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THE PRESIDENT HAS SEEN
12/8/95

FELIX G. ROHATYN

An Address:

**"AMERICA IN THE YEAR 2000: ISOLATIONIST OR
INTERNATIONALIST?"**

THE BRUNO KREISKY FORUM

Vienna, Austria

November 9, 1995

The U.S. stands at a critical crossroads today. Our economy is extremely well positioned to enable us to be the leading global economic and financial power as we enter the 21st Century. Our technology, our currency and financial markets, our labor force, our legal and political system, all contribute to a powerful and highly competitive modern economy. The model for "advanced capitalism" in a modern industrial democracy, ~~with all its~~ burdens and all its advantages, can be found in America.

At the same time, as our economy is poised to enter the 21st Century, our foreign policy and even some of our domestic policies are in danger of being driven back to the 19th century by the new politics of isolationism and anti-government populism. This contradiction is profoundly contrary to our self-interest as well as to the broader interests of global political stability and economic growth. It will be impossible for the U.S. to benefit from its powerful international economic position, and to help its Western partners benefit as well, without an active and engaged foreign policy. This is becoming increasingly difficult politically because of domestic pressures. Despite its currently favorable economic performance, my Country may be about to enter its most serious political and social crisis since the onset of the Great Depression. Europe must recognize this reality; what is happening in America is an indication of the pressures that the global economy exerts on Western democracies and of their social and political consequences.

The collapse of communism, as an economic system, occurred because of its hopeless inefficiency and inability to compete with the West, militarily or economically. Its collapse, as an ideology, occurred because it became impossible to maintain an intellectual wall to keep out the ideas of Western

democracies; individual freedom, the benefits of the market system, the creation of wealth. The power of Western ideas was greater than the power of communist bayonets.

With the exception of China, all major countries in the world today, in one form or another, have adopted democracy and the market system as their model. Many are finding it very painful. Mexico is one example but will probably succeed in the end; speculative financial policies almost caused its collapse. Russia is still very much an open question; "Mafia capitalism" cannot survive for very long. When a global market in commerce, in knowledge and in capital exploded around the world, driven by dramatic breakthroughs in communication and data processing technology, the euphoria surrounding these events did not take into account the fact that the technology was far ahead of the evolution of the political systems and the social structures which make up the world's community. The revolution created by technology and by the global marketplace, like all revolutions, will carry a heavy price.

In the developed world of the Western democracies we are beginning to see inevitable pressures on the standard-of-living of the average working person as a result of international price and wage competition, new technologies, reduced government expenditures for social support and continued immigration from poorer regions. In America, we are seeing a clear social division as a result of the requirements of the modern economy: those Americans with high levels of education and technical skills are doing very well; those without are suffering a reduction in real income. The income differential between a college graduate and a high school graduate has almost

doubled in the past 10 years. And at all social levels, the loss of security is apparent: lifetime employment and regularly increased wages are a thing of the past, and the security provided by high levels of social benefits has disappeared along with them. This situation is dividing America into a technological aristocracy, generating high levels of income and capital, and a middle class with insufficient levels of knowledge and specialized skills, decreasing real incomes and diminishing security. The social strains created by this division are aggravated by the intractable problems of the mainly black and Hispanic populations of the inner cities; these have, practically speaking, little or no opportunity to break out of their environment and look to the government for support at a time when that support will be sharply diminished. I would be surprised if in one form or another, these same issues did not occur in Europe relatively soon.

The political debate resulting from this situation will affect America's foreign policy as well as its domestic policies. It is not only an argument between Republicans and Democrats. It is, more and more, a competition among the various classes in American society for opportunity and security at a time of slow economic growth; it is a competition among classes as well as races for government support under shrinking budgets; and it will be, as a result, a fight about whether America maintains open borders to immigration and commerce, and remains engaged internationally. The alternative would be a return to the isolationism of the 1920's and '30s. The answer to these questions will be seen over the next few years but it is already possible to see some trends.

Practically all levels of American society share such a deep distrust of government and, of government's ability to solve problems, that it is politically impossible to suggest an increased government role in dealing with many of these issues. This shows the basic contradiction that we face: in order to deal with sub-standard public education, urban crime, illegal immigration, AIDS and many other serious problems we require an active, competent government that has the power to intervene. This is politically out of the question now or for the foreseeable future. We will therefore leave many of these problems to state and local governments and to the private marketplace; if they are not able to deal with them satisfactorily, and I doubt that they will, our social disparities will be aggravated.

As long as these domestic pressures continue, our international posture will be questionable. Both political parties continue to support free trade and investment but, unless our trade deficits with Japan, China and Mexico are turned around soon, public opinion will turn against it. The U.N., despite its faults, is a vital institution and very much in our national interest; however, the Congress is adamantly opposed to the U.N. in particular and foreign aid in general. Our refusal to pay our dues, and the current U.N. financial crisis, are not only embarrassing vis-à-vis our allies, but profoundly self-destructive. In addition to our failure to support the U.N., World Bank lending to poor countries and other foreign aid programs by the U.S. will be drastically reduced.

The Clinton Administration's current successes in the Middle East, Bosnia and Mexico, assuming they are maintained, may improve the climate somewhat but probably not sufficiently to change the net result. Military

support and economic assistance for the reconstruction of Bosnia will be very difficult issues politically. If NATO is expanded to the East, I question whether Congress would appropriate the funds required to finance such an expansion. At best, America will be a reluctant leader at the turn of the century and then only to protect our most direct economic and security interests. On global issues basic to the improvement of the human condition such as environmental protection, population growth and the weapons trade, America will sound a very uncertain trumpet.

The distrust of active government as well as its diminished resources means that more and more American domestic and foreign policy will be driven by the global economic marketplace. It is noteworthy that, as the problems we face at home and abroad are getting more complicated, the political appeal of simple, sometimes primitive solution, gets greater: To reform the U.N., the solution is simply to stop paying our dues. To simplify our complicated tax system, the current proposal is to tax everyone at the same rate, and put it all on a postcard, regardless of its consequences. To stop teen-age pregnancy among the poor, the solution is to eliminate welfare benefits and outlaw abortions. Simplicity may be a virtue but it is unfortunately not the solution to more and more complicated problems.

Today, having won all over the world, first on the battlefields, and then in the minds of men and women, America is about to be torn apart in trying to recapture a past which never existed in order to avoid a future it is inevitably destined to face. The secret of America's success was always based on its ability to find a rational middle ground between its political extremes while consistently improving the standard-of-living of a majority of its citizens.

This is no longer the case. An angry, populist, anti-secular, anti-immigrant, anti-government movement is well on its way to dominate our political institutions; it is now joined by the beginnings of a black separatist movement led by Minister Farrakhan which, if it succeeds, could create our worst racial divisions in decades. Taken to their extremes, these tendencies could have extremely serious consequences for America and, as a result, for the rest of the world.

It is not difficult to find the causes of much of some of this anger. One such cause is the lethal combination of television, money and politics by which the broken promises of politicians, pandering to public opinion as well as to special interest groups, became intolerable; another is the vast overreaching of a welfare state which appears to reward dependency instead of work; and, finally, insecurity and fear of the future as the end of the Cold War brought about the brutal requirements of "Advanced Capitalism" and its stringent disciplines.

I have no illusions about the ability of government to solve all our problems; however, I do not believe that the private market, alone, can deal with all of them either. New York City's fiscal crisis of the 1970's and my years as Chairman of the Municipal Assistance Corporation, taught me a lot about the high cost of good intentions; about the power of municipal unions and other interest groups to control the political process; about the reality that only a growing private sector economy can sustain adequate levels of public services for urgent social needs; about the need for balanced budgets within a framework of social fairness. But it also taught me that an active and intelligent government is necessary to achieve a balanced and fair solution.

All during the 1980's, while a Democratic Congress and Republican Presidents ran up \$3 trillion in deficits and collapsed the value of the dollar, I argued for fiscal restraint coupled with active government and when Bill Clinton came along, his programs and philosophy seemed very much along those lines. Deficit reduction; public investment; greater emphasis on education; active involvement in trade and support in the conversion of defense industries. For the first two years of his term, he fulfilled many of these promises. The deficit came down, together with interest rates; NAFTA and GATT were passed and our international trade soared; significant initiatives were made in public education. I believe that another few years along these lines, together with a concerted effort to deal with the problems of public education and crime would have to put the Country on a stable footing. And then the political roof collapsed last November.

The political revolution which occurred last November in America is going far beyond the Thatcherism or Reaganism of the 1980's. It will, sooner or later, face Europe with very difficult choices. It is the end of the welfare state as we knew it, but goes much further in denying government's role in society. It is the expression of a very harsh agenda which shows little regard for those who are disadvantaged. It reflects the unwillingness on the part of America to invest for the long-term; investment requires savings; it requires a long-term view; it must be paid for. Instead too many of our politicians are interested in providing the voters with instant gratification without immediate cost. Building takes time; sending out government checks is very quick. The hard edged conservatism of the new politics, however, was foreshadowed by events occurring in the real world, the cold, hard disciplines of the global economy.

"Advanced Capitalism" is the capitalism of the global deregulated economy of the 21st century. It is driven by the only truly functioning world organization today, namely our capital markets. It reflects the vision of Adam Smith and of Charles Darwin instead of the lofty hopes of Woodrow Wilson. It came upon us long before last November's election, but it took a number of years to make its impact felt. It is a harsh climate which imposes stringent disciplines on its participants: high rates of savings; high rates of capital investment both private and public; high levels of education; high levels of R&D. The inevitable social impacts of these requirements are already discernible in most Western developed nations.

Despite the recent political trends, these realities require, in addition to strong private sector involvement, appropriate Government measures. That means combining balanced budgets, a strong currency and a highly competitive private sector with the recognition that there is a definite role for Government in dealing with problems of unemployment, health and education for people, who for some period of time will have no private sector alternatives. Imposing an extremely harsh social agenda on top of the inevitable hardships of "Advanced Capitalism" carries considerable risk. Even though my comments today refer mostly to the American experience, I believe they are equally applicable to what is happening or will happen in Austria, France, Germany and the other Western democracies.

For those of us in the business world, this trend started almost ten years ago. That was the beginning of the process by which global competition and new technologies forced a dramatic restructuring of American business, major management changes, together with significant and recurring layoffs in

industry. These layoffs are continuing to this date and are spreading to the service sector.

The reaction of working Americans to these changes must be viewed in this context. The big beneficiaries of our economic expansion have been the owners of financial assets and a new class of highly compensated technicians working for companies where profit-sharing and stock ownership is widely spread. What is occurring is a huge transfer of wealth from lower skilled middle-class American workers to the owners of capital assets and to a new technological aristocracy, whose compensation is heavily tied to stock values. In the last year or so, the market value of stocks and bonds increased by about \$1 trillion each; however, the median income of the average American stayed flat.

As a result, the relationship created between employers and employees in most American businesses has been badly damaged. Even though this is the result of technology and global competition, instead of greedy owners and incompetent management, the damage has been done. These relationships have been replaced by a combination of fear for the future and a cynicism for the present as a broad proportion of working people see themselves as simply temporary assets to be hired or fired to "protect the bottom line" and create "shareholder value". "Advanced Capitalism" must address itself to this phenomenon before it creates more extreme political pressures. However, business cannot be the social safety net of last resort; that function must remain with Government.

The business community, however, has an important role to play. As political pressures cause the Government to reduce more and more its role in society, business must adopt policies that encourage stability and confidence in the future. For the foreseeable future, large numbers of Americans will be, temporarily at least, out of work and will require assistance in new careers. Since our modern economy can no longer provide long-term employment security to the average worker, we must try to provide some form of educational and capital security instead. Business, Labor and Government should start a dialogue about an appropriate and practical form of "benefit-sharing" in our society which recognizes that the creation of wealth is becoming heavily skewed away from the average working person, through no fault of his own.

As the average American faces these insecurities, his government is less and less able to provide assistance and he becomes more and more resentful of the consequent pain and dislocation. All democracies of the West are facing the problems of budget deficits combined with slow economic growth. In addition, America's political forces now require a commitment to balance the budget. This commitment, which will require a reduction in the expected outlays of the Federal Government by about \$1.5 trillion over the next decade, will put great pressure on those sectors of our society presently in need of government assistance: The poor, the unemployed, those without medical insurance, the under-educated. Our big cities, with their large proportion of black and hispanic populations already in serious difficulties, will be at serious risk as this process goes forward.

In this context, neither "conservatism" nor "liberalism" are really relevant ideologies in the year 2000. Given the financial constraints of an advanced industrial democracy in the age of global economics, neither the hard-edged conservatism presently fashionable in America nor European type welfare states can provide those policies required by the competitive nature of "Advanced Capitalism". There has to be a third way, which combines economic growth, private enterprise, and individual security.

As a first priority, our rate of economic growth should be significantly accelerated. The public anger today is due to stagnating incomes and insecurity about the future. Much of that is due to slow economic growth. If I had to identify the most important objectives of U.S. domestic policy today, they would be faster economic growth, greater individual security, and improved education. I believe the same will apply to the rest of the Western world.

Despite their philosophical differences, the Clinton Administration and the Congressional Republicans are projecting long-term growth rates for the economy that are remarkably close to each other: 2.3% by the Republicans and 2.6% by the Administration. Such slow growth is inadequate to meet requirements of our private and public sectors. Every major American social and economic problem requires stronger economic growth for its solution. This includes improvements in public education as well as increasing private capital investment and savings; balancing the budget and maintaining a social safety net; improving the economic conditions in our big cities and reducing racial tensions as a result. The economic and social pressures of "Advanced

Capitalism" can only be offset by higher rates of economic growth. In general, the same situation will exist in Western Europe and Japan.

There is only one explanation for our Government's reluctance to adopt a higher growth objective; The fear of inflation resulting from higher growth. The view that our economy's capacity for non-inflationary growth is limited to 2½% is strongly supported by the financial community, the Treasury and the Federal Reserve rightly anxious to protect the securities and currency markets. On the other hand, our business leadership is strongly of the belief that we can achieve higher growth with little risk of higher inflation, and our latest economic statistics seem to confirm this possibility. It is totally appropriate to fight inflation; it is counterproductive to limit economic growth unnecessarily.

In the U.S., the productivity improvements resulting from new investments in technology, corporate restructuring and global competition are significant and will continue to provide the economy with more room to grow as advanced technology improves the efficiency of the service sector as it has improved the manufacturing sector. These pressures, together with free trade in a global economy, provide the most efficient protection against renewed inflation.

The need for America to be engaged internationally is as important for our economy as it is for our security. Even when global competition was less severe and our social problems less daunting, the U.S. did not generate sufficient jobs and revenues at less than a 3 - 3½% annual GDP growth. It is obviously not possible, overnight, to try to do so without raising the fear of

renewed inflation; global capital markets are very nervous and maintaining a strong dollar is fundamental to our prosperity. In order to achieve higher growth without inflation, a number of policy changes will be required. First, our European and Japanese partners will have to be persuaded to set a parallel course and coordinate lower interest rates while promoting domestic growth policies of their own; at home, we should consider tax reform to promote investment and savings; we should make appropriate increases in public investment, even as we reduce the cost of social programs and defense spending; we should make improvements in public education an integral component of a strategy of higher growth and higher productivity. Hard money, higher rates of growth, low interest rates and low inflation should be our economic platform. They are achievable and would simultaneously stimulate growth in the rest of the Western world.

Another factor to be taken into account is the protection of global capital markets and the maintenance of a strong dollar. The world's financial markets are now a greater danger to stability than nuclear weapons. And even though financial explosions occur with regularity, caused by leverage, by derivatives, by defective controls, and by sheer excessive speculation, not enough has been done to devise a safer system. Some combination of greater international regulation and controls must be found, as well as the establishment of global standards for the protection of investment capital.

It is obvious that America must be fully engaged internationally to help promote a global economic agenda. The need for coordinated economic growth, the need to promote free trade, the need for global investment standards and safeguards for capital flows, these issues and similar ones can

only be dealt with by a fully-engaged American foreign policy. This is an agenda that has to be pursued in parallel with our security agenda which includes continued support for the U.N. and NATO, providing leadership in the Middle East and Bosnian peace processes, and remaining at the forefront of other very difficult problem areas. Russian reform, North Korean and Iranian nuclear threats, Chinese ambitions and many other messy, difficult and potentially threatening situations are dangers where U.S. leadership is an absolute necessity.

Within that framework, it seems to me that American interests require that more attention be paid to Europe. The tendency of the last few years, for American foreign policy to treat the Pacific as the future and Europe as the past, is profoundly misguided. We have important economic and security interests in Asia; we have historical Allies and deep economic and cultural ties in Europe. We should support the extension of the European Community to Eastern and Central Europe; I believe that, at this time, this is more important and effective than the eastward expansion of NATO. We should also view the creation of a European currency favorably although the timing for this seems to be open to serious questions. A new large, liquid currency could provide greater balance to the dollar and the yen as well as providing more stability to the global financial system. An expanded EC, a European currency, as well as a North Atlantic Free Trade Area would be positive developments for American interests at the turn of the century.

Europe is facing challenges similar to ours. The pressures of "Advanced Capitalism" will, ultimately, have the same impact on European welfare states that they have had on the less-protected American system.

This process may even turn out to be more painful because of the much higher level of social benefits in Europe which will have to be reduced, and the greater resistance of powerful interests such as labor unions to the inevitable adjustment.

The world itself is being divided along somewhat the same lines. The capital markets are creating a triage between those countries that have access to private capital and those that do not. The role of the World Bank and other government development organizations will be significantly diminished. Those countries with access to private capital will be able to achieve economic development, although not without significant problems, as shown by Mexico and China. Those without access, sub-Sahara Africa, Bangladesh and other similar problem areas, will have to rely on direct support from the international community. If past history provides any indication, such support will be inadequate. The division between wealthy countries and developing countries, on one side, and poor countries, on the other, will become greater. The population pressures will increase.

In this complicated and dangerous global environment, America, in partnership with Europe, must remain the guarantor of peace and freedom. America can only do so on a solid platform provided by a strong domestic economy and a cohesive social and political structure. Without a strong domestic base, America will not be able to play its necessary role of international leadership. At this time, I would question whether America will be able to fully play this role.

The world is clearly more complicated than it ever was. The political and economic union of Europe is questionable at this time. The evolution of the former Soviet Union is impossible to predict. The relationship of China with its regional neighbors Russia, Japan, India and Taiwan will have to be watched very closely. Nuclear terrorism is just around the corner. All over the world political evolution is uncertain and impossible to predict; what is certain, however, is that global capital, technology and information will continue their relentless pressures in the foreseeable future. In the face of these pressures, the future will be determined by the quality of political leadership among the great and emerging powers. A modern democracy needs to satisfy three basic requirements: Personal freedom; the creation of wealth; and fairness in its distribution. These are not easy to achieve. We must hope that between now and the year 2000, a few men and women will reach the stature achieved not only by Roosevelt, Churchill and De Gaulle in winning the war, but by Adenauer, Gandhi, Jean Monnet and George Marshall in winning the peace from which we benefit. The world desperately needs that kind of leadership to deal with its problems and capitalize on its opportunities.

The forces unleashed in the world as a result of the collapse of communism and the creation of a global marketplace are as powerful as they are unpredictable. So are the opportunities created by knowledge and technology. Anyone trying to predict the future today should simply look back over the last 15 years and try to find anyone who actually predicted what has happened. I see the future as a dark cloud; my children see it as a great opportunity.

It seems to me that it is quite appropriate to be discussing these issues in Vienna at this moment in time. Over the last two centuries, Vienna has lived through much of what is best in what Western civilization has to offer, and has also witnessed some of the most horrible aspects of human behavior in recorded history. As someone who was born here and who lived through some of the worst moments of European history, it is a hopeful sign to see Vienna peaceful and prosperous, and fully integrated into the new Europe. It may mean that my children's optimism will be vindicated. I am honored to have been asked to speak here at a forum named for a chancellor who symbolized a new reality for Austria and for Europe.

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THE PRESIDENT HAS SEEN
12/8/95

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MEMORANDUM FOR THE PRESIDENT

From: RBR *Boy*
Re: Budget Negotiations

I hope you find the attached useful.

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Some good concepts / arguments
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DETERMINED TO BE AN ADMINISTRATIVE

MARKING INITIALS: MI DATE: 9/11/16

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MEMORANDUM ON THE UPCOMING BUDGET NEGOTIATIONS

Date: November 24, 1995

The purpose of this memorandum is to suggest ways of emphasizing the distributive aspects of what is at stake.

1. Tactical bargaining versus strategic bargaining

At the outset, there will be a temptation (which the Republicans will encourage) to set a target for how much money must be added back from the budget resolution to fund domestic discretionary spending (say, \$80 to \$120 billion over 7 years). There will be a simultaneous temptation to seek a moratorium on all tax cuts until the spending cuts are agreed upon and a 7-year balance is achieved.

These may be wise tactical moves, but they may not be wise strategically. They tell the wrong story about what this Administration is trying to achieve for the country: They frame the issue as between the President's efforts to increase spending and taxes versus their efforts to cut spending and taxes. Bargaining (and eventually compromising) on this basis reinforces the Republican version of what's at stake (big government versus small government). At best, it will result in a compromise which provides some funds for several of our domestic discretionary priorities. But it establishes exactly the wrong predicate for the election, and for any mandate for the next four years.

Strategic bargaining would begin by establishing principles of equal sacrifice. The underlying question should be framed as how to fairly allocate the burden of balancing the budget, so that all Americans are called to pitch in. No segment of society should be especially burdened; none should be excused. The underlying story is the President's continued efforts to achieve a fair allocation, and the Republicans' efforts to advance their powerful and privileged friends by placing most of the burden on average working people and the poor. It is also a story of the President's continuing effort to ensure a strongly competitive nation in the future, which invests in the capacities of all our people.

The predicate for the election (and for the four years following the re-election) is this: The President believes that we should be growing together again. Instead, the Republicans have been exacerbating the forces that are pulling us apart -- in terms of income, class, race, and anger directed against one another. What's at stake is no less than the capacity of this society to pull together and grow together so that we may prosper together.

2. Starting with principles of equal sacrifice

They will begin the bargaining process by enunciating certain "non-negotiable" items (such as a capital gains tax cut), and they will demand that the President come forward with a list of spending cuts. They will seek to characterize the Administration's position as "tax-and-spend" and their own as "ending the welfare state."

We should begin the bargaining process by putting a radically different frame on it. The President would announce several principles of equal sacrifice that must guide the nation in seeking to balance the federal budget. Here are several possibilities:

(1). Tax cuts should be reserved for families earning under \$100,000. There is no reason at this point in our nation's history for giving tax cuts to families that don't need them. According to the Treasury Department, 45 percent of the benefits of the Republican tax proposal will go to the top 12 percent of taxpayers -- those making over \$100,000. The conference agreement rewards wealthy individuals by providing a retroactive 50 percent deduction for capital gains -- \$28.8 billion over 7 years -- plus estate and gift tax relief amounting to about \$12 billion over 7 years.

(2). No tax increases on working families. The Republican conference agreement raises taxes on working families by reducing the EITC by \$32.4 billion over 7 years. Treasury estimates that these cuts reduce the EITC for 12.6 million working families, by an average of \$332 in 1996. Even accounting for the \$500 child credit, and a proposed increase in the standard deduction, 7.7 million EITC recipients would pay, on average, \$318 in higher taxes.

(3). No tax cuts for corporations. There is no reason to make additional cuts in corporate taxes. First, corporate taxes have shrunk dramatically over the past 15 years, as a percentage of total federal tax receipts. Second, corporate profits are now high; the Dow just crashed through the 5000 mark. Third, corporate "downsizing" continues unabated. Many Wall Street analysts (among them, Steve Rattner, David Shulman, Stephen Roach) attribute rising profits and stock prices directly to corporate America's ability to prevent wages and benefits from rising. Fourth, Wall Street's bullishness does not translate into higher incomes for most Americans. According to recent studies, there has been a steadily increasing concentration of unearned income (stocks and bonds) in the hands of wealthy individuals -- even accounting for pension funds.

The Republican bill contains a number of corporate tax cuts. It lowers capital gains for corporations by \$6.8 billion over 7 years, and virtually repeals the alternative minimum tax for many corporations by \$16.2 billion over 7 years.

(4). No pension grabs by corporations. For similar reasons, there is no reason to allow this. The Republican bill raises approximately \$4.7 billion over 7 years from companies that it assumes will pocket about \$18 billion in "excesses" from their pension plans. But this provision raises the risk that pension beneficiaries won't get the pensions they were promised, or that the PBGC (and taxpayers) will be left holding the bag.

(5). No corporate welfare. There is substantial overlap among lists of "corporate welfare" subsidies and tax loopholes provided by think tanks of all ideological persuasions. Now is a propitious time to set a target of, say, \$100 billion in revenues over 7 years (to be plugged into the final budget compromise), and to seek Republican agreement to establishing a commission (modeled after the base-closing commission) to identify tax loopholes and spending cuts that total at least this much.

(6). No real cuts in investments in the standard of living of future Americans. Education and job-training, environment, and technology should, at the very least, remain at their 1995 post-rescission levels, adjusted for inflation. This is necessary in order to assure that all Americans prosper in the future, not just a few.

(7). Spending cuts must fall equally on rich and poor. According to our estimates, about one-third of Republican spending cuts (approximately \$300 billion over 7 years) come out of the 12 percent of the current federal budget directed to the poor or near poor. That's simply unfair. Here again, the President should call for a budget that allocates the burdens more equally.

(8). The elderly should not pay disproportionately. The Republican Medicare and Medicaid cuts are unacceptable because they put a disproportionate burden on senior citizens. Note that 75 percent of Medicare recipients have yearly incomes of under \$25,000.

(9). If welfare is to be cut, then work must pay. The President's proposed minimum wage hike continues to garner strong public support (a steady 75% to 80% in the polls). By 1996 the real minimum wage will be at a 40-year low. As a condition of signing any welfare bill that cuts funding for the poorest people in our society, the President should demand an increase in the minimum wage so that they may get jobs that pay a living wage.

3. Illustrating the theme through "pairing"

The Republican budget offers many opportunities to illustrate their failure to fairly allocate the burden of balancing the budget. One way to dramatize this failure is to pair up burdens they are placing on lower-income people with certain benefits they are bestowing on the wealthy.

To take just a few examples, they seek to --

<u>cut:</u>	<u>which would finance their:</u>
\$7 billion from summer jobs for poor kids	\$7 billion cut in corporate capital gains taxes;
\$3.5 billion in low-income housing tax credits	\$3 billion in new special tax breaks for corporations;
\$32.5 billion from the EITC for lower-income families	\$28.9 billion cut in individual capital gains for higher-income families;
\$15 billion from retraining laid-off workers and \$1 billion student loan interest deduction	\$16.3 billion cut in the corporate alternative minimum tax;
\$12 billion from Head Start and related programs for poor children	\$12 billion in cuts in estate and gift taxes for wealthy children;
\$1 billion from repealing the interest deduction for employment stock ownership plans	\$1 billion extension of tax break for commercial aviation fuel;

4. Issues for later in the bargaining process.

The themes of "equal sacrifice" and "America growing together rather than growing apart" can take on added strength later in the bargaining process. As the going got tougher, the President could initiate or cooperate on the following additional issues:

(1) Means-testing of Medicare. The President already has noted that he would be open to this if it were absolutely necessary.

(2) Means-testing of farm price supports and subsidies. The small family-owned farmer should not bear an undue burden, but there is no reason to excuse large agri-businesses.

(3) Making any corporate tax cuts conditional on specific criteria for "good corporate citizenship." If Republicans insist on corporate tax cuts (alternative minimum tax, corporate capital gains), the President, as a fall-back, could propose that no corporation receive tax cuts unless it agrees to fulfill certain obligations to its workers and communities. Specific criteria might include (a) investing 2 percent of payrolls in training (this was in "Putting People First"); (b) sharing productivity gains with its entire workforce through a certified gain-sharing plan and/or stock options; and (c) refraining from laying off workers during years in which the corporation earns net profits.

(4) In exchange for indexing for inflation certain tax benefits going primarily to the wealthy (for example, the Republicans seek indexation of capital gains after 2002), the President would require that the minimum wage be indexed for inflation.

5. A cautious note on the CPI. Before we acquiesce to any change in the CPI for the purpose of raising revenue, it's important to consider the large number of lower-income Americans whose incomes are currently pegged to cost-of-living adjustments using the CPI. These Americans own little or no financial assets (whose values have been rising substantially), and depend to a large extent on COLA adjustments. The following is a rough calculation but suggests the right order of magnitude.

(1) Social Security recipients -- 42.9 million.

(2) Workers covered by collective bargaining agreements -- approximately 18 million (or about 17 percent of the labor force). Even multi-year contracts which do not have an explicit COLA are influenced by the CPI when contracts are renegotiated.

(3) Food stamp recipients -- 27.5 million.

(4) Retirees on private pensions -- approximately 300,000 current retirees in the private sector depend on annual COLA adjustments in their defined benefit plans. Several million have received at least one post-retirement COLA.

(5) Retired government employees (state, local, and federal) -- 2.5 million.



CENTER ON BUDGET AND POLICY PRIORITIES

*Classified
High-Security
A.*

To: Leon Panetta
Alice Rivlin
Laura Tyson
George Stephanopoulos
Gene Sperling
Melanne Verveer

Mr. President:
THE PRESIDENT HAS SEEN
12/8/95

Here's the memo
I told you about.

(GS)

From: Bob Greenstein

Subject: Means-Tested Entitlements, Discretionary Spending, and the Budget
Negotiations

Date: November 21, 1995

Summary

Based on an analysis of the budget numbers and discussions I've recently had with a number of House Democrats whose support is crucial to passing a budget deal on the House floor, I'm worried on both substantive and political grounds that insufficient emphasis is being placed on restoring some of the means-tested entitlement cuts (other than in Medicaid and the EITC) and that the degree to which the White House is seeking to restore discretionary spending cuts in the out-years may be too high. I believe that more emphasis on means-tested entitlements and somewhat smaller restorations of discretionary spending in the out-years — coupled with major restorations of cuts in education, the environment, and key Clinton initiatives in the FY 1996 appropriations bills — could strengthen the Administration's position on both policy and political grounds.

On policy grounds, the depth of the cuts in means-tested entitlements is the key determinant of the extent to which the budget package will increase child poverty. Based on CBO data, the Republican budget cuts means-tested entitlements *more than six times as deeply* as the Reagan cuts of the early 1980s did. It's because of these cuts that the recent OMB report found the Republican budget and welfare legislation would increase child poverty so much.

Moreover, the widely cited figures from the OMB report that one to two million children would be made poor by the Republican legislation capture the effects of the legislation *only on those children who would be above the poverty line under current law but pushed below it by the Republican changes*. The Republican budget's most profound effect on child poverty is that it would make still poorer most of the 15 million children who already are poor. The OMB report shows that when *both* of these effects are considered — pushing more children below the poverty line and driving those who already are poor deeper into poverty — the result is that the depth and severity of child poverty would increase by *one-third* under the Senate budget package and *one-half* under the House package. The Republican cuts in means-tested entitlements other

than Medicaid are responsible for nearly all of this effect. (Medicaid is not involved because it isn't counted when poverty is measured. Obviously, it also has a very large effect on the health and well-being of poor children.)

No previous piece of legislation in U.S. history has increased child poverty so sharply. And this increase in poverty would come just as a highly acclaimed international study has found the average income of poor children in the United States to be lower than the average income of poor children in 15 of 17 other western industrialized nations. The study found the income gap between rich and poor children to be wider here than virtually anywhere else in the western world.

Political Considerations

Numerous House Democrats whose support will be essential to passing a budget deal are coalescing around the Coalition budget, which reduces means-tested entitlements other than Medicaid slightly less than the Clinton budget of last June, despite making overall reductions in government spending that exceed the reductions in the Clinton budget by about \$350 billion dollars. The Republican budget cuts means-tested entitlements other than Medicaid by \$115 billion over seven years, while the Clinton budget slices them \$38 billion and the Coalition budget cuts them \$35 billion.

The Coalition is able to moderate its cuts in this part of the budget partly by extracting substantially more than the Clinton budget does from discretionary programs. But the Coalition budget shapes its discretionary cuts carefully so \$25 billion more is available in discretionary budget authority in fiscal years 1996 and 1997 than the Republican budget allows, thereby enabling Republican cuts in education, environmental programs, and other Clinton initiatives to be restored in the pending appropriations bills and also enabling reasonable levels to be provided for these programs in your FY 1997 budget without hitting other discretionary areas too hard. A larger debate over priorities in discretionary spending then can be fought after the 1996 election.

House Democrats playing key roles in leading the Coalition effort tell me it is no accident their budget is shaped as it is. They observe that large cuts in means-tested benefits like food stamps, EITC, SSI, and benefits for legal immigrants would lose the votes of significant numbers of House Democrats whose support they otherwise expect to get for a budget deal, while a larger reduction in the ceiling on total discretionary spending in years after the election — a ceiling that has *no specific cuts attached to it* — loses virtually no votes. This is especially true, they say, because their discretionary spending path provides room to restore cuts the Republicans have made in the FY 1996 appropriations bills in education, environment, national service, and other areas and because the Coalition's seven-year discretionary spending total is still well above that of the Republicans, so Democrats can say more funds will be available for priorities such as education and the environment than the Republicans would have allowed.

In short, when the budget deal is negotiated, getting means-tested entitlement cuts in programs other than Medicaid much closer to the Clinton and Coalition levels than to the Republican levels — while letting the discretionary cuts climb closer to the Coalition levels — would represent both sound policy and good politics. It's also essential to avoid having an unprecedented increase in the depth of child poverty become a central part of the Clinton legacy. These issues are discussed in more detail in the attached memo.

November 21, 1995

MEANS-TESTED ENTITLEMENTS, DISCRETIONARY SPENDING, AND THE BUDGET NEGOTIATIONS

Policy Considerations

The key finding in the recent OMB report on child poverty is the finding showing the effects of pending Republican legislation on what is called the "poverty gap," which is widely regarded as the best measure of the depth and severity of poverty. The OMB study shows the Republican budget and welfare legislation would increase the severity of child poverty in the United States by one-third to one-half. Due to the study's methodology, these estimates are probably conservative. For example, the study assumes all states will adopt a five-year welfare time limit. Numerous states are planning, however, to adopt a much shorter time limit.

Furthermore, a number of states may reduce benefits significantly for some or all categories of families with children as they struggle to deal with state budget problems. In coming years, states will have to absorb substantial reductions in federal grants in other, often more popular areas, and they will be scouring their budgets for savings they can use to provide replacement funding for some of these other cuts. These problems will grow most intense during recessions. The fact that states will, for the first time, be able to withdraw a substantial amount of state dollars from means-tested entitlements like AFDC and possibly Medicaid without losing any federal dollars (because of the potential conversion of these programs to block grants) makes the risk of state withdrawal of funds a serious one. If states follow this path, the adverse effects on child poverty will be even harsher than the OMB report forecasts.

Virtually all of the increase that OMB forecasts in the poverty gap — as well as in the number of poor children — reflects the effects of the large Republican reductions in means-tested entitlements. It is cuts in programs such as food stamps, AFDC, SSI, and the EITC that drive these numbers.

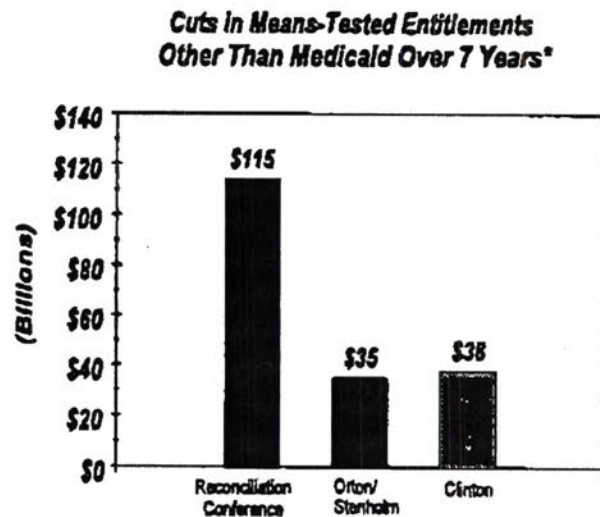
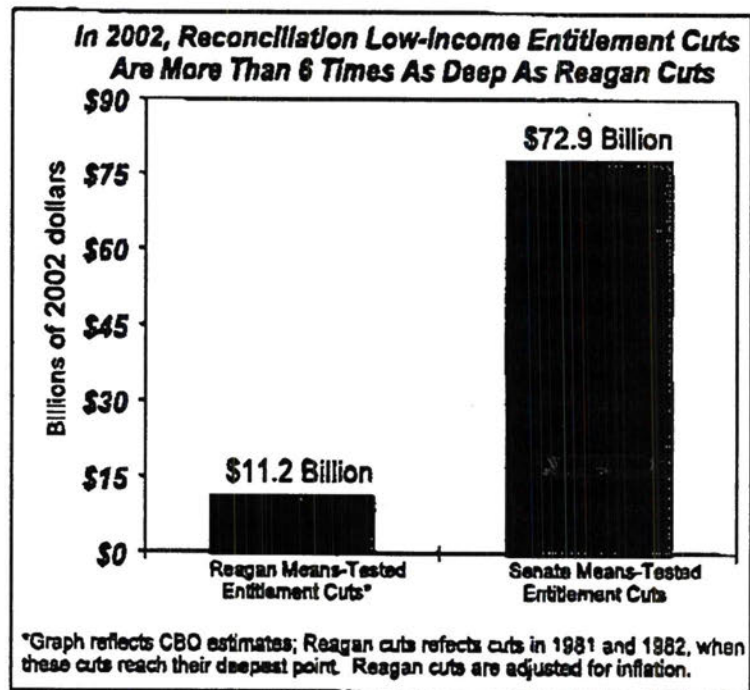
The United States has one of the most severe child poverty problems of any western industrialized nation. A recent international study found that the average income of affluent U.S. children is higher than the average income of affluent children in any other western industrialized nation, while the average income of middle-income children in the United States equals or exceeds the average income of middle-income children in all other western countries except one. But the average income of poor U.S. children is lower than that of poor children in 15 of the other 17 western nations studied; only in Ireland and Israel are poor children poorer than they are here. For example, the poverty rate for children in the United States is about double the poverty rate for children in Canada. These figures, which count U.S. benefits such as the EITC and food stamps as income, reflect conditions *before* the new budget and welfare legislation takes effect.

Why Does The Republican Legislation Increase Poverty So Much?

By 2002, the Republican reconciliation bill would cut means-tested entitlements *more than six times as deeply* as the cuts made in these programs in 1981 and 1982, when the Reagan-inspired cuts in low-income programs reached their deepest point. (The figures I'm using here are CBO figures and are fully adjusted for inflation.) This is highly significant since the means-tested entitlements form the core of the U.S. safety net for children.

To be sure, a number of these entitlements need to be reformed, and some savings in these programs are both inevitable and necessary if the budget is to be balanced. But the Coalition budget shows it isn't necessary to savage these programs to reach budget balance, even if the goal is balance in seven years using CBO assumptions. A few figures tell the story.

- The Republican budget cuts means-tested entitlements other than Medicaid by \$115 billion over seven years.
- The Clinton budget cuts means-tested entitlement other than Medicaid by \$38 billion over seven years.
- The Coalition budget cuts these programs \$35 billion. In other words, the Coalition budget achieved its added \$350 billion in outlay savings, relative to the Clinton budget, without taking anything more out of means-tested entitlements.



The OMB report on child poverty calls for moderating the Senate bill by lessening the food stamp, SSI, and immigrant cuts, rejecting most of the Republican

EITC cuts, and adding more funds to the welfare block grant for recessions and successful work programs. Following this route would necessitate lowering the overall level of cuts in means-tested entitlements other than Medicaid to less than \$60 billion

I'd note that several changes in the Republican budget that do *not* affect the level of savings in these programs also are essential to keeping the impacts on poor children from becoming draconian. These involve rejecting the block grant structures for food stamps, Medicaid, and certain child protection programs and removing a food stamp "cap" that is virtually certain to lead to substantial across-the-board benefit cuts on top of the deep food stamp cuts already in the Republican budget. (While conversion of food stamps to a block grant would be a state option, numerous Republican governors — including the governors of most large states — are leaning toward talking the option. This underscores the need to remove the option.)

Discretionary Programs

The Coalition budget secures its additional savings in a number of places. One of them is discretionary spending. It cuts discretionary spending \$80 billion less over seven years than the Republicans do, but considerably more than the President's budget does. Its discretionary cuts are backloaded, however, so the FY 1996 and FY 1997 cuts are not that deep. It includes \$11 billion more in budget authority for discretionary programs in FY 1996 than the Republican budget does and \$14 billion more in FY 1997.

The Coalition's reductions in discretionary programs essentially grow quite large, and it would be preferable not to have to go this far in the discretionary area. But these discretionary spending restraints would cause substantially less damage than going much deeper into the means-tested entitlements.

- If total discretionary spending is squeezed hard in years after 1997, that is likely to lead within several years to greater scrutiny of defense spending as well as domestic discretionary spending.
- Despite trims in recent years, the domestic discretionary side of the budget still contains substantial expenditures that reflect special interest pressure or are of relatively low priority. A significant portion of Rob Shapiro's list of unjustified corporate spending subsidies is found in the discretionary side of the budget.
- A substantial part of the discretionary budget consists of program areas that state and local governments already support heavily and would be likely to place more dollars in if federal funding were reduced.

By contrast, reductions in federal funding for means-tested entitlements such as AFDC and Medicaid will likely trigger the *withdrawal* of some state funding for those programs, on top of the federal funding cuts.

This is likely to occur not only because of the political weakness of poor children and families at the state level but also because states will tend to reduce their contributions to these programs when those contributions *no longer draw down additional federal matching dollars*. Also, when reductions are made in low-income programs that are fully federally funded — such as food stamps and SSI for disabled children — *no* state replacement funding can be expected.

- To be sure, discretionary spending is where investment spending is found. But Clinton investment initiatives in areas like education constitute only a small fraction of total discretionary spending. Substantial reductions in discretionary spending don't mean these initiatives can't be funded. As noted, the Coalition budget has \$25 billion more for discretionary appropriations in fiscal years 1996 and 1997 than the Republican budget does, which is more than enough to restore the cuts in education, the environment, and other key Clinton initiatives. If the President is reelected, he can fight for his discretionary funding priorities in the years after that. (If necessary, perhaps an "education trust fund" could be established within discretionary spending, as a crime trust fund has been. On policy grounds, I think setting up trust funds within the discretionary spending area is unwise, but if it allows a larger reduction in total discretionary spending in order to safeguard other priorities, it might be worth a look.)

What About The Politics?

In a meeting in Leon's office in September, we discussed the importance of producing sufficient Democratic votes on the House floor for an ultimate budget deal. Conversations I've had in the past week with a number of House Democrats all point to the same conclusion — going too deep in means-tested entitlements loses votes; going somewhat deeper in discretionary spending in the out-years does not.

- The ultimate settlement on means-tested entitlement cuts other than Medicaid will be somewhere between Clinton's \$38 billion and Congress' \$114 billion. Just where in this range the settlement falls will have profound consequences. A difference of say \$30 billion or \$40 billion in the final settlement on the non-Medicaid means-tested entitlements will have a very large effect on the extent to which child poverty deepens. (I do not include Medicaid in this discussion, as I know it already is high on your priority list.)
- I have asked a number of Members who are potential votes for a budget deal — and potential organizers of votes for the President on a deal — about a swing of this magnitude (i.e., \$30 billion to \$40 billion) between means-tested entitlements and discretionary spending. All gave the same response. They said that whether a global discretionary spending target

that carries no specific program reductions is set \$30 billion or \$40 billion higher or lower over seven years is unlikely to affect Democratic votes. The key to being able to show that the President protected education and the environment, they added, is to restore cuts in these areas in the FY 1996 appropriations bills and to be able to say that total discretionary spending over the next seven years is significantly above the level the Republicans would have provided. Just how much the seven-year total is above the Republican level is less important for this purpose.

By contrast, they said, the depth of cuts in areas such as food stamps, SSI, the EITC, and cuts aimed at legal immigrants *would* affect the votes of a significant number of Democrats whose votes there should be a good opportunity to get, including a number of Members who voted for the Coalition budget last month. Those with whom I've discussed this issue include Members who care deeply about discretionary spending and share the President's priorities on education and the environment, including some Members of the appropriations committee.

- In short, so long as the total seven-year discretionary reduction is well below the Republicans' discretionary cut level, and FY 1996 cuts in education and the environment are alleviated, the President will be able to say he has helped protect education and the environment against Republican depredations. The exact dollar amount by which discretionary spending falls below the Republican cut level over seven years isn't crucial here, and a swing of \$30 billion or \$40 billion shouldn't matter for these purposes. Putting the \$30 billion to \$40 billion into means-tested entitlements is more important from both a policy and a political standpoint.

Conclusion

I don't mean to suggest discretionary spending is the only place to go to help put together a balanced package. As you know, the Coalition package secures larger savings than the Clinton budget in areas such as Medicare and CPI. I'd hope there also is room for compromise with the Republicans on areas such as federal retirees and farm price supports, although those areas don't produce big dollars. But a cold look at the budget numbers suggests that if a tax cut is to be included, it's hard to avoid overly severe cuts in means-tested entitlements — and consequent sharp increases in child poverty — unless the total discretionary savings are much closer to those in the Coalition budget than to those in the Clinton budget.

The alternative route — far deeper cuts in means-tested entitlements other than Medicaid than are included in the Clinton or Coalition budgets — is a stark one. It is likely to make an unprecedented increase in the depth of child poverty a central part of the Clinton legacy in the decades ahead. That is something I know none of you want to see.

TO THE PRESIDENT

FROM: RBR *RBR*

Date: Nov. 20

RE: Attached

Three very useful articles. The first by Stephen Roach, chief economist at Morgan Stanley, on the wage problem. The second by Prof. Robert Eisner, on the balanced budget. The third by economist John Shilling, on capital gains.

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THE PRESIDENT HAS SEEN
12/5/95

VIEWPOINT

JOHN D. SHILLING

Reward Genuine Capital Investment

IF you are a proponent of a capital gains tax cut, let me ask you: Would you give a tax break to a used-car dealer?

After all, almost all stocks, bonds and real estate are also "used." Despite their name, capital gains do not result from productive investment in new capital equipment that creates new jobs. Rather, they come from changes in the market's valuation of existing assets. Only people who guessed right register capital gains.

Consider bonds. A person who buys a company's bonds is providing primary capital for that operation, yet there are no net capital gains over the full life of the bond. A buyer of government bonds is merely contributing to funding government expenditures. Bonds pay a fixed rate of interest, which is the expected benefit to the initial buyer and is taxed as ordinary income.

But any bondholder who sells the bond on the open market can realize a capital gain, as can investors who buy and sell it after him. These gains from trading in "used" bonds are entirely the result of changes in overall market interest rates or in the market's belief that the borrower can make the payments. Neither encourages job-creating investment.

As for stocks, all those bought and sold on exchanges or over-the-counter are simply old, used certifi-

cates traded among individuals and institutions who want to own a piece of whatever company the stock represents. The company never sees any of the money involved in these "investments." Indeed, there is no link between these capital gains and any increase in a firm's real investment or output or employment. The gains result from changes in the market's valuation of existing assets, or they could reflect a change in government policy (like deregulation), in supply or demand for products (like oil price movements) or external events (like a hurricane in Florida).

If one believes in efficient markets, all the gains from trading used stock are the result of factors unknown to the market at the time the stock is bought, which makes the trading a form of gambling.

Buying and selling used cars for gain is really no different than buying and selling used stocks for gain. A used-car dealer doesn't create jobs by building new cars any more than stock traders create jobs by investing in new capital. There is no reason to give either a tax break for earnings from speculation.

There is one exception. Initial public offerings of stock in a new company or new issues of stock by an existing operation do channel new money into productive investment. There is, therefore, a case for offering a modest tax break on the gains made from the first resale of newly issued stock. These transactions, however, represent less than 5 percent of new investment each year and a minuscule share of the capital gains reported and taxed annually.

But when companies buy back stock to increase stockholder value, they are disinvesting, using corporate assets that could be invested in new physical capital that creates jobs. Capital gains generated this way actually reduce a company's productive investment and potential to create jobs. Surely they don't deserve a tax break.

What about real estate? Here, too, buying and selling used buildings is a lot like buying and selling used cars. Commercial real estate activities already receive several tax benefits.

Since we still haven't outgrown the glut of commercial real estate from the late 1980's, it is difficult to understand why we would want to use tax incentives to encourage building more excess capacity. Why not trim the deficit instead?

Those who would reduce the maximum rate on capital gains tax — Congress wants it cut to 19.8 percent from the current 28 percent — say many middle-class people will benefit, because lower capital gains taxes on retirement investments will allow their nest eggs to grow. But most retirement savings are in pensions, I.R.A.'s, Keoghs, annuities and the like that are already sheltered from taxes.

Others say they should get a break because of the big tax burden that comes all at once when their gains are realized. But unrealized capital gains are untaxed all the years before the asset is sold. They compound tax-free. Taxing capital gains as ordinary income when the asset is sold results in a lower net tax bite for assets held longer than a year compared with taxes on interest or other forms of income. So capital gains already enjoy a lower effective rate even if taxed at the normal rate.

IF the real purpose of a capital gains cut is to encourage investment in new plant and equipment, why not design incentives like investment tax credits that encourage that kind of investment? America's human capital — educated professionals and skilled workers — now accounts for most of our productive capital stock: 60 percent, compared with 15 percent for produced capital (machines and buildings) and 25 percent in natural resources. Developing America's human capital is by far the most important factor in maintaining global competitiveness.

And who creates human capital? Teachers and schools. So if we want to give a tax incentive to increase our most important capital stock and prepare for higher wage jobs in the future, why not give an income tax break to teachers and encourage more and better people to train our children? That would have a much bigger payoff than lowering taxes for speculators in used goods. □

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The Balanced Budget Crusade: Is It All So Holy?

Robert Eisner

"The public debt on the first day of July last, as appears by the books of the treasury, amounted to \$1,740,690,489.49. Probably, should the war continue for another year, that amount may be increased by not far from five hundred millions. Held as it is for the most part, by our own people, it has become a substantial branch of national, though private, property. For obvious reasons, the more nearly this property can be distributed among all the people the better.... The great advantage of citizens being creditors as well as debtors, with relation to the public debt, is obvious. Men can readily perceive that they cannot be much oppressed by a debt which they owe to themselves." -- Abraham Lincoln, 1864 Annual Message to Congress.¹

"The myth persists that Federal deficits create inflation and budget surpluses prevent it.... Obviously deficits are sometimes dangerous--and so are surpluses. But honest assessment plainly required a more sophisticated view than the old and automatic cliché that deficits automatically bring inflation.... What we need is not labels and clichés but more basic discussion of the sophisticated and technical questions involved in keeping a great economic machine moving ahead."--John F. Kennedy, 1962.²

"The Republican party no longer worships at the altar of a balanced budget." --Congressman Jack Kemp, testimony before the House Budget Committee, 1981.³

A "balanced budget," no matter that few know what it means, particularly by archaic Federal accounting rules, seems to be an American icon. Republicans and President Clinton now both proclaim it as a goal, differing only on timing and means of achieving it.

¹ From Roy P. Basler, ed. *The Collected Works of Abraham Lincoln* (New Brunswick, New Jersey, 1953), 8: 142-3. Quoted in Savage, *op. cit.*, p. 128.

² From Arthur M. Okun, *The Political Economy of Prosperity* (Washington, D.C.: Brookings Institution, 1970), p. 45. Quoted in James D. Savage, *Balanced Budgets and American Politics* (Ithaca and London: Cornell University Press, 1988), p. 177.

³ Cited in Savage, *op. cit.*, p. 198. These initial quotations all appear in the author's *The Misunderstood Economy: What Counts and How to Count It* (Boston: Harvard Business School Press, 1994).

It seems clear that the politics of all this is overwhelming. Republicans think they have an issue that can guarantee them the support of most of the 20 million 1992 Perot voters, who seem obsessed over the deficit. Democrats, apparently scared witless that the Republicans are right on the politics, are reduced largely to saying, "Me too, but not your way!"

Everybody tells the pollster he is for a balanced budget, until he is told how it might be balanced and whom that will hurt. That many would be hurt is clear. Senate Republicans in the fall of 1995 are wrestling with proposals that large bites be taken out of prospective outlays for Medicare for the elderly, Medicaid for the poor, moving people from welfare to work, education, research and countless programs, some dubious but some viewed as valuable to important segments of the economy and people at large. House Republicans would generally go their Senate colleagues one better by adding massive tax cuts, totalling \$300 billion between now and 2002, thus necessitating still more draconian cuts in spending.

But it is not just the "special interests" of those directly affected that may be hurt by budget cuts. Slashing productive public investment--in human capital and in physical infrastructure--can have damaging effects on the private economy and our welfare now and in the future. And if the loss of purchasing power, whether due to the government giving the public less as it reduced outlays or taking from it more if it raises taxes, depresses the economy or brings us into a recession, the losses can become enormous.

By conventional measure the deficit has in fact come way down, from \$290 billion or 4.9 percent of GDP in 1992 to 203 billion or 3.1 percent of GDP in 1994 and to \$161 billion (Congressional Budget Office projection) or 2.3 percent of GDP in 1995. The debt, which

increases each year by the amount of the deficit, is no longer growing faster than the nation's income.

If we look at budgets of other leading nations, we find that almost all of them have larger deficits in proportion to the size of their economies than we do. Indeed the Maastricht agreement for the European Economic Union sets a target of deficits no more than 3 percent of GDP, a figure which we will be well below this year and, even ~~by conservative (or alarmist?) Congressional Budget Office projections, below for all of the rest of this century.~~

If we account for capital outlays the way the Federal budget does, we would find most cities and states frequently if not chronically run deficits. And composite balance sheets of American households and business would show that both add hugely to their debt every year, which means, by Federal accounting rules again, they are running massive deficits, generally greater than that of the government. Why then should the Federal government balance its budget, particularly if to do so will entail massive sacrifice by "special interests" of elderly, ill, young, poor, business, farmers, veterans--indeed the great bulk of the population?

Most of the simplistic arguments for a balanced budget are confused and without merit. First, we will not go "bankrupt." The deficit contributes not to a national debt to other countries but to a Federal government debt overwhelmingly to its own people in our own currency. A sovereign government can always get or create the money necessary to roll over such a debt or pay it off.

Second, the deficit and debt are not adding to the burdens of our children. As President Lincoln indicated--and it was hardly original with him--for every debtor there is a creditor and our children will eventually be just as much creditors as debtors. Every saving bond and

Treasury bill, note and bond constituting the debt, except for the minor portion owned by foreigners, will be an asset of our children and their children. If we are putting an extra burden on our children, it is not in those pieces of paper, which will in fact be their inheritance of wealth.

Third, our deficits are not causing the rest of the world to lose confidence in us and in themselves driving down the value of the dollar. We remain the greatest and strongest economy in the world. If a balanced budget "strengthens" the dollar, it will only be because it slows the economy so that we import less and hence supply fewer dollars to the rest of the world.

Fourth, our deficits are not driving up inflation or interest rates. The historical relation between deficits and interest rates is murky indeed. Federal Reserve policy, along with the state of the economy and expected inflation, clearly have the decisive influence.

What then do analytical economists see as the role of the deficit and its possible effect on the current economy and our future, for bad or for good? Conservative Robert Barro of Harvard University, and his many followers argue for "Ricardian Equivalence," that as a first approximation it does not matter whether government expenditures are financed by current taxes or by current borrowing--a deficit. The reasoning is that taxpayers will not spend the money that the deficit saves them from paying in current taxes but will simply save it to pay their resultant higher taxes in the future or leave to their children to pay.

Most professional economists, however, believe that Ricardian Equivalence is of limited applicability and reject the argument that deficits do not matter. Economic theory and evidence tell us that the richer we feel the more we are likely to spend. Contradicting Barro's views, most of us apparently feel richer when, other things equal, we own our share of \$3.5 trillion dollars

of Treasury obligations than if we don't. And we feel still richer if deficits increase our real holdings of those assets. Hence we spend more, generally on consumption.

If we are already buying everything our economy is capable of producing--we are operating at full employment and full capacity--production of more goods to satisfy our consumption demand can only come at the expense of production of investment goods. In that very real sense we may put a burden on our children and grandchildren, leaving them less productive because we leave them fewer capital goods.

But suppose, as in most of our history except during wartime, we are not producing at full capacity. Then, more spending induced by deficits can, and is likely to, increase consumption and also induce business to invest to expand capacity to provide for that increased consumption. Far from burdening our children we are actually aiding them even as we help ourselves.

Further, though, increased holdings of government debt will induce us to spend more of our incomes only if our holdings have risen in real terms, after adjustment for inflation and, more fundamentally, have *risen relative to our incomes*. Since the debt held by the public averaged about \$3.5 trillion in fiscal year 1995, inflation at the roughly 3 percent of the past year would mean that some \$100 billion of the increase in debt is merely keeping up with inflation. Thus the a real increase in the debt and therefore the real deficit is only the projected nominal deficit of \$160 billion minus \$100 billion, or \$60 billion. And with national income growing at 6 percent per year, the debt would have to grow at more than 6 percent of that \$3.5 trillion--a nominal deficit of more than \$210 billion, over \$50 billion *more* than the current \$160 billion--to cause us to spend a larger proportion of our incomes.

A "balanced budget" would hardly be balance in a growing economy. It would imply a debt to income ratio declining by about 6 percent per year, thus reducing our spending and bringing the risk of recession to which thoughtful economists have pointed.

And if our concern is providing properly for the future, it is absurd to try to balance a budget that makes no distinction between government expenditures for current consumption and government expenditures of an investment nature--for physical infrastructure, basic research and the development of new technology, education of our children and the health of our people.

We might well wish to balance a current operating budget and restrict our borrowing to net investment, as a rule of thumb borrowing and investing enough to have a total deficit that keeps the ratio of debt to national income or GDP constant. But balancing the budget at the expense of our public investment in the future is one way that we really borrow from our children--and never pay them back.

Will a balanced budget drive down interest rates, perhaps abetted by the Federal Reserve, so that we have more private investment? That is a dicey proposition at best. Lower interest rates do tend to encourage investment, particularly in housing, although they also lower the interest income of millions of households. But the loss of \$200 billion of purchasing power each year is likely to slow the economy so much that private investment, despite the best efforts of the Fed, will be less, not more.

What are the arguments within the Economics profession in favor of balancing the budget, even as it is currently measured? Perhaps the most important does not really relate to budget balancing at all but to reducing the role of government. Nobel Laureates Milton Friedman, long of the University of Chicago and now affiliated with the Hoover Institution, and

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James Buchanan of George Mason University see the discipline of a balanced budget as preventing excessive government spending. Professors Friedman and Buchanan, and many others, believe that, perhaps particularly in a representative form of government such as ours, there are major incentives to our legislators to enact programs that may not even be in the long run interests of the groups that promote them but are certainly deleterious to society as a whole. The public is however notoriously reluctant to support higher taxes. If the programs had to be paid for by tax increases, the legislators would not dare to enact them.

Economists arguing for a balanced budget on the grounds that it is necessary to reduce the role of government are not therefore arguing for a balanced budget per se. They generally disapprove raising taxes to balance the budget more than they do deficits.

So-called "supply-side economists" would reduce taxes, particularly marginal tax rates, regardless of their effect on the deficit (although some have claimed that the lower rates will increase taxable income so much as actually to raise tax revenues and hence reduce the deficit). Application of their views, along with the military buildup and the recession of 1982-83, contributed to the large, much decried Reagan deficits. It may well be argued that those deficits, by pumping purchasing power into the economy, were a major factor in the recovery from that recession.

Many economists, including such leading and prominent figures as Charles Schultze of the Brookings Institution, a former budget director under President Johnson and chairman of the Council of Economic Advisors under President Carter, Nobel Laureate Franco Modigliani of M.I.T., and Benjamin Friedman, chairman of Harvard's Economics Department, argue essentially that deficits crowd out private investment. They hence reduce the nation's

productivity and place a burden on future generations. When it is pointed out that despite (or because of?) our recent deficits, gross private domestic investment has soared to record heights, both in absolute real terms and as a percentage of GDP, the reply is that this investment has been financed by foreigners. And this, we are told, has its cost--the interest and dividends on this investment to be paid to foreigners over the years ahead.

Budget deficits, by my estimates, do indeed contribute to trade or current account deficits with other nations. Essentially, they do so by raising our GDP and national income and hence increasing our imports. If domestic budget balance were to eliminate those international deficits they would do so by slowing our own economy. We would buy fewer Toyotas (the variety made in Japan, not Kentucky) but fewer Chryslers and Fords as well. And further, it must be pointed out, even current account deficits averaging \$100 billion a year for the next five years would add only \$500 billion to net foreign claims on the United States. At a 4 percent real rate of return that would cost us \$20 billion per year, less than 0.3 percent of our GDP, hardly a burden worth risking a recession to avoid. In the long run we should expect a lower exchange rate to balance our current accounts, at least to a point where foreign claims become a constant proportion of our GDP.

On the larger question of deficits crowding out the total of all investment, domestic and foreign, the critical issue is how much slack there is in the economy. What Schultze, Modigliani and Benjamin Friedman apparently have in mind is an economy that over the long run is essentially at full employment or, at least, at a level of employment--some call it the "natural rate"--that deficits and aggregate demand, in general, cannot affect. Increased government demand or consumption demand has no free resources to draw upon. The consequence will be

increased inflation. It is not clear why this in itself would reduce private investment. But if the response of the Federal Reserve to the inflation is to increase nominal *and* real interest rates the result may be expected to be a reduction in real investment, hence an increased burden on the future.

If, however, the economy is more generally at less than full employment, the increased effective demand resulting from a structural deficit will increase total output, carrying increased investment to meet the increased demand for consumer goods. My own research reported in a couple of books and a number of professional articles⁴ has indicated that this is exactly what is so. Correctly measured, real, structural deficits have been followed by lower unemployment, greater output and more consumption *and* private investment. They have also been accompanied by more *public* investment. Far from contributing then to an increased burden on our future, they have in fact provided for greater well-being for our children and our grandchildren.

There are many economists therefore who, while agreeing that deficit reduction is desirable in appropriate circumstances, see the current crusade for a balanced budget under current federal accounting rules that do not separate out capital expenditures--let alone a constitutional amendment that would put the economy in a fiscal straight jacket--as misguided and ill-informed. They include: Nobel Laureates (and past presidents of the American Economic Association) Kenneth Arrow of Stanford University, Lawrence Klein of the University of Pennsylvania, Franco Modigliani and Robert M. Solow of M.I.T., and James Tobin of Yale, and Moses Abramovitz of Stanford, William Baumol of New York University, Charles P. Kindleberger of M.I.T., John Kenneth Galbraith of Harvard and William Vickrey of Columbia

⁴ Among the most recent, "National Saving and Budget Deficits," *The Review of Economic Statistics*, February 1994 (Volume 36, No. 1), pp. 181-187.

University, past presidents of the American Economic Association, Hyman Minsky of the Levy Economic Institute, Robert Heilbroner of the New School for Social Research and Peter Bernstein, formerly with Shearson-Lehman, Paul Davidson of the University of Tennessee and editor of the *Journal of Post Keynesian Economics*, and others, more and less well known. Many have spoken out but somehow their voices do not break through.

Outstanding economists, following Professor Barro, think that while changing the level and composition of government expenditures may matter, a balanced budget will do no good--or harm--to the economy as a whole. Many others think it can do serious harm. If either group is right, the sacrifice to attain that "balance" will be as useful as the reported sacrifice of young virgins to propitiate the pagan gods--or those Western religious crusades of yesteryear.

Mr. Eisner, William R. Kenan Professor Emeritus at Northwestern University and a past president of the American Economic Association, is the author of "*How Real Is The Federal Deficit?*" and "*The Misunderstood Economy: What Counts and How to Count It.*"

EB/Boer/Alley/GS

Thurs. 11.30am (Thurs)

RK

THE PRESIDENT HAS SEEN
12/8/95

THE BOSTON GLOBE • WEDNESDAY, NOVEMBER 15, 1995

19

Hillary Clinton played politics in Boston — and won

DAVID NYHAN

Lee Atwater, be he somewhere up there looking down, or somewhere down there looking up, would have felt right at home.

Except it was a Democratic crowd, cheering each mention of the money pit that politics has become and roaring defiance against opposition "extremists."

Because of the wacky campaign finance laws, the gala fund-raising dinner in Boston Monday night officially ended the private-fund-raising portion of the Clinton campaign for '96. Clinton-Gore has already raised all the money the ticket can reap from individual donors for the '95-'96 cycle.

With the matching cash from taxpayers, Bill Clinton sails into the campaign with his coffers stuffed. He didn't even have to show up to collect the final \$1.2 million installment. His wife took home the check, figuratively.

"If Lee Atwater could see this," I marveled as the pragmatic plutocrats forked over a grand each to cheer the roster of money-raisers extolled from the podium. The late Mr. Atwater was the campaign manager who discovered what Willie Horton could do for George Bush: elect him president. Atwater devised the strategy by which Bush demonized Mike Dukakis as an effete elite out-of-touch liberal who paroled rapists.

But if Atwater had wandered into the Park Plaza ballroom crowd that put Clinton over the top, he'd have been aghast. The Democrats have learned to play hardball by the rules that the canny Atwater devised. A boat-

load of fat cats, plied with drink, roared defiance of the congressional opposition, and the opposing party's leaders castigated as extremists. Ah, bliss!

These Democrats are as efficient as the GOP in coining money out of the White House. Atwater believed the following about the mother's milk of politics: Rule No. 1: People who *have* money are good for cozying up to; people who *give* money to your candidate are better; but people who *max out* to your man are best. And Rule No. 2: You can never say enough mean things about the opposition, so when you get 'em down, keep piling on.

The crowd loved it. Not even the 11th-hour cancellation by Mr. Clinton, nailed down to his office by the budget showdown, dimmed the enthusiasm. That was because Hillary Rodham Clinton bowled them over with a flawless speech, signaling to the faithful that the '96 campaign will find the Democrats armed with not only cash, but a theme: We're against extremism — extremism in budget-cutting, in safety-net shredding, in environment-bashing and in political rhetoric that could give the wrong idea to weak-minded individuals.

Hillary may be a liability with the Rush Limbaugh audience, but she's boffo in New England. Ye Olde Bay State is the Clintons' best in approval rating and wallet-opening. In just two years, money-raisers Alan Leventhal and Fred Seigel have yanked something like \$4 million from regional wallets for Clinton-Gore. Waxing rhapsodic about the cash flow, Clinton national finance chairman Terry McAuliffe got positively Churchillian: "Never before has so much been raised (\$26 million) by so many (250,000 donors, average donation \$134) ... a year ahead of an election, he said."

Leaving aside the depressing question of whether we want the Democrats to be as mesmerized by filthy lucre as the GOP or whether Democrat fat cats are in fact kinder and gentler to the have-nots than their Republican opposite numbers, it was a night to marvel at Hillary's act. She wowed the crowd.

The first lady delivered a flawless presentation. She localized the stroking, hailing Bill Bulger for his interest in education (the UMass presidency vote looms) and House Speaker Charlie Flaherty for his heavy lifting in hiking the minimum wage, and the loyal mayor, Tom Menino, "who really cares about working people."

But the guts of her talk was a brilliant and sophisticated political analysis of the public mood ("a time of dislocation"), the opposition (occasionally "extremist"), the level of public dialogue (dangerously volatile), and the fear that extremist sentiment here might have an impact like it did in Israel.

"The climate of hate ... that seeks to delegitimize public figures ... that climate creates tensions in the lives of people who are not balanced." Violence-inducing speech from partisans is all the more explosive "when what one says gets more attention if it is extreme or controversial," she said, and everyone in the building knew she was worrying whether what happened to Leah Rabin's husband could happen to hers.

"Sometimes all one can do is say, 'No, no, no.'" All in the hall understood she spoke for her man. The First Pair is on the same page in telling "radical Republicans": this far, and no farther.

THE WHITE HOUSE
WASHINGTON

5 December 1995

THE PRESIDENT HAS SEEN

12/8/95

MEMORANDUM TO THE PRESIDENT

CC: Leon Panetta
Erskine Bowles

From: Harold Ickes *HI*

Re: Bosnia

Attached is an interesting and disturbing article by David H. Hackworth entitled "The Troops: Learning About War the Hard Way" which appeared in the 4 December issue of Newsweek magazine.

*Don't
What do the answers
to his critics, esp. on 2
points (marked)
BT*

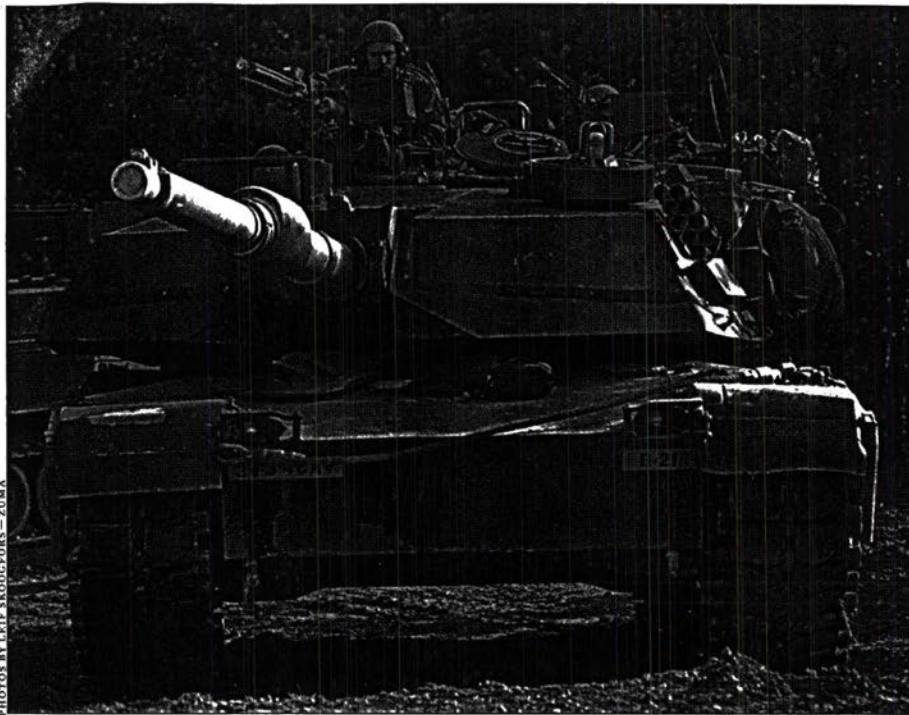
cracks overhead. Still others won't change their minds until there is an actual "incident": a buddy catches a bullet or steps on a land mine and turns into a body bag full of mangled flesh. Then the troops will demand to know what the hell they're doing there, what fool sent them and when they can go home. So will their relatives, friends and congressmen.

AS I PACKED MY GEAR LAST WEEK for another trip to Bosnia, the memory of the first dead soldier I ever saw suddenly flashed in my head. It happened 50 years ago, when I was a fresh recruit in my midteens. And it happened only a few hundred miles from Tuzla, the Bosnian town where 20,000 Americans are now scheduled to deploy. My unit, the 351st Infantry Regiment, was dug in along a demilitarized zone called the Morgan Line. Our job was to keep Tito's Yugoslav partisans out of the Italian-controlled city of Trieste, which they figured was a prize they had earned in World War II by fighting the Germans to a standstill. We weren't officially at war with the partisans, but they resented our presence, so they made things hot for us by sniping at our positions, shooting at our aircraft, ambushing our patrols and scattering mines and booby traps along the paths and roads we used. The dead young army captain had stepped on one of them. I can still see his hair stirring in the breeze and the bloody stumps where his legs had been.

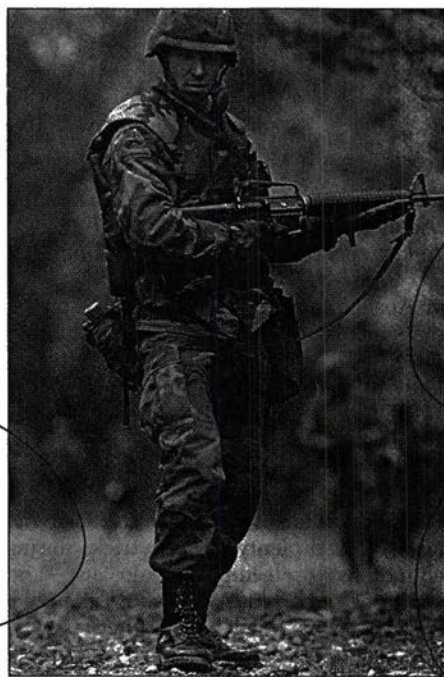
He wasn't the first or last American to die there. Dozens of airmen and grunts would be killed, captured or wounded along the Italian-Yugoslav front between 1945 and 1954 in a conflict that few Americans know about. The brass told us it would be a one-year mission, not unlike Clinton's Bosnia plan, but it took nine years before a final deal was cut and the regiment came home. That was where I got my baptism of fire and where I learned that the Serb, Croat and Muslim soldiers in the partisan army included some of the meanest fighting men on earth. The crazies I fought there still take the prize as the most vicious and hard-core extremists I've bumped into in the 12 wars I've experienced as a soldier or correspondent.

The all-volunteer U.S. Army is the most professional force this country has ever fielded. It has every tool it needs to do the job in Bosnia. But despite all the gold-plated, stealthy technology that makes things faster and more lethal, warfare hasn't changed much out at the pointy end of the spear, where the grunt tries to stay alive. It's still a dirty game of kill or be killed, and the critical governing factors—terrain, weather and the enemy—are as absolute as they were at the battle of Jericho.

■ **Terrain:** Mountainous Bosnia is a cross between Germany's Hürtgen Forest and



PHOTOS BY LEPKIN/GETTY IMAGES—ZUMA



Vietnam's Central Highlands, scenes of some of the bloodiest fighting in two previous wars. The terrain is steep and heavily timbered, with treacherously narrow and muddy roads and ruined or damaged bridges. It is a tightly compartmented landscape, where a patrol can easily get trapped and cut to pieces. The ground is strewn with literally millions of uncharted mines and booby traps, usually covered with snow at this time of year. In Vietnam, 60 percent of all U.S. casualties came from these terrible devices, which not only took lives and limbs but also gutted American

Bad tank terrain: The Abrams is too heavy for most of Bosnia's roads and bridges; the unfriendly landscape is strewn with land mines and booby traps, requiring an army engineer to practice caution at a base in southern Germany

morale. The mines used today are even worse; many are made mostly of plastic and thus can't be picked up by metal detectors. Gen. Dennis Reimer, the army chief of staff, tells me how these mines have to be found: "With a bayonet." Like their great-grandfathers in World War I, the warriors of IFOR will be down on their hands and knees with bayonets, probing and praying.

The army plans to go into Bosnia with a "heavy" force of tanks and armored personnel carriers, most of them provided by the First Armored Division, now based in Germany. That sounds awesome to the laptop commandos in the Pentagon and other citizens not familiar with ground combat. The 70-ton M1-A2 Abrams tank and the 30-ton Bradley fighting vehicle will be the major players. Both proved formidable in the Iraqi desert, but Bosnia, as the Germans found out in World War II, is not-tank country.

Last August a lightly armored United Nations vehicle skidded off a wet mountain road and tumbled down a draw, killing three U.S. envoys. That vehicle weighed only half as much as a Bradley. "Right now, the terrain there is a no-go for armor," says an army tank colonel. "Most of the heavy stuff will sit in tank parks until the bridges and roads can be repaired, which will take months. Most of the roads and 95 percent of the bridges won't take an Abrams or a Bradley." The chairman of the Joint Chiefs



Winter clouds and fog will limit the use of American air power: An Air National Guardsman, M/Sgt. Bill Foster, says goodbye to his wife, Marietta, in Rhode Island

of Staff, Gen. John Shalikashvili, promised Congress the U.S. force will be "robust." But without usable armor, American troops in Bosnia won't be much better off than my light infantry regiment was in those same mountains 50 years ago.

■ **Weather:** Our troopers are scheduled to go in December, the worst possible time in terms of snow, ice and numbing cold. Frostbite will be a big problem for the Joes and Janes up front, because on the forward edge, along the DMZs, there will be no warm tents such as those enjoyed by the REMFs ("rear-echelon misfits," you might say). Our grunts will hunker down in cold foxholes and bunkers, just as their forefathers did from Valley Forge to Korea, staring out into an icy no man's land between the warring factions and trying to keep their fingers and toes from turning black.

Icy roads and snowdrifts will be nightmares for American drivers. In the gulf war, road accidents were the biggest cause of American casualties; in Bosnia it could be even worse. And winter weather also brings heavy cloud cover, low ceilings and ground fog, limiting the use of American air power, which is a major component of Shalikashvili's "robust" force. "If a fighter aircraft or

an Apache chopper pilot can't see the target, they ain't exactly going to be robust," says Dale LeClerc, a Vietnam-era helicopter pilot with more than 400 combat missions.

■ **The enemy:** This mission won't be easy; Bosnia is no Haiti. As in Vietnam, it will be hard to tell the bad guys from the worse guys, and weapons will be everywhere. The combatants are seasoned veterans who have learned plenty of nasty tricks during 43 months of self-imposed holocaust—and centuries of hatred. All three Bosnian factions have some diehard fruitcakes who won't accept what went down in Dayton, no matter what their leaders say. They might revert to guerrilla warfare, or they might lie low and wait out the U.S. occupation, starting up the horror show again when we've left. Serb extremists may seek revenge against our troops for the U.S.-led NATO air attacks that pummeled them for weeks and forced their leaders to the peace table. Bosnian government extremists may shoot our forces in the back, blaming the Serbs and hoping to enhance the Bosnians' image as victims.

Our own behavior will stir up further enmity. The 10th U.S. Special Forces Group, based in Fort Carson, Colo., will be

responsible for training Bosnian government troops. The Serbs (and possibly the Croats, too) will rightly conclude that we have taken sides, which is the ultimate sin for peacekeepers. "We won't be exactly neutral," snorts a Green Beret captain who is scheduled to go in with the first wave to train the Bosnian Army. It's an impossible task: keeping a peace that not everyone wants and at the same time training one of the combatants. That's what we tried to do in Lebanon in 1983, and the result was the suicide bombing at the Marine barracks in Beirut, in which 241 of our troops died.

IF ANY OF THE BALKAN COMBATANTS decide to oppose us, they won't draw a line in a muddy valley or slug it out toe-to-toe on a hilltop. They know that in this type of fighting, Americans are best, and best equipped. The Balkan fighters watched TV and saw what happened to the Iraqi Army. Instead, their MO will be the Somali model: nickel-and-dime, ankle-biter stuff that produces lots of blood and body bags for the TV cameras. Their tactics will be the same ones used by Yugoslav partisans to hold off the Germans: hit-and-run raids, mines and booby traps, mortar and terrorist attacks and selective sniping.

Some of the military professionals I spoke to last week said I should add a fourth item to my list of governing factors. They called it "the threshold of pain," and they meant it in a political sense, not a physical one. "If it comes to a shooting match, no one can slug it out with our forces and win," said Colonel Hunt, the best serving combat leader I know. His fear is that "the commanders on the ground will again have their hands tied, and we will see a repeat of Vietnam." No one expects a war on anything like the scale of Vietnam; the political decision has already been made to keep IFOR smaller than many of the military men would like. But the political interference and waffling may have a familiar ring to it. How many dead Americans will it take to force a premature withdrawal from Bosnia? No one knows, and I hope we'll never find out.

With or without heavy casualties, the task ahead is difficult. After a long train ride from Germany, people in battle dress will have to convert the subtle language of pin-striped politicians and diplomats into something doable. They must take compromises that were deliberately fudged and translate them into concrete action. What do they do when a Muslim wants his house back, and the Serbian family occupying it refuses to leave? How do they respond when an American is hit by sniper fire from the direction of Serbian lines, but an informant reports that the shot was fired by a Bosnian Muslim? The challenges that await the grunts in Bosnia are the toughest the army has faced since Vietnam.

is this true?

THE WHITE HOUSE
WASHINGTON

95 DEC 8 P5:46

December 8, 1995

MEMORANDUM FOR THE PRESIDENT

FROM: LAURA TYSON *Laura Tyson*
RE: SECURITIES LITIGATION REFORM

A propos our conversation this morning, I thought you might find the attached Economist editorial (December 2, 1995) of interest.

CC
J. Quinn
B. Lindsey

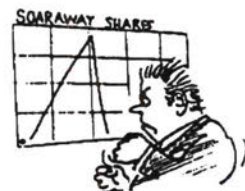
Residence

CC
J. Quinn
B. Lindsey

See: Lit.

Suits or straitjackets?

The American Congress wants to make it harder for some shareholders to sue companies for fraud. This would be a good thing



IT IS a familiar story. Soaraway Shares Inc, a budding Silicon Valley firm, launches a sexy new software product for the Internet. Its managers predict booming sales and boundless profits. Suitably impressed, investors pile in and the firm's share price takes off. But a year later the product flops, the shares plummet—and disgruntled investors head for the nearest courtroom.

Class-action lawsuits, in which a bunch of investors join together to sue a firm whose shares have fallen sharply, are a growing problem for America's high-tech companies. More than 650 such suits have been filed in the past four years alone, including ones against each of the ten biggest firms in Silicon Valley. There is nothing wrong with investors using the courts to protect their rights. But a growing number of these suits are being brought by those who are victims not of corporate mis-information, but of their own (and their lawyers') greed. As a result, many managers now hesitate to offer investors any predictions at all, lest they end up in court.

That is why Congress is about to pass a measure that would make frivolous securities lawsuits harder to bring. Among other things, the bill, which should clear both the House and Senate easily, does three things. First, it allows firms to issue forecasts to investors providing that they list all of the important factors—a change in interest rates, say, or a slump in the consumer-electronics industry—that could affect them. Second, a defendant's auditors and equity underwriters would no longer be liable for the full extent of shareholders' losses, but only for those that are caused by their own misbehaviour. Third, the bill encourages judges to slap fines on lawyers who bring groundless suits.

Although the bill has broad support in Congress, President Clinton may still be tempted to veto it, partly because it is bitterly opposed by two of his biggest supporters: consumer advocates and trial lawyers. Not only will the bill give managers a licence to lie, these groups say, but firms' auditors and underwriters will no longer have any incentive to catch them in the

act. The bill's critics also fear that when shareholders do have a legitimate gripe against a company, lawyers may be deterred from bringing the case by the threat of a penalty if it is ultimately thrown out.

Uninformed

These fears sound reasonable enough. But they ignore a crucial fact: financial markets thrive on information. The more investors know about what managers are thinking, the better they are able to gauge the risk of investing, and to commit their resources accordingly. They need not (and should not) treat the views they receive as gospel. Indeed, firms' shareholders have proven time and again that they can be better than managers at deciding what is important. The problem with the explosion of frivolous lawsuits is that it is discouraging companies from giving out much-needed information. As a result, the entire market suffers.

Admittedly, striking the right balance between protecting shareholders' rights and encouraging more openness is tricky. But the bill's trade-off is a good one. Although the reforms make it harder to bring groundless lawsuits, they do not prevent regulators from prosecuting swindlers. Nor do they let auditors and underwriters off the hook—though by limiting their liability they make it harder for class-action lawyers to win settlements from firms that have simply fallen on hard times. A mere drop in a company's share price usually is not evidence of fraud but the consequence of plain bad luck.

As a general rule, it is a good idea to allow shareholders to protect themselves. This would not change under the proposed legislation. And in exchange for reform, they would get more (and better) corporate information on which to base their investment decisions. Mr Clinton faces a choice. Either he can veto the bill on the mistaken ground that he is protecting shareholders' rights, or he can sign it and help put more money in their pockets.

THE ECONOMIST DECEMBER 1995

all
A
144

cc: Betty Currie

letter
memo

WHITE HOUSE
WASHINGTON

December 6, 1995

Oren H. Grisham
Heather Manor Nursing Home, North
706 East Greenwood Street
Hope, Arkansas 71801

ly will
3:00
think
call

Dear Buddy:

Happy Birthday! Hillary, Chelsea, and I wish we could be with you as you celebrate this special occasion. Though the schedule here prevents that, I hope you have a great party.

I miss seeing you, and I love you very much.

All My Best,

Bia

THE WHITE HOUSE
WASHINGTON

December 4, 1995

CC: Betty
~~maureen letter~~
RC for memo

MEMORANDUM TO NANCY HERNREICH

FROM: Carolyn Huber *Ch*

I had a call last week from Falba Lively. Uncle Buddy will celebrate his birthday with a party on Monday, December 11, 3:00 p.m. The telephone number at the home is 501-777-4674. I think he will be 91. Falba thought the President might want to call him.

cc: Gift Unit
w/inc. Tony Lake

OK
m

WHITE HOUSE
WASHINGTON

December 6, 1995

Howard B. Gelt
1420 Gilpin Street
Denver, Colorado 80218

Dear Howard:

Thanks for your letter about your recent trip to Ethiopia. It's always good to have your insight, and I've passed your letter along to Tony Lake for review.

Thanks, too, for what you said about Bosnia. I know it's the right thing to do, and I'm convinced it will mean the difference between peace and war. Our trip to Europe was very rewarding -- it was especially good to visit with our troops in Germany.

Finally, I love the shirt. Have a wonderful holiday season, and I hope to see you again soon.

Sincerely,

Bru

Howard B. Gelt
1420 Gilpin Street
Denver, Colorado 80218

maule
MR rec'd 12/5

TO: PRESIDENT CLINTON

FROM: HOWARD B. GELT ~~HBS~~

RE: TRIP TO ETHIOPIA

DATE: NOV. 30, 1995

AS WE DISCUSSED VERY BRIEFLY WHEN LAST I SAW YOU, I WAS FORTUNATE ENOUGH TO HAVE RECENTLY TRAVELED, WITH LOTTIE AND THE WEBBS, TO ETHIOPIA. I HAD THE OPPORTUNITY TO MEET WITH THE PRIME MINISTER, AND TO CONVEY YOUR REGARDS. HE WAS QUITE APPRECIATIVE OF YOUR COMMENTS.

OUR TRIP TO ETHIOPIA WAS QUITE FASCINATING. WE WERE ABLE TO SEE A LOT OF THE COUNTRYSIDE AND TO MEET MANY OF THE TOP OFFICIALS IN THE FEDERAL, PROVINCIAL AND LOCAL GOVERNMENTS, AND A HOST OF ECONOMIC DEVELOPMENT MAVENS.

THE COUNTRY HAS AN INCREDIBLE TASK IN FRONT OF IT IN BUILDING AN INFRASTRUCTURE, A HEALTH CARE SYSTEM, AN AGRICULTURAL SYSTEM, ETC. THE GOOD NEWS IS THAT THERE ARE INCREDIBLE NATURAL RESOURCES TO DEVELOP, LOTS OF TOURISM ACTIVITIES, INCREDIBLE SOILS FOR FIRST CLASS PRODUCE, AND LOTS OF MAJOR RIVERS, BESIDES THE NILE, TO GENERATE ELECTRICITY. AS YOU MAY KNOW, OUR TRIP FOCUSED ON THE HISTORICAL CITY OF AXUM, NOW A SISTER CITY TO DENVER. THAT PART OF THE TRIP PRESENTS A REAL CHALLENGE TO ALL OF US HERE TO MAKE OUR CONTRIBUTION TO AXUM.

PART OF THE CHALLENGE THE GOVERNMENT HAS IS TO SHED ITS MARXIST/COMMUNIST IMAGE, AN IMAGE THAT IS FURTHERED BY THE GOVERNMENTAL CONTROL OVER TELECOMMUNICATIONS, AIR TRANSPORTATION AND LAND OWNERSHIP (THE GOVERNMENT OWNS ALMOST ALL OF THE REAL PROPERTY IN THE COUNTRY, AND LEASES IT AT A NOMINAL COST TO ALL OF THE FARMERS, RESIDENTS, BUSINESSES ETC.) THIS HAS CAUSED MANY FOREIGN BUSINESSMEN, ESPECIALLY AMERICANS, TO BE SUSPECT ABOUT ENTERING INTO ENTERPRISES IN COUNTRY. THE OTHER MAJOR FACTORS INCLUDE A STIFLING BUREAUCRACY, AND A TOTALLY INADEQUATE BANKING SYSTEM.

THE ENCOURAGING NEWS IS THAT THE PRIME MINISTER, THE LEADERS IN THE CABINET AND IN THE PROVINCIAL GOVERNMENTS THAT WE MET WITH SEEM TO BE AWARE OF THESE ISSUES AND ARE ACTING AS EXPEDIENTLY AS POSSIBLE TO CORRECT THE IMPRESSIONS LEFT ON THE WORLD BUSINESS COMMUNITY.

HOPE YOUR TRIP TO IRELAND WAS A PERSONAL AND POLITICAL SUCCESS. HOLD THE LINE ON BOSNIA, YOU ARE DOING THE ABSOLUTELY RIGHT HUMANITARIAN THING THERE AND TIME WILL PROVE ALL OF THE NAYSAYERS WRONG.

P.S. KNOWING THAT THE SHIRT I GAVE YOU MAY HAVE BEEN TOO LARGE, AND THAT IT WAS NOT PERSONALIZED, I HAVE TAKEN THE LIBERTY TO SEND YOU ANOTHER ONE THAT IS A LITTLE SMALLER, PERSONALIZED, IN HOPE THAT YOU WILL BE ABLE TO ACTUALLY USE IT. HOPE YOU ENJOY IT. IF IT IS SOMETHING YOU DO ENJOY PLEASE LET THE MANUFACTURER (BY THE WAY THIS IS MANUFACTURED AND DESIGNED IN THE U.S.) KNOW BY DROPPING A NOTE TO:

STUBBS DAVIS
C/O THE STUBBS COLLECTION
4132 BILLY MITCHELL DR.
DALLAS, TEXAS 75244

OK
Am

WHITE HOUSE
WASHINGTON

cc: Gift Unit

December 7, 1995

Ness Sechrest
Post Office Box 174
West Memphis, Arkansas 72303

Dear Ness:

Thanks so much for the cigars! As always, your timing was great, and I do appreciate your taking care of me.

Please give my best to Carolyn. See you this weekend, friend.

Sincerely,

Bill

OK - pm

cc: Carolyn Huber

WHITE HOUSE
WASHINGTON

December 6, 1995

Marge Mitchell
115 Woodstock Drive
Hot Springs, Arkansas 71913

Dear Marge:

Thanks so much for your letter and for your constant support. Our trip to Europe was great. You must have been good to the Irish press -- they treated me very well over there. Maybe we should send all the press down to Hot Springs to visit with you!

I appreciate your sending the cards from the First Step School. They're wonderful and help remind me of the true meaning of Christmas.

I hope you're well and look forward to seeing you soon.

Sincerely,

Brian



ML rec'd 11/28

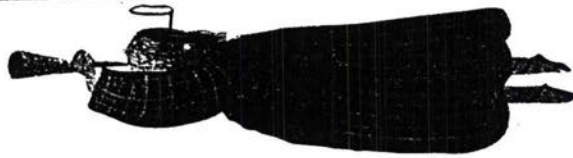
Murphy
cc C. H. H.

THE LORD GIVES STRENGTH TO HIS PEOPLE AND BLESSES
THEM WITH PEACE. PSALM 29:11

November 20, 1995

Dear President Dill,
I have never been so
proud of you and Helene. I
know you can be stubborn and
firm for the right things.

Not one word of negative
remarks have I heard. And do
I travel and talk to folks. Everybody
is for you hold tight.
Spent yesterday with the



THE LORD GIVES STRENGTH TO HIS PEOPLE AND BLESSES
THEM WITH PEACE. PSALM 29:11

Press from Ireland - getting
ready for your trip. Went to
Park Ave - High School, Palace
Green, Bowling Alley - they had
their own tour and what they
wanted to see. Really a great day.
You are always fun to talk about.
They wanted to know about your
Ireland on vacation so strong that
when you get there.

Have a great Thanksgiving,
we are planning a big one right
here on the lake - does that

Make you homeless?

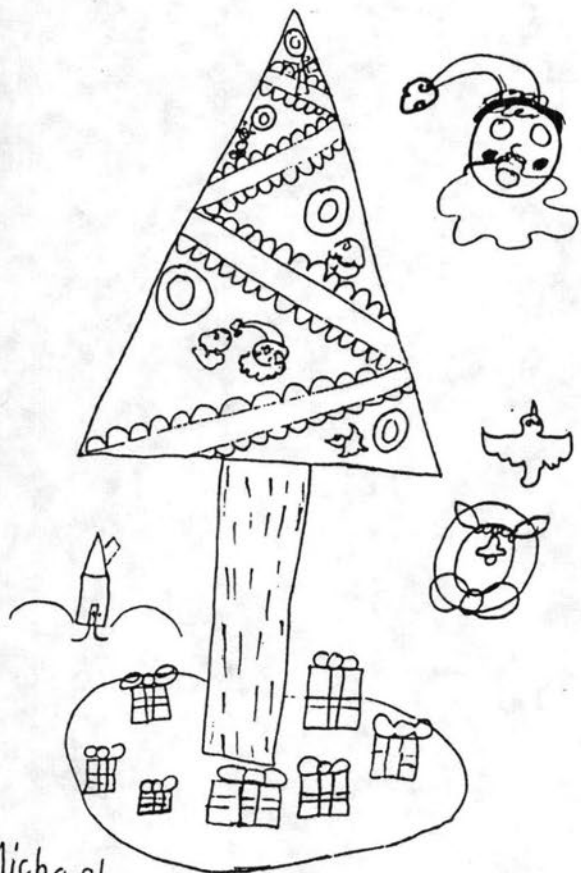
Enclosed is a Card the
Students made at First Step
School. \$3.00 for trustee, I
have sold \$400.00 worth. You
should send them a donation
would really make their
Christmas - If you want more
will send them to you —

First Step School

404 Carson St

Hot Springs, Ar 71901

Bill and Sister would love
you recognizing their efforts.



Michael



Vicki

send to Marcus
Lewis
~~for~~ for
Reply &

~~yes~~ 
no

IMMANUEL BAPTIST CHURCH

1000 Bishop Street
Little Rock, Arkansas 72202
Fax # (501) 396-3304

FAX COVER PAGE

DATE: December 6, 1995
FROM: Dr. Rex M. Horne, Jr.
TO: Nancy Hornreich
FAX
NUMBER: 202 456 6703

IF YOU DO NOT RECEIVE ALL OF THE PAGES
INDICATED, PLEASE CALL (501) 376-3071. THANK YOU.
FAX #. (501) 396-3304

NUMBER OF PAGES: 3



IMMANUEL
BAPTIST
CHURCH

December 6, 1995

Mr. President

THE PRESIDENT HAS SEEN

12/8/95

Nancy Hernreich
The White House
1600 Pennsylvania Avenue
Washington, D.C. 20500

Dear Nancy,

Merry Christmas! I trust you are doing well. I know you are busy.

I'm sending a fax from Dr. Paul Powell, President of the Southern Baptist Convention Annuity Board. I'm receiving a number of calls from folks around about the bill stated in the fax.

Nancy, would you please get this to the President. If he thinks a response to Powell is appropriate, I think it would be good. Powell carries good influence and is a trustworthy person.

Sincerely,

Dr. Rex M. Horne, Jr.

P.S. Hope to see you soon!

By the way, Paul Powell's address is:

Paul Powell
Annuity Board of the SBC
P.O. Box 2190
Dallas, Tx 75221-2190

RMH/mlw

Dr. Rex M. Horne, Jr., Pastor

1000 Bishop Street / Little Rock, Arkansas 72202
(501) 376-3071 • Fax (501) 396-3304

The following legislative initiatives are of utmost importance to Southern Baptist pastors and all members of the Church Alliance:

- 1. Securities laws exemptions.** The Church Alliance is working with members of Congress to obtain exemptions for church pension boards from federal and state securities laws. This would save church pension boards, such as the Annuity Board, from the time and expense of having to register with the Securities and Exchange Commission ("SEC") and the states. Although no bill has been filed, statutory language has been drafted and it is believed that the SEC will not oppose the exemptions.
- 2. Church pension simplification.** This proposed legislation (S. 881 and H.R. 528) would simplify church pension rules, clarify the right of chaplains to participate in church pension plans and make clear that a minister's housing allowance in retirement is not subject to SECA tax.

The Annuity Board currently serves about 100,000 retirement plan participants and has assets in excess of \$5 billion. The Church Alliance is composed of the chief executive officers of the pension boards of 29 main-line Christian and Jewish denominations. Those denominations serve about 450,000 retirement plan participants and have assets in excess of \$30 billion.

EXECUTIVE OFFICE OF THE PRESIDENT

08-Dec-1995 03:26pm

TO: Todd Stern

FROM: John O. Sutton
Office of the Chief of Staff

SUBJECT: Photos

I have a group of photographs of re-elect staff with the President that Laura Hartigan and Terry McAuliffe sent over to get signed as christmas gifts and in essence severance gifts for the staff as most of the people will not be retained in their jobs as of the end of the year.

They have asked that the inscription read: "Thanks for all your hard work" (Bill Clinton signature) rather than the typical "best wishes" or "with appreciation". The photo office said I should check with you about the possibility of changing the inscription for these photos.

*Jim.
Fine with me.
any problem?
TJH
12/8/95*

MESSAGE CONFIRMATION

DEC-08-95 16:10

FAX NUMBER : 2024562215

NAME :

FAX NUMBER : 915016240865

PAGE : 02

ELAPSED TIME : 01'12"

MODE : G3 STD

RESULTS : O.K

THE WHITE HOUSE
WASHINGTON

OFFICE OF THE STAFF SECRETARY

Fax Transmittal Sheet

TO: JONNETTE TAYLOR

Fax Number: (501) 624-0865

Phone Number:

FROM: TODD STERN

SUBJECT: PRESIDENTIAL LETTER

DATE: DECEMBER 8, 1995

NUMBER OF PAGES (including cover sheet): 2

MESSAGE:

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

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THE WHITE HOUSE
WASHINGTON

December 8, 1995

Dear Friends:

There's no place I'd rather be this Sunday than with all of you as you celebrate the twenty-fourth annual Christmas to Share. Though my schedule here prevents that, I send my very best wishes for a wonderful party and for a joyous holiday season.

As you are well aware, there's a crucial debate going on in Washington right now about the future of America and what we need to do to balance the federal budget. I firmly believe that we must balance the budget, but we must have the vision and the courage to maintain our values, including our national commitment to older Americans. Be assured that I will continue to stand up against unneeded and unnecessary cuts in Medicare and Medicaid. I hope you will continue to make your voices heard on the importance of reaffirming America's commitment to seniors.

I'll always treasure my times at Christmas to Share, and I know it meant so much to my mother, too. May you all have a blessed and peaceful holiday and a happy and healthy New Year.

Sincerely,

Bill Clinton

THE WHITE HOUSE
WASHINGTON

OFFICE OF THE STAFF SECRETARY

Fax Transmittal Sheet

TO: STEVE SERBE

Fax Number: (908) 349-7958

Phone Number:

FROM: TODD STERN

SUBJECT: PRESIDENTIAL LETTER

DATE: DECEMBER 8, 1995

NUMBER OF PAGES (including cover sheet): 2

MESSAGE:

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

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THE WHITE HOUSE
WASHINGTON

December 7, 1995

Gwen Serbe
500 Hooper Avenue
Toms River, New Jersey 08753

Dear Gwen:

Happy 15th Birthday! Mrs. Clinton and I send
our best wishes for a wonderful day and for a
happy and healthy year ahead.

Sincerely,

Bill Clinton

MESSAGE CONFIRMATION

DEC-08-95 15:31

FAX NUMBER : 2024562215

NAME :

FAX NUMBER : 66221

PAGE : 01

ELAPSED TIME : 00'28"

MODE : G3 STD

RESULTS : O.K

November 28, 1995

President Bill Clinton
1600 Pennsylvania Ave.
Washington, D.C.

Dear Mr. President,

Sorry for the delay in your supply of cigars. They have been out in Little Rock and have had a hard time of finding some.

Watched you on T.V. last night and know that was a difficult decision, but the right one.

Look forward to seeing you in Little Rock on the 9th of December.

Keep up the good work.

Your Friend Always,


Ness Sechrest

NS/sb

Handwritten notes:
Muller
cc. J. J. [unclear]
[unclear] 12/28

THE WHITE HOUSE
WASHINGTON

November 28, 1995

The Honorable Charlotte Schexnayder
Post Office Box 220
Dumas, Arkansas 71639-0220

Dear Charlotte:

Thank you so much for your letter of November 16 and for your kind words about my speech to the DLC. I do think we're moving in the right direction, and I agree that this is a fight worth making for all our citizens -- especially for the Bradley Braswells and others who need assistance to make the most of their lives.

Thanks, too, for letting me know about Rhule Guidry. I've dropped him a note, as you suggested.

Your continued support and encouragement mean so much to me, and I hope you'll keep speaking out on my behalf. May you and Melvin have a joyous and fulfilling holiday season.

Sincerely,

B. M.

enclose DLC speech

cc: w/inc.
Supporter File
16A

12/8
NH copied
Donald Dunn
copied
|

Representative

CHARLOTTE SCHEXNAYDER

Assistant Speaker Pro Tem

P. O. Box 220

DUMAS, AR 71639-0220

501-382-4925 Business

501-382-5255 Residence

501-382-6421 FAX

DISTRICT 74

Part of Desha County

Part of Jefferson County

Part of Lincoln County



STATE OF ARKANSAS

House of Representatives

COMMITTEES

MEMBER

Revenue and Taxation

State Agencies and

Governmental Affairs

Rules

Joint Budget

November 16, 1995

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

Dear Mr. President:

Your speech to the Democratic Leadership Council surely is among the best I have heard, and Melvin and I were proud to be among those applauding your thoughts and cheering your veto. Monday afternoon and Tuesday, I talked to as many as I could in the city of Washington to gain their views and found them genuinely supportive of your political courage and resolve. I happened to be in Senator Pryor's office Tuesday morning when the well-known columnist, Mary McGrory, arrived, and I told her of the support I had heard for your position and how much I admired you.

When I arrived back in Dumas, I had the enclosed letter on my desk. I think it speaks volumes of support for your efforts to protect those who have the least.

I continue to speak out in your behalf as we travel. We were in Louisiana for a wedding in October, and met Lynn Guidry, a member of the Parish Council in Lafayette. He is a solid supporter of yours and says his 80-year-old father, Rhule Guidry, always gives a thumbs-up and says, "President Clinton is doing a good job." Would it be possible for you to send a note to Mr. Rhule Guidry, 202 S. Church St., Carencro, La. 70520 as he is such a grand backer for you?

*Mrs. Ellen
at 2400
five*

Melvin and I hope you and your dear family have a grand Thanksgiving and Christmas... and enough rest to cope with the stress heaped upon you. God bless you!

Cordially,

Charlotte

November 10, 1995

Charlotte Tillar Schexnayder
P O Box 220
Dumas, AR 81639

Dear Ms. Schexnayder,

My name is Brenda Braswell and I am a parent of Bradley Braswell. Bradley is a young man that is 8 years old. I have Bradley in public school and in the regular classroom with supports and a full-time aid. Bradley has a rare disorder that is called Klipped Trenauny Weber Syndrome, Cerebral Palsy and has seizures. Brad is a very hyperactive child and has a learning disability. The left side of Bradley body is larger than the right side. Brad cannot function in this world without help in all areas of his life. As a Medicaid percipient, he can not afford to be without Medicaid. Medicaid takes care of all of his doctor bills, medicine and (AFO) foot and leg supports. His supports last for only six (6) months. His father's insurance will only pay for one (1) pair per lifetime. These supports cost a thousand dollars (\$1,000). His father's yearly income is \$17,000 which makes it difficult to support a family of four. Brad sees about five (5) doctors every six (6) to twelve (12) months. When Brad has dental work he must be sedated. We, as a family, could not survive if it wasn't for Medicaid. TEFRA, a part of Medicaid, is what Brad receives. We do not qualify for SSI because of a settlement received from an injury his father sustained on his job. This settlement is in the amount of \$4,000 and is to be paid over the next three years.

State and Federal Officials, I ask each of you to help children and adults that cannot live without Medicaid.

Thank you.



Brenda Braswell
51 South Richard Drive
Pine Bluff, AR 71602



1990
Bradley's Family



1994 & 95



Bradley Braswell



THE PRESIDENT HAS SEEN
12-7-95

95 NOV 27 P 1 : 45

THE WHITE HOUSE
WASHINGTON

November 27, 1995

MEMORANDUM FOR THE PRESIDENT

FROM: SUSAN BROPHY *SM*
SUBJECT: CONGRESSIONAL CORRESPONDENCE

Attached are letters from Rep. Gillespie V. Montgomery (D-MI), Sen. Daniel Patrick Moynihan (D-NY), and Rep. Lucille Roybal-Allard (D-CA) that I thought you might like to see.

any
cc: Leon

12/07/95

JOCELYN:

Pls do the thank you letter
to Roybal-Allard per the
POTUS' request.

Sharon/
Staff Secy. ofc.

SWIDLER & BERLIN, CHARTERED

3000 K STREET, N.W., SUITE 300

WASHINGTON, D.C. 20007-5116

(202) 424-7500 (main#), 701131 (telex#)

(202) 424-7643 (telecopier/fax#) - 3rd Floor

(202) 424-7645 (telecopier/fax#) - 4th Floor

95 NOV 20 P12:01

To Todd

bzi

B-

Sent 11/

TELECOPIER/FAX TRANSMITTAL

TODAY'S DATE

Nov 15, 1995

TIME 5:30

TRANSMITTAL TO

INDIVIDUAL

Bruce Lindsey

COMPANY NAME

DIRECT PHONE#

FAX/TELECOPIER#

456-2983

TOTAL# OF PAGES

2

(including cover page)

TRANSMITTAL FROM

INDIVIDUAL

John Hamilton

DIRECT PHONE#

202-424-7826

ATTORNEY CODE#

BILLING CODE#

ADDITIONAL MESSAGE (if any)

12-7-95
J. O. J. K. W. D.J.H. B. L. n
F.O.J.S.

T. O. J.

IF THERE IS A PROBLEM IN THIS TRANSMISSION, IT IS

NAME

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THIS COMMUNICATION

JAMES HAMILTON
ATTORNEY-AT-LAW

SWIDLER
&
BERLIN
CHARTERED

DIRECT DIAL
(202)424-7826

November 15, 1995

BY TELECOPIER

The Honorable Bruce R. Lindsey
Assistant to the President and
Deputy Counsel
1600 Pennsylvania Avenue, N.W.
Washington, D.C. 20500

Dear Bruce:

My firm represents the National Housing and Rehabilitation Association, which is most concerned with the Congressional budget conferees' recent decision to eliminate the low-income housing tax credit. The Senate bill would have preserved the program, but the Senate conferees receded to the House position to sunset the credit at the end of FY 1997. This sunset would have a drastic impact on the amount of low-income housing because the tax credit is responsible for almost all of the production of low-income rental housing in America.

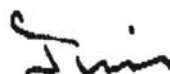
Because the credit is effective and beneficial, it enjoys wide-ranging, bi-partisan support. Many Republic and Democratic governors and congressmen publicly have urged the leadership and the conferees to preserve the tax credit.

Our client believes that it is critical that the President include his opposition to the credit's elimination in any message vetoing the budget reconciliation legislation. We recommend the following language:

"The elimination of the low-income housing tax credit, which has been responsible for virtually all low-income rental housing in America, is unacceptable."

I would be happy to discuss this matter with you further if you would find this useful.

Best regards,



James Hamilton

JH/cmb

6048279 111

12.7.95

It's Not Just Politics.

It's Our Food.



For the hundreds of families who have lost a loved one to E.coli poisoning, the current federal budget fight involves more than just politics. It's a test of whether we're going to get serious about U.S. meat inspection.

Attached to the debt ceiling measure which President Clinton vetoed was the Republicans' "regulatory reform" bill. It would allow the meat industry to tie up and delay indefinitely the implementation of new inspection methods that can detect deadly pathogens before they strike.

This reckless bill is a serious threat to public health, and the President was right to reject it.

Thank You, Mr. President, for Defending Our Environment.



SAFE TABLES OUR PRIORITY

Paid for by Americans Mobilized to Protect the Environment

THE PRESIDENT HAS SEEN

12.7.9

VP / Katin

Good stuff
sign 186 which
is specific

(cc: Mr. D. Schen,
Prof. Squier)

Bob Squier

D. Schen

to SoS will do

It's Not Just Politics.

It's Our Water.



The ongoing battle over the federal budget is more than just political gamesmanship. In the next few days, Congress will send the President an EPA funding measure that would mean more poisons in our drinking water.

The measure would flatly prohibit EPA from regulating water-borne radon, sulfate and arsenic. And its drastic funding cuts would seriously cripple other enforcement efforts, meaning more raw sewage in our lakes and streams.

President Clinton has vowed to veto this threat to public health. He deserves our thanks.

**Thank You, Mr. President, for
Defending Our Environment.**

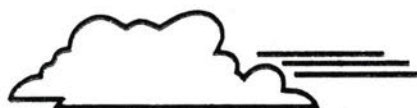


LEAGUE OF CONSERVATION VOTERS

Paid for by Americans Mobilized to Protect the Environment

It's Not Just Politics.

It's Our Air.



The budget fight that recently shut down much of the federal government may have looked like politics as usual. But there were issues at stake as basic as the air we breathe.

The measures that President Clinton vetoed would have drastically cut back funding for the Environmental Protection Agency – meaning drastic reductions in clean air enforcement, and increased dangers of respiratory disease for future generations.

The President's refusal to accept these cuts was a stand for the health of our children. We applaud him.

**Thank You, Mr. President, for
Defending Our Environment.**



*Natural Resources
Defense Council*

Paid for by Americans Mobilized to Protect the Environment

It's Not Just Politics.

It's Our Oceans.

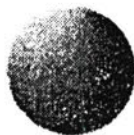


The ongoing federal budget fight is more than just partisan politics. The deep cuts that Congress is trying to make in wastewater treatment and other environmental safeguards would profoundly affect the world's oceans — and our health.

Reduced monitoring of toxic discharges means more carcinogens, heavy metals and disease-causing bacteria in our coastal waters, and in the fish we eat. It means more closings of beaches, more damage to shellfish beds and critical spawning grounds.

President Clinton is right to block these reckless measures by vetoing the budget bills to which they've been attached. We thank him.

**Thank You, Mr. President, for
Defending Our Environment.**



AMERICAN OCEANS CAMPAIGN

Paid for by Americans Mobilized to Protect the Environment

THE WASHINGTON POST

It's Not Just Politics.

It's Our Wilderness.



If you think the budget debate on Capitol Hill is just so much partisan politics, think again. Buried in that bill is a major attack on America's wilderness.

This measure would permit oil drilling in the Arctic National Wildlife Refuge. One of our last great sanctuaries, it contains critical denning habitat for polar bears and the calving ground of the Porcupine Caribou herd. It's also critical to the survival of the Gwich'in native culture.

We thank President Clinton for his commitment to veto this dangerous legislation.

**Thank You, Mr. President, for
Defending Our Environment.**



DEFENDERS OF WILDLIFE

Paid for by Americans Mobilized to Protect the Environment

FRIDAY, DECEMBER 1, 1995

It's Not Just Politics.

It's Our Wildlife.



There's plenty of politics in the fight over the federal budget. But there's also plenty at stake for America's wildlife.

Attached to the Interior appropriations bill that Congress is trying to ram through is a flat moratorium on the listing of new endangered species, no matter how dire the consequences. Plants and animals are the source of most of our medicines, and protecting their habitats means protecting our health.

President Clinton has shown his commitment to the environment and to improving our environmental laws — not repealing them. We urge him to continue that commitment.

**Thank You, Mr. President, for
Defending Our Environment.**



NATIONAL WILDLIFE FEDERATION

Paid for by Americans Mobilized to Protect the Environment

It's Not Just Politics.

It's Our Rivers.



The budget fight between Congress and the White House may look like petty politics. But it profoundly affects the health of America's rivers.

Over the past year, the Congressional leadership has attempted to gut almost every major law protecting U.S. rivers and the quality of our water. Most recently, out of public view and with little or no debate, they've been slipping most of their anti-environmental agenda into funding and budget bills.

President Clinton has wisely committed to block these reckless moves. We urge him to keep up the fight.

**Thank You, Mr. President, for
Defending Our Environment.**



Paid for by Americans Mobilized to Protect the Environment

FRIDAY, DECEMBER 1, 1995

It's Not Just Politics.

It's Our Earth.



The budget showdown in Washington goes far beyond partisan politics. Radicals in Congress keep loading the budget bills with provisions that threaten our environment.

President Clinton has already vetoed bills that included reckless anti-environmental proposals and deep cuts in EPA funding. They would have threatened the health and safety of all Americans and caused irrevocable damage to our national heritage.

We thank the President for blocking these dangerous measures, and we urge him to keep on using his veto until all budget measures are stripped of environmental threats.

**Thank You, Mr. President, for
Defending Our Environment.**

SIERRA
CLUB



Paid for by Americans Mobilized to Protect the Environment

It's Not Just Politics.

It's Our Earth.



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**Thank You, Mr. President, for
Defending Our Environment.**

SIERRA
CLUB



Paid for by Americans Mobilized to Protect the Environment

Foreign Affairs
THOMAS L. FRIEDMAN

The Clinton Gamble

WASHINGTON
In the wake of President Clinton's vigorous diplomatic efforts to bring the war in Bosnia to a close, his foreign policy is getting a second look, with a lot of analysts concluding about the Clinton foreign policy what Mark Twain once said of the music of Wagner: It's not as bad as it sounds.

In the midst of this revisionist mood, the journal Foreign Affairs will publish next month a provocative analysis by Prof. Michael Mandelbaum, who teaches at the Johns Hopkins school of international studies and argues that the Clinton foreign policy really is as bad as it sounds. His thesis is that the Clinton policy is congenitally flawed because it never identified U.S. national interests abroad after the cold war, but instead tried to conduct foreign policy by "the standards of Mother Teresa," trying to "turn American foreign policy into a branch of social work."

Whereas previous Administrations were preoccupied with the dangerous and powerful nations at the core of the international community — Russia, Japan, China and Germany — the Clinton team, he contends, preoccupied itself with relieving suffering and oppression in nations on the periphery: Bosnia, Somalia and Haiti. In each case the Administration's objective was not to pursue U.S. national interests — traditionally defined as those issues that could affect American lives — but rather to promote American values.

The problem the Administration ran into in Somalia, Haiti and Bosnia, writes Mr. Mandelbaum, was that to end their misery required deep, cost-

in Haiti and Bosnia, but the motivation was not just social work, he says, but "to bolster the Administration's political standing, which was suffering from the failure to resolve these problems." Both the Haiti and Bosnia interventions achieved a measure of success, but it was provisional and easily reversible. Because these interventions lacked the support of a majority of Americans, the Administration could not stay in Haiti — and won't be able to stay in Bosnia — long enough to really get the job done and secure a stable new order. The reason for that lack of support is because in neither Haiti nor Bosnia are vital U.S. national interests at stake, Mr. Mandelbaum argues.

"As in Haiti, the chief purpose of an American expeditionary force in Bosnia will be to leave as soon as possible, with as few casualties as possible, rather than to do whatever is necessary, for as long as necessary, to keep (or make) peace," Mr. Mandelbaum writes. In Haiti and Bosnia, he adds, the exit strategy is the mission. That is, the mission is to show up and leave, not to stay until the goals are fully achieved.

This argument is important because it reminds us of something we've forgotten: During the cold war there was no distinction between international social work and the national interest. Social work was nation-building and nation-building was the national interest. We engaged in nation-building — from the Marshall Plan in Europe to Vietnam — because it was deemed essential for halting the spread of Communism, which could hurt us all.

By both accident and design, Mr. Clinton is testing a new thesis — that after the cold war he can pursue an ambitious social-work agenda abroad, even though it doesn't affect the nation's vital interests. That is why so many Americans feel ambivalent about Haiti and Bosnia: They want to do good works, like Mother Teresa, but won't sacrifice their blood without the threat of Stalin on the other side.

Mr. Clinton's gamble is that he can split the difference; get enough public support to do a little good, for enough time, to make a reasonable difference in a place that's not really that important. If the price of the Clinton policy in Bosnia is just money, he has a chance to succeed. If it turns out to be blood, the underlying contradictions and public ambivalence will destroy his policy and possibly his Presidency.

Promoting U.S. values abroad.

ly engagements in their tangled internal politics. The Clintonites assumed, wrongly, he argues, that "they could take the political capital the public had furnished for 40 years to oppose the Soviets and put it to uses they deemed more virtuous." But when faced with the real costs of healing Somalia, Haiti and Bosnia, the Administration found it didn't have the public's support, so it balked, leaving it with three fiascos.

After these initial disasters, the Administration ended up using force

THE PRESIDENT HAS SEEN

12-7-95

THE WHITE HOUSE
WASHINGTON, D.C. 20500

DATE: 12.7

TO:

L L R L
Jack

FROM: Staff Secretary

pyl.

Red
CLOSE HOLD

THE PEOPLE'S HOUSE
12-7-95

THE WHITE HOUSE
WASHINGTON

95 DEC 6 P2:12

6 December 1995

MEMORANDUM TO THE PRESIDENT
CC LEON PANETTA
ERSKINE BOWLES
FROM HAROLD ICKES (HP)
RE Securities Reform Legislation

From a purely California perspective, Mickey Kantor very strongly urges that you sign the reform securities legislation.

THE PRESIDENT HAS SEEN
12-7-95

THE WHITE HOUSE
WASHINGTON

Confidential
95 DEC 6 A10:21

5 December 1995

MEMORANDUM TO THE PRESIDENT

CC: Leon Panetta
Erskine Bowles

From: Harold Ickes

Re: Securities reform legislation

As you requested, I spoke with Senator Dodd on the "Ireland" trip about the possible adverse consequences in California if you were to sign the securities "reform" legislation. He listened, but I was left with the very distinct impression that he felt that signing the bill would help you in California.

On Tuesday (5 December) I spoke with Michael Powell, Senator Dodd's top aid. It is Michael's feeling, obviously reflecting Dodd's, even though the aiding and abetting language is not what you want nor is the statute of limitations language, signing the bill will, on balance, help you in California. They look at this, however, solely from the point of view of silicon valley people. Michael said that in Dodd's opinion, your signing the bill will help shore up support with the silicon valley people.

I asked him whether the Senator thought he had a promise from the White House. He said that was not the case and that Dodd would not want you to do anything that would in any way jeopardize your re-election. I explained to Michael that we were getting conflicting advice about the possible impact of the bill with respect to California. It was his opinion (although he admitted he was no expert in California politics) that it probably would not be a big issue in the 1996 general election. I was certainly left with an explicit understanding from Michael that Senator Dodd did not feel that he had a promise from the White House that this bill would be signed.

By an earlier memo dated today (5 December) I transmitted a memo to me from Bill Carrick, who represents the Security Lawyers Association, but who feels very strongly that if you sign the reform bill, it will be a very divisive and diversionary issue in the '96 election.

Senator Boxer called me today (Tuesday) to plead that you not sign the bill. She said it is a terrible bill and very anti little people and anti consumer. In her view it will hurt elderly investors. (Although I didn't know it until today, as you know she used to be a stockbroker.) Among other groups, she mentioned that she had received a very impassioned letter from the Fraternal Order of Police saying that they had stood by you on the crime bill and they hoped that you would stand by them by vetoing this securities reform legislation which would be detrimental to their pension fund.

In her view, you should veto the bill giving the specific reasons and provisions that are the basis for your veto.

She also is of the view that capital gains relief is much more important to the silicon valley people than reforming the securities legislation.

Finally, she made the point that in the budget fight you have been standing up for the "little guy" and that "little people" will not be able to sue under the "reformed" securities legislation.

THE PRESIDENT HAS SEEN
12-7-95

THE WHITE HOUSE
WASHINGTON

December 5, 1995

Mr. President:

Nearly three years ago, when I left as CEO of a group of Los Angeles-based businesses to join your Administration, I intended to return to the private sector as soon as your national service program became a reality. A mixture of challenge, commitment -- but most of all, my respect for you and the example of your leadership -- kept me in public service ever since. For as long as I can remember, I had hoped to serve a President I believed in completely, and since I first heard the subject proposed by Robert Kennedy when I was a teenager, I looked forward to a chance to help implement a true national service movement. You made both dreams come true, and I am deeply grateful.

Your strong sponsorship and the inherent value of the efforts of AmeriCorps members will soon beat down the politically-motivated opposition on the Hill. Although significant management issues remain to ensure that AmeriCorps becomes the legacy you have envisioned and the country needs, I believe it is an appropriate time for me to re-enter private life.

Accordingly, I have today agreed to join Discovery Communications, the \$2 billion parent company of the Discovery Channel and The Learning Channel, as Senior Vice President. I will have responsibility over a range of new business initiatives, beginning with a major effort to take the mixture of education and entertainment -- the essence of exploration for which Discovery has become synonymous -- from TV sets to physical sites around the country. We plan a variety of entertainment and retailing experiences unique in the marketplace.

Your generosity to me and to my family has been overwhelming, and my commitment to you and to your ideals has matured from the philosophical and political to the profoundly personal. Your staff is superb and your friends and supporters eager and extensive, but I hope to be of whatever help you might desire, in my new role.

Many, many thanks for what you have done for me, for our family and for our country.

Very truly yours,

Rick Allen

C. Richard Allen

Nancy Hernreich

THE PRESIDENT HAS SEEN
12-7-95

*Rich would like to
visit w/ you -
OK - I need him
reply too -*

original to:

JIM DORSKIND:

Please coordinate
the reply.

cc: Scheduling

clerk

THE PRESIDENT HAS SEEN
12-7-95

*Copy
to
M. Clinton*

Jim Dorskind

Please coordinate
the reply.

November 7, 1995

The President and First Lady
of the United States
The White House
Washington, D.C. 20500

Dear President and Mrs. Clinton:

Please accept the enclosed CD with my best wishes. I hope
you have a chance to listen.

Although I am an emigrant from County Clare, Ireland, I feel
a special affinity for your administration, since my husband
is a native of Lonoke, Arkansas and we live in Nashville,
Tennessee.

Please let me know if there is anything I can do to help
during the upcoming campaign. You both have my support.

Sincerely yours,

Maura O'Connell

Maura O'Connell

*original to
Dorskind*

*Do Ty
Ray (see memo)
tip to [unclear]*

THE PRESIDENT HAS SEEN
12-7-95

November 13, 1995

Mrs. Mary Tull
214 East Wing
The White House
Washington, DC 20500

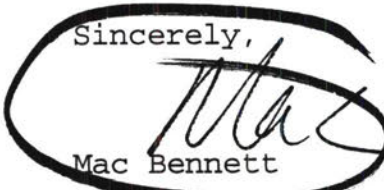
Dear Mrs. Tull:

Enclosed is a copy of Maura's CD, "Stories", for President and Mrs. Clinton, as well as a short note from Maura.

Thank you so much for your support of Maura and "Stories".

Maura and I always look forward to visiting with you and Mr. Tull, and hope we will see you during the holidays.

Sincerely,


Mac Bennett

P.S. The T-shirt is for you, (if
you wear them).

is
this Wayne
Bennett's
son's wife
from Lenoire.
Mary & John attended
their wedding in
Ireland. Mary
said it was quite
a wedding.

THE PRESIDENT HAS SEEN
12-7-95

THE WHITE HOUSE

WASHINGTON

Confidential
95 DEC 6 AIO: 21

5 December 1995

MEMORANDUM TO THE PRESIDENT

CC: Leon Panetta
Erskine Bowles

From: Harold Ickes (H)

Re: Securities reform legislation

12-7-95

Copy to Laura Tyson
per their request.
OK by Phil to send
first 2 pages.

M.

As you requested, I spoke with Senator Dodd on the "Ireland" trip about the possible adverse consequences in California if you were to sign the securities "reform" legislation. He listened, but I was left with the very distinct impression that he felt that signing the bill would help you in California.

On Tuesday (5 December) I spoke with Michael Powell, Senator Dodd's top aid. It is Michael's feeling, obviously reflecting Dodd's, even though the aiding and abetting language is not what you want nor is the statute of limitations language, signing the bill will, on balance, help you in California. They look at this, however, solely from the point of view of silicon valley people. Michael said that in Dodd's opinion, your signing the bill will help shore up support with the silicon valley people.

I asked him whether the Senator thought he had a promise from the White House. He said that was not the case and that Dodd would not want you to do anything that would in any way jeopardize your re-election. I explained to Michael that we were getting conflicting advice about the possible impact of the bill with respect to California. It was his opinion (although he admitted he was no expert in California politics) that it probably would not be a big issue in the 1996 general election. I was certainly left with an explicit understanding from Michael that Senator Dodd did not feel that he had a promise from the White House that this bill would be signed.

By an earlier memo dated today (5 December) I transmitted a memo to me from Bill Carrick, who represents the Security Lawyers Association, but who feels very strongly that if you sign the reform bill, it will be a very divisive and diversionary issue in the '96 election.

Senator Boxer called me today (Tuesday) to plead that you not sign the bill. She said it is a terrible bill and very anti little people and anti consumer. In her view it will hurt elderly investors. (Although I didn't know it until today, as you know she used to be a stockbroker.) Among other groups, she mentioned that she had received a very impassioned letter from the Fraternal Order of Police saying that they had stood by you on the crime bill and they hoped that you would stand by them by vetoing this securities reform legislation which would be detrimental to their pension fund.

In her view, you should veto the bill giving the specific reasons and provisions that are the basis for your veto.

She also is of the view that capital gains relief is much more important to the silicon valley people than reforming the securities legislation.

Finally, she made the point that in the budget fight you have been standing up for the "little guy" and that "little people" will not be able to sue under the "reformed" securities legislation.

Todd,

This does not need to
be forwarded to POTUS

from:

Harold

ICKES

12-7-95

TO:

John Sutton



DEMOCRATIC NATIONAL COMMITTEE

Donald L. Fowler, *National Chair* • Christopher J. Dodd, *General Chair*

DATE: December 4, 1995
TO: John Sutton
FROM: Faith Brown
RE: DNC Copy approval

95 DEC 5 P6:48

Attached is copy for four letters, as follows:

1. Third Renewal: This mailing goes to donors who have been asked twice but have yet to renew their DNC membership for 1996. We'll produce a 1996 calendar with key dates highlighted.

2. Calendar Appeal: The same calendar will be mailed in January as a special appeal to donors who have already renewed their DNC membership for 1996.

3. Notecard Appeal: We will test mailing a set of notecards to a group of donors as a special appeal in February, 1996. The notecards will have photos of various Democratic presidents (Clinton, FDR, JFK, LBJ, etc.).

4. Address Verification: This is a test prospecting mailing which, if successful would also serve as a means of collecting names for volunteering and other involvement in grassroots efforts next year.

Please have the attached reviewed by the appropriate individuals and submit their comments to me by Friday, December 15. Please feel free to call me directly at (202) 863-7121 with any questions.

___ ok as is]
___ ok with changes]

Ron Klaine: ___ Date: ___

___ ok as is]
___ ok with changes]

Bruce Lindsey: ___ Date: ___

___ ok as is]
___ ok with changes]

Cheryl Mills: ___ Date: ___

☒ ok as is]
☒ ok with changes]

Todd Stern: ☒ Date: 12-7-95

___ ok as is]
___ ok with changes]

Doug Sosnik: ___ Date: ___

___ ok as is]
___ ok with changes]

George Stephanopoulos: ___
Date: ___

___ ok as is]
___ ok with changes]

Harold Ickes: ___ Date: ___

Name of person returning this document and attached documents to
the Democratic National Committee: _____

Date returned: _____

<u>MAILING</u>	<u>AUDIENCE</u>	<u>MAIL DATE</u>	<u>EST. QTY.</u>
3rd Renewal	DNC donors who have yet to renew their membership for 1996	1/8/96	525,000
Calendar Appeal	High & Low dollar DNC donors who have renewed for 1996	1/8/96	83,000
Notecard Appeal Test	DNC donors	2/2/96	50,000
Address Verification Test	Prospective DNC donors	12/95	50,000

OSE
Democratic National Committee
430 South Capitol Street, S.E.
Washington, D.C. 20003



Mr. John J. Donor
123 Anystreet
Anytown, USA 12345-6789

Important -- 1996 Renewal Reminder

Back of OSE

OFFICIAL "WIN IN 96" ELECTION YEAR CALENDAR ENCLOSED -- DO NOT BEND.

8 1/2 x 5 1/2 reply, no fold; invoice look
3/1 Black + blue + red/black

DEMOCRATIC NATIONAL COMMITTEE

**Calendar Delivery Confirmation
& 1996 Membership Renewal Form**

MEMBERSHIP IDENTIFICATION NUMBER: ID CODE

CALENDAR REGISTRATION NUMBER: SOURCE CODE

DATE SHIPPED TO RECIPIENT: JANUARY 6, 1996

PLEASE CONFIRM DELIVERY BY: FEBRUARY 6, 1996

() YES, I received my official "Win in 96" Election Year Wall Calendar on the following date: _____.

() YES, I want to help keep President Clinton in ^{the} White House and win back Congress this year. That's why I'm renewing my annual membership in the Democratic National Committee with a renewal contribution in the amount of:

() HPC () 1.5HPC () 2HPC () OTHER \$ _____

Mr. John J. Donor

123 Anystreet

Anytown, USA 12345-6789

Please fill out the required information on the reverse side. Your renewal contribution may be used in connection with federal elections and is subject to the limits and prohibitions of the Federal Election Campaign Act. Please make your renewal check payable to the DNC/Federal Account. Your renewal contribution is not tax-deductible.

(REPLY BACK)

Federal Law requires political committees to report the name, mailing address, occupation and name of employer for each individual whose contributions aggregate in excess of \$200 in a calendar year.

EMPLOYER

OCCUPATION

HOME PHONE NUMBER

Do you have an e-mail address? We are currently updating our membership files. Please help us out by making any corrections to the address on the front of this form and by providing your e-mail address below:

E-MAIL ADDRESS () HOME () WORK

DEMOCRATIC NATIONAL COMMITTEE

*If you've already renewed for 1996,
thank you, and kindly disregard this reminder. -- C.D.*

Senator Christopher Dodd
General Chair

Dear Mr. Donor,

On behalf of the President and the Democratic National Committee, I'd like to wish you a Happy New Year and present you with the enclosed "Win in 96" Election Year Wall Calendar.

Please accept this calendar as a token of the President's gratitude for the dedicated and generous leadership you have shown to the Democratic Party in the past.

And now that 1996 has begun, I hope that you'll take a moment to renew your commitment to the President and the Party in this, the most important election year for Democrats in generations.

The Republicans have already begun building a massive campaign war chest to take even more seats in Congress this year -- and they have vowed to seize control of the White House in 1996.

That's why it's so important that all top Democratic leaders renew their support of the Party now.

As you can see on your "Win in 96" calendar, election-year milestones are fast approaching. Many key primary races are just weeks away. And preparations for the Democratic National Convention in Chicago are in full swing.

So please mail your membership renewal contribution today to help keep President Clinton in the White House and help Democrats retake control of Congress this November.

For the sake of our nation, Democrats must win in 1996. And we cannot do it without your leadership. Please renew right away.

Sincerely,

Senator Christopher Dodd
General Chair

P.S. To denote your national leadership among Democrats and your loyal support of the President and the Party, please place your "Win in 96" calendar in a prominent spot in your home or office. And please let me know that you received your calendar by completing and returning the enclosed delivery confirmation form, along with your generous renewal contribution for 1996.

OSE

Democratic National Committee
430 South Capitol Street, S.E.
Washington, D.C. 20003



Mr. John J. Donor
123 Anystreet
Anytown, USA 12345-6789

**OFFICIAL "WIN IN 96" ELECTION YEAR
CALENDAR ENCLOSED - DO NOT BEND.**

8 1/2 x 5 1/2 reply, no fold; invoice look
3/1 Black + blue + red/black

DEMOCRATIC NATIONAL COMMITTEE

**Calendar Delivery Confirmation
& Special Contribution Form**

MEMBERSHIP IDENTIFICATION NUMBER: ID CODE

CALENDAR REGISTRATION NUMBER: SOURCE CODE

DATE SHIPPED TO RECIPIENT: JANUARY 6, 1996

PLEASE CONFIRM DELIVERY BY: FEBRUARY 6, 1996

() YES, I received my official "Win in 96" Election Year Wall Calendar on the following date: _____.

() YES, I want to show my strong commitment to helping keep President Clinton in ^{the} White House and win back Congress this November. That's why I'm enclosing a special first-of-the-year contribution to the Democratic National Committee in the amount of:

() HPC () 1.5HPC () 2HPC () OTHER \$ _____

Mr. John J. Donor
123 Anystreet
Anytown, USA 12345-6789

Please fill out the required information on the reverse side. Your renewal contribution may be used in connection with federal elections and is subject to the limits and prohibitions of the Federal Election Campaign Act. Please make your renewal check payable to the DNC/Federal Account. Your renewal contribution is not tax-deductible.

(REPLY BACK)

Federal Law requires political committees to report the name, mailing address, occupation and name of employer for each individual whose contributions aggregate in excess of \$200 in a calendar year.

EMPLOYER

OCCUPATION

HOME PHONE NUMBER

Do you have an e-mail address? We are currently updating our membership files. Please help us out by making any corrections to the address on the front of this form and by providing your e-mail address below:

E-MAIL ADDRESS () HOME () WORK

DEMOCRATIC NATIONAL COMMITTEE

Donald L. Fowler
National Chair

Dear Mr. Donor,

On behalf of the President and the Democratic National Committee, I'd like to wish you a Happy New Year and present you with the enclosed "Win in 96" Election Year Wall Calendar.

Please accept this calendar as a token of the President's gratitude for the dedicated and generous leadership you have shown to the Democratic Party in the past.

And I hope that you'll show your support for the President and the Party at the start of this, the most important election year for Democrats in generations, by making a generous 1996 campaign kick-off contribution to the Democratic National Committee today.

The Republicans have already begun building a massive campaign war chest to take even more seats in Congress this year -- and they have vowed to seize control of the White House in 1996.

That's why it's so important that all top Democratic leaders demonstrate their support for the Democratic Party now.

As you can see on your "Win in 96" calendar, election-year milestones are fast approaching. Many key primary races are just weeks away. And preparations for the Democratic National Convention in Chicago are in full swing.

That's why I hope that you'll take a moment to mail the most generous contribution you can afford to the DNC today to help keep President Clinton in the White House and help Democrats retake control of Congress this November.

For the sake of our nation, Democrats must win in 1996. And we cannot do it without your extraordinary leadership. Please lend us your support to get off to a strong start early in 1996.

Sincerely,

Donald L. Fowler
National Chair

P.S. To denote your national leadership among Democrats and your loyal support of the President and the Party this year, please place your "Win in 96" calendar in a prominent spot in your home or office. And please let me know that you received your calendar by completing and returning the enclosed delivery confirmation form, along with your 1996 campaign kick-off contribution.

Check size BRE, canary
2/0 Black + red

RUSH DELIVERY TO CHAIRMAN FOWLER

Handwritten:

"Your first-class stamp will help us devote more funds to keeping the White House
and taking back Congress."

Democratic National Committee
430 South Capitol Street
P.O. Box 96585
Washington, D.C. 20077-6585

8 1/2 x 5 1/2 reply, no fold; invoice look
3/1 Black + blue + red/black

DEMOCRATIC NATIONAL COMMITTEE

**Calendar Delivery Confirmation
& Special Contribution Form**

MEMBERSHIP IDENTIFICATION NUMBER: ID CODE

CALENDAR REGISTRATION NUMBER: SOURCE CODE

DATE SHIPPED TO RECIPIENT: JANUARY 6, 1996

PLEASE CONFIRM DELIVERY BY: FEBRUARY 6, 1996

() YES, I received my official "Win in 96" Election Year Wall Calendar on the following date: _____

() YES, I want to show my strong commitment to helping keep President Clinton in ^{the} White House and win back Congress this November. That's why I'm enclosing a special 1996 campaign kick-off contribution to the Democratic National Committee in the amount of: _____

() HPC () 1.5HPC () 2HPC () OTHER \$ _____

Mr. John J. Donor
123 Anystreet
Anytown, USA 12345-6789

Please fill out the required information on the reverse side. Your renewal contribution may be used in connection with federal elections and is subject to the limits and prohibitions of the Federal Election Campaign Act. Please make your renewal check payable to the DNC/Federal Account. Your renewal contribution is not tax-deductible.

(REPLY BACK)

Federal Law requires political committees to report the name, mailing address, occupation and name of employer for each individual whose contributions aggregate in excess of \$200 in a calendar year.

EMPLOYER

OCCUPATION

HOME PHONE NUMBER

Do you have an e-mail address? We are currently updating our membership files. Please help us out by making any corrections to the address on the front of this form and by providing your e-mail address below:

E-MAIL ADDRESS () HOME () WORK

DEMOCRATIC NATIONAL COMMITTEE
NOTE CARD APPEAL
M:\HOMEMAHDNC\COPY\DN16A3.CRD
November 16, 1995

③ NOTE CARD
APPEAL

Outer Box: bright blue, reverse type to white

Democratic National Committee
430 South Capitol Street, S.E.
Washington, D.C. 20003

Mr. John J. Sample
123 Anystreet
Anytown, USA 12345-6789

(presidential bunting)
12 Presidential Notecards Enclosed

Outer Box: bright blue, reverse type to white

Democratic National Committee
430 South Capitol Street, S.E.
Washington, D.C. 20003

Mr. John J. Sample
123 Anystreet
Anytown, USA 12345-6789

(presidential bunting)
12 Presidential Notecards Enclosed

(monarch: white offset stock)

Mr. John J. Sample
123 Anystreet
Anytown, USA 12345-6789

Dear Mr. Sample:

The enclosed Presidential Notecards are yours to keep and use, compliments of President Bill Clinton and the Democratic National Committee.

A special gift from the President and the Party for your loyal support, each card features an official photograph of an unforgettable Democratic President.

When you use these Presidential Notecards to send greetings to family and friends, you honor the Democratic Presidents of yesterday, whose vision and strength have sparked many of our nation's greatest achievements...

...such as FDR, whose New Deal put millions of Americans back to work, lifted our nation from the depths of the Great Depression, gave generations of older Americans a dignified retirement, and successfully led our nation through one of the worst wars in history.

...or Harry S. Truman, who brought an end to World War II and guided America into the new world order created during the post-war years.

...and JFK, who founded the Peace Corps and taught us that unselfish concern for others is every American's duty. And LBJ, who reminded us that all Americans have the right to good schools, jobs and homes, regardless of the color of their skin.

But even as I write these words, many of these Democratic accomplishments are threatened by the Republican majority in Congress -- and the Republican challengers seeking the White House in 1996.

(over, please)

Page Two

To help President Clinton and the Democratic Party protect the legacy of FDR, Truman, JFK and Johnson -- and build upon their success in creating a better life for all Americans, I hope that you will make a contribution to the DNC today.

Each day, the Republican majority in Congress snips another thread from the safety net that Democrats have painstakingly built for all Americans -- from preschoolers to senior citizens.

You and I, and President Clinton, respect the proud Democratic tradition that has protected the health, safety, equality and dignity of all of our citizens. Sadly, many of our Republican friends in Congress do not share our vision.

Today, the only way to keep the Democratic legacy alive is to keep President Clinton in the White House and regain Democratic control of Congress.

And for that, we need all the help you can give.

With your support, the Party can help President Clinton win a second term -- and give him a Democratic Congress that knows the value of a government that works in partnership with its citizens.

But without your support, the proud Democratic tradition begun by FDR will surely come to a bitter end. Please send a contribution today -- any amount will help.

Sincerely,

Donald L. Fowler,
National Chair

P.S. The President and I are sure that you'll find the enclosed Presidential Notecards a unique and memorable way to send warm ishes to your family and friends. And I hope you can send a contribution to the DNC now, to help us defend and expand the accomplishments that these great Presidents have made for our nation.

Uish_{es}?

White stock for reply
3/1 Black + blue + red

halftone of FDR

halftone of Clinton

**Democratic National Committee
Presidential Notecard Contribution Form
(presidential bunting)**

Dear Senator Dodd:

Thank you for the Presidential Notecards you sent. To support the DNC's work to defend the historic accomplishments of our past Democratic Presidents, return President Clinton to the White House and take back the Congress in 1996, enclosed is my contribution in the amount of:

\$XX \$XX \$XX \$XXX Other \$ _____

Democratic National Committee
430 South Capitol Street, S.E.
Washington, D.C. 20003

Please make your check payable to the Democratic National Committee/Federal Account and return it with this form in the envelope we have provided.

**PLEASE BE SURE TO FILL OUT THE REQUIRED
INFORMATION BELOW.**

Federal law requires political committees to report the name, mailing address, occupation and name of employer for each individual whose contributions aggregate in excess of \$200 in a calendar year. Your contribution may be used in connection with Federal elections and is subject to the limits and prohibitions of the Federal Election Campaign Act. Your contribution is not tax-deductible as a charitable contribution for federal income tax purposes.

Employer:

Occupation:

() Check if self-employed.

Phone Number:

RAE: white

4. ADDRESS
VERIFICATION
APPEAL

VOTER RECORDS DEPARTMENT
Democratic National Committee
430 South Capitol Street
Washington, DC 20002

U.S. Postage Paid
DNC
Third Class Permit
No. 00000

ADDRESS VERIFICATION AND ELECTION SURVEY

Please Return By:

January 31, 1996

Sam A. Sample
123 Any Street
Anytown, USA 00000

**ADDRESS VERIFICATION
PROSPECT MAILING**

Dear Friend:

To prepare for the 1996 elections, the Democratic Party is contacting Democratic voters to confirm the accuracy of our voter list, to update information on party affiliate, and to assess our situation in the upcoming election.

At the same time, we hope to identify Democrats who are willing to support a 1996 election victory by volunteering, displaying a yard sign, or becoming a contribution member of the Democratic National Committee.

Even if you are not a Democrat and do not support our candidates, please return the enclosed survey so that we can correct our records.

If you are a Democrat, please complete this survey so that we can verify your address and know whether or not you are interested in helping in the coming election campaign. Your cooperation in completing the enclosed form will help us a lot.

Thank you and we look forward to your reply.

Sincerely,

Donald L. Fowler
National Chairman

P.S. If you want to reelect President Clinton and win a Democratic victory next year, please consider becoming a contributing member of the Democratic National Committee. Your contribution can make all the difference in the election ahead.

*I'd change this
to "secure" since
it isn't quite correct
to say "win a victory" -
but I leave it
to you. ~~you then~~
~~to then~~*

Voter Address Verification and Election Survey

Name: Sam A. Sample

Street Address: 123 Any Street

City: Anytown State: USA Zip Code: 00000

1. Is your name and address listed correctly?

☐ Yes ☐ No (if not please correct by writing on this form)

2. How would you characterize your party affiliation?

☐ Strong Democrat
☐ Lean Democratic
☐ Independent
☐ Lean Republican
☐ Strong Republican

☐ Other: _____

3. If the election for President were held today, how would you vote for President, assuming the following choices?

☐ Bill Clinton	☐ Bob Dole	☐ Undecided
☐ Bill Clinton	☐ Bob Dole	☐ Colin Powell ☐ Undecided
☐ Bill Clinton	☐ Bob Dole	☐ Ross Perot ☐ Undecided

4. Generally, how are you inclined to vote in your election for Congress this year?

☐ Democratic ☐ Republican ☐ Other ☐ Undecided

5. If you are planning to support Democratic candidates in 1996, which of the following activities would you consider?

☐ Displaying a yardsign
☐ Displaying a bumper sticker
☐ Volunteering
☐ Not Applicable

4. Party Membership: Do you wish to help win a Democratic victory in 1996 by becoming a contributing member of the Democratic National Committee?

☐ Yes. I want to become a supporting member with the Democratic National Committee. I have enclosed a contribution in the amount of:

☐ \$15 ☐ \$25 ☐ \$35 ☐ \$50 ☐ \$100 ☐ Other: \$_____

☐ No. I do not want to become a supporting member of the Democratic National Committee but would like to make a donation of \$10 to defray the cost of processing this survey. My contribution is enclosed.

☐ No. I do not want to become a supporting member of the DNC or make a contribution of any kind.

Please make your check payable to the Democratic National Committee/Federal Account and return with this form in the envelope we have provided.

PLEASE BE SURE TO FILL OUT THE REQUIRED INFORMATION BELOW.

Federal election law requires political committees to report the name, mailing address and name of employer for each individual whose contributions aggregate in excess of \$200 in a calendar year. Your contribution may be used in connection with Federal elections and is subject to the limits and prohibitions of the Federal Election Campaign Act. Your contribution is not tax deductible for federal income tax purposes.

Employer

Occupation

Home Phone #

Paid for an authorized by the Democratic National Committee.

THE WHITE HOUSE
WASHINGTON

December 7, 1995

Nancy: (Henneich)

The President sent a nice note to Charles Haley upon his retirement – problem is that Haley is not retiring.

On Monday he said he would retire because he was undergoing back surgery. The next day he "unretired" (see attached).

He had successful surgery yesterday.

POTUS may want to write a get well letter. I don't think the current letter should go.

Thanks.


Phil Caplan

Haley Undergoes Successful Back Surgery in California

IRVING, Texas (AP) Dallas defensive end Charles Haley underwent successful back surgery in California on Wednesday, but it won't be known for several weeks whether he could play with the Cowboys in the January NFL playoffs.

Dr. Robert G. Watkins performed the two-hour surgery in Los Angeles and found a fragment of disc in Haley's back between the fourth and fifth lumbar vertebrae on the left side.

"Everything went just fine," Dr. Watkins said. "Charles is resting comfortably and will be able to return to Dallas in a few days.

"At this point, we can't make a projection as to when he might return to the field. We should have a much better feel for his recovery time after a two- to three-week period has passed."

Dallas coach Barry Switzer, who has said Haley won't play this season, said, "Our primary concern with Charles right now is his health. We're not going to address any timetable for his return to the field. We just want him to get back to Dallas and begin the road to recovery."

Said Cowboys owner Jerry Jones, "This is not a time to speculate on his return. We hope to have a better indication of that in a few weeks."

Haley said before he left for California he still wants to play.

"My career might be over this year but I'm looking forward to next year and getting back into the grind again," Haley said. "I hope I can possibly play this year, but if not then maybe I'll have an opportunity next year."

**** filed by:APW-(tx) on 12/07/95 at 06:53EST ****

**** printed by:WHPR(197) on 12/07/95 at 17:32EST ****

Top-25 College Basketball

Kerry Kittles scored a game-high 20-points, including a layup with 1.8 seconds remaining, as the second-ranked Villanova Wildcats escaped with a 70-68 victory over the host Miami Hurricanes.

Elsewhere in the Top-25:

- (4) Arizona 84, Montana 66
- (7) Memphis 89, Georgia State 69
- (8) Mississippi State 123, Troy State 73
- Arkansas 104, (11) Missouri 93
- (12) Iowa 78, Northern Iowa 73
- Vanderbilt 61, (15) Virginia 48
- (22) Michigan 69, Louisiana State 68

=== Baseball ===

Wade Boggs will be back with the New York Yankees next season after re-signing with the club on Tuesday. Boggs got a two-year deal with an option year for a third. The 37-year-old recorded a .324 average in 1995, marking the 13th time in 14 major league seasons that he has topped .300. Boggs also had five homers, drove in 63 runs and won his second straight Gold Glove Award. The signing could open the door for the Yankees to bring Seattle first baseman Tino Martinez to New York for third baseman Russ Davis and pitcher Sterling Hitchcock.

=== N-F-L ===

* Dallas Cowboys defensive end Charles Haley will not retire after all. Haley, who is scheduled to have season-ending back surgery, had said on Monday that he would retire, but changed his mind Tuesday and told reporters that he was looking forward to playing next season. Haley has 10 1/2 of Dallas' 28 sacks this year and is 13th on the all-time list with 96 1/2 sacks.

=== College Football ===

Arkansas running back Madre Hill will not suit up for the Razorbacks when they travel to Miami for the December 30th Carquest Bowl against North Carolina. Hill had surgery Tuesday to repair ligament damage in his knee, an injury suffered in



THE WHITE HOUSE

WASHINGTON

12-7-95

Dear Charles

I saw the news of your retirement announcement and I wanted to add my voice to that of your many other fans in congratulating you on a magnificent career and thanking you for the enjoyment you gave to all of us who have seen you play.

I still remember the talk we had when you and the team came to the White House in 1993, and I hope you'll drop by again when you're in the area.

Sincerely,

Bill Clinton

THE PRESIDENT HAS SEEN
12-7-95

95 NOV 27 P 1:45

THE WHITE HOUSE
WASHINGTON

November 27, 1995

MEMORANDUM FOR THE PRESIDENT

FROM: SUSAN BROPHY *WB*
SUBJECT: CONGRESSIONAL CORRESPONDENCE

Attached are letters from Rep. Gillespie V. Montgomery (D-MI), Sen. Daniel Patrick Moynihan (D-NY), and Rep. Lucille Roybal-Allard (D-CA) that I thought you might like to see.

Copy
a: Leon

Daniel Patrick Moynihan
New York

United States Senate
Washington, D. C.

November 22, 1995

Dear Mr. President:

May I alert you to a huge problem with the seven-year reconciliation package the Republicans have given you? I have now persuaded the Joint Tax Committee to give us a ten-year projection of the revenue losses. An editorial in this morning's Post reports, "In the 10th year the diminution of revenue caused by these tax cuts would be 75 percent greater than in the seventh year." This is exactly what we suspected. We would no more balance the budget than revenues would plunge us into a new round of deficits.

Thank you for your note about the Bosnia meeting. Steady on.!

Respectfully,



The President
The White House
Washington, DC 20500

NOV 27 10:20



CONGRESS OF THE UNITED STATES
HOUSE OF REPRESENTATIVES
WASHINGTON, D. C. 20515

LUCILLE ROYAL-ALLARD
CALIFORNIA

November 20, 1995

Dear Mr. President,

Congratulations on a job well done. You made us all proud to be Democrats.

By working together under your continued leadership all people in America will emerge victorious.

On behalf of my constituents in the 33rd Congressional district I thank you for your courage in protecting their interests and the interests of all Americans.

Sincerely,
Lucille

WEDNESDAY, NOVEMBER 22, 1995

The Washington Post

Time Bomb in the Budget

THE TAX CUTS and some of the spending cuts in the Republicans' seven-year package would ultimately be much larger than the official estimates suggest. That's because as they were written their full effect would not be felt until after or near the end of the seven-year period for which the estimates were made.

These delayed-action mechanisms should be an issue in the talks about to begin between the president and Congress. You cannot achieve a better balance between the resources and responsibilities of the government with these slow-developing tax cuts whose long-term effect would be to create a new imbalance. It was known all along that some of the tax cuts in the plan were backloaded. In the House-Senate conference they became much more so. Sen. Daniel Patrick Moynihan asked the staff of the Joint Tax Committee for long-term estimates of how the bill would affect revenue, not just for seven years but for 10. In the 10th year the diminution of revenue caused by these tax cuts would be 75 percent greater than in the seventh year; that's how much of the full cost the tax-writing committees postponed.

Most of the postponement would come in capital gains. The conferees agreed not just to cut the capital gains tax but to begin adjusting gains for inflation, so that when an asset was sold the government would tax only the increase in value in excess of the inflation rate. The inflation adjustments wouldn't begin until the year 2001, however. That and other steps conceal their cost. The tax cut to end the so-called marriage penalty on two-earner couples filing joint returns was

also largely delayed until the period 2003 to 2005, and there are other examples.

A lot of the spending cuts in the plan have been backloaded all along as well. Medicaid may be the best example. The cut in projected spending for the full seven years—all seven combined—would be 17 percent; that is the figure most often cited. But it is misleading, because the cuts in the early years would be small and grow progressively larger. By the seventh year the cut on an annual basis would amount to 28 percent.

Nor does even that do justice to what might happen to the program, it turns out. That's because the conferees also eased the rules governing how much states would have to spend to qualify for their federal funds. If hard-pressed states were to spend the least they could and still qualify for their full federal grants, the federal and state governments together by the seventh year would be spending 35 percent less than under current law.

That would be a devastating cut—but the deeper the ultimate tax cuts in the plan, the deeper the spending cuts must also be to keep up. And some of these spending cuts are too deep to sustain. The focus in the fight thus far has almost all been on what would happen in the first seven years of this plan. That's fine, but it makes no sense to solve a problem in that period only to begin to create it all over again immediately thereafter.

Mr. Moynihan's 10-year chart is a useful warning. The government shouldn't be mortgaging its future by cutting taxes that in the long run it will need to fulfill its basic responsibilities.



HOUSE OF REPRESENTATIVES
WASHINGTON, D. C. 20515

35 NOV 20 10 10

GILLESPIE V. MONTGOMERY
THIRD DISTRICT
MISSISSIPPI

November 13, 1995

Dear Mr. President:

Thank you for your very kind words regarding my efforts on behalf of the members of our Nation's Armed Forces and veterans. The Department of Labor's Salute to Veterans was a moving ceremony, and I was deeply honored that a Veterans' Employment Award will be annually presented in my name.

One of the great privileges of my life has been to serve as Chairman and Ranking Member of the Committee on Veterans' Affairs. I am proud to have been in a position to assist those who have served the rest of us so well -- our military personnel and those citizen soldiers who have transitioned from military to civilian life.

Again, thank you for your thoughtful remarks.

Sincerely,


G.V. (SONNY) MONTGOMERY
Ranking Member

Honorable William J. Clinton
The President
The White House
Washington, DC 20500

THE PRESIDENT HAS SEEN
12-7-95

DECEMBER 6, 1995

RECOMMENDED TELEPHONE CALL 95 DEC 8 P5:32

TO: Rep. Peter DeFazio (D-OR)

DATE: ASAP

RECOMMENDED BY: Douglas B. Sosnik

PURPOSE: To show your support for the Congressman and encourage continued Democratic unity.

BACKGROUND: Last night, Rep. DeFazio lost the Democratic nomination for Oregon's open seat to Ron Wyden by a margin of 44% (DeFazio) to 50% (Wyden). DeFazio, however, endorsed Wyden last night. State Senate President Gordon Smith won the Republican nomination.

Senator Mark Hatfield, Oregon's senior Senator, has announced that he would not seek reelection in 1996. DeFazio is probably looking to run for Hatfield's open seat in 1996.

TOPICS OF DISCUSSION: As usual.

CONTACT PERSON AND TELEPHONE NUMBER(S): DeFazio will be traveling from Oregon to DC this afternoon. In Oregon, he can be reached through his district director, Betsy Boyd, at 541-465-6732. DeFazio's DC office number is 202-225-6416.

DATE OF SUBMISSION: December 6, 1995

ACTION:

*He doesn't want
Gordon Smith
another primary*

THE PRESIDENT HAS SEEN
12-7-95



National Tooling & Machining Association

9300 Livingston Road, Ft. Washington, MD 20744

(301) 248-6200

(800) 248-6862

FAX (301) 248-7104

August 18, 1995

President William J. Clinton
The White House
1600 Pennsylvania Avenue N.W.
Washington, D.C. 20500

Dear Mr. President:

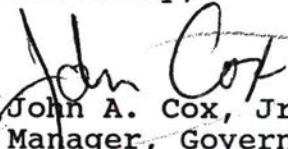
In my years in Washington representing the member companies of the National Tooling and Machining Association, I have never written the President on a personal matter. However, I am making an exception to that because of Erskine B. Bowles.

Oftentimes, with the news that a high-ranking official is leaving the government to go back home, my sometimes cynical colleagues are happy to see them go, but such is not the case with Erskine. He is that rarest of individuals who answered the call of his country to become a public servant who actually saw himself as a servant of the people, and served them selflessly and exceedingly well.

I cannot recall, ever, anyone as effective at SBA as Erskine was; and, in his present position, I know of no other Administration official, with the exception of yourself and the Vice President, able to articulate so effectively to the small business community.

I know you will miss him and so will we. Erskine Bowles will not be replaced easily.

Sincerely,


John A. Cox, Jr.
Manager, Government Affairs

JIM DORSKIND:

Please coordinate
the reply.

12-7-95

Original to Jim Dorskind
M.



Member, International Special Tooling Association

Daniel S. Greenberg

Surplus In Science

Can it possibly be that the world's richest, most high-tech nation is producing and importing too many scientists, engineers and physicians, thus creating a new class of super-educated, embittered unemployables?

Those are barbarous questions for a country with a great university system and a hallowed tradition of learning as a pure good and reliable passage to satisfying work and personal security. The concept of too many highly educated people is so unpalatable that for years it was dismissed by the academic establishment as a benighted absurdity. In fact, just a decade ago, warnings of an impending PhD "shortfall" in science and engineering were sounded by the government's scorekeepers of higher learning.

But lately, in a remarkable turnabout, the formerly unthinkable possibility of a surplus is acknowledged by academics and their professional societies and journals. And with thousands of foreign scientists and engineers arriving annually on "temporary" work visas, a bit of xenophobia is sprouting in the traditionally open American research community.

The academic chiefs ignored the glut issue for a long time, finding reassurance in dubious official statistics of low unemployment among their professional kin. But reality has intruded upon wishful thinking. Corporate America continues to shrink its domestic research activities, while assigning work to lower-cost foreign laboratories. Federal research spending has stopped growing and is slated to go into a steep decline. And rapidly expanding managed-care health systems are based on minimizing the use of physicians.

The evidence of surplus is so plain that even university administrators can see it. The headline of an article in *Science* magazine asks: "Is It Time to Begin Ph.D. Population Control?" A conference announcement from the Association of American Medical Colleges wonders: "Is the Nation Producing an Oversupply of Medical Researchers?" A commentator in the *Scientist* notes the production of "new graduates to fill non-existent jobs." A senior gastroenterologist, writing in the *New England Journal of Medicine*, reports the shock of losing his job and finding no openings in that crowded specialty. In a foreign echo of the job problem confronting young researchers, the British *New Scientist* titles the U.K. version: "Stuck on the road to nowhere."

The existence of a serious PhD job problem defies dispute. With consensus lacking on what to do about it, the old system creaks on with much talk of the need for change, but little change. Rejecting shrinkage of output as an unworkable solution, a study by the National Academy of Sciences says traditional PhD programs should be retained but supplemented with course work to equip graduates for jobs in business and industry.

But the corporate-downsizing rage invites skepticism about the extent of the job potential there. It's been noted, too, that PhDs in industry are often just working for a paycheck without making use of their long and expensive training.

In some instances where universities have reduced PhD enrollments, faculty resistance has restored the original number of slots. Graduate students are the serfs of higher education, working for paltry wages as teaching and research assistants. The professors need them, even if jobs are lacking when they graduate. Science and engineering departments deny that admission standards are lowered when top students shift to safer fields. But knowledgeable skeptics express doubts.

The effect of foreign scientists and engineers on the job economy is both a puzzle and an increasing irritant. Last year, according to one estimate, a record number arrived in the United States on temporary work visas. Mysteriously contending that it can't meet its needs with U.S. citizens, industry insists on keeping the doors open, while the big research universities are always on the lookout for foreign superstars. The net effect is a reduction in jobs available to U.S. citizens.

The paucity of solutions to the PhD glut is surely one of the wonders of the great American university system. The common wisdom in the ivy-covered realm is that the problem will correct itself when students wise up to the grim job situation and stop coming.

Actually, many Americans stopped coming long ago, leaving the student ranks to foreigners, who now account for more than half the PhD enrollments in engineering and mathematics. In the old days, a large proportion of foreign graduates sank roots in the United States, but increasingly, they're returning to expanding economies at home.

The economy of science and engineering is poorly understood and marked by egregiously erroneous forecasts of surplus and shortage in times past. But it's hard to avoid the feeling that a major mess is shaping up without anyone knowing what to do about it.

Daniel S. Greenberg is editor and publisher of Science & Government Report, a Washington newsletter.

UP
Do you know how to
use the IRS website?
Call your local IRS office
for more information

THE WASHINGTON POST
WEDNESDAY, DECEMBER 6, 1995

IRS to Let 1040EZ Filers Phone It In

By Albert B. Crenshaw
Washington Post Staff Writer

A1

An estimated 23 million taxpayers will be able to file paperless tax returns over the telephone beginning in January, the Internal Revenue Service said yesterday.

The program is the latest in the tax agency's efforts to eliminate or reduce the paper involved in the billions of transactions it has with taxpayers each year.

Last week, the IRS announced it will offer direct deposit of tax refunds to most taxpayers, and the agency is planning to expand greatly the information, forms and publications available on-line to people with personal computers.

Telephone filing, which began as a test in 1992, will be available to single people with no dependents and with incomes of less than \$50,000. To be eligible, taxpayers must have filed a return last year and still be at the same address. And they must use a push-button telephone to file.

The IRS estimates that about 23 million taxpayers nationwide could use the program, known as Telefile, though it actually expects about 3 million to do so.

About 422,000 taxpayers in Maryland and the District and 470,000 in Virginia would probably qualify, based on last year's filings of Form 1040EZ, the simplest tax return form, officials said.

Taxpayers the IRS believes could use Telefile will get a special packet

See IRS, A14, Col. 6

IRS, From A1

that will include instructions and a special personal identification number, or PIN, along with their tax forms this year. There will be a work sheet so the taxpayer can assemble the necessary data and work out his or her tax.

The taxpayer then calls the telephone number included in the packet, keys in the PIN and other information using the phone's keypad, and learns the amount of his or her refund or tax owed. The whole thing should take about 10 minutes, the IRS figures. Though, of course, if you owe tax you will then have to mail in a check.

"Filing taxes doesn't get any easier than this," IRS Commissioner Margaret Milner Richardson said in a statement.

Until now, only those who filed electronically could get direct deposits. The direct deposit announcement means that taxpayers who file paper returns can receive refunds electronically. To use the feature, taxpayers must file a Form 8888 Direct Deposit of Refund, which includes necessary bank information, and include it with their return.

The form will be included in most Form 1040 and 1040A packets this year. Such refunds generally will be received within three weeks, the agency said.

IRS officials also said the agency will continue to have its forms and publications available on the Internet, along with tax tables, earned income tax credit tables and rates, and a collection of answers to the most frequently asked questions. (The IRS can be reached on the World Wide Web at <http://www.ustreas.gov/treasury/bureaus/irs/irs.html>.)

Also on-line will be hypertext versions of the IRS's big general guides to personal and small business taxes, and there will be a library of all tax regulations with a plain English summary of each.

Chase / Palmer

THE PRESIDENT HAS SEEN
12-7-95

Good —

65

THE WASHINGTON POST
WEDNESDAY, DECEMBER 6, 1995

JUDY MANN

Welfare Cuts: Making the Children Pay

Joy Warren is the story you hear about too rarely: a young woman who was removed from the care of her substance-abusing parents at age 13, spent the next five years in foster care in San Diego and went on to become a graduate of the University of California at Berkeley.

Warren, who majored in history and graduated in May, is working now at the D.C. Youth Law Center and interning at the Child Welfare League. She and a group of other child advocates from California spent time last week on the Hill lobbying against the House-passed bill that would roll child protection and foster care programs into block grants, then cap them and turn them over to the states to administer.

They argue that changes in the welfare program proposed by both the House and the Senate would force millions of people off welfare and that some of the families would fall well below the poverty line, which means they would be forced to turn children over to a foster care system that already is overburdened. Programs to serve abused and neglected children would have to fight for a share of the block grants. The upshot, child advocates predict, is that almost all of the money available would be used to pay foster parents. There wouldn't be enough left over for programs to help keep families together, to provide adoption assistance for disabled children, to train social workers and foster parents, to supervise and monitor children in foster care or to teach adolescent foster children independent-living skills.

Warren, at 17 and still living with her foster family, entered an independent-living skills program that taught her such basics as how to find an apartment, how to apply for college and get scholarships, how to take the SAT. "It's terrifying to go out on your own and not have a family to fall back on," she said.

Yet this is the kind of relatively small program that can serve as a bridge so that children leaving foster care don't end up homeless prey on our streets. Warren, with her eyes on graduate school, is a perfect example of how the \$12,000 a year spent on her foster care—a total cost of about \$60,000—will prove to be a superb investment.

Peter Digre, Los Angeles County's director of Children's Services, is concerned about the 650,000 children in that county receiving Aid to Families With Dependent Children. With the House planning to save about \$100 billion in welfare over the next

seven years, he predicts that 300,000 to 340,000 children will be cut from the rolls. He says that when the California legislature cut AFDC grants by 6 percent in 1992, "we saw a 10 percent increase in kids going into foster care in 1993." Abuse reports increased by 20 percent. "When the AFDC check gets cut below the levels of being able to pay the utilities, the family is out on the street and that leads to homelessness and to a hike in violence against children."

If just one out of 20 children booted off welfare ends up in foster care, it will double the number of children in foster care, costing the county an additional \$185 million at the time that funds are capped.

The Senate version of the child welfare bill has kept a basic safety net of child protection programs that were the products of reforms made since the 1980s. The family preservation programs in Los Angeles, for example, which involve intense supervision of families, as well as a lot of help, have resulted in 37 percent fewer children going into foster care since January 1993. The Rev. Wayne Thompson, president of National One Church, One Child Inc., said that linking up church families to programs that train foster and prospective adoptive families has resulted in fewer instances of abuse and more permanent placements.

After a decade of reforms, the patchwork of programs to protect children who are abused and neglected is once again overloaded, and the drive to push people off welfare is going to put more pressure on it. The impact that dismantling the welfare system will have on children has received far too little attention in the budget battle, although Digre said that the White House has indicated to him and other advocates that the administration will hang tough on preserving child protection services.

Joy Warren, now 22, is evidence that the money isn't wasted and that a foster care system that works can produce fine young people. To cut it and swamp it with more children is simply asking for disaster. Take the fate of Elisa Izquierdo, the 6-year-old Brooklyn, N.Y., girl whose mother has been charged with her murder. No question the system failed that child, and those responsible should be held to account for her death. No question, either, that when child protection services are overwhelmed, it is the children who will suffer. And who will stand up for them then?