full time to their assignments, for now it may be enough for it simply to be considered their main assignment.

1. COMMUNICATIONS: There should be someone who watches over the entire communications arena -- who goes out to the shows, ensuring that things like the 19 Governors who supported us gets ample play, and so on. In addition to George, we need to closely integrate Don Baer so that speechwriting is completely involved with message development. We also need to include people like Bruce Reed, Rahm and others who can be very helpful in developing message opportunities. **Recommendation.** Michael Waldman.

2. SURROGATES: While each department will have to do surrogates for its area, one person should be responsible for ensuring that there is a proper surrogate strategy and the right types of talking points. Recommendation: Elgie Holstein, NEC

3. LEGISLATIVE: Pat needs to appoint one of his major people to be fully engaged on the budget and ensure that we are doing all we can to keep Democrats supportive. Recommendation: Susan Brophy with Barbara Chow backing her up.

4. CABINET AFFAIRS: Particularly for areas outside of health, education and training, we need someone to work with the other departments to ensure that we have coordination and that information is getting out to them in a timely manner. Recommendation: Steve Silverman Cabinet Affairs/ Leslie Thornton, Dep. COS at Education is a possibility for a detail.

5. PRESIDENTIAL EVENTS: Once we have decided to do a Presidential event, it might be good to have someone to ensure that those events are carried out and conceived in a way that ensures we make news with our message. Recommendation: Rahm (allow for his involvement while not pulling away from other activities)

6. VICE-PRESIDENTIAL INVOLVEMENT: It is important that Jack Quinn be as involved as much as possible so that we both have as much of the Vice President's time as possible and that we have his input and Jack's as we are developing message and strategy. Yet, again, it would be worthwhile for the VPOTUS office have someone else designated as their budget person: Recommendation: Lorraine or Greg or whoever they feel is best.

7. REGIONAL COMMUNICATIONS: This is critical, and we simply need to ensure that Lorrie McHugh has ample support.

8. TALKING POINTS AND TALKING POINTS SIGN-OFF: It is critical that we are able not only to get responses written, but to have them signed off on in a timely fashion that allows us to get in the news with our message and to ensure that we are all on the same line. While this will often be done by Gene or Larry Haas, it might be good to have someone responsible for coordination and sign-off. Recommendation: Barry Toiv.

9. PRESS: Mike needs to appoint either one his deputies to focus on this and get absorbed in the issues. Recommendation: Mary Ellen or Ginny.

10. QUICK RESPONSE: We must have a quick response team with people who have the time and ability to help come up with quick responses. Gene can watch over this, but there must be a good team. Recommended for team: One or two designated OMB people in addition to Minarik, Haas and Lew; Alan Cohen, Treasury, Mark Mazur, NEC/CEA, Robert Gordon NEC, Barry Toiv, COS.

**** DEMOCRATIC NATIONAL COMMITTEE.** In addition to all these people within the White House, we will want someone with an understanding of message and budget from the Democratic National Committee to be designated as a liaison with the White House. This person would attend the daily meeting at the White House outlined below and feed information back to Dodd and Fowler. Leon, Harold and Erskine might have a regular conversation with Dodd and Fowler on coordinating higher level priorities.

F. INTEGRATED ISSUES GROUPS: Our top priority is to get our message out on the major differences between the President's budget and the Republicans' on: 1) health care and Medicare; 2) education and training; 3) tax fairness versus tax giveaways; 4) a solid 10-year plan that is good for the economy vs. an arbitrary seven year plans that forces arbitrary cuts that are bad for longterm growth. In addition, we will want to get our message out in other key areas like the environment and consumer safety. While each outreach arm of the White House should have its own plan, on the defining issues we need to have an integrated strategy where all arms of the White House are working together to come up with an integrated plan. These groups would make sure that all relevant arms are involved in the relevant strategy.

Feed Into Overall Meetings: Gene would work closely with each of these issues groups and then ensure that they are feeding into the Erskine meetings. As a result, we could make decisions as to when education versus health care or tax fairness should be on the calendar or given center stage.

Additional Point Person: In addition to Gene, there should be a point person or two who is solely focused on pushing forward the budget strategy plan, calendars, talking points, media strategy and events in that area.

1. HEALTH: We are already up and working on health care and Medicare, but we need to expand to ensure there is greater coordination with the outreach arms of the White House. **Chris Jennings, Jen Klein and Gene** from the White House policy councils already are working together well in coordination with **Nancy Ann Min at OMB**. Others working closely on health care include Judy Feder and others from HHS and Marilyn Yaeger on outreach. We may consider whether there is someone from HHS who can offer support. **Additional Point Person Recommendation: Chris and Jen.**

2. EDUCATION: Here there is already a working group up and running bringing together representatives from all the departments in the White House, OMB, Education, Labor, and national service to work on coming issues. We will use this structure for the budget as well as issue development. Ken Apfel, Barry White and Gene have also already been working closely with the departments to develop common numbers for quick response. Ken Apfel will continue to take the main responsibility here coordination with Gene and others. Jeremy and DPC have been active in pulling together all of the pieces for a full strategy. We have tremendous enthusiasm and participation from Education, Labor and National Service: Additional Point Person Recommendation: **Jeremy Ben-Ami with help from Gaynor McGown, Paul Dimond.**

3. TAX ISSUES: Gene has been coordinating a EITC working group with Treasury, OMB and DPC that has been very successful at preparing an Administration strategy on our EITC message and defense. Les Samuels' shop and others at Treasury have done a great job of taking a leadership role and producing strong material.

We would now use that existing group and expand its focus to a broader public strategy for on how to promote our positive tax proposals (education tax deduction, IRA etc.) and to focus on the negative aspects of theirs. Samuel's shop would continue to be the lead policy analysis and numbers, but Treasury needs to appoint a more political person who could coordinate and think through events and message: Additional Point Person Recommendation: **Michael Barr or David Dreyer or both.**

4. WELFARE REFORM AND CRIME: We have already started to see the connection with the welfare reform and the overall budget with the EITC tax increases to pay for welfare reform. We need to ensure that **Bruce Reed and Rahm** are coordinated with this effort.

5. OTHER WORKING GROUPS: ENVIRONMENT, CONSUMER SAFETY: Beyond the three issues above that form our core message, there are other issue areas where we will need to pay focused attention.

At times we may want to form a separate inter-department working group or we may just want to encourage those currently working on the issue to feed into the process.

On the environment and consumer safety, for example, it is clear that the Republicans are taking extreme steps with which most Americans disagree. A group to coordinate policy and message could include top people from the **Vice President's office, the Council on Environmental Quality, the Environmental Protection Agency,** and other agencies.

As mentioned above, some of these issues groups have already been meeting and have been working on plans. Attached is the education/labor plan that has been put together for the next couple of weeks. The process will now work to develop plans in each area and then integrate them into an overall strategic plan.

July 10, 1995

MEMORANDUM FOR ERSKINE BOWLES

FROM: Gene Sperling
Jeremy Ben-Ami

SUBJECT: Potential Short-Term Presidential Education and Training
Events and Messages

We have been co-chairing a working group to coordinate education and training activities in the overall budget debate. Turnout and interest in these meetings has been extraordinary. The Chiefs of Staff of both Labor and Education, key under secretaries, the press secretaries, and representatives of all major White House divisions have been attending our weekly meetings. We are anxious to move ahead.

We are working under the assumption that whatever the overall budget strategy, we will want to draw a very visible, public distinction between our proposals and the Republicans in the area of education and training. There are key activities on the Hill throughout the next three weeks to which we can peg administration activity.

We have laid out one sample week in detail (Week of July 10), included ideas for major news hooks in each of the following two weeks, and attached a list of ideas brainstormed by the group for other possible activity.

Week of July 10

- o Congressional Activity Labor/HHS House Appropriations Subcommittee mark-up (starting July 11)

- o Recommended Administration Activity

- *Tuesday July 11* Presidential statement possibly at the Leadership meeting laying down a marker on education and training programs. Would precede the beginning of mark-up, guarantee that the President is in the story and avoid interfering with message of Wednesday speech.

- *Wednesday July 12* POTUS comments included in the Religious Liberty speech on education cuts. Note: speech is at a public high school.

Statement following mark-up by Chief of Staff, strongly opposing action taken by the subcommittee.

Release of comparison of effects of mark-up and Clinton budget. Side by side chart to be used by Hill Democrats and widely faxed out.

Media: Secretary Reich already booked on Good Morning America. Other NEC principals do ed boards and elite media calls briefing on magnitude of cuts.

Regional Travel: NEC and other principals travel or at a minimum do regional media on cuts. Note: Secretary Riley already going to Colorado to Education Commission of the States

Advocacy Groups: Chief of Staff/OMB Director briefing for key education groups on cuts.

Intergovernmental: Conference call and joint statement by Governors/Mayors.

Hill: Hill staff briefings -- side-by-sides and state-by-states shared by administration with Democratic members.

Mailing: Mass mailing of education/training information to regional media, opinion leaders, and key advocacy groups.

This is just a sample of what could be done in a given week to back up the President's message. Other weeks could have messages such as business support for investments in education and training or University Presidents' support for direct lending.

Week of July 17

- o Congressional Activity Mark up of Labor/HHS bill by full House Appropriations Committee (Thursday July 20)
- o Recommended Administration Activity

Message: Highlight corporate support for education investments.

Education and Labor working with WH Public Liaison to solicit letters of support from major CEOs.

Schedule release of letters to coincide with mark-up on Thursday July 20 or precede it on the 19th. Issue Presidential statement welcoming corporate support.

Work regional media in home states of CEOs. Attempt to find CEOs in states of appropriations committee members.

Target ed board calls to major papers in states of committee members.

Consider event with POTUS and CEOS. Could be delayed till later in budget process if there's interest.

Week of July 24

- o Congressional Activity This week, House floor action tentatively scheduled on Labor/HHS appropriations. Also mark of of student loan proposals (Wednesday, July 26)
- o Recommended Administration Activity

Message: University Presidents Support Student Aid

Invite major University Presidents to the White House to meet with the President and demonstrate their support for Direct Lending and the federal role in helping students and their families pay for education. (July 25, day before Direct Lending mark-up)

Regional media targeting states of the university presidents.

POSSIBLE NEWSMAKING EVENTS AND ACTIVITIES ON EDUCATION AND TRAINING ISSUES

Presidential Events

- **Democratic Mayors Event.** On July 26, 15-20 big city Democratic Mayors are coming to the White House for a political briefing. They could also have a meeting in the Oval Office with the President and then go to the press stakeout to talk about education and training programs that are being cut on the Hill (e.g. Summer Jobs for Youth).
- **AFT Speech on July 28.** The President is scheduled to give a major speech at the American Federation of Teachers Conference on July 28. The speech should be broadcast by satellite around the country with additional events taking place to reach as large an audience as possible.
- **NACO and NCSL Conferences.** Both NACO (July 21-25) and NCSL (July 23-28) are having conferences this month. The President could give addresses by satellite to either (or both) conferences on education and training issues.
- **Other Education-and-Training-Related Events.** Several events are taking place during the month of July that could be used as message forums for the President. These events are not major news in-and-of themselves, but they could be used as basic forums for the President. They include: **The Enterprise National Launch Meeting (July 10-11); The Lifelong Learning Demonstration Project Community Celebration (Week of July 10); The One-Stop Career Centers Year-Two Implementation Sites (Week of July 17).**
- **Kentucky School-to-Work Graduation (Date TBD).** On June 19, Governor Jones and Lt. Governor Patton of Kentucky wrote the President to invite him to attend a graduation ceremony for a successful state, school-to-work program partnership between the Kentucky Advanced Technology Center and Potter and Brumfield (a Siemens Company) that jointly trains adult students to be internationally certified tool-and-die makers. It is funded by the Commonwealth of Kentucky and Siemens. The Governor has left the date open based on the President's schedule, but they would like to do it sometime this summer. At the graduation, the Governor plans to announce the expansion of the program to include 15 local high-school students under the auspices of the local School-to-Work Program.

Other Presidential Forums that Should Be Utilized

- **Lunches with Small Groups.** Presidential lunches with small groups of leaders (Corporate CEO's, College Presidents, etc.) can be successful events if there are no competing events and there is activity on the Hill to tie into. Typically these lunches are closed press with pool spray and informal statements at the top.

- **"Letters-Type" Events.** We have had several successful "letters-type" events on issues other than education and training. These events involve the President inviting a group of students, parents, teachers, employers, etc. . . to the White House to talk about the importance of education/training programs in their lives and what the impact of the cuts will be.
- **Exclusive Interviews.** Exclusive interviews should be explored as they essentially guarantee coverage. Options should include everything from a network interview to a syndicated program such as Rockline (this Sunday night radio program has the largest listening audience of any music program in the country).
- **Radio Addresses.** These addresses can make news if given a real news hook. Suggested dates that correspond with major Congressional budget action include July 15, 22, or 29.
- **Conference Calls with Student Leaders.** Conference calls could take place with leaders who have organized groups around the student-loan issue. The President could commend their efforts and listen to their concerns.
- **Conference Calls with Parents and Students in Targeted Districts.**
- **Tarmac Greetings in Targeted Districts with Student Loan Recipients, Summer Job Participants, Americorps Members.**
- **Conference Calls with Governors in GOP Senate States.** This should be done on the same day as the Governors send a letter to the Hill on a given issue.
- **Large-scale Briefings with Education/Labor Groups at the White House with POTUS Drop-by Before Groups go to Hill to Lobby.**
- **Coordinate Special "Days" with Congress.** A small group of the major organizations can create an "Education Day" on the Hill to tie into expected committee action. These groups could sponsor a "Speak-Out or hearing where students, parents, teachers, and workers come to Washington to offer personal testimonials of the impact of the GOP Budget on their lives. Many Democratic Members would attend, and gimmicks could follow, such as giving every Democratic Member a set of "credentials" with a person from their district who will lose access to education with the GOP Budget cuts.

THE WASHINGTON POST
SUNDAY, JUNE 25, 1995

THE PRESIDENT HAS SEEN

*Rated
when any
on this now
BC*

Donna E. Shalala

Cheap Shot at the Vaccine Program

A few critics of the Clinton administration's Childhood Immunization Initiative (CII) have resorted to using errors and distortion to attack our efforts. The most recent example is Robert M. Goldberg's piece, "Made in Washington: The Great Vaccine Scare" (Outlook, June 18). I would like to set the record straight.

First, the Clinton administration did not "invent" this country's longstanding infant immunization problem. Let's look at the reality:

• In the two years before President Clinton took office, about 50 percent of America's 2-year-olds were not properly vaccinated.

• Historically, we have witnessed repeated outbreaks of preventable infectious diseases, including the 1989-91 measles epidemic that struck more than 55,000 people and took more than 130 lives, many of them young children.

• Today, while our immunization rates are the highest ever, there are almost 8 million children who have not received all the shots they need by their second birthday.

These are the facts, and, as Aldous Huxley once wrote, "Facts do not cease to exist because they are ignored."

Goldberg also errs by ignoring the true scope of the Childhood Immunization Initiative, which is the most comprehensive vaccination effort in American history. Our approach is to increase immunization rates right now, while also building a permanent system to sustain high rates in the future. This means addressing all the different barriers that prevent immunization—and we are doing that.

We have increased funds and flexibility for state and local communities, so they can create new clinics in

underserved areas, lengthen clinic hours, hire additional staff and expand other key services.

We are working to develop more effective systems for detecting disease before outbreaks occur and measuring vaccination coverage levels.

We are conducting research to improve vaccine use and, one day, to immunize children against more diseases with fewer shots.

To ensure that parents and health professionals understand the importance of proper immunizations, we have initiated a national and community-based outreach effort the likes of which this country has never seen.

Taking Exception

Goldberg says nothing about these efforts. Instead he focuses on only one of the CII's five elements, which is the Vaccines for Children Program (VFC).

Under VFC, poor and uninsured children are eligible to receive government-purchased vaccines right in their doctors' offices. Under the old system, the only way uninsured children of working families could get government-purchased vaccines was to leave their private doctors and make a number of trips to public clinics—which contributed to fragmented care, overcrowding at the clinics, and missed opportunities to vaccinate.

Numerous studies show that private doctors end up referring patients to public health clinics because of the high cost of vaccinations. That's why state health officials and private doctors overwhelmingly support VFC. It means more children will receive care in their "medical homes" and will be immunized on time. In just eight months since VFC became operational, more than

23,000 private health providers, including doctors, clinics and hospitals, have enrolled in the program.

Goldberg incorrectly claims that VFC increases federal vaccine purchase expenditures by \$587 million between 1993 and 1996. In fact, the increase in public vaccine purchases is just \$75 million—and we're buying a few types of vaccine we didn't buy in 1993. This is a wise investment.

Goldberg falsely accuses me of using 1986 data at a 1993 hearing when 1992 data were available. This is not so: I used 1991 data because 1992 data were not yet available. By the way, one year ago, Goldberg made the same erroneous charge in the pages of the Wall Street Journal. We corrected him then and do so again now.

And he suggests that the administration does not support efforts in Dallas, Chicago and Maryland to increase immunization rates in families receiving WIC and AFDC. In fact, we have aggressively promoted these innovations and are evaluating their results.

Instead of disinformation, we need a stronger national commitment to protecting our youngest and most vulnerable children with all the shots they need—when they need them, and that means we all must do our part. Health professionals must take every opportunity to vaccinate children during office visits. Parents must take responsibility for bringing in their children for shots. Community leaders and the private sector must spread the message about the importance of proper immunizations. And we who are public servants must continue to fight for children and families.

The writer is secretary of health and human services.

Samuelson and Will may be right that wide income disparities in the United States offer a powerful inducement for Americans to work, save and invest (though it is difficult to find evidence for this in U.S. saving or investment rates, which tend to languish near the bottom of the industrialized world). They may also be correct in believing large and rising disparities contribute to U.S. economic growth, though evidence for this is also weak. Recent studies on the relationship between inequality and growth in fact suggest that advanced countries with more equal distributions grow faster than countries that are less equal. Whatever the advantages of faster growth, they are purely theoretical for many low-income Americans. These Americans have not shared the general prosperity. Their after-tax incomes have slipped even though national output has increased.

Even more depressing is the fact that the absolute incomes of low- and even middle-income Americans are below those of residents in industrialized countries that are poorer than the United States. A comparison of Canada and the United States, based on 1991 income statistics, is particularly striking. In 1991, gross domestic product per person was 13 percent lower in Canada than in the United States. Because the Canadian income distribution is more equal than our own, however, Canadians in the bottom 55 percent of the distribution enjoyed higher after-tax incomes than they would have received in the United States at a comparable position in our income distribution. Of course, Americans in the top 45 percent of the U.S. income distribution received higher incomes than their Canadian counterparts. But for a majority of poorer and middle-class Canadians, the higher average income of the United States has little practical significance. These Canadians enjoy more comfortable incomes in Canada than they would be likely to receive in the United States.

The United States enjoys a high rank in one international contest, however. Americans near the top of our income distribution tend to receive much larger incomes than people with a similar position in other industrialized countries.

It is probably safe to assume that Will, Glassman and Samuelson are closer to the upper tier than the bottom tier of the income distribution. From their perch, U.S. economic performance undoubtedly looks quite satisfying. People further down the economic scale can be forgiven, however, if they doubt their economic good fortune as Americans. If wide income disparities have big advantages for the U.S. economy, low-income Americans are right to think the advantages should eventually show up in a tangible way—in larger paychecks and higher incomes. Whatever the virtues of our economic system, one conclusion is certain: Our fatter paychecks have not gone to the poor.

Leon / Siskin
I want to know
what the deal
is here

THE PRESIDENT HAS SEEN
7/16/95

INS Accused Of Misleading Hill Task Force

By Rene Sanchez
Washington Post Staff Writer

The chairman of a congressional task force on immigration has asked the Justice Department to investigate charges that it was intentionally deceived by Immigration and Naturalization Service officials during a recent tour of a Miami detention center.

Rep. Elton Gallegly (R-Calif.) said yesterday that INS officials may have transferred and even temporarily released some detainees at the center and doubled its staffing to make conditions there look better to federal lawmakers during a fact-finding trip.

Gallegly has received a letter signed by more than 50 INS employees in Miami that details how nearly 150 detainees, all illegal immigrants, were removed from the federal Krome Service Processing Center on the eve of the congressional visit.



REP. ELTON GALLEGLY

... asked Justice to investigate

The center, which is the largest INS facility in Florida, usually houses between 300 and 500 detainees.

The letter contends that 54 detainees were temporarily paroled into the community. Another 83 of them, it states, either were shipped out to other INS facilities in Florida for the day or simply taken on bus trips to have lunch in Key West and Tampa.

"This was done on a budget that is already strained and done only to present an image that the Miami District is well-managed and under control," the letter states.

The letter also alleges that twice as many INS inspectors were ordered to work for the delegation's visit to INS facilities at the Miami Airport and told to report without weapons or handcuffs to present a "kinder, gentler" image of their work there.

"These allegations are very, very serious," Gallegly said. "The charges are quite specific. Detainees were sent out on buses on day trips, or just let out into the streets. If that's true, someone has intentionally lied to Congress."

The Justice Department, which oversees the INS, said yesterday that its inspector general would investigate the charges. An INS spokesman, Greg Gagne, said that the agency was "deeply concerned" about the allegations and eager to help examine them. But Gagne said that at this point the INS could not comment on any specific charge.

The congressional delegation made its visit in early June. It is part of a House task force on immigration reform that was created by Speaker Newt Gingrich (R-Ga.).

William Raspberry

Burn a Cross, Save a Flag

Having trouble deciding whether you're a liberal or conservative? Trying to sort out your feelings on patriotism, freedom of speech and civility? Well, here are a couple of cases virtually guaranteed to add to your confusion.

Last week, the Supreme Court (in one of the *other* opinions that came down the day the Georgia redistricting case was decided) said the state of Ohio shouldn't have stopped the Ku Klux Klan from erecting a 10-foot cross on a public square in Columbus.

This week the Senate is preparing to consider a constitutional amendment—already approved overwhelmingly by the House—to ban the burning of the American flag.

If you think the court was wrong on the cross and the House wrong on the flag, you're a liberal. If you believe the opposite, you're a conservative. If you agree with the court and disagree with the House, you're probably—but not necessarily—a civil libertarian.

And if you're merely confused? Easy, you're an American.

It's hard *not* to be confused by the issues involved in the two cases—even when you understand their theoretical underpinnings.

Take the KKK and the cross. The case arose in December 1993 when state officials refused to allow the Klan to erect its cross on public prop-

erty that already held a Christmas tree and a menorah. The rationale: The menorah and the tree were "cultural" artifacts, whose significance transcended religion. The cross was sectarian: specifically Christian.

The high court, by a vote of 7 to 2, sided with the Klan, with the majority (in separate concurring opinions) offering a range of rationales—virtually

Further obfuscating the concepts of patriotism, freedom of speech and civility.

all of them religion-based. Only Justice Thomas (demonstrating that he hasn't forgotten *everything* about being a black man in America) noted that the Klan's raising of the cross may have been "a political act, not a Christian one."

Even so, should it have been banned? (The ACLU would have banned Christmas tree, menorah and cross on the ground that they are all religious symbols that have no business in public space.) Would the

court's decision have been different if the cross—unattended—had been adorned with flickering flame-like lights?

The flag-burning proposition is both easier and harder. It's easy because, as even the proponents of the constitutional amendment must know, flag-burning is an act of political expression—and a fairly rare one at that. Is the offense so great as to warrant the first-ever alteration of the Bill of Rights? I don't think so.

So what makes it a difficult question? Politics—by which I mean the difficulty of explaining to an unhappy electorate that a vote against the proposed amendment is not a vote in support of desecrating the flag, merely a vote in favor of free political expression.

But what expression! It is "speech" calculated not to persuade but to inflame, the whole point being to drive patriots up the wall. It is the symbolic equivalent of shouting, "To hell with America!"

But if those actual words are constitutionally protected, why shouldn't their symbolic utterance be? The drafters of the proposed amendment must believe flag-burning is protected speech; else, why would they seek to change the Constitution to make it so?

As much as I deplore incivility in

public discourse (and flag-burning is, at the very minimum, incivility in discourse), I find it hard to see what good could come of the amendment. The most obvious obstacle to its enforcement is the difficulty of defining "American flag." If a protester fashions a red-white-and-blue look-alike, but with 14 stripes, or 53 stars, is that a protected flag? And if the thing is already aflame, how could you tell whether it's a true flag or not? Would setting fire to a photograph of a flag be a violation? What if the photo were on a T-shirt?

Rep. John Lewis had it right a week ago when he said: "Our flag, while a great symbol, is still just a symbol—a symbol of our rights and freedom. What is worse—destroying a flag, or destroying the liberty that flag represents?"

That's the heart of the matter, however difficult it may be to communicate it to those who object to anybody's "running down the country." The flag is a symbol, and its desecration is political expression.

The burning of a cross, in Klan symbolism, is a powerful—often specific—threat. Don't members of the House know that? Why do you suppose they haven't offered a constitutional amendment for that, too?

Porter J. Goss

The Haitian Elections: Defending the Indefensible

The full story of Haiti's recent parliamentary elections is now emerging into the bright light of day—outside "official channels." The views of disorganization and chaos, of voter disenfranchisement and frustration strike at the heart of democratic people everywhere.

I saw these elections first-hand and was deeply disappointed by the disorganization and confusion. As the leader of an International Republican Institute (IRI) independent observer delegation, I was not in Haiti to declare a winner, to back a particular side or to champion any issue other than democracy. Our mission was simple: observe and report independently and accurately on the conduct of the election.

We did just that. The election effort I saw was badly marred by closed polling places, disenfranchised candidates, burned and mishandled ballots, destroyed or falsified vote tally sheets, widespread lack of ballot secrecy and worries about election-place security. Yet the Clinton administration and its apologists in the American media seem eager to declare the elections "acceptable" while taking aim at those who point out some very real problems.

In a June 27 editorial, The Post praised the elections despite the avalanche of voting irregularities, misadventures and outright manipulation of ballots and voting tallies. The Post judged the elections a "success"—"by any reasonable standard." The Post then went on to dismiss the IRI findings as "not constructive, informed criticism" because of IRI's "misunderstanding" of Haiti today.

The IRI observers found that the election procedures and balloting were reasonably successful in a few places. Things generally seemed to go better in

the southern part of the country and worse—much worse in a few violent instances—in the north.

I was in Haiti as a presidential mission observer in the countrywide presidential election of 1990. By way of comparison, I would note that this election was an improvement over the tense atmosphere in

Taking Exception

1990, which manifested itself in some incidents of brutal violence. But I would also note that the enthusiasm for the elections was much diminished—which apparently resulted in surprisingly low voter turnout in the recent election. And the management of this election was a fiasco compared to 1990—which may partially explain the low turnout.

The Post editorial would have us believe there was no military control of this election. But there was military control—only this time the military was primarily ours (working with our U.N. partners). That's an important point for America's taxpayers to note.

In discussing the "first-time democratic procedure," The Post fails to recognize that the procedure was used once before in Haiti—in 1990—and it worked much better. But in the elections of June 25 we saw the procedure going backward. This matters not because we should find blame, but because we must remember that there is a terribly important presidential election scheduled for six months from now. If that election is not properly managed, it will tear Haiti apart.

The Provisional Electoral Council (CEP) must

understand that the mismanagement that occurred happened on its watch. Its performance was unresponsive; its preparations were insufficient. One observer called it "organized confusion," assuming some type of motive. I would call the whole CEP effort inexcusable given the level of U.S. taxpayer assistance that went into this election. Just because Haiti is woefully poor doesn't mean it can't do better.

Finally, I concur with The Post's point that the Agency for International Development's (AID) eagerness should not lead it to substitute its energies and judgments for those of Haitians. Nor should it blind AID (or any of the other international organizations that had a stake in this election) to the fact that the June 25 election was an organizational catastrophe. Defending the indefensible gets us nowhere.

Can the CEP get its act together to complete these parliamentary elections with enough integrity to provide them with sufficient credibility? Will the new parliament have sufficient credibility as an independent, separate branch of government for the customary checks and balances role, or will it be just an Aristide rubber stamp? Will the Haitians' patience hold together for the first orderly turnover of power by a democratically elected president to a democratically elected president, in February of 1996? And will our troops come home on schedule in 1996?

Why do we care? The answer is that Haiti deserves better than it got out of the June 25 election, and the American taxpayers deserve better out of their foreign assistance dollars—all \$2 billion-plus of them in Haiti.

The writer is a U.S. representative (R-Fla.).

Donny
was the '90 election
better? If so why
Be

Clean Water: A Midstream Approach

By Sherwood Boehlert

WASHINGTON
Within the year, the 104th Congress may rewrite the Clean Water Act, the Superfund program, the Endangered Species Act, the Safe Drinking Water Act and portions of the Clean Air Act. In short, it may redesign the entire framework of environmental protection that has been developed over the past 25 years.

That could have salutary results. The laws need to be redrafted to prune red tape, cut back the natural accretion of bureaucracy and, most important, reflect the findings of the latest scientific and economic research. Unfortunately, Congress seems poised to leap far beyond such level-headed revision and instead reverse more than two decades of environmental progress.

The vote last month in the House to dilute the Clean Water Act demonstrated what an uphill battle it is to put together a coalition for sensible reform. But the vote also indicated that moderates still could carry the day as the debate over environmental protection moves forward.

Part of the problem is that the terms of debate are being set by those at the ends of the spectrum. On one side are environmental absolutists, who often sound as if they view the restoration of Eden as a reasonable interim goal for environmental policy. On the other is an increasingly strident conservative vanguard, which believes (to update Barry

Sherwood Boehlert, Republican of New York, is chairman of the House Subcommittee on Water Resources and Environment.

Goldwater) that extremism in the defense of libertarianism is no vice and moderation in the pursuit of deregulation is no virtue.

Both sides grossly misread the desires of a pragmatic and often ambivalent electorate. The absolutists choose to ignore the voters' growing suspicion of the Federal Government and, in the abstract, of regulation. But the libertarians fail to see that the voters still expect the Federal Government to guarantee them a cleaner environment. And, polls show, the vast majority even want the Government to do more to achieve that end.

What is to be done? Congress can satisfy the voters, protect the environment and maintain the nation's

Absolutists on both sides hurt the environment.

ability to compete in the world economy, if its environmental policy is guided by three fundamental moderate principles:

Repeal is not reform. Environmental law can be improved without eliminating the provisions that have made it so effective. This principle has often been honored only in the breach by the current Congress.

For example, in the name of "reform," the clean water bill that passed the House repealed the entire program that limits discharges of polluted storm water — even though storm water runoff is responsible for more than 25 percent of damage to water quality in the United States.

Was repeal necessary to eliminate the flaws in current law? Absolutely

not. An exemption for small communities and small businesses, which contribute little to the problem, could have eased the burden of regulation without threatening water quality.

Instead, the House used a guillotine to cure a headache — giving aid and comfort to the environmental absolutists by making credible their claim that "reform" is merely a euphemism for backsliding.

States have a role. Centralizing all decision-making, as the environmental absolutists desire, is a recipe for an anti-regulatory backlash. Giving the states a greater role in environmental policy — the power to carry out Federal law by granting permits for the use of wetlands, for example — reduces red tape and insures that regulators understand local conditions.

On the other hand, environmental policy cannot simply be delegated to the states, as the libertarians pretend. Air and water recognize no state boundaries. Supporters of the House bill repeatedly said that Maryland could protect the Chesapeake Bay without Federal regulation if the state was genuinely concerned about its recreation and fishing industries. But Maryland would have no way to stop polluted water originating in Virginia or Pennsylvania.

Regulation should be based on science. Scientific research should not be viewed as suspect simply because its findings may be politically uncomfortable. During the House debate on the Clean Water Act, however, proponents of the "reform" bill attacked a report on wetlands issued by the National Academy of Sciences because it inconveniently offered a scientific definition of wetlands that would have required the bill's proponents to preserve far more acreage than they wished. Yet wetlands follow the laws of nature, not the laws of Congress.

At the other end of the spectrum,

the absolutists have not helped the cause of science either, sometimes clinging to outdated scientific findings and forecasts if they can be used to paint a picture of looming environmental catastrophe.

A bipartisan coalition is beginning to form around these principles, despite the polarization in Washington and the lobbying clout of the libertarians and their allies.

During the clean water debate, the moderate coalition was able to block the repeal of the program that protects coastal areas from pollution carried by runoff — preventing untold billions of dollars in damage to beaches and fishing areas. And though a moderate version of the entire bill lost, it drew 184 votes, far more than anyone had predicted.

The moderate effort was truly bipartisan. It was led by Republicans, with significant support from members of both parties. Speaker Newt Gingrich, incidentally, encouraged Republicans to air their differences.

We have demonstrated that moderates in both parties can work together. If we continue to do so, the public may yet get what it wants — effective environmental protection that does not unduly burden business or individuals.

THE NEW YORK TIMES, WEDNESDAY, JULY 5, 1995

THE PRESIDENT HAS SEEN
KMcGrubry
7/14/95
Do let them have
a chance to make
a good bill?
PS