DEPARTMENT OF THE TREASURY
WASHINGTON

ASSISTANT SECRETARY

THE PRESIDENT HAS SEEN
98 JAN 9 P5:46

1-10-96

Ce Leon

January 5, 1996

MEMORANDUM FOR PRESIDENT CLINTON

FROM: **Leslie B. Samuels** LBS

THROUGH: **Secretary Robert E. Rubin** RER

SUBJECT: **Indexing of Estate Tax Provisions**

In discussing various options for estate and gift tax relief, the issue has arisen as to the number of Americans who would be benefited. Based on the most currently available IRS data for tax year 1989, there were about 23,000 taxable estates, which represented about one percent of all Americans dying in that year.

You asked for information on the indexing of several estate and gift tax provisions. In response, we have estimated the revenue loss from indexing the $600,000 estate and gift tax exemption (for transfers after 1996) as well as the four other estate and gift tax provisions indexed under the Republican plan (for transfers after 2000, as in the GOP plan). The revenue loss from these indexing provisions would be $3.171 billion over 7 years, of which $3.158 billion is attributable to the indexing of the $600,000 exemption.

We have developed a targeted proposal to aid small businesses and farms facing liquidity problems on the death of their owners. This proposal (which loses $1.0 billion over 7 years and $1.3 billion over 10 years) is described in more detail in the attached memorandum dated October 23, 1995. It could serve as a relatively low-cost alternative to the family-business estate tax exemption included in the Balanced Budget Act (which loses $4.6 billion over 7 years and $9.1 billion over 10 years). We continue to recommend targeted estate tax relief for family-held small businesses and farms, and believe that if additional resources are committed to this area, that they should be directed to expanding the targeted proposal.

Attachment

cc: Laura Tyson

DEPARTMENT OF THE TREASURY
WASHINGTON

ASSISTANT SECRETARY

THE PRESIDENT HAS SEEN
11-10-95

CLOSE HOLD

October 23, 1995

95 OCT 26 P1:03

MEMORANDUM FOR PRESIDENT CLINTON

FROM: LESLIE B. SAMUELS LBS

THROUGH: SECRETARY RUBIN

SUBJECT: ESTATE TAX PROPOSAL TO SUBSTITUTE FOR SENATE FAMILY-OWNED BUSINESS PROPOSAL

We understand that you are interested in a proposal that would offer estate tax relief to farmers and small business owners. We testified before the Senate Finance Committee in June 1995 in support of such relief. We view the problem of farmers and small business owners as a liquidity problem and support the notion that the heirs of such individuals should not be forced to sell the farm or business in order to pay estate taxes. In reviewing this area, it is noteworthy that of the 2.2 million Americans who died in 1989, only about 1% owed an estate tax. Of those 23,000 taxable estates, about 8,000 reported closely held businesses or farm assets.

The Senate Finance Committee tax bill includes an estate tax proposal to benefit family businesses by exempting from the estate tax the first $1.5 million in value of the business as well as 50% the value of the business between $1.5 million and 5 million. <u>The Senate bill thereby gives an estate tax reduction in excess of $1,750,000 to any decedent owning a family business valued at $5 million or more.</u> We believe that this proposal gives an excessive benefit to wealthy individuals. In addition, the proposal would be subject to abuse and is likely to become an estate tax loophole that enables many wealthy people to reduce their estate taxes. The proposal is scored at $5.5 billion over 7 years and $11 billion over 10 years, and is expected to benefit approximately 3,000 estates annually.

The Senate Finance Committee proposal is based on a bill introduced by Senator Dole that had no cap on the value of the business and thus would have provided significant benefits to owners of the largest family-owned businesses in the country, including many individuals on the Forbes 400 list.

Our alternative proposal described below more directly addresses the liquidity problem faced by small business owners and farmers, and does so at a much lower cost.

We propose to expand the availability of estate tax deferral in order to address the liquidity problem of estates owning small businesses and farms. Under current law, the estate tax on certain closely-held businesses (including farms) can be paid over, at most, a 14-year period. For the first five years, only interest is required to be paid. To qualify for the deferral, the business must be an active trade or business, the value of the decedent's interest in the business must exceed 35 percent of the decedent's adjusted gross estate, there must be 15 or fewer partners or shareholders, and the decedent must have owned at least a 20 percent interest in the business. A special four percent interest rate applies to the tax deferred on the first $1,000,000 in value of the business. If the decedent owned the business through a corporate holding company, the extended payment plan is available, but the estate may not take advantage of the four percent interest rate or the five year interest-only deferral period. In addition, the special holding company rule only applies to non-readily tradeable stock.

We would amend current law as follows:

- Increase to $2,500,000 the cap on the value of business and farm property eligible for the four percent interest rate. The value of the $1,000,000 cap, which has been in place since 1987, has been seriously eroded by inflation.

- Extend the eligibility for deferral to businesses the top tier entities of which are partnerships or other entities. The existing distinction between holding companies (which are eligible) and other entities is illogical.

- Permit business interests held through holding companies, partnerships or other entities to take advantage of the four percent interest rate and the five year deferral, and remove the restriction on non-readily tradeable stock that applies only to holding companies. This would equalize treatment for deferral purposes as between businesses held directly by the decedent and those that are held indirectly through an intermediate entity by, among other things, permitting all estates 14 years to pay the estate taxes (unless the business is sold).

The cost of this package of proposals has been estimated at $1 billion over 7 years and $1.3 billion over 10 years.

The package described above can be adjusted to fit revenue targets by adjusting the amount subject to the 4% interest rate, the interest rate itself, and the period over which the tax is payable.

cc: Laura Tyson

THE WHITE HOUSE
WASHINGTON, D.C. 20500

DATE: 1-16

TO: John (Angell)

FROM: **Staff Secretary**

I'd like to send
this up tomorrow.
ok to go?
Todd

January 17, 1996

MR. PRESIDENT:

Attached is a follow-up memo from Jack Quinn on whether to seek certiorari in two 9th Circuit cases where taxpayers sought IRS refunds on grounds of mental incompetence after the statute of limitations expired. The Court ruled in favor of the taxpayers, holding that the statute can be "equitably tolled" upon proof of mental incompetence. Justice must decide by late January whether to seek cert.

Treasury opposes modification of the statutory scheme that lays down a concrete, inflexible deadline, since anything less than this would lead to inconsistent results; encourage late filers to craft a factual basis for relief; greatly increase tax litigation; present real administrative burdens for IRS. Treasury believes we should defend this position in the Supreme Court. **Justice** has no view on whether the policy should be changed, but strongly believes that, if we want to change it, we should do so by legislation. If, instead, we abandon our litigation position, we would (i) probably lose in the Supreme Court; (ii) invite inconsistency in the courts *if* we were to win; and (iii) risk an unwanted spillover to other areas like immigration.

Jack agrees with DOJ that it would be better to address the issue by legislation. **Secretary Rubin has asked for a meeting with you *if* you are considering modifying Treasury's position, whether by litigation or legislation.**

Meet with Rubin___ Develop legislation___ Discuss___
(no meeting)

Todd Stern

Document No.________________

WHITE HOUSE STAFFING MEMORANDUM

DATE: 1-11 **ACTION/CONCURRENCE/COMMENT DUE BY:** 1-12

SUBJECT: Administration Position on Tax Refund cases--"Equitable tolling"

	ACTION	FYI		ACTION	FYI
VICE PRESIDENT	✓	☐	McCURRY	☐	☐
PANETTA	✓	☐	McGINTY	☐	☐
McLARTY	☐	☐	NASH	☐	☐
ICKES	✓	☐	QUINN	☐	☐
BOWLES	☐	☐	RASCO	☐	☐
RIVLIN	☐	☐	SOSNIK	☐	☐
BAER	☐	☐	STEPHANOPOULOS	✓	☐
CURRY	☐	☐	STIGLITZ	☐	☐
EMANUEL	☐	☐	STREETT	☐	☐
GIBBONS	☐	☐	TYSON	☐	☐
GRIFFIN	☐	☐	WALLEY	☐	☐
HALE	☐	☐	WILLIAMS	☐	☐
HERMAN	☐	☐	__________	☐	☐
HIGGINS	☐	☐	__________	☐	☐
KLAIN	✓	☐	__________	☐	☐
LAKE	☐	☐	__________	☐	☐
LINDSEY	☐	☐	__________	☐	☐

REMARKS: Please advise.

RESPONSE:

Staff Secretary
Ext. 6-2702

THE WHITE HOUSE

WASHINGTON

96 JAN 10 P12:05

January 10,1996

MEMORANDUM TO THE PRESIDENT

FROM: JACK QUINN
COUNSEL TO THE PRESIDENT

SUBJECT: Position of Departments of Justice and Treasury on Equitable Tolling of Tax Refund Claims

This is a follow up to my prior memo and our earlier discussion regarding "equitable tolling" of the limitations period governing tax refund claims.

You will recall that the Solicitor General needs to decide by late January whether to petition the Supreme Court for certiorari in two Ninth Circuit cases that authorized refunds to taxpayers who discovered they had overpaid the IRS after the statutorily-imposed period for refunding tax payments had expired. In both cases, the Ninth Circuit (contrary to the views of several other circuits) held that the limitations period should be equitably tolled during the time of a taxpayer's incompetence.

When we spoke, you expressed some discomfort about the recommendation of both the Departments of Justice and Treasury that the United States continue its longstanding litigation position opposing any form of equitable tolling for tax refund claims. You pointed out that, under current policy, the government keeps money to which it was never entitled (even as against mentally incompetent taxpayers) and that, although changing the rule might cost the government money, "doing the right thing is sometimes expensive."

In response, I asked both agencies to explain more fully the basis for their position, with a particular emphasis on documenting the actual consequences that would attend adopting a more generous stance on this issue. In addition, I asked them to give further consideration to the possibility of a legislative resolution -- i.e., a carefully-crafted statute that would delineate with precision the narrow circumstances in which tolling would be permitted.

I attach for your consideration the two memos I finally received in response to my inquiry. In brief, their positions are as follows:

1. Treasury. Treasury opposes any modification of the statutory scheme and urges that the United States seek a Supreme Court ruling confirming the unavailability of equitable tolling to tax refund claims. Of the approximately 14 million refund claims filed annually after the original return, approximately 250,000 per year are denied in full because they request refunds after the statutory deadline has passed. Treasury acknowledges that it has no way of knowing how many of these denials would be affected if some version of equitable tolling were available. It contends, however, that anything other than an objective, concrete and inflexible deadline would (a) lead to the perception and reality of highly inconsistent results; (b) encourage late filers to attempt to craft a factual basis for relief; (c) "significantly increase" the amount of tax litigation; and (d) create "serious administrative burdens" for the IRS. Treasury also points out that the adoption of equitable tolling in the refund context would create pressure to show similar flexibility with respect to other deadlines in the tax code.

2. Justice. DOJ takes no position on the desirability, as a matter of public policy, of permitting equitable tolling for late tax refund applications. It believes, however, that the existing statutory scheme precludes tolling as a matter of law. Accordingly, DOJ strongly recommends that it be permitted to defend the government's sixty-year-old interpretation of current law in pending litigation. Any decision to abandon that position (1) would likely lose in the Supreme Court; (2) if successful, would invite inconsistency and unpredictability as the courts struggle to define which circumstances justify tolling; and (3) carries a substantial risk of an unwanted spillover effect into other areas, particularly in the immigration context. If the Administration does elect on policy grounds to alter its historic position, it should do so by means of legislation not litigation, DOJ suggests.

Recommendation. DOJ's argument that the relevant statute leaves no room for equitable tolling is convincing, but probably overstated. Nonetheless, for the reasons identified by DOJ, I am persuaded that the better approach would be to address this issue by legislation, rather than litigation. One approach would be to announce simultaneously with the filing of the cert petitions that -- while the statutory language left us little choice in existing litigation -- you had directed the Secretary of Treasury to develop legislation that would correct the problem in the future. Prior to that filing, you should task Treasury and Justice with developing a legislative proposal that would be fair to taxpayers and predictable in application, without undermining the government's position in other important contexts.

However, Secretary Rubin has asked for an opportunity to meet with you in the event you are considering modifying

Treasury's established position on this issue. I recommend that such a meeting be scheduled as soon as your schedule permits.

Agree to meet ___

No need to meet; task development of legislation ___

Let's Discuss ___

Jack

THE PRESIDENT HAS SEEN
1-16-96

To CR / Bruce
Fyi

70th Anniversary

ACADEMIC MEDICINE

PROCEEDINGS OF THE AAMC'S CONSENSUS CONFERENCE ON THE EDUCATION OF MEDICAL STUDENTS ABOUT FAMILY VIOLENCE AND ABUSE

PROFESSIONAL COMPETENCIES IN THE CHANGING HEALTH CARE SYSTEM

FOUR ARTICLES ON MEDICAL ETHICS EDUCATION

MEDICAL EDUCATION AND REFORM INITIATIVES IN GERMANY

HELPING STUDENTS DEVELOP LIFELONG STRATEGIES FOR COPING WITH STRESS

AAMC PAPER: MATERNITY AND PARENTAL LEAVE POLICIES

JOURNAL OF THE ASSOCIATION AAMC OF AMERICAN MEDICAL COLLEGES

To my President and friend—with all best wishes,
1-12-96

Public Service via a Different Venue

Henry W. Foster, Jr., MD

After 21 years at Meharry Medical College in various capacities, I took what I believed was a well-earned one-year sabbatical leave. My sabbatical was conducted at the Association of Academic Health Centers (AHC) in Washington, D.C. My study topic was "Gender Shift in the Physician Workforce: Implications for Health Care Reform." The sabbatical was progressing well; I was spending time reading, conducting interviews on various aspects of women in the American workforce, and designing my data-gathering questionnaire. All this was altered when I received a telephone call in mid-December last year from the Assistant Secretary for Health for the Department of Health and Human Services (HHS).

THE NOMINATION PROCESS

The purpose of that call was to assess any interest I might hold in being nominated for the position of U.S. Surgeon General. I responded that I had not given the topic any particular thought, but I would consider it, discuss it with my family, and get back to him in a timely manner. Subsequently I advised him of my interest. Soon thereafter, a 30-minute telephone interview was conducted. This interview was the beginning of the process, and it went smoothly. There was no "nannygate," no unpaid tax, and no financial conflict of interest.

The process moved rapidly forward. The White House and HHS worked diligently with me in preparation for the hearings. We reviewed thoroughly all of my pertinent writings, and I prepared myself to give strong answers to every question. This preparation was invaluable. As the day for the hearings drew closer, I was often asked if I were becoming nervous. The answer was "no." I did not want to be perceived as immodest or overconfident. To the contrary, had I been told the hearings would not take place, *that* would have given me butterflies. The hearings constituted my forum for answering my accusers and reassuring my supporters. I worked diligently to remain focused during this process, and beyond.

THE SENATE HEARINGS

I am appreciative of the manner in which my hearings were conducted; the chair was objective. This notwithstanding, partisan politics were patently in evidence.

Quite a few people have asked me if I felt *race* played a significant factor in the outcome of my nomination. My answer was and remains a clear "no." The issues of abortion and its relationship to presidential politics were clearly, in my judgment, the driving forces. It is my strong belief that had this nomination occurred outside the context of presidential politics, I would have been confirmed as U.S. Surgeon General. This is especially so given the fact that my nomination received a bipartisan favorable recommendation from the Senate Labor and Human Resources Committee.

During this arduous process, I was most emboldened by the wide and strong support that I received from my family, President Clinton, 168 professional organizations including the AAMC, and thousands of individuals not known to me. For this backing, my family and I will remain ever grateful.

NOMINATION POSTSCRIPT

When I was growing up in Arkansas, there was a saying in my family, "When one door closes, another one opens." That saying describes my personal postscript to the story of my nomination for Surgeon General. Following the confirmation hearings, there was much written about winners and losers, and I am unsure whether I can make an accurate assessment. However, I was hoping the victors might be the millions of Americans who need a Surgeon General to speak out on ways to stop the spread of AIDS, drug use, violence, teenage pregnancy, and myriad other health problems. And without doubt, the public health goals of this country suffer without the leadership of a strong, active Surgeon General.

Weeks before the Senate hearings, I felt that should I fail to be confirmed for reasons other than my fitness for the job, this would create an even greater communication platform than had I been confirmed. This prediction was correct. Indeed, I do now have another venue to promote the public good. I have a new bully pulpit, and I cannot imagine receiving more invitations for speaking engagements as Surgeon General than I am now receiving.

We all know that many Americans, especially young people, have indicated they have lost or are losing faith in American's political system. Public service is steadily losing its appeal. However, my steadfast response to them is they must stay engaged with the process. They must adopt a favorable inclination for public service. President John Kennedy sought to effect this national mood when he stated, "Ask not what your country can do for you, ask what you can do for your country." I am reminded also of a statement attributed to Winston Churchill: "Democracy is absolutely the worst form of government ever created—except for all the rest." Indeed, we must continue to come forward when called upon for public service. Our nation really has no other option.

The Future

In 1991, the most recent year for which figures are available, more than one million American females 19 years of age or younger became pregnant. Not only is this almost uniformly bad for them—and the fathers, half of whom are not teenagers but are not yet ready for a family—it is even worse for their children. We know that children born to teenagers are more likely to have serious health problems and are more likely to be poor than children born to older parents.

If we want to prevent teenage pregnancies, we must start at the source. We must provide young people with a good education, comprehensive health services, and more employment opportunities. Further, we must interact with these children *before* they become teenagers. This need is recognized in the "I Have a Future" program, located in a Nashville housing project, which I initiated at Meharry Medical College in 1987. The program is working and has received numerous awards, including being recognized as one of President Bush's "Thousand Points of Light." Moreover, an impressive number of our program's graduates are staying in school and going on to college.

These successes can be replicated nationwide. Additionally, there are some other productive programs conducting similar activities with youth; through networking, their programs' outcomes can complement other programs. The problem, however, should not be approached from the top down. Decisions should be made at the local level, and everyone has a role to play—parents, grandparents, clergy, business leaders, volunteers, the media, and others.

One thing every program must do is give young people a positive vision of the future. Too many children believe that their futures hold nothing for them except having babies, and when nothing else is there for them, this becomes a rational response. However, this outlook is a dead-end dream and must be replaced with a dream of unlimited achievement. Hence, we must offer our youth three things.

First, basic information about health, sexuality, conflict resolution, and drug and alcohol abuse. They need to understand the consequences of early sexual activity and other risky behaviors.

Second, we must make available an array of adolescent health services with support from the community and parents. We must stress abstinence and convince youth that being sexually active is not the norm for adolescents. But for teenagers who, for whatever reasons, choose to be sexually active, we must provide effective contraception, for to do otherwise is highly irresponsible.

Third, and most important, we must help young people improve their opportunities by improving not just their job skills but also their self-reliance and sense of values.

Children in America are subjected to a barrage of sexual messages from the time they awaken until they go to sleep. In an open democratic society such as we have in the United States, free speech is a fundamental right, and it should be. But there exists a paradox. In this same open democratic society there are some forces that do not want us to teach our children about human sexuality, thus leaving them extremely vulnerable to this media onslaught.

Each community must find its solution. What works in Nashville will not necessarily work in Newark. What is needed is a national coordination in the sharing, testing, and evaluation of local efforts such that we can decide what works best generically. As Surgeon General, preventing teen pregnancy was going to be the focal point of my agenda, but that forum was precluded. In lieu of that, I now have another venue as a private citizen from which I can and will proclaim the same message as I would have had I been confirmed. Yes, another door has opened, and I am walking through it.

—*Henry W. Foster, Jr., MD*

Dr. Foster is professor of obstetrics and gynecology, Meharry Medical College, Nashville, Tennessee, and consultant, Department of Health and Human Services, Washington, D.C.

THE WHITE HOUSE
WASHINGTON, D.C. 20500

DATE: 1-16

TO: Harold - Doug

FROM: Staff Secretary

Any comment on this?

Rob

WIN ★IN★ '96 DEMOCRATIC ★ NATIONAL ★ COMMITTEE

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

96 JAN 16 P5:19

MEMO TO: President Bill Clinton

FROM: Don Fowler DLF

RE: Norm Pattiz

DATE: January 10, 1996

On January 3, I talked with Norm Pattiz, who has helped us with various initiatives in getting your message out using radio. He arranged for the radio interview with you and Larry King several months ago.

He has a new idea which I think is a good one. He proposes that, sometime within the next two to three months, perhaps in early March just before the two big Tuesdays of primary season, Tuesday, March 5 and Tuesday, March 12, you do a live radio broadcast with a panel of talk radio hosts -- perhaps a half dozen. They would come from around the country. After thirty to forty-five minutes of conversation with the panel members, the program would then open up to questions from other talk radio hosts who would be located in several key states. The program would last an hour and a half.

Norm's contention is, and I agree with him, that we have made some headway in providing an antidote to the efforts of the right-wing talk show hosts, and that this current proposal would further demonstrate that the mood of the country and talk radio hosts specifically is changing, and that we are gaining ground in the talk radio combat. Coming just before the first big Tuesday of the primaries would be a good hit; it would be nationwide and would reach a large proportion of the talk radio audience. Norm believes that we can have this conversation on about a thousand stations. I would be happy to discuss this further with you, as would Norm.

Democratic Party Headquarters • 430 South Capitol Street, S.E. • Washington, D.C. 20003 • 202.863.8000 • FAX: 202.863.8174

Winds of change haven't kicked up in New Hampshire

THE PRESIDENT HAS SEEN
1-16-96

to our NH campaign for follow up
BC

To Sosnick
fyi
B.

HOOKSETT, N.H. — If there is a deep passion across the land to elect a new president in November, it is not readily apparent in bellwether New Hampshire, home of the first-in-the-nation primary.

Unlike four years ago, when a deep recession had legendarily stoic Yankees here ready to storm the streets to oust George Bush, antipathy toward the current incumbent, Bill Clinton, is muted. Much of that stems from an improving economy.

And with voting just five weeks away, the nine Republicans trying to unseat Clinton are having trouble stirring up enthusiasm among the GOP faithful. Some voters say the field is too big to focus on. Others are turned off by cutthroat attack ads. Often, people say all the contenders sound good but doubt they can deliver what they promise.

Politics

By Richard Benedetto

But at bottom, there appears to be a sense that Republicans are fighting a futile battle and that Clinton probably will win a second term.

"Do you see anyone out there who can do any better than Clinton? I don't, and I'd like to vote for someone else," says Republican George Brantley, 57, a retired utility worker from Allenstown.

Front-runner Bob Dole has a skeptical fan in Concord businessman Edward Fine, 66, a lifelong Republican who's known Dole since 1948, when the GI married a nurse, Concord native Phyllis Holden. They later divorced.

"He can win the nomination, but the election is something else. Do you think the Republican Party is strong enough to put him in?" Fine asks.

Most agree that the primary is Dole's to lose. He's well-organized here and retains a base of support from campaigns in 1980 and 1988. Supporters like his maturity, his biting candor and his courage, evidenced by his heroic World War II record.

But his long experience as a legislative leader cuts two ways. For some it's a plus. Others are down on politicians. Challengers such as former Tennessee governor Lamar Alexander and publisher Steve Forbes have tried to exploit that, running as "outsiders" who'll fix a system ruined by "insiders" like Dole.

Scott Alexander, 27, a Republican who runs the A&M Paint and Wallpaper store in Portsmouth, uttered the most-heard criticism of the 72-year-old front-runner: "He's too old."

But New Hampshire's primary is known for surprises. In 1992, Clinton survived charges of draft-dodging and marital infidelity to finish second. In 1988, Bush bounced back from third place in the Iowa caucuses to defeat Dole and roll on to the nomination. In 1984, Democrat Gary Hart parlayed second place in Iowa into a stunning win here over Walter Mondale.

Many say the candidate who finishes second in Iowa, which has caucuses a week before New Hampshire, could explode here as a threat to Dole. No Republican has ever won the presidency without winning the New Hampshire primary.

Commentator Pat Buchanan, who got 37% of the vote here against Bush in 1992, is backed by the Manchester *Union-Leader*. Texas Sen. Phil Gramm has attracted interest. Forbes, with his flat-tax plan and a barrage of TV ads, is getting attention.

"I'm for Forbes. I like his flat tax and he's a true conservative," says Republican Cynthia Guyer, 52, a Canterbury horticulturalist. "Dole is too wishy-washy."

Few speak of the other contenders — Alexander, Indiana Sen. Richard Lugar, California Rep. Robert Dornan, Titan Wheel CEO Morry Taylor and former diplomat Alan Keyes.

One name mentioned often is not on the ballot — Colin Powell, retired chairman of the Joint Chiefs of Staff. "Powell is the only Republican I would have contemplated," says independent Paula Leonard, 37, a clerk in a Portsmouth shop.

Surely, many here are not thrilled with Clinton's leadership. Some bring up accusations of draft-dodging and womanizing and accuse him of waffling. People aren't sure about Bosnia, and there's a feeling that questions about Hillary Rodham Clinton's credibility could hurt.

Then there's the budget fight that partially shut the government down twice and reinforced a disgust with politicians.

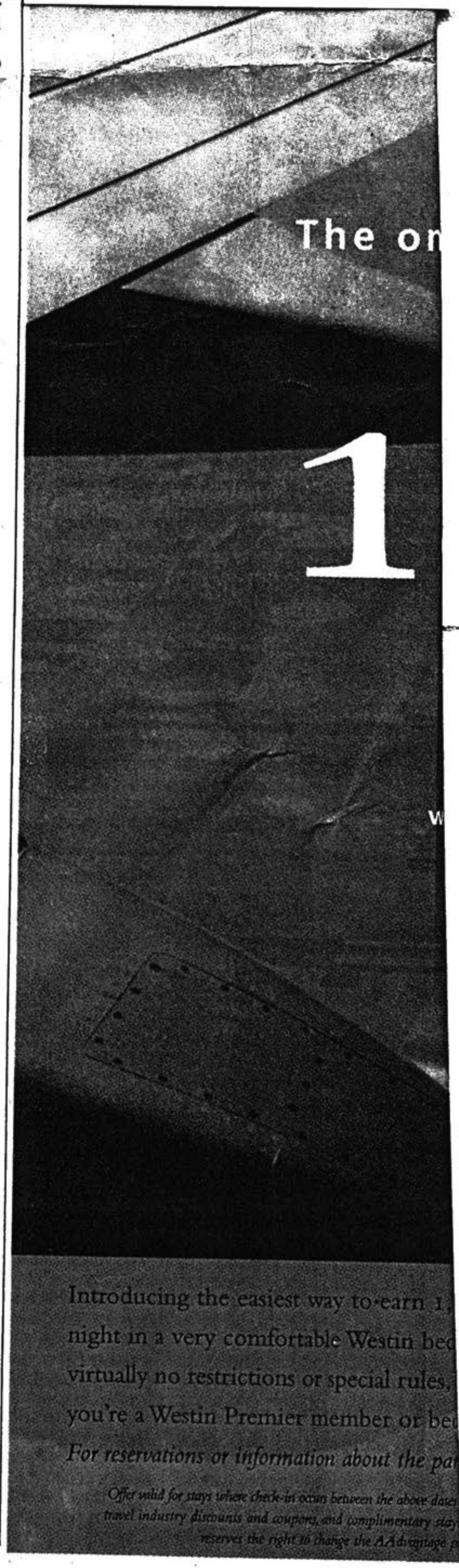
"A lot of people who come in here are upset," says Wayne Robie, 48, who runs the Hooksett general store, owned by his family since 1882. "Instead of talking about the primary they talk about how those supposedly mature adults in Washington are acting like a bunch of kids."

But there's also a feeling that Clinton's stock is being boosted by an improving economy — the nation's unemployment rate is down from an average of 7.4% in 1992 to 5.6% now — and a sense that the president is concerned with people like them.

"Clinton's looking out for the little guy like me, and a lot of my elderly friends. That Republican Congress, with this budget, is trying to pick on us," says Republican Joseph Damault, 63, a former truck driver from Pembrooke.

Edith Cummings, 66, who tends the one-room library in Auburn, population 4,160, summed it up: "Sometimes the devil you know is better than the devil you don't know. Anyway, a president needs two terms to get anything done."

THE PRESIDENT HAS SEEN
1-16-96



THE WHITE HOUSE
WASHINGTON, D.C. 20500

DATE: 1-16

TO: George

FROM: Staff Secretary

Any view on this Honorary chair request? Let me know soon if you can.

Todd

SPECIAL SCHEDULING REQUESTS
HONORARY CHAIR, HONORARY PATRON, HONORARY MEMBERSHIP

Today's Date: January 16, 1996

96 JAN 16 P3:37

Date of Request: 1/15/96

Request for: POTUS

Type of Request: Honorary Chairman

Requestor Name: Professor Bernard M.W. Knox

Title: Chairman Emeritus

Organization: The Society for the Preservation of the Greek Heritage
5125 MacArthur Boulevard, N.W.
Washington, D.C. 20016

Contact Tel. #: 202/363-4337

Event Date: 1/30/96

Event Description: reception and ceremony

Notes: The ceremony will mark the return of the **Gold Treasures of the Mycenaens** to Greece (the first repatriation of a cultural treasure from the U.S. to Greece). Constantine Stephanopoulos, the President of Greece, has already agreed to serve as an Honorary Chair for the event.

Recommendations:

TS _______

Please return to Room 457

The Society for the Preservation of the Greek Heritage

5125 MacArthur Boulevard, NW • Washington, DC 20016
FAX & TEL.: (202) 363-4337

COPY

The President of the United States
The White House
Washington, DC 20500

Dear Mr. President,

The first repatriation of a cultural treasure from the United States to Greece -- the country whose name, to many, is synonymous with antiquity and cultural heritage -- will take place on January 30, 1996 at the Rotunda of the Russell Senate Office Building. This repatriation symbolizes the increased effort of governments, museums, scholars, and art dealers all over the world to halt the illegal import and export of antiquities.

The United States, as one of the few art-market nations that is a signatory to the 1970 Unesco Convention, has played a crucial role in this effort.

To commemorate this occasion, The Society for the Preservation of the Greek Heritage (SPGH), in cooperation with the Greek Ministry of Culture, will hold a special reception and ceremony marking the return of the *Gold Treasures of the Mycenaeans* to Greece.

In recognition of U.S. leadership in the protection of the cultural heritage of other nations, we would be extremely honored if you would agree to serve as Honorary Chairman with the President of Greece, Mr. Constantine Stephanopoulos, for this event.

For further information, attached is a brochure about SPGH and other pertinent materials.

Sincerely,

Professor Bernard M.W. Knox
Chairman Emeritus

Christine Sarbanes
Vice Chair

bcc: Anna Lea
Andrew Manatos

THE WHITE HOUSE
WASHINGTON, D.C. 20500

DATE: 1-16

TO: Andy Sens -

FROM: Staff Secretary

Any view on this Honorary Chair request? I need to know as soon as possible.

Todd

SPECIAL SCHEDULING REQUESTS
HONORARY CHAIR, HONORARY PATRON, HONORARY MEMBERSHIP

Today's Date: January 16, 1996

96 JAN 16 P3:37

Date of Request: 1/15/96

Request for: POTUS

Type of Request: Honorary Chairman

Requestor Name: Professor Bernard M.W. Knox

Title: Chairman Emeritus

Organization: The Society for the Preservation of the Greek Heritage
5125 MacArthur Boulevard, N.W.
Washington, D.C. 20016

Contact Tel. #: 202/363-4337

Event Date: 1/30/96

Event Description: reception and ceremony

Notes: The ceremony will mark the return of the **Gold Treasures of the Mycenaens** to Greece (the first repatriation of a cultural treasure from the U.S. to Greece). Constantine Stephanopoulos, the President of Greece, has already agreed to serve as an Honorary Chair for the event.

Recommendations:

TS _______

Please return to Room 457

THE SOCIETY FOR THE PRESERVATION OF THE GREEK HERITAGE

5125 MacArthur Boulevard, NW • Washington, DC 20016
FAX & TEL.: (202) 363-4337

COPY

The President of the United States
The White House
Washington, DC 20500

Dear Mr. President,

The first repatriation of a cultural treasure from the United States to Greece -- the country whose name, to many, is synonymous with antiquity and cultural heritage -- will take place on January 30, 1996 at the Rotunda of the Russell Senate Office Building. This repatriation symbolizes the increased effort of governments, museums, scholars, and art dealers all over the world to halt the illegal import and export of antiquities.

The United States, as one of the few art-market nations that is a signatory to the 1970 Unesco Convention, has played a crucial role in this effort.

To commemorate this occasion, The Society for the Preservation of the Greek Heritage (SPGH), in cooperation with the Greek Ministry of Culture, will hold a special reception and ceremony marking the return of the *Gold Treasures of the Mycenaeans* to Greece.

In recognition of U.S. leadership in the protection of the cultural heritage of other nations, we would be extremely honored if you would agree to serve as Honorary Chairman with the President of Greece, Mr. Constantine Stephanopoulos, for this event.

For further information, attached is a brochure about SPGH and other pertinent materials.

Sincerely,

Professor Bernard M.W. Knox
Chairman Emeritus

Christine Sarbanes
Vice Chair

bcc: Anna Lea
Andrew Manatos

THE WHITE HOUSE

WASHINGTON

January 16, 1996

re: Products Liability Reform

Leon --

In the attached memo, Bruce Lindsey suggests to the President that they meet soon to discuss the Rockefeller/Gorton products liability bill, so as to avoid a repeat of the last-minute process on securities litigation reform.

Rockefeller. We are in a somewhat analogous posture to securities: according to Bruce, Rockefeller thinks that if his bill emerges from conference, the President will sign it. That belief may be based on direct conversations with the President or on impressions Rockefeller has formed in working with DOJ's John Schmidt and Frank Hunger to shape his bill more to our liking. (Bruce says that Schmidt and Hunger have made it clear that they are not speaking for the Administration.)

The Opposition. Labor, consumer groups and the trial lawyers strongly oppose the bill. It passed with narrower margins than the securities bill -- 265-161 in the House, 61-37 in the Senate.

Key provisions. The bill (i) caps punitive damages to greater of two times compensatory damages or $250,000, but allows judges to increase award in egregious cases, a fix Rockefeller made to try to address our objection to the original hard cap. (For certain small businesses, punitives are capped at *lesser* of twice compensatories or $250,000); (ii) eliminates joint and several liability for *non-economic* damages (pain and suffering); (iii) frees wholesalers/retailers of liability unless they're negligent; (iv) bars suits for 20-year old (or older) products; (v) statute of limitations of two years after discovery of harm.

Our public positions. We said Senate bill fix on punitive cap was an improvement, but didn't go far enough, and opposed joint and several provisions. Bruce also notes that President has, in past, made the federalism point that legal reform should be tried at state level.

Next step. I circulated Bruce's memo to you and a few others about 10 days ago. *George suggests that you convene a meeting on this. I agree and think it would be better to do so before I send Bruce's memo forward.* Let me know how you want to handle.

Todd

cc: Harold
Evelyn

January 4, 1996

MEMORANDUM FOR THE PRESIDENT 96 JAN 4 P2:32 145761

FROM: Bruce R. Lindsey

RE: Products Liability Reform

As you may know, products liability reform legislation is currently in conference. As with securities litigation reform, you are again caught between a good friend and supporter in Senator Rockefeller, who is the main sponsor of the legislation, and a number of Democratic constituencies -- labor, consumer groups, trial lawyers -- who are strongly opposed. Unlike securities litigation reform, most Democrats in Congress oppose the legislation. In the House, a broader tort reform bill passed 265 to 161; and in the Senate, the Rockefeller/Gorton bill passed 61 to 37.

Substantively, we have a greater philosophical disagreement with products liability reform -- federalism; but fewer specific disagreements. The Senate bill would:

-- Limit punitive damages in products liability cases to two times compensatory damages, or $250,000, whichever is greater, but allow judges to increase the award in certain egregious cases. In the case of small businesses with fewer than 25 employees and individual defendants with a net worth of less than $500,000, punitive damages would be limited to the lesser of twice compensatory damages or $250,000.

-- Eliminate joint and several liability for noneconomic damages, i.e., pain and suffering.

-- Make retailers and wholesalers liable only if they were themselves negligent.

-- Require that compensatory damages be reduced by the amount a defendant receives from collateral sources, such as insurance or workers' compensation.

-- Establish a statute of repose that would prohibit suits involving products that were 20 years old.

-- Establish a statute of limitations that would require plaintiffs to file suits within two years after discovering they were harmed.

OMB's April 25, 1995 Statement of Administration Policy indicated that we opposed an arbitrary ceiling on the amount of punitive damages that may be awarded in a products liability lawsuit and the abolishment of joint-and-several liability for noneconomic damages. Senators Rockefeller and Gorton, working with John Schmidt and Frank Hunger, attempted to address the "cap" issue by allowing the judge to increase a punitive damage award in some cases. The bill that passed the Senate, however, would allow a defendant who is unhappy with the judge's additur to obtain a new trial on the punitive damages issue. Senator Rockefeller has promised to "correct" this in conference. In addition, Senator Rockefeller has indicated a willingness to reduce the statute of repose from 20 to 17 years and to extend the limitation on punitive damages to certain charitable organization. No Senator offered an amendment to change the joint and several provision and Senator Rockefeller has not indicated a willingness to delete the limitation on joint and several liability in conference.

In their discussions with Senators Rockefeller and Gorton, John and Frank have made it clear that they are not speaking for the Administration. Nevertheless, Senator Rockefeller believes -- based in part on a conversation with you -- that if his bill emerges from conference, you will sign it. He has also stated publicly that he would expect you to veto any bill that went beyond his. As with securities litigation reform, if the Senate bill is substantially adopted by the conference, the House, as the price for going along, will probably be allowed to write the Statement of Managers, thereby putting a troublesome "spin" on ambiguous provisions, such as the judicial additur provision.

After passage of the Senate bill, the White House issued the following statement:

> The Senate-passed product liability bill is a clear improvement on the extreme legal reform measures passed by the House. Unfortunately, the legislation in its present form does not go far enough toward balancing the interests of consumers with those of manufacturers and sellers.
>
> The Senate approach on punitive damages is an improvement on an absolute cap, but it still has flaws. Moreover, the Administration has consistently made clear its opposition to the provision that would make it harder for injured consumers to recover their full damages in cases involving more than one culpable defendant.
>
> President Clinton supports balanced legal reform and will work with a House-Senate conference to address these and other concerns.

Our "official" statements to date have not emphasized the issue of federalism, although you have expressed this concern in the past. For example, you told the ABA in 1992: "As a general matter, I believe that legal reform should be enacted in the laboratories of the states, rather than at the federal level." You expressed similar thoughts to the newspaper editors in Dallas in April, 1995. Pam Leopakis, the President of ATLA, reports that during a conversation with her and Senator Kennedy at a Kennedy fundraiser in April, 1995, you ridiculed House Republicans on the federalism issue, saying "I get it, we should devolve everything to the states, no unfunded mandates, block grant everything, etc., but we should take over the civil justice systems of the states." When Senator Kennedy called tort reform "outrageous," you supposedly said "I'm with you." Our statements have said that the Administration would support "the enactment of limited, but meaningful, product liability reform at the Federal level," as long as it "fairly balance[s] the interests of consumers with those of manufacturers and sellers" and "respect[s] the important role of the States in our federal system."

The basic argument in favor of federal products liability legislation is that it will promote uniformity, and thus predictability. John Schmidt has been quoted in the Wall Street Journal as saying that product liability "is the one area where there is a real case for federal action," and in the New York Times as saying "We need some [federal] standards in this field. After all, these products are sold in a national market." While it is true that certain provisions of the bills -- the statutes of limitations and repose, exclusion of joint and several liability for non-economic damages, the cap on punitive damages -- will provide some degree of uniformity in products liability cases, most lawsuits will remain in state courts, with state court procedural and evidentiary rules and state court judges interpreting the statute. Thus, in a broader sense, the legislation will not achieve its stated goal of uniformity, while nevertheless sacrificing state preeminence in this area of the common law. Opponents of the legislation also point out that the uniformity is "one-way uniformity." Thus, (1) the legislation "caps" punitive damages, but does not make punitive damages available in states that do not have them nor does it preempt states that provide for lower caps; (2) the bill's statute of repose preempts only those states that do not have a statute of repose or that provide for longer periods; and (3) the bill mandates to the states federal "comparative negligence" whereby awards are reduced by a percentage equal to the plaintiff's own fault, unless a state has a "contributory negligence" standard whereby all damages are barred by any plaintiff fault.

It is unclear how long the conference will take or whether the differences in the Senate and House approaches can be resolved. In order to avoid a repeat of the criticism for last minute decision-making we received after you vetoed the securities litigation reform bill, we should decide sooner rather than later what our position is. If possible, we should make our objections broad-based, rather than overly technical, and we should make certain that our position is well understood by our friends, including Senator Rockefeller.

At your convenience, we should probably meet to discuss.

THE WHITE HOUSE
WASHINGTON

January 16, 1996

TO: Laura Tyson
Don Baer
Michael Waldman
Bruce Reed

FROM: Todd Stern

For your information.

MEMORANDUM TO THE PRESIDENT

From: RBR RR

96 JAN 16 A9:16

RE: Gov. Bill Weld's "State of the State" address

Date: January 11, 1996

Weld gave the attached address last Tuesday night. Thought you'd be interested. The speech has a predictable right-wing spin, but it also previews his contest with John Kerry and offers a Republican version of your basic message. Note the central emphasis on the economic anxieties of working people, the importance of corporate responsibility in responding to these anxieties, and the key role of government in providing education, job training, and life-long learning to prepare people for better jobs. He challenges business to take a more active role in keeping its part of the social bargain. (Note also that he commits Massachusetts to making up for any possible cuts in the EITC which might emerge from the current federal budget negotiation.)

THE COMMONWEALTH OF MASSACHUSETTS
EXECUTIVE DEPARTMENT
STATE HOUSE • BOSTON 02133
(617) 727-3600

WILLIAM F. WELD
GOVERNOR

ARGEO PAUL CELLUCCI
LIEUTENANT-GOVERNOR

State of the State Address of Governor William F. Weld

Tuesday, January 9, 1996

State House
Boston, MA

(Remarks Embargoed Until Delivery at 7:30 p.m.)

President Birmingham, Speaker Flaherty, and fellow citizens:

A few weeks ago, families all over Massachusetts turned on their televisions and saw workers at Malden Mills standing on a hillside above a raging fire, frightened that they were watching their jobs burn.

For days, this story dominated the headlines, and the people of the Commonwealth held their breath -- until the owner of Malden Mills, Aaron Feuerstein, promised that those paychecks would keep coming and that Malden Mills would rebuild in Methuen.

The intense public interest in these events, and the tidal wave of private charity that flowed towards the workers of Malden Mills, say two important things about Massachusetts: first, that we have many generous people in our midst, and second, that many people felt the plight of Malden Mills' employees in their bones. There are a lot of men and women in Massachusetts who live with the nagging fear that their jobs, too, might turn to ashes at any minute.

This insecurity is hard to see on paper. Since the trough of the recession in 1991, over 180,000 new jobs have been created in this state. Our unemployment rate is now only 5.1%, well below the national average. Between 1991 and 1994, wages grew four times as fast in Massachusetts as in the country as a whole.

Yet, most Massachusetts residents are not complacent when they consider their own prospects -- they're pacing the floor. All through this economic recovery, many of you have wondered, "When are things going to get better for me and my family?"

Wall Street spends a great deal of time celebrating the speed and vigor with which our businesses are becoming leaner and more competitive -- and rightly so. But it's time that we spoke seriously about the side-effects of all this corporate aerobicizing: the insecurity people feel in their work lives and about their futures. It's time we consider what government can do about that.

We know what doesn't work -- pump-priming government spending to make up for the anxieties of the private labor market. They tried that here in Massachusetts in the 1980's. It only made the recession worse. The federal government has been doing it for 30 years in Washington, and the debt that has accumulated as a consequence is one of our biggest national problems.

Out-of-control government spending, by putting a drag on the economy, actually breeds the ills that it purports to cure.

But even if government can never replace the paychecks generated by a healthy private sector, we in government can do something important for everyone out there struggling to raise a family and maintain a home and keep a car on the road: we can make those paychecks count.

In 1950, the average American family paid only 2 percent of its income in federal taxes. Today, it surrenders almost 25 percent in federal taxes alone! Add in state and local taxes, and 40 percent of the average family's earnings go straight to government. That's a pretty big rock to roll uphill.

Now, we've been chipping away at that rock in Massachusetts with our eleven tax cuts in the last five years. And over the next two years, we're proposing to lower our state income tax rate another half a point, so as to leave half a billion dollars a year more in your pockets, by consolidating hundreds of overlapping state government agencies.

Also, by cutting government regulation, we propose to give you relief from hidden taxation -- like the extra 75 cents or so that needless regulation adds to the cost of a six-pack of beer in Massachusetts.

And if Washington cuts the Earned Income Tax Credit, I propose that the Commonwealth put that money back into the wallets of working people who need it: on the day a federal budget is signed that makes working people without children ineligible for the Earned Income Tax Credit or lowers the maximum income you can earn and still receive it, I will file a bill making up for those cuts. My focus is to see to it that this time next year, every working person in Massachusetts has more money to spend on his or her family, not less.

The second thing government can do to ease economic fear is to make our state more attractive to more employers, to locate or expand here. In an age of mergers and layoffs, we have to keep our eye on one clear goal -- making Massachusetts the headquarters of choice for the employers of the future.

To reach that goal, we must keep on lowering the costs of doing business, as we've been doing since 1991. We took another substantial step forward this past year with a tax cut for manufacturers that encourages investment and job creation here.

If we continue making intelligent tax choices, such as extending the single sales factor to service businesses as well as manufacturers, as Mayor Menino of Boston has proposed, we'll become even more of a world power for financial services.

If we continue making intelligent infrastructure choices --

such as supporting a telecommunications research and development park in Medford, Malden and Everett, and a center for information processing at the great fiber-optics crossroads in Springfield -- we'll become even more of a world capital for telecommunications and the on-line revolution.

At the end of the day, however, the kind of intelligence that matters most, in the competition for jobs, is the intelligence of the men and women who will hold those jobs. Right now, the 1995 Development Report Card for the States gives Massachusetts a grade of "A" for our development prospects -- largely because we have the most skilled and educated workforce in the nation.

And that is one reason why Aaron Feuerstein kept Malden Mills here when other textile businesses were heading south. The kind of workers we produce in Massachusetts are crucial, if you decide to build your success on a trash-into-treasure miracle like recycling soda bottles into a warm winter fleece. As a result of the dominance Malden Mills has achieved through technology, its employees are the highest-paid textile workers in the world.

For people with the skills that match our high-tech workplaces, there's a new definition of job security. It may not mean a gold watch after 30 years with one company; instead, it means having abilities that are in demand at many employers, abilities that you will carry from job to job to job.

Of course, that doesn't help if you're not a software engineer or a machinist -- if instead, you're a middle manager worried about big corporate layoffs, or a bank-teller or book-keeper whose job may become redundant or obsolete.

Here's the bottom line: the biggest challenge we face together right now is making sure we don't divide into big winners and big losers -- that instead, as many people as possible get on that high-skill, high-wage train.

And here's how we hit the bottom line: in the long run, nothing is more critical to this challenge than education and training.

First, we've got to spread educational opportunity around.

With our Education Reform Law of 1993, we've gone a substantial part of the way towards guaranteeing a good K through 12 education for every child. We are putting literally billions of dollars more into our classrooms. A sound second step would be universal school choice, for poor parents as well as rich parents. A third would be to remove the artificial limit on the number of charter schools, allowing any school to bypass the education bureaucracy and get those dollars straight into the classroom. And a fourth would be for more Massachusetts employers to play the kind of role Texas Instruments is taking in the Attleboro public schools -- giving kids their first taste of the working world through school-to-work programs.

Next, to protect the men and women losing their jobs in today's corporate re-structurings from facing life-long insecurity, Massachusetts has to place serious emphasis on life-long learning. And we've been doing so, through the MassJobs Council, under the leadership of Lieutenant Governor Cellucci. But every year, the federal government sends us almost three-quarters of a billion dollars for job training -- and then guarantees that much of it is squandered by the bureaucracy attached to its more than three dozen programs.

We don't need job training programs stuck in the 1960's -- in other words, somebody filling a classroom with bodies and teaching them auto mechanics just because he has always taught auto mechanics, never mind that the jobs are in computers. If the federal government would block-grant its job training money, we could pass out vouchers to employers and employees -- and let them choose the kind of training that matters. People aren't stupid. They can figure out where the jobs are.

Finally, it's also our job to make higher education affordable to every kid in Massachusetts. By the year 2010, three quarters of all the new jobs in the state are going to require some post-secondary education. I applaud the push to get those tuitions down, and we're doing our part to help parents finance a college education. Our U. Plan allows them to pre-pay tomorrow's tuition at today's rates. We're also helping them borrow for college through the MassPlan. We offer student loans at lower rates and better terms than the federal government, and because we didn't build a big bureaucracy to do it, the taxpayers don't spend a dime to subsidize those loans.

# # #

The truth is, here in the State House, we've been keeping our part of the bargain. We're working to improve our schools. We've dramatically overhauled our welfare system. And we're making this a much more business-friendly state.

The men and women of Massachusetts are also more than keeping their part of the bargain. You already make up the best-educated workforce in the country, and you are working hard -- many of you two and even three jobs -- to support your families.

Now we must challenge our employers to keep their part of the bargain as well. This year, Aaron Feuerstein's simple, old-fashioned sense of responsibility to the people who work for him struck many of us as a holiday miracle.

And today, I want to say to every other Massachusetts employer something that you already know: that even though you may sell your products and services over the Internet, in Hong Kong as often as in Fall River -- you are still citizens of Massachusetts. You still have a responsibility for the good of the community in which you reside. We know you will value your employees -- and understand that they are not disposable -- and make sure their paychecks grow when corporate profits do.

In this vein, I also hope the employer community will pitch in and help us all reach a goal we share -- ending welfare dependency -- by hiring the 20,000 welfare recipients who are required to work under the landmark welfare reform law the Legislature passed last year.

This new law is important for many reasons, and simple justice is among them. We are on our way to restoring some degree of fairness to the working mothers in this state, who as a group may be the hardest-working people in human history.

One working mother of a two-year old, Tina Tucker, wrote me recently, "I understand if I was on welfare, I could go to a training school free ... I could get a day-care voucher ... I could get food stamps and a check every two weeks. Mr. Weld, that sounds like luxury to me.... Can you explain to me why I should not quit my job and go on welfare?"

Frankly, it's tough to explain why, when our welfare benefits are worth as much as a $30,000-a-year job.

By making welfare temporary, we're helping to correct this injustice. But equity demands that we also extend more day care to working people. So, with this year's budget, we are proposing to fund thousands more day-care slots for working families -- for a total of almost 22,000.

The connection between welfare reform, and the healthiest kind of economy -- one in which everyone expends effort and makes a contribution -- is obvious. Though our welfare reform law could be described as tough, it's also essentially hopeful. It says to those on welfare, "You must work." But it also says, "We have faith that you can work, just like all the rest of us."

Unfortunately, turning idleness into a lifestyle was not the only damage our old welfare system did -- and it may not even be the worst damage. Welfare has also promoted illegitimacy on a massive scale by encouraging young women to have children out of wedlock.

Right now, Massachusetts has the highest rate of out-of-wedlock teenage births in the nation: 89 percent. Eighty-nine percent! That's in the best-educated state in America!

It's shocking, but not entirely surprising. If a teenager has a baby out of wedlock, we take care of all the necessities of life for her and her baby -- food, health care, day care, housing -- plus, we give her a $500-a-month cash grant on top of all this. Such policies have consequences. A sixteen year-old recently told the Boston Globe that the main reason some of her teenaged friends were having babies out of wedlock was to get welfare benefits.

It's time to take away the $500 a month cash allowance welfare gives unwed teenagers -- because right now, it makes having a baby before you're married, before you've finished school, before you are psychologically or financially ready to support that baby, much too attractive.

The importance of discouraging illegitimacy simply cannot be overestimated. Study after study has proven how harmful it is for children to grow up fatherless. Here in Massachusetts, 84 percent of the juvenile delinquents in the custody of our Department of Youth Services come from homes with at least one absent parent.

# # #

Of course, all our efforts to secure our children's economic future are meaningless, if we can't protect them from violence in their neighborhoods and in their schools.

In a classroom of 30 schoolkids, all that 27 of them want to do is learn. For too long in the past, our society put the alleged "rights" of the other three kids first.

That's why Paul Cellucci and I fought to give school principals the authority to make sure those kids who want to learn are given the opportunity in a classroom free of violence, free of guns, and free of drugs.

This year, we are filing legislation to double the mandatory minimum penalties for anyone who brings an illegal gun on school property. And if a kid brings a gun into your child's classroom, he should not be allowed in that classroom again.

We also want to double the mandatory minimum penalties for anyone who deals drugs to kids.

Along with guns and drugs, gang violence is one of the biggest threats to the safety of our kids and neighborhoods. Violent gang members belong in prison, and we're going to keep on fighting for tough mandatory minimum penalties to keep them there.

Naturally, if our kids cannot be safe on a playground from sexual predators, then everything else we do to protect them does not matter. It is time for Massachusetts to pass a sex offender registry, so parents know if a convicted pedophile is living across the street. It is also time to put habitual sex offenders in prison for life, so they can never harm our families again.

You do hear the argument these days that mandatory minimum sentences interfere with judges' discretion. I say, that's right. That's exactly what they're supposed to do.

When the courts return dangerous criminals to the streetcorners as fast as the police can haul them in, the public has a right to demand justice. The public has a right to say that people who prey on our neighborhoods and our children deserve to be in prison. It shouldn't be maybe, it should be mandatory.

Finally, for cop-killers and other cold-blooded murderers, there's only one answer: the maximum penalty. The death penalty.

# # #

Paul Cellucci and I are now in our sixth year of working with Massachusetts legislators for the betterment of our state. Together, we've done a great deal to change the culture of Massachusetts. We no longer talk about which taxes to raise here; instead, we talk about which taxes to cut. We no longer treat criminals as victims and victims as if they were criminals. We no longer serve up welfare as a permanent lifestyle.

Of course, there is more work left to do here. And after listening to me speak for twenty minutes about the steps we should take next on Beacon Hill, some of you may possibly be wondering why I'm asking the people of Massachusetts to send me to Capitol Hill in Washington next year.

Let me tell you why: it is true that we need more of the same here at home. But it is also true that Washington today is messed up like Massachusetts was in 1990! And for Massachusetts to be all that we can, we need a federal government that does its part to cut its taxes, balance its budget, control its spending; end its inept control over welfare; and pass tough anti-crime laws to help us keep the streets of Pittsfield and Worcester and Lowell and New Bedford safe.

Whether as Governor or Senator, I consider it a great privilege to serve the people of Massachusetts in government. Today I think the stakes are fairly high.

Let me leave you with one thought: for two hundred years, when American parents have held a new baby in their arms -- and my wife and I have been blessed to hold five -- they have always been sure the child would do better than the generation before. Parents used to stand over the cradle and wish that new baby the physical ability to work hard. That was all it took in America. Now that boy or girl needs more.

We in government have a role to play in bringing them the gifts they need for good lives. And of all the gifts within government's purview, a good education in a safe environment is the magic wand that brings opportunity.

It is up to us to make sure that wand is waved over every cradle.

Thank you, and good night.

THE WHITE HOUSE
WASHINGTON

January 16, 1996

TO: Laura Tyson
Don Baer
Michael Waldman
Bruce Reed

FROM: Todd Stern

For your information.

146220

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C.

96 JAN 16 A10 : 08

SECRETARY OF THE TREASURY

January 16, 1996

MEMORANDUM FOR THE PRESIDENT

FROM: SECRETARY ROBERT E. RUBIN RER

SUBJECT: **Your State of the Union Address**

Introduction

The following is not a comprehensive recommendation, but covers instead three areas:

* first, policy and rhetoric with respect to business;
* second, the economy, urban issues and taxes; and
* third, law enforcement.

I. Addressing Business in the State of the Union

Addressing the role of business in the President's vision for 21st century America requires striking the right balance between recognizing that it is because American businesses have been uniquely willing to respond to a changing world by innovating, investing, and restructuring that America's economic position is today so strong (a prosperous 21st century America requires dynamic flexible companies), while recognizing that mass layoffs are a source of insecurity and concern and the benefits of prosperity are not being shared by all.

Pitfall

I believe it is very important that the State of the Union avoid rhetoric that will appear anti-business, and I have little doubt that in the context of a Democratic President's State of the Union Address, the term "corporate responsibility" is likely to be seen this way. Such rhetoric could fuel perceptions that your Administration has reversed its earlier constructive attitude toward the competitiveness of American business and the American economy and is reverting to what is perceived as the more traditional Democratic position of being anti-business and too willing to sacrifice growth for other objectives.

It would be very unsound -- as a matter of policy -- in the name of "corporate responsibility" to call into question the basic premise that corporations should seek to maximize profits within regulatory constraints set by government. Notions that corporations should serve many constituencies or stakeholders easily lead to non-competitive companies, fewer jobs, and lower standards of living. European experience is that such approaches often benefit workers only in the short run, and actually raise unemployment in the long run. Europe, as you know, has persistent 10+ percent unemployment, virtually no job creation and slow growth.

The truth with respect to the AT&T lay-offs is that you'd have to know a lot more than we do to know whether this was right for the long-run economy, but I think it is clear that prior to recent years American industry's sin was complacency, empire building, and inefficiency, and that the U.S. paid a big price in terms of lost market share and lost jobs.

A response to the AT&T situation, and corporate lay-offs more generally, consistent with where you have been on the global and technology dynamism of the new economy, is to go back to the budget debate and education, training, etc. You have on other occasions said that restriction and protectionism are answers that simply won't work, and I would say the same of most ideas regarding additional burdens via "corporate responsibility". The rest of this section of this memo continues to address those questions.

An Approach

These considerations suggest a rhetorical approach to business that challenges them to succeed on their own terms because this will create jobs and drive the economy forward, and emphasizes the role of government in enabling all to share in the success that a successful economy and successful businesses bring through education, training, and the like. They suggest avoiding a rhetorical posture that will look old-Democrat or anti-business. Here is some language you might consider:

> "I challenge American business to invest in its people, as well as plant and equipment, and to be innovative in creating competitive companies for the 21st century. Only in this way can we assure that businesses will be able to succeed in a rapidly changing global economy and that the American economy will be able to create high-wage jobs."

You might add additional language advocating that the focus of business should be on long-term maximization, not short-term.

The rest of this section on "approach" is a paraphrase of what you could say to complete this message.

Each year it is becoming more and more clear what it takes for companies to succeed in the new economy. The best companies take the long view -- they recognize the need to keep investing, even when the payoffs are not immediate. The best companies recognize that their people are their most important resource -- they provide them with the on-going training and the security that allows them to realize their full potential.

America has created 7.5 million jobs in the last three years, nearly 7.5 million more than Europe and Japan combined. An important reason is the strength of our businesses and their willingness to embrace change. We have to keep moving forward, but we must also make sure that no one is left behind.

For this reason, education and training are profoundly important. Our young people must learn not only skills that will land them jobs, but, even more importantly, they must learn how to keep learning because, increasingly, people will do many different things during their working lives.

While the pace of economic change may accelerate, we must strive to make sure that, whatever happens, working families are secure. That is why I am working to ensure that workers who lose their jobs do not lose their pension benefits or their health insurance. And that is why we have worked so hard to ensure that every American can send their son or daughter to college, no matter what their economic circumstances.

Regulation and Community Involvement

Optimal environmental regulation, community involvement, and the like involve a judgment that there are other benefits which have greater value than the profit being sacrificed. This is a complicated area (so-called externalities), involving cost/benefit trade-offs, and it can in substance easily become a slippery slope toward a non-competitive economy. The area of externalities would include the substance and rhetoric of "corporate responsibility", and I do not think you should get involved in either for the State of the Union, for the reason already discussed.

II. The Economy, Urban Issues and Taxes

The Economy

During the last three years, we have probably had the best economic conditions in several decades, taking into account all factors, e.g., growth in excess of 3 percent, inflation under 3 percent, unemployment rate falling from 7.1 percent to 5.6 percent, over 7.5 million new jobs, the deficit falling by roughly 50 percent, and the list goes on. The comparison is particularly stark when contrasted with the preceding four years or the circumstances of the other principal industrial nations.

I think our tone on the economy should be positive, and while many factors were involved, we should take credit by saying that the key and decisive factor was your Deficit Reduction Program of 1993, which lowered interest rates that, in turn, both drove and sustained recovery.

An international comparison provides an interesting way of demonstrating our economic success over the last three years: the U.S. has the lowest budget deficit compared to the total economy of any major industrial country; the U.S. has accounted for nearly all the job creation in the major industrial nations over the last several years; the U.S. economy has grown more rapidly over the last three years than those of Europe and Japan; and U.S. companies are competitive on a global basis for the first time in decades.

The challenge is to maintain economic health in the years and decades ahead. I would suggest a four-fold approach that is consistent with where we have been, although obviously other important areas could be added, like regulatory reform or, in the Republicans' view, tax cuts and tax reform.

(1) continuing fiscal discipline by going to a balanced budget;

(2) public investment in education, training, the environment and other critical areas; maintaining our social compact in Medicare and Medicaid; and a renewed emphasis on savings and thrift to help families save for retirement and assist the nation in funding private investment (Treasury can provide useful ideas in this area);

(3) international engagement and leadership with respect to opening markets, promoting development and growth in the developing world, and dealing with crises in the international markets that vitally affect our interests; and

(4) the economic equivalent of "do no harm", e.g., do not shut down the government or threaten the country's creditworthiness.

You could discuss increased income disparity as a threat to both our economy and our social fabric, and go back to your approach in the budget debate, e.g., investment in education and skills, health care, and other relevant areas. This can be done while avoiding class warfare language or criticism of economic success, by discussing the problem, the actions needed to improve the prospects of all Americans, and the fairness of the most affluent bearing a disproportionate share of the cost. A particular suggestion that I know others have made is to propose enabling all young Americans to participate in the new technological and global economy by wiring all of America's public schools by the end of the decade for the internet, as suggested by your National Information Infrastructure Advisory Group. This is analogous to Franklin Roosevelt bringing the benefits of electricity to rural America through the Rural Electrification Administration.

Urban Issues

The inner cities are not a politically popular subject, but you might consider the possibility of addressing the importance of our cities, and therefore our inner cities, to the future of the economy for all Americans. Again, that discussion could lead right back to the budget debate, and to your approach of empowerment to move the residents of the inner cities into the economic mainstream, as opposed to transfer payments. The Administration can point to many actions in this area -- increasing the EITC; increasing headstart; enactment of enterprise zones; creation and funding of CDFIs; fighting to save the Community Reinvestment Act and the low-income housing tax credit; and a pending project, microenterprise lending, where Treasury is borrowing an idea earlier articulated on the international front by the First Lady in Beijing.

You are now attempting to preserve requisite levels of support for investment in human capital and for providing access to financial capital, in accord with your view that the best social program is a job, and that the final answer to despair and decline is economic opportunity and personal empowerment.

Taxes

There is widespread dissatisfaction with our tax system, but no one has come up with an approach that seems better than our existing system. If you feel a need to address taxes, there are some specific reform proposals which we have developed, as in pensions, estate taxes, and telephonic filing, to improve the existing system; and you could address the difference in your approach to tax cuts and their approach.

III. Enforcement

I think we are extremely well positioned with respect to law enforcement. Having spent a lot of time this year with Republican Congressmen as we worked our way through Waco and other matters, I think they are fairly nervous about our position versus theirs on this issue. We have been in favor of the Brady bill, assault weapon ban, the crime bill, and supporting law enforcement, while they have been seeking to roll back the Brady bill and the assault weapon ban and, in the effort to do that, have tended to undermine law enforcement more generally. I have spoken at a number of large gatherings of local law enforcement officials, and my impression is that you and the Administration have enormous support among these people.

In this area, we have two ideas -- one substantive, one rhetorical. Substantively, our policy staff in the Enforcement Office at Treasury is designing a program that deals specifically with kids and guns. It can be made available as a policy proposal for your address. Rhetorically, we have seen the dangers of extremism and the benefits of supporting law enforcement in the last several years. Treasury lost eight members of its family in the Oklahoma City bombing, and our enforcement people, particularly ATF, Customs and IRS, are repeatedly under threat of violence. At the same time, those who have stood with law enforcement and fought, as you have fought, to give Americans new tools in fighting crime (Brady, the assault weapon ban, 100,000 cops, etc.) see the results in declining crime statistics across the country. A statement about standing with law enforcement on behalf of public safety and against crime and extremism could put the opponents on the defensive.

Conclusion

An interesting question is where the edge in the speech should be, i.e., who should be the villains of the piece. My two nominees would be those who oppose your forward-looking approach on the economic issues that are encompassed in the budget and those who advocate protectionism and economic nationalism. I think all of this can be framed in the context of competitiveness and success in the global economy. Once again, I would avoid anything that can be interpreted as critical of economic success or anti-business.