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

THE PRESIDENT HAS SEEN
3/18/96

96 MAR 15 P9:40

March 15, 1996

MEMORANDUM FOR THE PRESIDENT

FROM: KATHLEEN A. McGINTY

RE: CEQ WEEKLY REPORT

OMNIBUS APPROPRIATIONS

The Senate is expected to complete work on the Omnibus Appropriations bill next Tuesday. The Administration objected to the previous appropriations conference reports on the environment because of special interest riders and inadequate funding. To fix the funding problem, the Administration proposed $966 million for EPA and $75 million for DOE climate related programs.

The Senate made substantial progress on the funding side by agreeing to add back $727 million to EPA. However, this still leaves shortfalls in important programs for climate, environmental technologies, and water quality -- especially Boston Harbor which received no additional money.

The House added back no money for EPA.

Both the House and the Senate continue to concede little ground on the issue of riders. They still include provisions affecting Tongass National Forest, Mojave Desert, Columbia River Basin, Endangered Species Act, wetlands protection, and the Toxic Release Inventory (Right-to-Know). Furthermore, the Senate rejected the Administration-supported Murray amendment to fix the timber rider from the FY 1995 Rescissions Act. I must emphasize that the environmental community is strongly opposed to the riders included in this bill and feel that they are reason enough for this bill to be vetoed. At a press conference with Senator Tom Daschle (D-SD), Congressman Richard Gephardt (D-MO) and others on Wednesday, the Vice President indicated that the bill would be vetoed, even if the money problems were fixed, if the riders were not fixed as well.

Senator John Chafee (R-RI) and Senator Harry Reid (D-NV) offered an amendment to the omnibus appropriations bill that would have repealed the moratorium that has been in place since last summer on listings and critical habitat designations under the Endangered Species Act (ESA). It lost by two votes. You should know that environmentalists are criticizing us for not doing more to support the amendment, and are pushing for a statement that you will veto the omnibus bill over this issue. Our response at this point is that we have consistently opposed the ESA moratorium, and were actually working with environmentalists the day of the vote on this rider. However, we have not committed to a veto over any single one of the rider issues; rather, as you reiterated in a statement today, we object to all of the "harmful and unacceptable riders affecting the environment."

REGULATORY REFORM

The Senate has agreed to pass next week the bill on regulatory reform, introduced by Senator Kit Bond (R-MO), which reduces burdens on small business and requires a Congressional layover of major rules (a Reid-Nickles proposal). The Administration supports this legislation, although we are seeking additional improvements. Because this bill is narrow in scope, it is expected to strengthen the hand of moderate House Republicans who want to limit the House to a narrow bill as well.

Meanwhile, Senator Carl Levin (D-MI) has completed work on a regulatory reform proposal that meets most of the substantive objections of the Administration and the labor/public interest coalition. At the same time, Senator J. Bennett Johnston (D-LA) has produced a new proposal of his own, with the support of Senator Chuck Robb (D-VA), which may set up a duel with Senator Levin. The Administration will need to monitor this situation very carefully in the next few weeks. The Bond bill is likely to be the only bill that is signed on regulatory reform this year.

MURRAY TIMBER AMENDMENT

Unfortunately, despite considerable effort by many of your staff, cabinet officers and the Vice President, the Murray legislation was defeated in the Senate yesterday, 54-42. Senator Mark Hatfield (R-OR) exerted considerable pressure on individual Members to oppose the bill, and several Members who had expressed support for it voted against or abstained. We must now determine our timber rider strategy in the context of the omnibus bill, which will carry the Hatfield/Gorton language that we believe is unsatisfactory. Prior to the Senate vote, you issued a strong letter of support for Senator Murray's bill.

In addition, The Oregonian published an editorial on Tuesday, March 12 supporting Senator Patty Murray (D-WA) proposal on old-growth timber. The editorial is attached for your review. Similiar supportive editorials have appeared in the Seattle Post-Intelligencer and the Seattle Times.

ENDANGERED SPECIES ACT

You may recall that there has been considerable controversy in California over the Endangered Species Act's requirements as related to the Stephens' Kangaroo rat in Southern California.

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need to send letter to Sec Babbitt

I am happy to report that last week, the Riverside County Habitat Conservation Agency voted to establish a 43,000-acre wildlife preserve which will serve both the needs of the species and potentially other species and will free 530,000 acres of land from development restrictions by May 6th. Local press is signaling that the controversy may now be near an end. We are being praised in the press for pulling this off. The Department of the Interior handled this masterfully and deserves much credit.

NEW WORLD MINE

After a confidential meeting with the owners of the New World mine proposed near Yellowstone, I established a small working group to determine if there is a way for an exchange of assets that may provide the company a graceful exit.

Must resolve if at all poss

The working group developed some attractive options that could provide a win/win for the Administration, the company, and the conservation groups. To follow up, this week the Vice President convened a meeting with Secretary Babbitt, Secretary Glickman, Administrator Browner, Assistant Secretary of the Army Martin Lancaster, Director Rivlin, and me to discuss next steps. My objective is to name a name a lead negotiator for the Administration early next week to begin very sensitive talks with the company as soon as possible. ~~There are many obstacles to surmount and an agreement is not~~ assured. But, I am very optimistic that we have a real opportunity here. It is critical, however, that this remain absolutely confidential. Freelancing on the part of any agency will sink the deal.

ECONOMISTS ON THE ENVIRONMENT

The Oregonian reported on Tuesday, March 12 that a group of more than 60 economists from the Northwest agree that environmental protection is good for economy. A statement was issued by the economists which made the following points: 1) environmental protection has helped create and maintain the economic health and vitality of the Pacific Northwest; 2) the loss of jobs in natural resources and aerospace industries has not been primarily due to environmental restrictions. The article is attached for your review.

[illegible] to get this to all our friends in Congress

Recycled Paper

The Oregonian

March 12, 1996

Fix the timber rider

Sen. Murray's proposal could force needed compromise on old-growth sale provision

Sen. Patty Murray, D-Wash., is offering the Senate a chance it ought to grab to reconsider the increasingly notorious timber rider that Congress passed last year.

The rider, proposed by Sen. Slade Gorton, R-Wash, was aimed at expediting salvage sales of burned and diseased trees on federal lands by freeing those sales from the normal appeal procedures under environmental laws. Environmental groups opposed it. Its most controversial provision, which Murray would largely repeal, ordered the administration to proceed with suspended sales of old-growth timber in Western Oregon and Washington that don't meet current forest and stream protection standards.

Murray is proposing an amendment that would cancel the old-growth sale mandate but require the administration to either make other timber available to purchasers or buy back the standing timber they bought but can't log.

Additionally, the Murray proposal would allow appeals of proposed timber sales, including salvage ones, but it would shorten the appeal period. On salvage sales, that's the solution Congress should have adopted at the beginning.

Regarding the Western Oregon and Washington old-growth sales, Murray's proposal would provide more flexibility for the U.S. Forest Service than a modification proposed by Sen. Mark Hatfield, R-Ore., and Gorton to the original rider. They would allow forest managers to substitute other timber for the purchased tracts or to buy back the sale, but only if the purchaser consented. A House-passed version allows the timber exchange but does not include a buyback provision.

As we noted a while back, the Hatfield proposal is a considerable improvement over the confines of the original rider. Murray's amendment is even more desirable, rolling the original rider back even further. It isn't perfect and its passage wouldn't resolve the controversy. But it could force a compromise that the administration and responsible members of both the timber industry and the environmental camp would grudgingly accept.

The Oregonian

March 12, 1996

Economists agree environmentalism good for economy

By THOMAS MICHAEL POWER

IN MY OPINION

Has environmental regulation run amok in the Pacific Northwest states, strangling our traditional natural resource industries and impoverishing our families and communities? Although some of the political dialogue heard in the region might suggest this, a group of more than 60 professional economists from all of the Northwest states directly disputes this characterization of the economic role played by environmental protection.

Although it is often joked that economists cannot agree on a thing, in this case more than five dozen reached agreement on a consensus statement, "Economic Well-Being and Environmental Protection in the Pacific Northwest," that made several important points.

First, the region is not poor and desperate, unable to afford to make wise choices about resource protection and use.

Second, environmental protection has helped create and maintain economic health and vitality, not undermine it.

Third, the loss of jobs in natural resource and aerospace industries has not been primarily due to environmental restrictions.

Let us look at each of these in more detail.

Contrary to many predictions, the declines in timber harvest from federal lands and the closing of century-old mining operations did not turn the region into a "new Appalachia." Instead, growth in the region was so strong it avoided recession in the early 1990s despite layoffs in timber, mining and aerospace, and the Northwest went on to lead the nation in job creation and income generation.

Many of the declines in traditional industries such as wood products, metal mining and aerospace had little or nothing to do with environmental protection. The more important factors leading to job losses in our historic economic base have been: long-forecast depletion in old-growth timber supplies and metal ores; declines in the national demand for housing; the automation of mills and new labor-saving methods in mines and on farms; the end of the Cold War and reduced defense spending; increased competition in a global economy; and the national shift from goods to services production.

It is important to keep in mind that those job losses have been replaced many times over by new jobs that have allowed the region's work force and real incomes to rise, not fall.

(c) KEVIN KRENEK

"Although it is often joked that economists cannot agree on a thing, in this case more than five dozen reached agreement on a consensus statement."

Environmental quality in both our social and natural environments has been a powerful force in drawing people, businesses and economic activity to the region.

Protecting that which is attractive about the region does not constrain economic well-being. Rather, such protection enhances it and energizes local economies.

Conversely, degrading the quality of life in the region is an unlikely route to economic prosperity, for it sacrifices one of the primary economic advantages of our region in an attempt to prop up industries that even in the best circumstances will not be sources of additional jobs and income.

The economic vitality the region has enjoyed is not limited to our large metropolitan areas. Most counties and communities have shared in the expansion, even some towns that have lost lumber mills since 1980.

Still, many families and some communities have suffered as certain economic activities have declined significantly. However, helping families and communities adapt to the new emerging economy is far more likely to be productive than focusing public policy on re-creating the economy of a bygone era.

Protecting or enhancing parts of our natural landscapes does not simply waste or lock up valuable resources. Protected landscapes provide valuable flows of important environmental services that contribute directly to residents' well-being and maintain the livability of the region. Both are crucial to the long-run economic vitality of the region.

Environmental protection, like natural resource extraction, is a valuable activity. What we are searching for is the appropriate balance between these two economically valuable uses of our natural landscapes.

Ignoring the positive economic role played by environmental quality and environmental protection will not help us in making a wise choice that enhances our and our children's economic future.

Thomas Michael Power is chairman of the Economics Department at the University of Montana, Missoula, Mont. 59812. He submitted this article on behalf of more than 60 Pacific Northwest economists who now have endorsed the December 1995 report "Economic Well-Being and Environmental Protection in the Pacific Northwest." Power and other economists have scheduled a news conference in Seattle on Thursday to answer some of the criticism directed at the report.

THE PRESIDENT HAS SEEN
3/18/96

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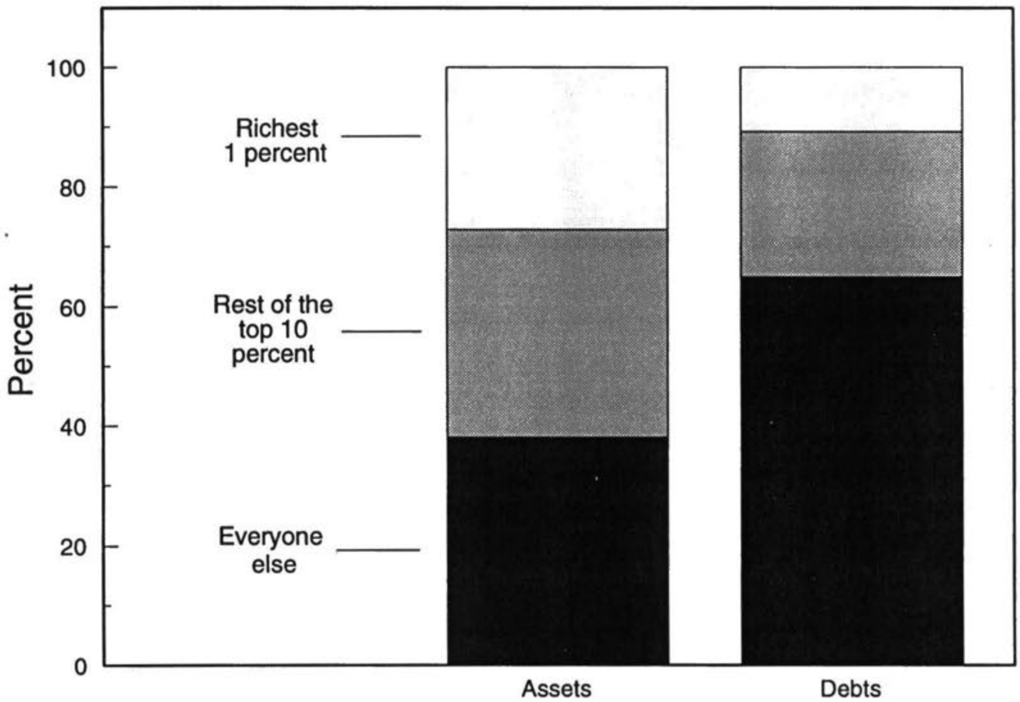
WEEKLY ECONOMIC BRIEFING OF THE PRESIDENT OF THE UNITED STATES

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

March 15, 1996

CHART OF THE WEEK

Household Assets and Debts in 1992



Recently released analysis of data from the Federal Reserve provides an updated picture of the distribution of assets and debts among households in the United States. During 1992 (latest available data), the top 10 percent of households (in terms of net worth) held about three-fifths of all assets, while the bottom 90 percent of households shouldered about two-thirds of all debts. A Special Analysis in this issue of the Weekly Economic Briefing focuses on the recent rise in the level of household debt.

CONTENTS

"I've been thinking about the flat tax and how it would inflict hardship on the poor, and I can live with that."

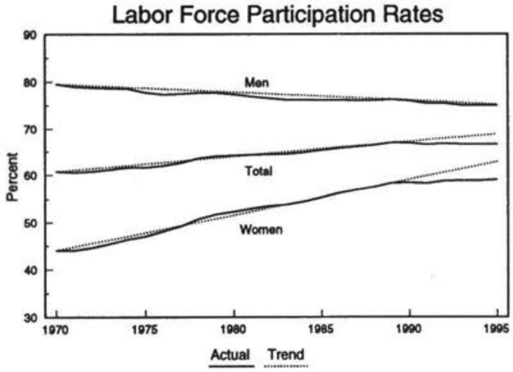
CURRENT DEVELOPMENT

Stalling in Labor Force Participation Dampens Growth

After growing an average of 0.5 percent per year from 1970 to 1990, the labor force participation rate (ratio of the labor force to the population) has been virtually unchanged since 1990. This standstill is one of the reasons behind the slow growth of potential GDP.

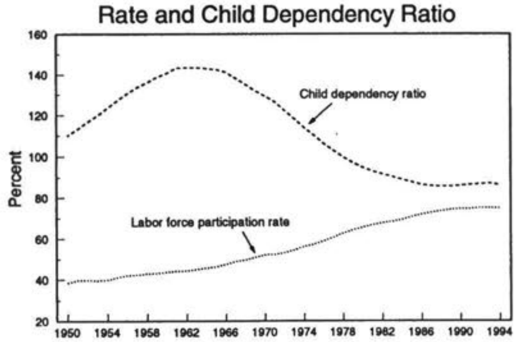
Analysis. The stalling of the rise in the participation rate is due mainly to a leveling-off in the rate for women; the rate for men has fallen no faster than in earlier years (see top chart). Much of the leveling-off of the female participation rate may be associated with changes over time in the birth rate.

Labor Force Participation Rates



Between 1962 and 1973, the birth rate fell dramatically, a pattern echoed several years later in the declining ratio of children per woman aged 20 to 54 (the dependency ratio). With fewer children at home, more women entered the labor force. The birth rate hit bottom around 1973 and since then has changed little, causing a subsequent flattening in the child dependency ratio. This has been accompanied by a deceleration in the labor force participation rate for women (see bottom chart).

Women's Labor Force Participation Rate and Child Dependency Ratio



Looking forward. Without a further decline in the dependency ratio or a significant increase in childcare alternatives (affordable daycare or childrearing by fathers), it is unlikely that the labor force participation rate for women will increase. With the male labor force participation rate continuing to fall, the overall participation rate is unlikely to increase.

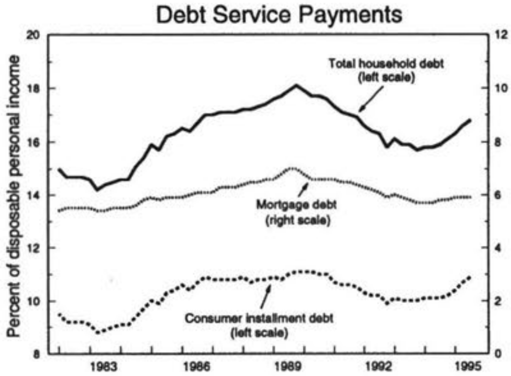
SPECIAL ANALYSIS

Household Debt Continues to Climb

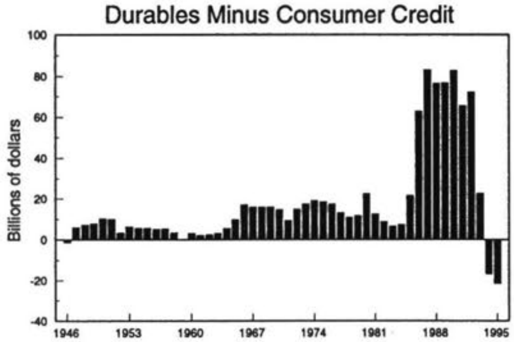
Households continue to take on debt at a rapid pace, as consumer and mortgage loans have recently climbed to record levels as a share of income. The explosive growth in household credit, particularly for balances on credit cards, has fueled concern that rising interest rates could push households over the edge and initiate a dropoff in consumer spending, which accounts for two-thirds of all spending.

Analysis. The percent of income that families are paying to service their debt increased sharply through the third quarter of 1995 (latest data), but remains below the peak reached in the late 1980s (see top chart). Most of the increase in the debt burden was due to payments on consumer installment debt (primarily car loans and credit cards), while payments on mortgage debt changed little.

Debt Service Payments



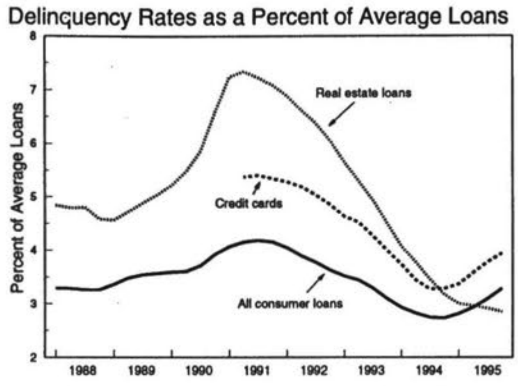
Household Net Investment in Durables Minus Consumer Credit



Another sign that households may be overreaching is evidence that the buildup in consumer debt during 1994 and 1995 outpaced household net investment in durable goods (like VCRs, autos, and computers). With the exception of 1946, this pattern is unprecedented (see bottom chart). While it makes perfect sense to use credit to finance purchases of long-lasting durable goods, it makes less sense to use credit to finance purchases of nondurable goods and services, such as groceries that are consumed immediately. No doubt some of the buildup in debt reflects increased use of credit cards for incentives like frequent-flyer mileage or for convenience purchases where balances are paid off each month (see Weekly Briefing, December 8, 1995). Nonetheless, the rise in debt over and above investment in durables is troubling.

Are households running into difficulties? Delinquency rates on consumer debt increased again in the last part of 1995, continuing a rise that began in mid-1994. Still, the rate of delinquencies remains well below its peak in the early 1990s. Furthermore, mortgage delinquencies, which soared in the early 1990s, have continued their downward trend (see chart on next page).

Many people cut their mortgage payments by refinancing during 1993 when mortgage rates hit 20-year lows. Refinancing activity also picked up a bit late last year and early this year, prior to the recent rise in interest rates. Accordingly, many homeowners are now locked into low mortgage rates and their mortgage payments therefore will not change as interest rates rise. At the same time, many of these homeowners have variable-rate credit card debts and home-equity loans with payments that could increase due to the recent rise in interest rates.



Credit access has become widespread. Over the past decade, credit has become increasingly available to underserved groups of society. A Federal Reserve survey shows that the proportion of families earning less than $10,000 (1992 dollars) who reported credit card debt outstanding rose from 11 percent in 1983 to 24 percent in 1992. Those with incomes between $25,000 and $50,000, however, reported little increase in the share with outstanding credit card balances, while for upper income households the share actually declined. Likewise, the share of mortgage loans granted to those with low and moderate incomes has increased significantly in recent years.

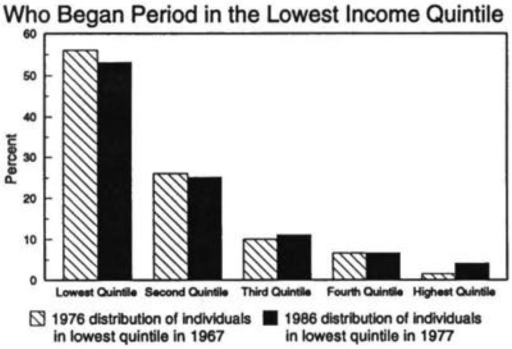
This "democratization" of credit is a very positive social development that has helped families meet emergencies and enjoy the benefits of homeownership. Despite these obvious benefits, the increased availability of credit might be a factor in the recent upticks in delinquency rates and measures of the debt burden.

SPECIAL ANALYSIS

Mobility Helps But Inequality Persists

Some observers have recently argued that the widening gap between rich and poor is misleading and not a cause for concern because American society is characterized by a high degree of mobility up the income ladder—making opportunity over time far more important than income at any given point in time. They emphasize that people at the bottom of the income distribution very often move up and post sizeable gains in their incomes over time, thereby making conventional measures of income inequality meaningless. Although the opportunity to better oneself clearly is a hallmark of our society, available evidence firmly demonstrates that income mobility has not been sufficient to offset the negative effects of the widening disparity in incomes.

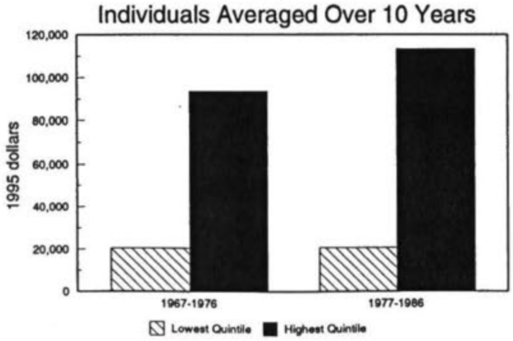
End-of-Period Distribution of Individuals Who Began Period in the Lowest Income Quintile



Income mobility is high. People at the bottom of the income distribution do indeed frequently move upward. For example, nearly half of individuals whose incomes in 1977 placed them at the bottom of the income scale had incomes that moved them into higher quintiles 10 years later (see top chart). In addition, those who were initially in the bottom quintile had gains of nearly 80 percent in real income over this period compared to gains of just 5 percent for those at the top.

Measuring inequality. In a society with a lot of mobility, the distribution of average lifetime incomes is a more accurate gauge of income inequality than is the distribution of average incomes in a given year. Although data have not been collected on lifetime incomes, they are available over a period long enough for individuals to experience significant income mobility. For example, individuals who were in the top quintile during 1967 had average family income over the period 1967-76 roughly 4.5 times the average income of those who were initially in the bottom quintile (see bottom chart). Ten years later, this gap had widened, with individuals in the top quintile in 1977 having average income over the 1977-86 period about 5.5 times the average income of those initially in

Real Family Incomes of Individuals Averaged Over 10 Years



the bottom quintile. Thus, over these 10-year periods, income mobility was far from sufficient to equalize incomes. Still, mobility did help keep the 10-year average income for those starting at the bottom in each decade from falling, as it would have if they had remained in the bottom quintile.

As earnings have grown more unequal, mobility has not increased. Between 1969 and 1989, real wages for men fell for the bottom two quintiles of workers, remained unchanged for the middle quintile, and rose only modestly for the top quintile. Women had a similar widening in earnings, as wages for the top quintile outpaced wages for the bottom quintile. Given that the disparity in wages has worsened, however, workers likely would need to be moving up the income scale at a faster rate to offset this disparity. <u>But mobility has not increased</u>: the top chart on the previous page shows an almost identical degree of mobility between 1977 and 1986 as between 1967 and 1976.

Summary. Although income mobility is high and in principle can help to equalize incomes over people's lifetimes, in practice the amount of mobility is not sufficient to alleviate concerns about rising income inequality. In addition, even if lifetime incomes are more equal than actual incomes at a point in time, the inability of most people to borrow against future income implies that consumption outcomes will always be far more unequal than lifetime incomes. Accordingly, conventional measures of inequality that are based on "snapshots" of average incomes remain a useful tool for assessing inequality.

ARTICLE

How Well Does Unemployment Insurance Meet the Needs of Workers?

Should workers, esp. white collar ones be able to get 26 weeks pay in present value lump sum?

Worker dislocation is a major source of anxiety for American families. This Administration has tried to ease the transition for affected workers, without unduly slowing economic change. The CEA, along with representatives of the Labor and Treasury Departments, is examining the unemployment insurance system (UI) to determine whether modifications to the system might be helpful both to discourage layoffs and to provide better social insurance for laid-off and dislocated workers. This Article is the first in a series about the UI program.

Basic Structure of the Program. States have flexibility to set their own program requirements, but most state programs share the same basic characteristics.

Eligibility. In order to be eligible for benefits, unemployed workers generally need to have involuntarily lost a covered job, to have worked long enough and earned enough to demonstrate a substantial attachment to the workforce, and to be available for and actively seeking suitable (often full-time) work.

Benefits. UI benefits are generally set at between 50 to 70 percent of prior wages, subject to a maximum benefit amount. After a 1-week waiting period, benefits are provided until a worker finds a job, but for no more than 26 weeks. Unemployed workers in states with high and increasing unemployment rates are eligible for an additional 13 weeks of extended benefits through the Federal extended benefits program.

Financing. The program is financed by state and Federal payroll taxes. State taxes finance most UI benefits, while Federal taxes finance state administrative costs and half of extended benefit costs. Taxes imposed on employers partly reflect the unemployment insurance experience of firms: those with a history of many layoffs pay higher taxes than others.

How well does the UI program serve the needs of the unemployed? Three important aspects of the program are the adequacy of benefits, the extent of coverage of the workforce, and the treatment of low-wage workers.

Benefit adequacy. UI benefits replace roughly 65 percent of wages, according to a recent study. This study also concluded that the replacement rate has been relatively constant over the recent past. Because all states impose a maximum benefit amount, replacement rates are higher for low-income workers than for high-income workers.

Covered unemployment. Roughly 90 percent of workers are in jobs covered by the UI system, up sharply from slightly under 60 percent in 1950. The fraction of unemployed workers actually receiving unemployment insurance benefits is much lower, however, and has fallen over time, although it has recovered somewhat in recent years (see chart). Unemployed individuals ~~not~~ receiving benefits include those with little ~~or~~ no attachment to the workforce, those who quit their jobs, those who have exhausted their benefits, and those who are in the first week of unemployment. Researchers examining the decline since the late 1970s in the fraction of the unemployed receiving benefits point to four major factors:

- The tightening up and stricter enforcement of eligibility standards.
- The decline in unionization, as unions typically assist unemployed workers through the application process for UI.
- The decline in manufacturing, as unemployed manufacturing workers are more likely to receive UI benefits.
- The shift of employment to the South~~, where the~~ fraction of unemployed workers who receive benefits typically has been lower.

Low-wage workers. While replacement rates tend to be higher for low-wage workers who are eligible for unemployment benefits, eligibility is lower. Only workers who have earned at least a minimum amount and worked at least a minimum length of time are eligible for UI benefits. Part-time low-wage workers often do not meet these tests—rendering them ineligible for unemployment insurance even though a relatively large fraction of their wages have been subject to unemployment tax. Similarly, in a large majority of states, workers are deemed "able and available for work" only when they are looking for full-time work.

Conclusion. The Advisory Council on Unemployment Compensation, appointed by Congress to suggest improvements in the UI system, recently released its final report. The CEA is studying the Council's recommendations, as well as other possible policies to improve the UI system. In particular, we are examining two important issues: the effectiveness of the UI system at easing the transition for dislocated workers and the question of whether employers sufficiently take into account the full cost to society of laying off or firing workers.

BUSINESS, CONSUMER, AND REGIONAL ROUNDUP

Online Market Likes President's Chances. According to two separate measures, the University of Iowa's Political Futures Market currently gives the nod to the President in this November's election. The market, which can be accessed via the Internet, allows anyone to buy and sell shares paying different amounts depending on who wins the Presidency. For example, contracts paying $1 in case of a Clinton reelection and zero otherwise now sell for more (about 53 cents) than the analogous Republican candidate contract (about 40 cents). Using information from other available contracts, it is also possible to estimate the market's expectation of a particular candidate's share of the total vote received by the Democratic and Republican nominees. In a Clinton-Dole matchup, the market currently expects Clinton to garner 52 votes for every 48 Dole votes. These figures may differ from polls because they build in expectations of market participants—whose investments (up to $500 worth) are at risk—regarding future changes in the voters' mood.

Latest Fed Survey Paints Picture Of Moderate Growth, Little Inflation. Economic activity around the country seems to have improved recently, largely reflecting rebounds from weather-related slowdowns in January, according to the latest survey of business conditions by the Federal Reserve. More than half of the 12 Fed Districts report some gains in manufacturing, but activity in that industry seems fairly flat on average. Nonetheless, a number of districts report growing demand for capital goods, particularly industrial machinery; this finding suggests a healthy degree of investment. Advances in retail trade did not offset all the effects of weak holiday and January sales, but nonetheless retail trade around the country was generally up. While wage gains were called modest and several districts report tight labor markets, overall wage and price pressures were described as generally "subdued."

Wall Street: Not Main Street. A new study by researchers at the National Bureau of Economic Research sheds some light on the nature of stock ownership in the United States. Using Federal Reserve data, the researchers find that the share of households who own stocks grew from 33 percent in 1983 to 37 percent in 1992, with households now holding two-thirds of total U.S. equities. While gains in the stock market therefore have accrued to a larger percentage of the population, the distribution of stock ownership remains very unequal. The top 10 percent of households hold 90 percent of all household equity investments (including individually owned stocks and mutual funds, stocks held in IRAs, 401(k)s, and other defined contribution savings plans), while the bottom 80 percent of households hold a minuscule 2 percent.

INTERNATIONAL ROUNDUP

Russia To Receive $2.7 Billion In Loans From German Banks. German banks will lend $2.7 billion in credits to Russia over 7 years, supplementing the recently announced $10.2 billion IMF credit. Roughly $2 billion will be offered through a consortium of banks led by Deutsche Bank at market rates and is intended as direct financial assistance for Russia's economic reform program. The remaining $700 million will be extended by the *Kreditanstalt fur Wiederaufbau*, the Frankfurt-based development bank, and is aimed at financing longer term projects in the joint interests of both countries. The German government is prepared to guarantee 90 percent of the loans, thereby further raising its $28 billion credit exposure to Russia. Germany is Russia's largest trade partner, accounting in 1994 for 11 percent of Russia's exports.

World's Largest Banks Prepare To Set Up Global Forex Clearing Bank. The world's largest banks are developing plans for a global foreign exchange clearing bank. The aim is to produce an instantaneous settlements system in which payment by one bank is immediately offset by a matching payment from another bank. This would reduce the settlement risk associated with the default of banks involved in large international transactions. According to the news report, members of the clearing bank would have to make deposits into their accounts on a daily basis, and transactions would be credited and debited throughout the day. If one member bank defaulted during the day, losses would be shared among other members. The goal is for the bank to be operational in 3 years. The amount of capital flowing through foreign exchange markets has more than doubled in the last 6 years.

Japan's Current Account Records First Deficit In 5 Years. For the first time since 1991, preliminary official current account estimates for Japan show a small deficit for January. This announcement came as a surprise to private sector analysts, who had expected a surplus. The fall in the current account is fully explained by the 20 percent decrease in the merchandise trade surplus between December and January. There has been a clear downward trend in Japan's current account balance in the last year, explained in part by strong yen appreciation and by a surprisingly rapid surge in imports for an economy in recession.

RELEASES THIS WEEK

Producer Price Index

The producer price index for finished goods decreased 0.2 percent in February. Excluding food and energy, producer prices increased 0.1 percent.

Due Friday, March 15, 1996

Consumer Price Index
Industrial Production and Capacity Utilization

MAJOR RELEASES NEXT WEEK

Housing Starts (Tuesday)
Advance Retail Sales (Wednesday)

U.S. ECONOMIC STATISTICS

	1970–1993	1995	1995:2	1995:3	1995:4
Percent growth (annual rate)					
Real GDP (chain-type)	2.7	1.4	0.5	3.6	0.9
GDP chain-type price index	5.3	2.6	2.5	2.2	2.2
Nonfarm business (NFB) sector:					
Productivity (chain-type)	1.5	0.8	3.0	1.7	–0.5
Real compensation per hour:					
Using CPI	0.6	1.4	2.0	2.2	0.6
Using NFB deflator	1.3	2.2	3.2	2.4	2.4
Shares of Nominal GDP (percent)					
Business fixed investment	10.9	10.2	10.2	10.2	10.3
Residential investment	4.5	4.0	3.9	4.0	4.0
Exports	8.2	11.1	11.1	11.1	11.3
Imports	9.2	12.5	12.8	12.5	12.3
Personal saving	5.1	3.3	2.9	3.2	3.6
Federal surplus	–2.7	N.A.	–2.2	–2.2	N.A.

	1970–1993	1995	Dec. 1995	Jan. 1996	Feb. 1996
Unemployment Rate	6.7**	5.6**	5.6	5.8	5.5
Payroll employment (thousands)					
increase per month			145	–188	705
increase since Jan. 1993					8397
Inflation (percent per period)					
CPI	5.8	2.5	0.2	0.4	N.A.
PPI-Finished goods	5.0	2.2	0.6	0.3	**–0.2**

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

New or revised data in **boldface**.

THE PRESIDENT HAS SEEN
3/18/96

cc: These letters to VP/Panetta/Lake with Deutch

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Good — In my notation memo

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cc memo to Leon — see me, Be

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THE WHITE HOUSE

WASHINGTON

THE PRESIDENT HAS SEEN
3/18/96

96 MAR 1 P7:26

March 1, 1996

MEMORANDUM FOR THE PRESIDENT

From : Mike McCurry mm
Assistant to the President and Press Secretary

Re : Letter from CNN

I wanted to make sure that you reviewed the enclosed letter from CNN's President Tom Johnson on the issue of journalists and the CIA. CNN is seeking a statement from the Administration on this issue.

Please let me know if you would like a response drafted or if you would like for us to arrange a call with Tom Johnson.

Thank you.

We've had a lot of contact with him. Tony and I have both stayed in touch.

ONE CNN CENTER, Box 105366, Atlanta, GA 30348-5366

TOM JOHNSON
President
(404) 827-1311
Fax: (404) 827-4215

February 29, 1996

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

Dear Mr. President:

An issue of such critical importance has arisen that I feel compelled to appeal to you for support from The White House and from you personally.

It is the first and only time that I have approached you directly on a matter of such severity. I do not take lightly the demands which are on your time and on your plate.

Recently, it was disclosed that there are exceptions under which journalists can be used as "covers" for CIA spying.

That policy, and those exceptions, simply must not stand. To permit this policy to remain in effect places every journalist under suspicion of being a CIA spy. Recently, CNN's local Iraqi driver was tortured unmercifully on two occasions as Iraqi officials tried to force him to identify which CNN staffers were CIA operatives. Even though he denied that any was a CIA employee, he had his home, his car, and all of his possessions confiscated and was returned for another period of torture. (A memorandum from Eason Jordan, the CNN International Editor, is attached).

I met last Friday with CIA Director Deutch. He understands the dilemma. I also have spoken with Tony Lake, Mike McCurry, and Senator Arlen Specter, Chairman of the Senate Select Committee on Intelligence.

We need a statement which reads: "An absolute ban on the use of journalists as covers for spying is the policy of this administration. There will be no exceptions."

I would welcome an opportunity to talk with you in person or by phone. If Director Deutch and you discuss this, I hope that you will consider my views and those of other news organizations which are working inside such countries as Iraq, North Korea, Iran, Cuba and other nations which are hostile to the United States. Journalists in many countries already are in danger. Many have been shot, killed, mugged, interrogated, and held captive. This policy adds severely to the dangers and the risks they face.

Keeping this policy alive not only jeopardizes the lives of journalists, but also shuts off information for the American public.

I have been most pleased by the open attitude that Director Deutch, Tony Lake, and Mike McCurry have provided to me.

I hope you will act promptly on this request.

Sincerely,

Tom Johnson

cc: Director Deutch
The Honorable Tony Lake
The Honorable Mike McCurry
Senator Arlen Specter

SLUG	WRITER	DAY	DATE	TIME	REV. BY	ON	STATUS	TIME
	jordan	Thu	Feb 22	09:49	jordan	Feb 22 10:02	READY	1:09

To: Tom Johnson

From: Eason Jordan

Date: 22 February 1996

CNN staffers on several occasions in hostile locales have faced accusations of direct or indirect links to the CIA.

A prime example:
A key minister in Iraq, Revolutionary Command Council member Hamad Youssef Hummadi, once accused me in a one-on-one meeting of being a CIA agent. He refused to accept my denial. In recent months our local-hire driver in Baghdad, Bassem, twice was subjected to multi-week torture sessions at the hands of the Iraqi secret police. I saw him after the first episode. Bassem was permanently disfigured, blinking incessantly and shaking uncontrolably. Bassem told me his interrogators wanted him to identify CIA agents masquerading as CNN journalists. Bassem said the secret police used every means imaginable to convince Bassem to confirm what the secret police told him was their suspicion that I'm the CIA station chief for Iraq. Bassem claimed he refused to finger any CNN'ers as a CIA agent. Bassem subsequently had his belongings -- house and car -- expropriated by the Iraqi government. He thereafter was brought back to Mukabarat headquarters for several more weeks of brutal questioning. At roughly the same time, a senior Iraqi official warned me privately to stay out of Iraq.

Regards,

THE PRESIDENT HAS SEEN
3/18/96

cc: these letters to VP/Panetta/Lake w/ Deutch

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Good for my Hist. memo

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cc memo to Leon — see me — BC

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THE PRESIDENT HAS SEEN
3/18/96

THE WHITE HOUSE

WASHINGTON

96 MAR 11 P4:09

March 11, 1996

Wrong to take [illegible] to recognize [illegible] (Still [illegible] BC [illegible] Thanks BC

PRIVILEGED AND CONFIDENTIAL

MEMORANDUM FOR THE PRESIDENT

FROM: JACK QUINN

RE: JUDITH HART SOCIAL SECURITY MATTER

You inquired recently about the status of the Judith Hart Social Security matter, and why the United States had opposed, in court, Judith Hart's efforts to obtain benefits. You will recall that this matter concerns whether Social Security benefits should be paid to a four year old girl, conceived after her father's death through use of frozen sperm.

We had, in fact, instructed the Department of Justice to work with the Social Security Administration to settle this issue favorably to the claimant and to set in motion, with the Department of Health and Human Services, appropriate policy changes. That instruction was not conveyed to the necessary people in a timely fashion.

After inquiring further about this, we have now been informed that the Social Security Administration will grant full pay benefits to Judith Hart. The Justice Department therefore will move the court to dismiss the case as moot. Additionally, the Social Security Administration, the Justice Department, the Domestic Policy Council, and our office will examine the legal and policy issues arising from this matter.

Jack

cc: Carol Rasco
Kitty Higgins

- **HUD Delivers Ultimatum to Slumlord in Cleveland:** On February 23, HUD gave a Cleveland non-profit group, NOAH, Inc. (Neighbors Organized for Action in Housing, Inc.) 72 hours to correct health and safety violations at six Cleveland-area housing developments, and no more than 30 days to correct all violations of federal housing quality standards.

Office of National Drug Control Policy

- **Key Department News:** General McCaffrey was confirmed by the Senate on February 29 as the Director of the Office of National Drug Control Policy. He will be sworn in privately on March 1, with a public ceremony on March 6, with the President and Justice Ginsburg.

- **White House Conference:** The White House Conference on Youth, Drug Use, and Violence will take place on March 7, at Eleanor Roosevelt High School in Greenbelt, MD. A welcoming reception will take place at the White House on the evening of March 6.

Small Business Administration

- **Deputy Administrator Nominee:** You approved Ginger Lew as his nominee for Deputy Administrator for the SBA. She will begin acting in her new position in mid-March and begin the confirmation process.

Veterans Affairs

- **Budget-Driven Reduction in Force Impacts VHA Headquarters:** February 24 marked the effective date of the Veterans Health Administration (VHA) headquarters Reduction in Force (RIF) personnel actions. VHA issued letters of *Proposed Separation* to 133 employees and *Notices of Reassignment* or *Change-to Lower Grade* to 118 employees on December 14, 1995. VA set up a Career Transition Center to help displaced employees identify suitable placement opportunities, and were successful in finding jobs for many.

- **VA Establishes Internet Home Page:** On February 23, VA came "on-line" with its customer service section of the VA Home Page on the Internet. The purpose for establishing an agency home page was to: 1) provide citizens access to the agency's customer service standards; 2) publicize an agency Presidential Vanguard Commitment; and 3) offer customers an outline feedback mechanism.

Social Security Administration

Interesting — we're going to see who wins?

- **Hart Case in Federal Court:** On February 28, the Federal district court in New Orleans heard oral argument in a case involving a child and a mother who were denied Social Security benefits because the child was conceived three months after the worker's death. The worker had his sperm frozen, and over three months after his death, Ms. Hart underwent a "gamete intrafallopian transfer" procedure under which her ova were fertilized using the worker's sperm and then implanted in her. This resulted in a pregnancy and the birth of Judith Hart on June 4, 1991. The plaintiff and her mother contend that the denial of survivor's benefits to a child conceived after the worker's death is unconstitutional.

- **Investigation of Death Row Inmate Receiving Social Security Benefits:** SSA is investigating the recent discovery of a prisoner on death row in California who has received Social Security disability benefits in violation of the law for up to 14 years. William Bonin was executed on 2/23/96. Upon receiving the death certificate, SSA discovered that Bonin had been receiving checks at a bank in Los Angeles (possibly totaling $70,000 - $75,000). Commissioner Chater has asked for an investigation, including the seizure of any assets. Preliminary review of his records indicate that information received in 1990 should have been investigated.

DEPARTMENT OF INTERIOR

- **Grazing:** Sen. Domenici has led a Republican effort to overturn the Administration's grazing program and legislate it to an elevated status among all public land uses. Sen. Baucus is the only Democrat thus far to join him. Hunters, fishermen, and other outdoors and environmental groups are opposed to the Domenici effort. Interior believes the Administration program is working, that Domenici will not move without measurable Democratic support, that the next few weeks are critical, and that the President's best interest is served by no Senate action.

- **Chesapeake and Ohio Canal:** The Department is planning several events revolving around the C&O Canal restoration. Private fundraising for restoration totals $500,000. On March 18, MD Governor Glendening, Secretary Peña and Secretary Babbitt will create a state/federal canal interagency task force coordinating Maryland's restoration work. The First Lady may dedicate and celebrate the reopening of a portion of the C&O Canal.

- **Travel Update:** Secretary Babbitt will be travelling to Orlando, FL on March 2, to particpate in the St. John's River celebration with Lt. Governor MacKay. In conjunction with the President's environmental speech in NJ, Secretary Babbitt will be travelling to Baton Rouge, LA and possibly Texas for the next leg of the "National Heritage Tours."

UNITED STATES DEPARTMENT OF AGRICULTURE

- **House Passes Farm Bill:** On Thursday, the House passed Chairman Roberts' Freedom to Farm legislation (H.R. 2854) by a vote of 270 to 155. During floor consideration of the bill, the House adopted the following amendments: an amendment that included many of the conservation provisions already incorporated into the Senate-passed version; an amendment to reform export and food assistance programs; and an amendment to provide $200 million for the Everglades. During consideration of the bill, the House rejected Democratic motion which would have included a modified version of the Freedom to Farm program; additional

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3/18/96

cc: these ~~memos~~ letters to VP/Panetta/Lake/ Let's discuss

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cc memo to Leon — Mm — see Bx

(F) **Glickman memo on ad regarding avocado imports.** Via Leon, who notes: "<u>Need to carefully consider impact of rule before proceeding.</u>" ***Background.*** On July 3, 1995, the Animal and Plant Health Inspection Service (APHIS) proposed changing import regulations to allow importation of Hass avocados from the Mexican state of Michoacan into 19 additional Northeastern states during the months of November through February. The California Avocado Commission has consistently opposed this proposal, and on March 11, ran a full-page ad in the <u>Washington Post</u> stating that Sec. Glickman is being misled on the science, the Department does not have solid data, and its method of analysis is flawed. ***Response.*** Glickman says no new issues were raised by the ad and that USDA's decision will be based on science and will

THE PRESIDENT HAS SEEN
3/18/96

CHIEF OF STAFF TO THE PRESIDENT

TO THE PRESIDENT —

This is AG's reply to attached ad that appeared in Post, L.A. Times, etc. Need to carefully consider impact of Rule before proceeding.

DEPARTMENT OF AGRICULTURE
OFFICE OF THE SECRETARY
WASHINGTON, D.C. 20250

96 MAR 11 P4:34
MAR 18 1996

INFORMATIONAL MEMORANDUM FOR THE CHIEF OF STAFF

FROM: Dan Glickman
Secretary

SUBJECT: Full-page Ad in the *Washington Post* Regarding Avocado Imports

ISSUE:

On March 11, 1996, the California Avocado Commission ran a full-page advertisement in the *Washington Post* opposing the APHIS proposed rule to allow the importation of Hass avocados from Mexico.

BACKGROUND:

On July 3, 1995, APHIS proposed changing import regulations to allow importation of Hass avocados from the Mexican State of Michoacan into 19 additional Northeastern States during the months of November through February. The California Avocado Commission has consistently opposed this proposal, making its views known through a number of avenues throughout the rulemaking procedure.

DISCUSSION:

On March 11, 1996, the California Avocado Commission ran a full-page ad in the *Washington Post* stating that Secretary Glickman is being misled on the science, that the Department does not have solid data, and that its method of analysis is flawed.

No new issues were raised in this advertisement. Our ultimate decision on the matter will be science based and will take into account all the comments we have received during an extended rulemaking process.

With regard to three specific points raised in the ad:

• This rulemaking process has been lengthy and inclusive in order to give all concerned a full opportunity to make their views known.

-- In July 1994, Mexican Government officials petitioned USDA to allow the entry of Hass avocados from the State of Michoacan into 19 additional Northeastern States during the months of November through February.

-- USDA published an advanced notice of proposed rulemaking on November 15, 1994, receiving more than 300 comments, including written remarks and oral testimony at two public hearings.

-- Based on this information, USDA published a proposal on July 3, 1995, that outlined a systems approach that would allow the importation of Hass avocados from specific areas during specific times and under specific requirements.

-- To address concerns about the proposal, APHIS held five public hearings during the public comment period. One of these hearings focused specifically on APHIS' pest risk assessment documents and provided the opportunity for experts in relevant disciplines to present their views. More than 2,000 comments were received. APHIS will address all of the issues in these comments when a final rule is published.

• The Harvard University's Center for Risk Analysis symposium is generic in nature and will not deal with the specifics of this issue. The APHIS risk assessment on avocado imports meets international standards and departmental review was favorable.

• USDA's decision on this issue will be science based. The APHIS proposal is a "systems approach" that utilizes a series of risk mitigation measures intended to individually and cumulatively reduce the risk of pest introduction. The proposed system consists of nine safeguards designed to operate in a sequential fashion to progressively reduce pest risks to an insignificant level. These nine components are: (1) field surveys, (2) trapping and field bait treatments, (3) field sanitation practices, (4) host resistance, (5) post-harvest safeguards, (6) winter shipping, (7) packinghouse inspections, (8) port-of-arrival inspections, and (9) limited U.S. distribution. The systems approach is intended to operate as a "fail-safe" system in that redundant safeguards are built into the process; if one mitigating measure fails, other safeguards are in place to ensure that the risk continues to be reduced and managed. If pest detections or irregularities occur at any stage of the system, steps would be taken to prevent the entry of any affected avocados and appropriate measures would be instituted to ensure future compliance.

With respect to the industries cited--implying that they would oppose our proposal--we have been informed that some industries (apple) which support the APHIS avocado import proposal will again reaffirm that support.

<u>**SUMMARY:**</u>

No new issues were raised in this advertisement. Our ultimate decision on the matter will be science based and will take into account all the comments we have received during an extended rulemaking process. The APHIS risk assessment meets both international and departmental requirements.

THE PRESIDENT HAS SEEN
3/18/96

take into account comments received during lengthy rulemaking process.

Sooner is better than later

(G) **Tyson cover note and Reich memo on pension portability.** Bob's memo discusses ideas for making 401(k) pensions more portable. He notes that portability isn't possible for half of all workers because: employers aren't required to accept transfer of 401(k) savings from previous employment; and, option of rolling a 401(k) pension into an IRA is complex. Laura says that an NEC pension working group, with DOL's participation, has been developing a revised pension portability proposal and consequently doesn't believe any separate response to Bob's memo is needed at this time. She hopes to have a proposal to present to you within the next several weeks.

(H) **Cutter/Gibbons/McGinty note on greenhouse gas report.** In September 1994, the Administration established a 30-member Advisory Committee to develop recommendations on policies to reduce greenhouse gas emissions from cars and light trucks in the years after 2000. *The Advisory Committee met 11 times over a one-year period, but was unable to reach consensus on either policies or a report.* The Interagency Steering Committee report describes the nature of the problem, the Advisory Committee's charge, its areas of agreement and disagreement, and the staff's conclusions. The area of greatest agreement was that federal support for research into more efficient vehicles and alternative fuels is appropriate and should be continued. Executive summary and list of committee members is attached FYI.

to VP for sharing w/ entertainment folks

(I) **Cardinal Mahony Pastoral Letter on programming for children.** Via Leon. The Archbishop of L.A. developed this 1992 pamphlet for members of the motion picture industry, but suggests that much of the material is also applicable to television.

We also received the following items:

Good — suggest writing a response to the editorial

- **Tyson note on World Bank support for poor countries.** Laura responds to an editorial suggesting that the World Bank use IDA resources in poor countries in Africa rather than in China (with foreign reserves of $70 billion and foreign investment of $33 billion in 1994). She reports that Treasury has been working hard to phase out lending to China despite opposition from Japan -- China's share of IDA is down from about 14% two years ago, to about 6% this year. China is projected to receive 4 % of IDA's next replenishment, and then "graduate" while Sub-Saharan Africa is expected to get 50% of new IDA commitments.

cc this memo to Leon — this is urgent

- **Tyson follow-up on base closure process.** Laura thanks you for forwarding the op-ed on "base closure doldrums." She believes that although the process is much improved, many communities still cannot get the cooperation they need from the military and that, "We may need a more effective mechanism for translating Secretary Perry's strong support for base reuse into action by base commanders and other military personnel." She will give you a progress report in a few weeks.

- **Dingell note.** "Your visit to Michigan was a complete success. I have only heard

THE PRESIDENT HAS SEEN
3/18/96

THE WHITE HOUSE

WASHINGTON

96 MAR 12 A8:58

Pls push Reich ideas
need to work as many as
possible –

March 11, 1996

MEMORANDUM FOR **THE PRESIDENT**

FROM: **LAURA D'ANDREA TYSON** Laura D'Andrea

SUBJECT: **Attached memo from Secretary Reich concerning pension portability**

While your pension simplification and IRA proposals go a long way toward increasing pension coverage and portability, as Secretary Reich's memo points out, barriers remain to complete portability of even defined contribution plans -- mainly 401(k) plans. For example, while employers routinely allow departing workers to roll 401(k) accounts into IRAs or into a subsequent employer's 401(k) plan, the IRA rules are complex and many employers will not accept the rollovers.

Secretary Reich's memo raises the question whether a revised, repackaged pension coverage/portability proposal could include statutory and regulatory provisions to reduce these barriers. Along with Secretary Reich, I believe the answer is "yes."

For the past several months, the NEC pension working group -- which includes active participation from the Labor Department -- has been developing such a revised pension coverage/portability proposal. The items raised in Secretary Reich's memo are under discussion, and various ways of dealing with the problems raised without creating new problems for either employers or employees are being developed. Thus, I believe no additional response to Secretary Reich's suggestion is needed at this time.

We hope to be able to present a broader revised proposal that includes these new items to you within the next several weeks.

SECRETARY OF LABOR
WASHINGTON

MAR 1 1996

MEMORANDUM FOR THE PRESIDENT

FROM: ROBERT B. REICH RBR

THROUGH: LAURA TYSON

SUBJECT: PENSION PORTABILITY

Herewith, a number of ideas for making 401(k) pensions more portable.

As you know, over 20 million Americans now save at work through 401(k) plans, and the numbers are growing quickly (approximately twice that number are in traditional "defined benefit" plans, but their numbers have remained constant as employers increasingly offer 401(k)s, and as large firms downsize).

401(k) plans are "portable" in the limited sense that workers who leave their jobs typically can roll over their 401(k)s to an IRA and sometimes to a new employer plan. However, pension law gives workers little control over many aspects of portability. For example, job-to-job portability is not possible for about half of all workers because pension law does not require employers who offer plans to accept transfer of their employers' 401(k) savings from previous employment.

Further, the option of rolling a 401(k) to an IRA is more difficult than it may appear. To avoid tax penalties, workers must tip toe their way through tax and timing issues and may have to retain multiple accounts in order to preserve retirement savings or transfer to future employers' plan.

The attached provisions would go some way towards providing more meaningful portability for workers. They could be combined with the pension simplification package already in your budget or included in a later pension initiative. It is my understanding that the NEC is considering these and other ideas.

Attachment

401(k) PLAN PORTABILITY ISSUES

I. BACKGROUND

Pension portability is complicated and is related to other important considerations, such as coverage and benefit adequacy. The challenge is to find ways to expand portability and coverage for workers, while balancing the costs and administrative burdens on employers in a voluntary pension system.

Significant portability changes in defined benefit plans would require radical reforms and could raise costs so as to discourage defined benefit plans.[1]

In the 401(k) setting, portability means the ability of workers to preserve retirement savings following a change in employment. 401(k) plans are now relatively portable because workers who separate from jobs may under many circumstances transfer their 401(k) accounts to IRAs or other employers' pension plans.

II. ANALYSIS OF ISSUES

A. 401(k) PLANS ARE NOT REQUIRED TO ACCEPT ROLLOVERS

Issues

When a worker changes jobs, the law allows direct transfers from one employer's 401(k) plan to an IRA or another employer's plan that chooses to accept transfers.

An estimated 98 percent of 401(k) participants are in plans that offer direct transfers for workers who separate before retirement. There is no requirement for 401(k) plans to accept transfers and only 51 percent of 401(k) participants are in plans that do so.

---

[1]Defined benefit plans are designed to fund benefits payable over thirty to forty years, generally on the highest salary. An employer hiring an older worker would assume disproportionate costs for the benefits promised from previous employment. Furthermore, since defined benefit plans count on compounding to fulfill their eventual obligations, the withdrawal of assets would have a detrimental effect on the financial status of the funds.

A direct transfer to an IRA is an alternative for workers unable to rollover their 401(k)s to a new employer's plan. A 401(k) distribution can be transferred directly to a conduit IRA, and later transferred to another 401(k) plan, but this arrangement is not as simple as it appears. Funds in a conduit IRA may be transferred tax-free to another 401(k) plan only if it is not commingled with regular IRA assets. A worker has to establish a second IRA account to receive 401(k) distributions. As contrasted with 401(k) accounts, IRAs may be subject to the claims of creditors.

For those workers fortunate to find a new employer plan that accepts transfers, the receiving plan may be able to delay such a transfer until workers satisfy a waiting period which can be as long as two years. In order to make a requirement that plans accept rollovers a real option, workers should be able to roll their previous accounts of any amount over into a new employer plan even if they are not participating yet in that plan.

Option

Require 401(k) plans to accept direct transfers, possibly before a new worker would be eligible to participate in the plan.

Pros

The consolidation of saving accounts simplifies workers' retirement planning and investment decisions. Requiring plan sponsors to accept rollovers would reduce leakage due to lump sum cashouts.

Cons

Plan sponsors would object to the added administrative burdens and to accepting transfers before a new employee starts participating in the plan because turnover is relatively high for probationary employees.

B. CREATE NEW OPTIONS FOR WORKERS CHANGING JOBS

Issues

Most plans impose a waiting period for new employees. Employers impose waiting periods because they have high turnover among their low-paid employees and probationary employees. Employees who stay for only a short period of time are the least likely to contribute to 401(k) plans. If these employees were eligible for the plan, their failure to contribute would reduce the averages used to determine how much the highly-compensated employees may contribute.

Thus, an employee who switches jobs is often unable to continue uninterrupted 401(k) savings. At the same time, employees who were covered by the prior employer's plan or whose spouse has pension coverage may be unable to make tax-deductible contributions to an IRA.

<u>Option 1</u>

Allow 401(k) plans to accept employee salary deferrals during the period before a new employee is eligible to participate in the plan, without subjecting those contributions to discrimination testing.

<u>Pros</u>

Allowing plans to accept employee contributions would encourage continued savings among workers who change jobs. This proposal is a complement to the option discussed in issue A. If both options were adopted, employees may be able to consolidate their 401(k) savings as well as continue to contribute.

<u>Cons</u>

Highly-paid employees are more likely to take advantage of this option than low-paid employees. Plan sponsors may object to setting up and maintaining 401(k) accounts for short service employees.

<u>Option 2</u>

Allow employees who change jobs to contribute to an IRA during the period before they are eligible to participate in their new employer's plan.

<u>Pros</u>

Allowing IRA contributions would encourage continued savings among workers who change jobs.

<u>Cons</u>

Highly-paid employees are more likely to contribute, since only they are restricted from making tax-deductible contributions to IRAs.

C. WORKERS CANNOT CONTROL THE TIMING OF DISTRIBUTIONS OR ROLLOVERS

Issues

Workers have reported that they have little control over the timing of their 401(k) distributions and transfers. Typically participants can elect to (1) have the retirement savings directly transferred to another retirement account; (2) take the 401(k) assets in a lump sum; or (3) leave the assets in the 401(k) plan until retirement. We have little evidence that timing is a widespread problem, but there are two issues to consider:

1. Workers are required to make hasty elections: Workers leaving jobs may only have a short period of time within which to make decisions about direct transfers. Workers facing long waiting periods to participate in a new employer plan would benefit from having the ability to elect a direct transfer at a later date after separation.

Option 1

Require plans to permit separating workers to elect direct transfers at any time after separation.

Pros

Allowing workers to better control the timing of transfers would mean that they would not have to maintain multiple savings accounts.

Cons

There is not much evidence to show that this is a widespread problem.

2. Workers face significant delays in getting access to their 401(k) assets:
Some workers have complained that once they have elected to transfer or cashout their 401(k) plan assets, they experience significant delays in having those decisions acted upon by the plan. Plans may postpone the distribution of 401(k) accounts until the next valuation of plan assets in order to properly allocate earnings to all participants. Surveys show that most plans conduct quarterly valuations.

Option 2

Require plans to make distributions no later than a set time after valuations unless the employee has elected a later date.

Pros

Workers who are leaving their jobs benefit from a clear standard in the law that sets a maximum period of time for distributions to be made after valuations. Focusing on the timing of distributions rather than the frequency of valuation would not require plans to make major changes in the way they operate.

Cons

Again, we do not have evidence of a widescale problem.

D. PROHIBITING INVESTMENT OPTIONS BASED ON EMPLOYMENT STATUS

Issues

Many participants do not transfer their 401(k) accounts because they prefer other forms of distribution such as an annuity or lump sum. We estimate that of the total $22 billion in pre-retirement distributions, $10 billion in 401(k) assets were spent in 1995 rather than saved for retirement.

If the plan provides that 401(k) assets must remain in the plan until retirement age unless immediate distribution is taken, separating workers may be encouraged to take a pre-retirement cash-out. Some plans may encourage cash-outs by providing fewer investment options for separated participants than for active workers.

Option

Require plans to offer the same investment options to all participants regardless of their status.

Pros

This eliminates a disincentive and encourages workers to keep their retirement savings in their 401(k) accounts.

Cons

Without a record of abuse in this area, employers may see the imposition of this rule as unnecessary.

E. ALLOWING TRANSFERS OF AFTER-TAX SAVINGS TO IRAs

Issues

The tax code does not allow after-tax contributions in a 401(k) plan to be transferred or rolled over to another tax-favored vehicle. This means that a worker who consolidates retirement savings loses the ability to shelter the income on after-tax amounts from taxation, resulting in lower savings at retirement.

Option

Allow the transfers of after-tax amounts to IRAs.

Pros

Workers gain the ability to shelter the income of after-tax amounts from taxation as well as simplicity.

Cons

The transfer of after-tax contribution to IRAs may require complicated recordkeeping for tax purposes.

THE PRESIDENT HAS SEEN
3/18/96

take into account comments received during lengthy rulemaking process.

Sooner is better than later

(G) **Tyson cover note and Reich memo on pension portability.** Bob's memo discusses ideas for making 401(k) pensions more portable. He notes that portability isn't possible for half of all workers because: employers aren't required to accept transfer of 401(k) savings from previous employment; and, option of rolling a 401(k) pension into an IRA is complex. Laura says that an NEC pension working group, with DOL's participation, has been developing a revised pension portability proposal and consequently doesn't believe any separate response to Bob's memo is needed at this time. She hopes to have a proposal to present to you within the next several weeks.

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Booklet also sent

to VP / Share for entertainment folks

(I) **Cardinal Mahony Pastoral Letter on programming for children.** Via Leon. The Archbishop of L.A. developed this 1992 pamphlet for members of the motion picture industry, but suggests that much of the material is also applicable to television.

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Good. Suggest writing a response to the editorial

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cc this memo to Leon - this is urgent

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THE PRESIDENT HAS SEEN
3/18/96

THE WHITE HOUSE

WASHINGTON

96 MAR 11 P2:02

March 7, 1996

MEMORANDUM FOR THE PRESIDENT

FROM: **LEON E. PANETTA**
Chief of Staff

SUBJECT: **Communication from Cardinal Mahony**

Cardinal Roger Mahony thought you might be interested in the attached pamphlet he sent to film makers providing them guidance on programming for children.

Please find a copy of Cardinal Mahony's pamphlet, as well as a copy of his letter to me, attached for your information.

Archdiocese of Los Angeles

Office of
the Archbishop
(213) 251-3288

1531
West Ninth
Street

Los Angeles
California
90015-1194

March 1, 1996

MAR

Mr. Leon Panetta
Chief of Staff
The White House
1600 Pennsylvania Ave., N.W.
Washington, D.C. 20500

Dear Leon:

Since President Bill Clinton and you are working closely with the television industry on methods to guide parents on the selection of television programming for their children, I thought you might be interested in a Pastoral Letter which I developed in September, 1992 addressed to both film makers and film viewers. While the Pastoral Letter had a particular audience of those in the motion picture industry, so much of the material is readily and instantly applicable to the television industry itself.

Having noted many of the issues surfaced by the President and the television industry leaders, I see a very close harmony with the points made in my Pastoral Letter. You may wish to show President Clinton a copy of the Pastoral Letter, and you are certainly free to utilize it in any way that helps develop a better system to bring quality television programming into all of our homes.

Asking the Lord's blessings upon you and your work for the good of our country, and with kindest personal regards, I am

Sincerely yours in Christ,

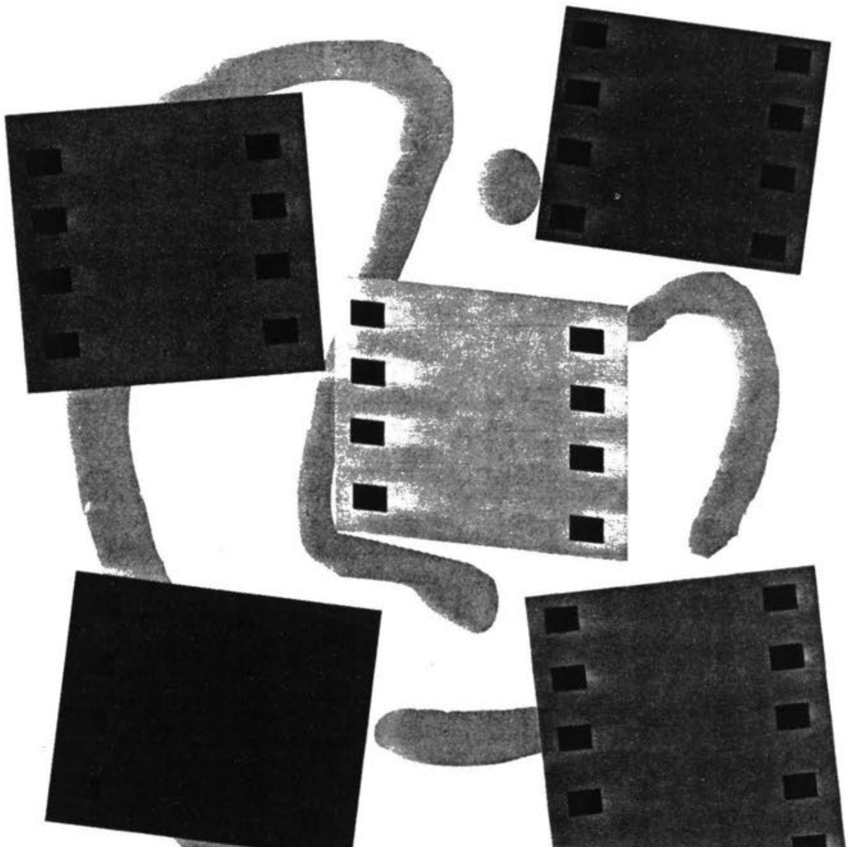
+ Roger Card. Mahony

Cardinal Roger Mahony
Archbishop of Los Angeles

eb

FILM MAKERS FILM VIEWERS

THEIR CHALLENGES AND OPPORTUNITIES



CARDINAL ROGER M. MAHONY

Film Makers, Film Viewers: Their Challenges and Opportunities

A Pastoral Letter

Cardinal Roger M. Mahony
Archbishop of Los Angeles

St. Paul Books & Media

THE PRESIDENT HAS SEEN
3/18/96

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THE WHITE HOUSE

WASHINGTON

March 14, 1996

MEMORANDUM FOR THE PRESIDENT

FROM: Laura D'Andrea Tyson Laura D. Tyson

SUBJ: Review of Base Closure Process

Thank you for passing along the op-ed on "base closure doldrums." This is a good time to take stock of the base-reuse process, and I have asked my staff to work with DoD to do that.

My own view is that although the process is much improved and we have some real successes to point to, many communities still cannot get the cooperation they need from the military services. We may need a more effective mechanism for translating Secretary Perry's strong support for base reuse into action by base commanders and other military personnel.

I will give you a progress report in a few weeks.

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3/18/96

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to VP
Share for entertainment folks

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155701

96 MAR 13 A11:16

THE WHITE HOUSE

WASHINGTON

March 12, 1996

INFORMATION

MEMORANDUM FOR THE PRESIDENT

FROM: LAURA D'ANDREA TYSON Laura D. Tyson

SUBJECT: World Bank Support for the Poorest Countries

I want to comment briefly on the article you sent me (attached) on the World Bank's use of concessional International Development Association (IDA) resources in China. While it is true that China is still eligible for IDA funding, Bob Rubin has been working hard to phase out such lending. Treasury's efforts, however, have been opposed by Japan, which wants IDA to continue poverty alleviation programs to China.

Japanese opposition notwithstanding, we have made progress in reducing China's share of IDA (from about fourteen percent two years ago, to about six percent this year). China is projected to receive four percent of IDA's next replenishment (IDA-11), and then "graduate". By contrast, Sub-Saharan Africa is expected to get about fifty percent of new IDA commitments.

Attachment
Tab A Newpaper Article re: World Bank

the key. Most openings have been tried before," Philadelphia: Slap ...

THE PRESIDENT HAS SEEN 2-27-96

Laura T
FYI-BC

World Bank Loses Its Way

Dubious policies have appeared in lending to poor nations

With free markets and capitalism fueling change in the world today, poor countries have a harder time than ever competing for development funds. The most needy traditionally have depended on interest-free loans from institutions like the World Bank, but many of these countries, especially in Africa, are not getting adequate funding. Some rethinking on lending policies is in order at the World Bank.

Consider China and India, the two largest recipients of World Bank loans. As Times columnist Jim Mann pointed out last week, China received $925 billion in interest-free loans in 1994 from the bank's International Development Assn., which is supposed to lend to countries so poor that they can't get credit elsewhere. Well, China has foreign reserves of $70 billion and attracted more than $33 billion in foreign investment in 1994; per capita income, at $530 in 1994, was well above the world average of $382 for countries that receive IDA funds. With China on its way to fuller development, surely some of the money going there should be diverted to Africa, where per capita income is only $307 a year. Africa is the only continent where the number of poor is expected to rise in the next decade.

Too often, too conveniently, loans designed to relieve poverty reflect the political interests of the bank and its donor countries, which are led by the United States, Japan, Germany, France and Britain. China is a model of a poor country successfully following the World Bank's recommendations for a capitalist-based economic policy, so the bank wants to continue funding China. Japan, with an eye on regional development, has been the strongest supporter of poverty loans to China. Some World Bank policies, Mann observed, hint of neocolonialism. For instance, London has persuasively argued against any early diminution of poverty loans to India, its former colony and the No. 1 recipient of World Bank loans in 1995. There are far needier countries in Africa, Eastern Europe and Central Asia. They deserve no-interest loans if poverty is the criterion, but they do not have high-profile champions in the lenders' camp. The World Bank is supposed to be impartial, granting loans on a case-by-case basis. It seems to have lost sight of that.

Bagel, Please, and Hold the Lox

When does a bagel become a meal? When it's served with lox.

Washington lobbyists need to know that distinction and others similar to it because the rules have finally changed. The old days of treating House members to three-martini lunches and exquisite lobster dinners are over, thanks to a solid reform law that restricts those who make a living trying to influence legislation. Under the new rules, lobbyists still can spring for a bite to eat, if it is literally a bite. A meatball speared on a toothpick at a reception is allowed. A meatball topping spaghetti is not.

Finger food is usually OK. Doughnuts are fine. So is a croissant. Plain bagels make the cut, but not when served with Nova Scotia salmon. According to an interpretation by a lawyer for the House Ethics Committee, salmon would make a bagel pretty close to a meal. A meal is allowed, but only if at least 25 members of an organization are present so a lobbyist cannot monopolize the House member.

Buying an alcoholic drink is not off-limits as long as the official is standing at a bar when he or she consumes it. But lobbyists can no longer pay for several rounds plus appetizers.

The rules are a little more relaxed for the Senate. Lobbyists can still pick up the tab but only up to $50 a meal and $100 a year, which won't go very far in a town dominated by restaurants that cater to expense accounts.

It is amazing that lobbying reform passed, given the long history of the practice. The term "lobbyists" was coined during the First Congress in 1789, according to the Congress Dictionary. Farmers, merchants and anyone else who had a personal interest in the outcome of legislation had to wait outside in the lobby. During the 19th century, influence-peddlers were considered congressional pests. Only since then did lobbyists begin picking up tabs for meals, gifts, trips and other luxuries.

The meal ban and the other reforms should reassure wary voters. Lobbyists can no longer use a bagel and lox or a chateaubriand to buy access routinely denied to the public.

2-26-96