Chon

Gruss

What about their BB

4-4-97

The Pension-Guarantee Time Bomb

By James H. Smalhout

President Clinton drifted off into the political surreal on Monday while throngs of children frolicked on the White House lawn during the traditional Easter Egg Roll. That Mr. Clinton chose one of this city's most child-centered moments to claim credit for apparent improvements at the Pension Benefit Guaranty Corp. speaks volumes about his vision and priorities. The kids waiting for the Easter eggs were visibly excited, but they should have been crying.

The PBGC is the government agency set up by the Employee Retirement Income Security Act, known as Erisa, in 1974 to make sure that workers received the pensions promised by private defined-benefit plans. The agency collects "premiums" (i.e., taxes) from private defined-benefit plans, and in return guarantees benefits of as much as $33,136 per year. But that function is almost beside the point. The PBGC is quite simply the plaything of an unholy alliance—labor unions, companies that still sponsor such defined-benefit programs and the consultants that service these programs—that doesn't care one whit about how much damage they inflict on the economy.

The PBGC produced almost $1 billion in revenues from insurance premiums last year. That revenue makes the federal budget look better at the moment. And for the first time since 1974 the PBGC reported that it collected enough money to pay for the pensions the agency has already taken over from sick and dying companies. That was the "good news" Mr. Clinton announced on Monday.

Bill Clinton

But taxpayers are hardly off the hook. Unfunded pension debt run up by private companies more than doubled, to $64 billion last year from $31 billion in 1995. This hardly reflects brilliant management, particularly during a bull market. But that $64 billion could actually understate the PBGC's problem, because Erisa left too much control over pension-benefit funding in the hands of plan sponsors. The true size of these obligations doesn't become clear until the companies go out of business and their pension plans are terminated. The savings-and-loan debacle should have taught us that in matters of financial regulation, what you see is not what you get. It's what you don't see that gets you.

The problem the Clinton administration ignored from the start is that the PBGC was invented to make sure that credit would go to places where credit is most definitely not due. For example, some firms use PBGC-guaranteed pension promises to avoid adhering to commercial creditors' lending standards. In effect, these companies borrow from their workers, in the form of pension promises, on the strength of a federal guarantee. The companies are not required to pay the full cost of these pensions with actual cash contributions. Instead, plans can remain indefinitely "underfund-ed" by as much as 10% without penalty. And dying companies play end-game strategies that can quickly make their government-guaranteed pension debts soar.

Nobody in his right mind would lend to these deadbeats without backup from Uncle Sam. And insurance premiums—at whatever level—won't reflect the true price of risk as long as congressmen and lobbyists keep a grip on the business. The situation hurt the economy by preventing capital and labor from flowing to their most productive uses. Yet most of the costs never show up as federal spending.

Nobody in his right mind would lend to these deadbeats without backup from Uncle Sam.

Our system of partially funded and easily siphoned pensions turns out to be remarkably similar to those in several European countries. Companies can promise pensions to their workers and "fund" them by recording a "book reserve" for the debt on the company's balance sheet. There are no other investments to back up these promises. Only Sweden, with its private system, has a good record of allowing only truly creditworthy companies access to this form of borrowing. Finland's government program failed utterly and at a heavy cost (at least $500 for each of Finland's workers) in 1993, before the country privatized it.

Any sensible guarantee system for private pensions would require employers to overcollateralize them—match the liabilities dollar for dollar, and then some—with either a portfolio of stocks and bonds, or with the economic value of the company itself, or with some combination of both. The most important role for the PBGC or any other organization that guarantees private pensions should be to make sure that this happens. Experts and authorities world-wide recognize the importance of sound capital standards—with the notable exception of pensions, at least in the U.S. Banks must keep capital reserves of at least 8% above and beyond assets that cover all their outstanding debts. Similarly, margin requirements for investors prohibit them from borrowing more than half the value of their portfolios.

But the rules are incredibly lax for pensions. As a result, federal guarantees ensure that companies take unrealistic risks and lose billions of dollars that the government must repay. Unions leaders, pension consultants and other proponents of these government subsidies say that we should ignore them because pension guarantees are "social insurance." But that's hypocritical talk meant to cloak self-interest. The PBGC provides benefits that greatly exceed those needed to keep the elderly out of poverty. Besides, the program protects only 13% of the labor force. Private pensions are not the way for America to extend its social contract between the generations—that's Social Security's job.

The Erisa pension guarantee ties up workers in yesterday's industries as well as much of their savings. That damages our economy, and it's downright antisocial. There are much better ways of providing workers with safe and secure pensions. How strange it was for the president to suggest otherwise.

Mr. Smalhout is a visiting fellow at the Hudson Institute and author of "The Uncertain Retirement" (Irwin, 1996).

THE WALL STREET JOURNAL.

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Copied
Sperling
COS

THE WHITE HOUSE
WASHINGTON, D.C. 20500

DATE: 4-4

TO: Sandy

FROM: Staff Secretary

fyi. you've probably
seen this already.
POTUS's action is
certainly being
over-interpreted.
Todd

U.S. Ends Ban on Advanced Weapons to Chile

SANTIAGO, Chile, April 3 (Reuters) — President Clinton has authorized American companies to sell fighter jets to Chile, reversing a virtual ban on the sale of sophisticated weapons to the region, which has been in effect for 20 years, the United States Embassy said today.

"President Clinton has authorized the transfer of technical information to U.S. companies that wish to compete for sales of advanced fighter aircraft to Chile," an embassy spokesman said. "The decision was made to meet the March 31 deadline set by the Chilean Air Force for the submission of such data."

Chilean military officials have said they were interested in buying Lockheed F-16 Falcon fighters as part of their plan to modernize the country's aging fleet.

American manufacturers will compete with European aircraft, including Sweden's JAS-39 Gripen jets and French Mirage 2000-5 planes, the newspaper El Mercurio reported.

The air force, which wants to buy 16 to 18 jets, is expected to make a decision later this year.

Mr. Clinton's decision to ease the restrictions was a result of pressure from weapon manufacturers and a recent decision by Peru to buy 18 Russian-built MIG-29 fighter jets, El Mercurio said.

Argentina, which shares a long border with Chile, opposes the possible sale of F-16's, the paper said.

Chile, which returned to civilian rule in 1990 after 17 years under the military, has been gradually replacing its vintage weaponry; it bought used Mirage jets from Belgium in 1995.

Chile's interest in the F-16's and its maintenance of one of the region's highest military spending rates sparked some fears that it risked starting a new arms race among its neighbors.

In 1977, when much of the region was under military rule, the Carter Administration imposed the ban on weapons sales to Latin America.

But the return of democracy to most countries has intensified pressure on President Clinton, from companies and governments, to end the restrictions.

U.N. Troops to St

UNITED NATIONS, April 3 ters) — Security Council mei said today that United N peacekeepers would remain in at their current strength until J and would then leave the count

The Council, in informal d sions, approved a recent recon dation by Secretary General Ko nan to keep the present comple of 500 United Nations troops ar civilian police officers in Haiti their mandate expires for a time at the end of July.

Diplomats said there would discussion about extending peacekeeping mandate beyond

Channel Tunnel Officials Pledge New Fire Prevention Measures

COQUELLES, France, April 3 (AP) — Hoping to resume full service by June, Channel Tunnel operators promised tougher truck inspections and other new safety measures today to prevent another fire like the one that broke out last November.

But Eurotunnel P.L.C., the operator of the tunnel under the English Channel, stopped short of ordering new, fully enclosed truck-carrying freight cars, an estimated $178 million option rejected as unnecessary and too costly.

"It is not at all clear" the closed-car design would provide more safety, Robert Malpas, a Eurotunnel co-president, said at a news conference today at the tunnel's French terminal near Calais.

The company said it was already spending as much as $38 million to improve safety and repair damage caused by the fire, which broke out on Nov. 18 and closed the 31-mile undersea link between England and France for more than two weeks.

It promised tougher inspections of trucks, quicker evacuation when smoke detectors go off and gas masks.

The cause of the blaze, in which eight people suffered smoke inhalation, remains under investigation. Guards had spotted a truck on fire before the train entered the tunnel. It was the first major fire since the tunnel opened in 1994.

Despite the continuing investigation, officials ruled out the possibility that Eurotunnel's trains could have started the fire.

"It seems to us there are only two possible causes of the fire," said Patrick Ponsolle, the company's other co-president. "Some failure in one of the truck's equipment. The other cause could be a criminal act. We don't know which one."

The company did admit one failure. "The evacuation could have taken place more quickly," Mr. Malpas said.

The tunnel reopened to passenger and freight service on Dec. 4 after authorities reinforced safety measures to speed evacuation.

But no freight trucks, a major revenue earner, have been transported since the blaze. In March 1996, about 46,500 trucks paid to be taken through the tunnel.

Eurotunnel said it expected to complete repairs by mid-May to reopen the damaged section of the tunnel and resume freight truck service by mid-June, depending on approval by a French-British intergovernmental commission. That is not expected before May, although meeting date has been announced

Since the fire, trains have be switching between the two tracks avoid the damaged section, althou officials say service is now operati near four-fifths' capacity.

The new safety measures shou speed up evacuation to less than minutes, instead of the 86 minutes took to get 31 passengers and 3 cre men out of the tunnel in Novemb officials said.

Other changes include instructi train conducters to stop immediate when fire breaks out and evacuate a fire-isolated central service tunn Before, train conductors were told try to drive out of the tunnel.

The New York Times
FRIDAY, APRIL 4, 1997

THE WHITE HOUSE

WASHINGTON

DATE: 4/4/97

NOTE FOR:

The Honorable Tony Lake

The President has reviewed the attached, and it is forwarded to you for your:

Information XX

Action ☐

COS

Thank you.

Staff Secretary
(x6-2702)

cc:

cc both letters
to Tony Coelho

THE WHITE HOUSE

WASHINGTON

April 4, 1997

Ms. Jane C. Schultz
Executive Vice President
Victims of Pan Am Flight 103
142 Wilton Road West
Ridgefield, Connecticut 06877

Dear Jane:

I deeply appreciate your heartfelt letter and your kind words about Tony Lake. The letter you sent to Senator Shelby was poignant and moving, and I respect the sentiment that inspired you to write it.

I believe Tony would have been ideally suited to be the Director of the Central Intelligence Agency, and it was with the deepest regret that I accepted his request to withdraw his name from nomination. I am, however, confident that my new nominee, George Tenet, will be granted the fair hearing he deserves and be confirmed as the next Director of Central Intelligence. I know he will be an able and excellent overseer of the intelligence community and will be sensitive to the concerns of organizations such as yours.

Thank you so much for your support of Tony Lake's nomination, and of his initiatives on behalf of the victims of Pan Am 103.

Sincerely,

Bill Clinton

3/26/97

Kronel SC
3082

JANE C. SCHULTZ
HORSESHOE FARM
142 WILTON ROAD WEST
RIDGEFIELD, CONNECTICUT 06877

March 19, 1997

Dear President Clinton,

I am extremely saddened by this week's turn of events regarding Tony Lake. Shame on the Republicans and the dirty game of political posturing for robbing your 2nd administration of one of its finest and most defining moments. Tony would have brought brilliance to the C.I.A., his distinguished career in public service being the perfect catalyst to right the many wrongs that have plagued the C.I.A. for so many years.

I had such a deep conviction and carried in my heart the fervent hope that Tony would be the one to deliver the 2 indicted Libyan terrorists to stand trial for the bombing of Pan Am Flight 103. After 8 long years, the world would finally hear the truth and justice would be served.

I have such enormous respect and admiration for Tony.

As we worked together on
Pan Am 103 issues, he helped me to put a positive and productive focus on my own personal grief. I feel most fortunate to call Tony Lake my friend, he is a rare gift that sprang out of Lockerbie's ashes of devastation and destruction.

How fortunate we are to be secure in the knowledge that Tony has so many and varied phoenixlike qualities. The good guys are always the last to bat and they do it with such grace and style.

With my best regards—

Sincerely,

Jane

P.S.
I have enclosed a letter that was entered into the record of the Select Committee on Intelligence.

JANE C. SCHULTZ
HORSESHOE FARM
142 WILTON ROAD WEST
RIDGEFIELD, CONNECTICUT 06877
TEL/FAX: 203-438-3852

March 7, 1997 '97 MAR 25 AM11:21

The Honorable Richard C. Shelby
United States Senate
Washington, D.C. 20510

For the Record of the Select Committee on Intelligence
Re: The Confirmation Hearing of Anthony Lake

Dear Mr. Chairman:

I am Jane Schultz, the mother of Thomas Schultz, a 20 year old student who died in the terrorist explosion of Pan Am Flight 103 over Lockerbie, Scotland on December 21, 1988. 270 innocents died, 189 were Americans, the largest number of civilians to ever die in a terrorist attack. My son had been on a 3-month study program in London. Thomas was coming home for Christmas, instead, his body was returned on his 21st birthday.

Within the first 3 months of the Clinton administration, Tony Lake met with representatives of the victims' families. The result of the meeting was that President Clinton was committed to seeking the truth and justice about Lockerbie. The prior 4 years of the Bush administration were silent ones. Pan Am Flight 103 never existed on their public agenda - the families were angry and frustrated.

As the Executive Vice President of the Victims of Pan Am Flight 103 organization, I quickly became involved in the intricacies of Washington politics. A very high priority for me was to find a suitable site for a memorial Cairn, a gift from the people of Scotland to the United States. The Cairn consists of 270 stones - one for each life lost in the disaster. This memorial would stand as a symbol of our nation's need to be ever vigilant in the war against terrorism. For many months, we lobbied the Congress and various Veteran's groups, and in October 1993 the 103rd Congress unanimously passed Joint Resolution 129 designating Arlington National Cemetery as the site for the Cairn. Before construction could begin, there were many challenges to be met and resolved. Tony Lake made himself and his staff at the National Security Council readily available to me and my project manager, a woman whose husband was also aboard Pan Am Flight 103. Tony Lake became my teacher, offering continual guidance and wise counsel, but most importantly, he always encouraged me to never give up pursuing the goals of our organization. He helped me to understand that as quickly as one door closes, another opens. I was naive to the ways of Washington. I felt that as a father of three and a former college professor, he could readily relate to the nation's devastating loss of so many young and gifted students.

I trust and respect Tony Lake. He will bring character, integrity, leadership, and a strong stand against terrorism to the position of Director of the Central Intelligence Agency.

Sincerely,

Jane C. Schultz

Jane C. Schultz

INFORMATION REPORT

1444

Document No. 204469

WHITE HOUSE STAFFING MEMORANDUM

'97 MAR 28 AM8:21

DATE: 3/3/97 ACTION/CONCURRENCE/COMMENT DUE BY: ----------

SUBJECT: Submits report of the Commission on Alternative Utilization of Military Facilities

	ACTION	FYI		ACTION	FYI
VICE PRESIDENT	☐	☐	McCURRY	☐	☐
BOWLES	☐	☐	McGINTY	☐	☐
McLARTY	☐	☐	NASH	☐	☐
PODESTA	☐	☐	QUINN	☐	☐
MATHEWS	☐	☐	RASCO	☐	☐
RAINES	☐	☐	REED	☐	☐
BAER	☐	☐	SOSNIK	☐	☐
	☐	☐	LEWIS	☐	☐
EMANUEL	☐	☐	YELLEN	☐	☐
GIBBONS	☐	☐	STREETT	☐	☐
HALE	☐	☐	SPERLING	☐	☐
HERMAN	☐	☐	HAWLEY	☐	☐
HIGGINS	☐	☐	WILLIAMS	☐	☐
HILLEY	☐	☐	RADD	☐	☐
KLAIN	☐	☐		☐	☐
BERGER	☐	☑		☐	☐
LINDSEY	☐	☐		☐	☐

REMARKS: Please return report to this office after review. If you would like a copy of this report to keep, contact this office. Thank you.

RESPONSE:

March 28, 1997

The NSC staff recommends routing this to Dorothy Robyn at the NEC. Also, please provide a copy of the report to Jim Seaton located in Room 300 at OEOB.

Donald L. Kerrick, Brig Gen, USA Staff Secretary

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ID# 204469

THE WHITE HOUSE
CORRESPONDENCE TRACKING WORKSHEET

INCOMING

DATE RECEIVED: FEBRUARY 07, 1997

NAME OF CORRESPONDENT: THE HONORABLE ROBERT E. BAYER

SUBJECT: SUBMITS REPORT OF THE COMMISSION ON ALTERNATIVE UTILIZATION OF MILITARY FACILITIES

ROUTE TO: OFFICE/AGENCY (STAFF NAME)	ACTION: ACT CODE	ACTION: DATE YY/MM/DD	DISPOSITION: TYPE RESP	DISPOSITION: C D	DISPOSITION: COMPLETED YY/MM/DD
TIM SAUNDERS	ORG	97/02/07		C	97/02/13
REFERRAL NOTE:					
Todd Stern	A	97/02/13			/ /
REFERRAL NOTE:					
		/ /			/ /
REFERRAL NOTE:					
		/ /			/ /
REFERRAL NOTE:					
		/ /			/ /
REFERRAL NOTE:					

COMMENTS: Not for the President's transmittal to the Congress.

ADDITIONAL CORRESPONDENTS: MEDIA:L INDIVIDUAL CODES:

MI MAIL USER CODES: (A) (B) (C)

*ACTION CODES:	*DISPOSITION	*OUTGOING CORRESPONDENCE:
*A-APPROPRIATE ACTION	*A-ANSWERED	*TYPE RESP=INITIALS OF SIGNER
*C-COMMENT/RECOM	*B-NON-SPEC-REFERRAL	CODE = A
*D-DRAFT RESPONSE	*C-COMPLETED	*COMPLETED = DATE OF OUTGOING
*F-FURNISH FACT SHEET	*S-SUSPENDED	
*I-INFO COPY/NO ACT NEC		
*R-DIRECT REPLY W/COPY		
*S-FOR-SIGNATURE		
*X-INTERIM REPLY		

REFER QUESTIONS AND ROUTING UPDATES TO CENTRAL REFERENCE (ROOM 75,OEOB) EXT-2590
KEEP THIS WORKSHEET ATTACHED TO THE ORIGINAL INCOMING LETTER AT ALL TIMES AND SEND COMPLETED RECORD TO RECORDS MANAGEMENT.

ACQUISITION AND
TECHNOLOGY

OFFICE OF THE UNDER SECRETARY OF DEFENSE

3000 DEFENSE PENTAGON
WASHINGTON DC 20301-3000

JAN 31 1997

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

Dear Mr. President:

In accordance with the provisions of P.L. 100-456, Section 2819, as amended, and Executive Order 12682, enclosed is the final submission of the REPORT OF THE COMMISSION ON ALTERNATIVE UTILIZATION OF MILITARY FACILITIES.

Respectfully yours,

Robert E. Bayer
Principal Assistant Deputy Under Secretary
(Industrial Affairs and Installations)

Enclosure:
As Stated

Report of the Commission on Alternative Utilization of Military Facilities

December 1996

THE WHITE HOUSE

WASHINGTON

Date 4/4

To: Martha Foley
Barbara Chow

From: The Staff Secretary

My understanding from Rahm is that this is to be transmitted on Monday.

Any comment?

Phil Caplan

Estimate No. ______________
105th Congress, 1st Session

EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

THE DIRECTOR

The President

The White House

Submitted for your consideration are requests for an FY 1997 supplemental appropriation and an FY 1998 budget amendment for the Federal Election Commission (FEC).

I have carefully reviewed these proposals, which total $6,625,000, and am satisfied that they are necessary at this time. Therefore, I join the Chairman of the Federal Election Commission in recommending that these proposals be transmitted to the Congress.

Sincerely,

Franklin D. Raines
Director

Enclosures

'97 APR 2 P 5:47

THE WHITE HOUSE

WASHINGTON

The Speaker of the

House of Representatives

Sir:

I ask Congress to consider the enclosed requests for an FY 1997 supplemental and an FY 1998 budget amendment for the Federal Election Commission.

The details of these requests are set forth in the enclosed letter from the Director of the Office of Management and Budget. I concur with his comments and observations.

Sincerely,

Enclosure

FY 1997 Supplemental Request

FEDERAL ELECTION COMMISSION

Salaries and Expenses

<u>For an additional amount to carry out the Federal Election Campaign Act of 1971, as amended, $1,709,000.</u>

This proposal would provide $1,709,000 to the Federal Election Commission for start-up costs associated with the investigations and audits of alleged campaign finance violations that may have occurred during the 1996 presidential and congressional elections. This proposal would increase FY 1997 outlays by $1,564,000.

Agency:	FEDERAL ELECTION COMMISSION
Heading:	Salaries and Expenses
FY 1998 Budget Appendix Page:	1046
FY 1998 Pending Request:	$29,300,000
Proposed Amendment:	$4,916,000
Revised Request:	$34,216,000

This amendment would increase the pending appropriations request for the Federal Election Commission by $4,916,000. The additional resources are necessary to perform investigations and audits of potential violations of the campaign finance laws that may have occurred during the 1996 presidential and congressional elections. This proposal would increase FY 1998 outlays by $4,643,000.

4-4-97

Send to Dorskind?

Yes ✓

No

C

Stanley K. Sheinbaum

Gore Sec Summers [illegible] NC

MEMO TO: President Bill Clinton

SUBJECT: The Living Wage in Los Angeles

DATE: 2 April, 1997

When the living wage motion was introduced at the LA City Council a year ago I would have bet infinite odds against its passage. Then when Dick Riordan vigorously opposed it and threatened a veto I would have doubled infinity—if that were possible.

Wow! Now the Council has overridden his veto and I've got my tail—and this tale—between my legs.

The credit for this goes to Councilwoman Jackie Goldberg and to a retired rabbi, Leonard Beerman, who has never been politically active in this sense before. I would urge you to drop each of them a brief note of congratulations:

Councilwoman Jackie Goldberg,
Los Angeles City Hall
200 North Spring Street Room 240
Los Angeles, CA 90012

Rabbi Leonard Beerman
312 South Canyon View Drive
Los Angeles, CA 90049

This is a real effort and a real achievement.

Stanley

345 North Rockingham Avenue Los Angeles California 90049-2635
Telephone (310)472-9541 FAX (310)476-9853 e-mail: sks345@aol.com

RIAL PAGES

RO 4/2/97 Los Angeles Times

Council Overrides Veto, OKs Wage Law

Los Angeles Times

'It's historic because it says that as employers, we won't keep people [who perform city services] living in poverty.'

JACKIE GOLDBERG
Councilwoman

■ **City Hall:** As expected, panel overcame mayor's action against guidelines on pay for employees of city contractors.

By GREG KRIKORIAN
TIMES STAFF WRITER

Capping a year of tumultuous debate, the Los Angeles City Council on Tuesday overwhelmingly voted to override Mayor Richard Riordan's veto of an ordinance establishing an unprecedented "living wage" and benefits package for employees of city contractors.

The council's 11-1 vote means that the so-called living wage measure will become city law by early May.

"This is . . . a very important moment," the measure's principal sponsor, Councilwoman Jackie Goldberg, told a crowd of cheering supporters after the council's vote. "It is not where we want to be, but it is certainly not where we were."

Goldberg's remarks acknowledged that the ordinance, although bitterly opposed by Riordan, will ensure that only about 5,000 workers—less than 0.5% of the work force—will receive a "livable wage," defined in the measure as at least $7.25 an hour with benefits, such as health insurance, or $8.50 an hour without such benefits.

Goldberg and a group of labor organizers and community activists under the banner of the

Please see WAGES, B3

Continued from B1

Living Wage Coalition heralded the council's vote as a landmark step for Los Angeles, which joins New York, Baltimore and other cities in setting minimum standards for compensation of those who work for municipal contractors.

"This has been a really incredible effort," said coalition leader Madeline Janis-Aparicio. "It shows what we can do."

Goldberg added: "It's historic because it says that as employers, we won't keep people [who perform city services] living in poverty."

In contrast to previous public hearings, where supporters and opponents of the measure clashed over its implications, Tuesday's final vote proceeded with virtually no comment. Perhaps sensing the measure's eventual passage, no one spoke in favor of the mayor's veto. And, by agreement, organizers of the measure elected to have Leonard Beerman, the retired senior rabbi of Leo Baeck Temple in West Los Angeles, serve as their spokesman.

"This vote is one that will affect significantly the lives of some 5,000 workers in this community," Beerman said.

He portrayed the minimum thresholds set by the ordinance as crucial to the workers' human dignity, as well as their economic survival.

"What it demonstrates most clearly and passionately is that by your vote you have made it profoundly clear that the moral conscience has a place of honor in this city," he said.

Under the ordinance, which goes beyond that of other municipalities, employers who receive city contracts of more than $25,000 will be required to pay their workers a livable wage. The law also will apply to companies that receive city financial aid amounting to at least $100,000 a year or $1 million or more in one-time assistance from the city. In addition to health insurance, employers who elect to pay benefits rather than a higher minimum wage also will be required to provide workers with 12 paid days off a year.

An analysis by the city's top financial and policy advisors concluded that the measure would cost up to $21 million when it was fully implemented, but that much of that amount would be borne by contractors and consumers. At most, city officials estimated, the measure would eliminate about 200 jobs.

THE PRESIDENT HAS SEEN
4-4-97

Washington Wire

A Special Weekly Report From The Wall Street Journal's Capital Bureau

A1

GINGRICH'S CRITICS will keep his feet to the fire as Congress returns.

The House speaker's tough talk in China placates some on the right, but social conservative Gary Bauer says Gingrich fell short on attacking the U.S. trade preference with the Chinese. Republican Steve Forbes charges in next week's Human Events magazine that Gingrich and House leaders "got the political version of mad-cow disease" in backtracking on tax cuts.

Conservative House Republicans will press GOP leaders to keep vows to kill funding for the National Endowment for the Arts. They grouse about Gingrich's cordial meeting with activist-actor Alec Baldwin. But conservatives play down reports of a move to dump Gingrich. A GOP staffer says: "There's been no regicide meeting."

Gingrich ~~will have a forum~~ to strike back at critics when he speaks Monday to Gopac, the political group he founded.

PRIVATIZING WELFARE will probably get a go-ahead despite opposition.

The White House is expected to allow private companies to run states' food-stamp and Medicaid programs. Though the ruling involves only Texas, where Lockheed Martin Corp. and Electronic Data Systems Corp. are vying for contracts, it would set a nationwide precedent. But advisers to GOP Texas Gov. Bush expect the Clinton administration to string out the decision, perhaps by requiring interim steps on bids.

The White House faces strong protests from labor and advocates for the poor. An internal administration report warns that privatizing could come "at the expense of client services." But such concerns appear to have been overruled by domestic-policy chief Bruce Reed. Critics say Clintonites also fear attacks from the right for blocking welfare reform.

Erb — I have never agreed to this — staff + ~~HHS~~ may have but I haven't
BC

CHEMICAL EVENT: The White House pushes the chemical-weapons treaty.

Clinton will host backers of the international pact on the South Lawn today. They include Colin Powell, former GOP Sens. Nancy Kassebaum and Warren Rudman, and former Democratic Sen. David Boren. The U.S. chemical industry says it will lose millions of dollars in business if Congress doesn't ratify the treaty.

Clintonites rely on Senate Leader Lott to get the pact to a vote, but fear he will then lead the fight against it. They narrow differences with GOP senators, including Foreign Relations Chairman Helms. But dealbreakers remain, such as Helms's demand that Russia and rogue states such as Iraq become treaty members first. To woo Helms, aides to Secretary of State Albright lean toward a plan to dismantle at least two foreign-policy agencies.

The U.S. has until midnight April 28 to sign on if it wants American inspectors and a major say in how the treaty's rules are written.

copied
Bowles

FRENCH CONNECTION: Clinton's choice for the highly coveted post of ambassador to France is investment banker Felix Rohatyn. The administration is conducting final background checks before making the official announcement to fill the post previously held by the late Pamela Harriman.

DEMOCRATS FUME over their inability to get their subpoenas approved by Sen. Thompson's committee investigating campaign-finance abuses. They want to call witnesses on the activities of the Republican National Committee and tax-exempt groups that run ads aiding GOP candidates.

WEBB SPITE: Angry shareholders could cause problems for the public companies that hired Clinton friend Webster Hubbell before he went to jail for fraud and tax evasion. Some write to one company's auditor to demand that an explanation and details of any service given by Hubbell be provided in a formal disclosure to the SEC.

BRAIN DRAIN: Embattled Speaker Gingrich, who already has seen Chief of Staff Daniel Meyer and spokesman Tony Blankley depart in recent months, is about to lose another top aide. Policy adviser Ed Kutler is leaving to join the Washington lobbying firm of Clark & Weinstock.

BUSINESS SEEKS to enlist backyard chefs to fight clean-air rules.

The National Association of Manufacturers leads a drive to protect the "little guy and his freedom" against EPA proposals. The NAM's strategy team, including oil-company lobbyists, sends small-business owners to Capitol Hill to complain. Its ally, Citizens for a Sound Economy, mounts a media campaign saying the rules might ban outdoor barbecues and July 4th fireworks.

EPA chief Carol Browner calls the claims false "scare tactics." The talk of a fireworks ban seems to be based on an off-hand joke by a researcher. The NAM's internal files show that in meetings with 137 House members, many Democrats were uncertain about joining the fight, but many Republicans earned the group's top rating: "Fine – coached on media."

Michigan GOP Rep. Ehlers is rated a "hard sell." He has a doctorate in nuclear physics.

MINOR MEMOS: Where the boys are: Before Andrea Mitchell's wedding Sunday to Fed Chairman Alan Greenspan, 24 men hold a bridal shower for her. . . . Citizens Against Government Waste gives "The Don't Ask, Don't Tell Award" for $17.9 million spent for military-construction planning "at unspecified world-wide locations." . . . Deputy Solicitor General Seth Waxman temporarily takes over as the Justice Department's acting No. 2 official, outranking acting Solicitor General Walter Dellinger.

—RONALD G. SHAFER

THE WALL STREET JOURNAL
FRIDAY, APRIL 4, 1997

THE WHITE HOUSE

WASHINGTON

Date 4-4-97

To: The Vice President

From: The Staff Secretary

The President has asked that the attached document be forwarded to you per your discussion.

Copied:
VP
COS

THE PRESIDENT HAS SEEN
4-3-97

THE WHITE HOUSE
WASHINGTON

March 27, 1996

MR. PRESIDENT:

The attached memo from Bruce Reed and Elena Kagan outlines two issues: 1) whether states can privatize certain administrative functions of the Food Stamp and Medicaid programs; and 2) whether worker protection laws -- particularly the minimum wage -- apply to work programs under the new welfare law.

These issues are not being presented for your decision now, so this memo should be considered strictly informational. But Bruce and Elena thought you should know the current state of thinking in advance of your meeting with Sweeney, McAntee et al tomorrow.

On privatization, you will be presented with a decision shortly. Therefore, you should probably not give any indication in your meeting how we will come out. On worker protection, you can give the labor leaders some indication that our interpretation of the law is consistent with their thinking. Given that this issue is essentially a legal interpretation, it may not rise to the level where a decision is required from you.

Phil Caplan
Phil

THE PRESIDENT HAS SEEN
4-3-97

THE WHITE HOUSE

WASHINGTON

March 27, 1997

MEMORANDUM FOR THE PRESIDENT

FROM: BRUCE REED
ELENA KAGAN

SUBJECT: WELFARE REFORM -- PRIVATIZATION AND MINIMUM WAGE

We must soon provide guidance on two welfare reform issues of importance both to States and labor unions: (1) whether states can privatize certain administrative functions of the Food Stamp and Medicaid programs and (2) whether worker protection laws -- particularly the minimum wage (Fair Labor Standards Act) -- apply to work programs under the new welfare law. This memorandum outlines recommended approaches to dealing with these issues. The recommendation on privatization will give states part of what they want while angering unions; the recommendation on worker protection laws will please the unions while angering states.

Privatizing Food Stamp and Medicaid Administration

The new welfare law explicitly allows states to contract with private entities to administer Temporary Assistance to Needy Families (TANF). The Administration now must decide how to respond to two requests to privatize administration of other federally funded benefit programs. Texas wants to contract out, on a statewide basis, administration of both the Food Stamps and Medicaid programs; Wisconsin wants to privatize administration of the Food Stamps program in a number of counties, though the need for an administrative decision on this plan is not as pressing. Federal approval of these requests will establish a policy for other states as well.

States that want to privatize believe that a competitive contracting process will result in greater program efficiencies while adequately protecting program recipients. (Because Medicaid and Food Stamps remain federal entitlements, private contractors determining eligibility for the programs would have to follow federal eligibility rules.) Organized labor is concerned that privatizing government functions will displace state and local government workers (with a resulting loss of union membership). They also charge that privatization will harm recipients because contractors will "cut corners" in determining eligibility for benefits.

All the relevant agencies and White House offices (HHS, USDA, OMB, DPC, and NEC) believe that allowing some privatization makes sense: the question is how much. Below, after some additional background information, we outline a consensus recommendation.

Background

Federal agencies and the state of Texas have been negotiating since June 1996 over the state's proposal to privatize the administration of TANF, Medicaid, Food Stamps, and certain other federally-funded nutrition programs. The state legislature passed the plan with bipartisan support, with endorsements from Lt. Gov. Bob Bullock and other leading Democrats. Under the Texas plan, private contractors would collect information about applicants (including by conducting interviews) and make eligibility determinations. The State would retain control over the appeals and quality control processes. An estimated 15,000 state jobs would be eliminated or transferred to the private sector. The state would require bidders to comment on whether they plan to hire displaced government workers. Such companies as Lockheed, EDS, and Arthur Anderson have indicated an interest in bidding.

Texas has argued that it cannot proceed with plans to contract out TANF (as allowed by the welfare law) unless the Administration allows private contracting for Food Stamps and Medicaid, because maintaining separate eligibility systems for these programs creates administrative difficulties. To take the most obvious problem, a dual system would require many individuals to go to one location to apply for TANF and another location to apply for Food Stamps and Medicaid. Texas wants a one-stop eligibility center.

Texas state officials are becoming increasingly impatient with HHS and USDA for not having ruled on their proposal. In a recent letter to HHS, state officials threatened to proceed with the project without Federal approval. State officials also point out that they have pledged to reinvest the savings from their plan in additional health and human services programs, and that these savings could provide health coverage for 150,000 Texas children. Rep. Charlie Stenholm, one of the Administration's strongest welfare reform allies, complained about the delay to Frank Raines in a February 24th letter, saying the state of Texas is "willing to make accommodations to address administration concerns." Secretary Shalala has promised Texas an answer by early April. Most recently, we heard from Rep. Stenholm's office and from Gary Mauro that Texas would accept modifications of its proposal as long as we allow the State to go forward with releasing a "request for offers" ("RFO") to potential bidders.

Labor leaders would like us to refuse the Texas request entirely. They see even limited privatization as a dangerous precedent and have made clear that they view this decision as critically important to public employee unions.

Recommendation

All the relevant agencies and White House offices agree that the Administration should draw the line on the basis of our existing Medicaid policy, which allows privatization of some but not all administrative functions. Under this approach, the application, interview, and other information-gathering can be done by private employees; the eligibility determination itself, as well as appeals and quality control, must remain in the hands of public employees. In addition, the Administration should ensure that contracts protect against the possibility that private firms will use procedures that lead to inappropriate denials -- or, as OMB notes, inappropriate grants -- of program benefits.

This general approach has both strong precedent and good sense behind it. The Medicaid program already allows private hospital workers to do intake and eligibility work, up to the point of actually determining eligibility. Allowing privatization of these functions, conditioned on appropriate contract incentives and safeguards, strikes the right balance between allowing states to explore innovative ways to deliver public services and ensuring that beneficiaries' rights are protected. There is little doubt that this approach will displace some state workers and displease public employee unions. But we have crossed this bridge already in Medicaid and other contexts; for example, the Department of Labor has granted a waiver to Massachusetts to contract out all employment services and is prepared to do the same for other states as well.

In line with this view, we recommend that we inform Texas of the principles we will apply in reviewing any privatization scheme and give formal permission to the State to issue its RFO. Once the State accepts a bid, we will review whether the contract appropriately accords with our principles. This approach gives Texas less than it asked for, but allows the State to proceed with some reforms. It preserves a role for public employees, but will still anger the unions.

II. Application of Labor Laws

As states begin to redesign their work programs to meet the work participation rates in the new welfare law, a critical question for both the labor movement and the states is whether worker protection laws -- particularly the minimum wage law (Fair Labor Standards Act) -- protect welfare recipients who take part in workfare or subsidized employment programs. The answer the Administration is ready to announce on this issue -- that as a matter of law, worker protections apply to welfare recipients as they do to other employees -- will mostly please the unions and displease the States.

Recommended Administration Position

A review conducted by the White House and relevant agencies has concluded that current law requires applying the minimum wage law and other worker protections to welfare recipients engaged in work activities. The new welfare law contains no exemptions from worker protection statutes for these individuals, leaving these protective statutes to operate as they would for any other worker. States therefore cannot, as they partly could before, set up and run work programs independent of labor laws. (The Family Support Act exempted workfare programs from the FLSA, but required work hours to be based on the minimum wage.)

The FLSA, when applied to people in workfare and wage supplementation programs, usually will require payment of the minimum wage. As long as participants in such programs count as "employees" under the Act, they will qualify for the minimum wage. A State could try to structure its program so that participants will count instead as "trainees" under the Act, because "trainees" are not entitled to the minimum wage. It will be extremely difficult, however, for states to construct programs in which participants will count as "trainees" under the FLSA and also count as performing work activities (and therefore counting toward work participation rates) under the new welfare law. As a result, application of the FLSA will usually mean that the State must pay the minimum wage to individuals in workfare programs.

The food stamp law gives states the ability to count food stamps as part of the minimum wage for some individuals engaged in workfare programs. Specifically, the state can count food stamps toward the minimum wage for welfare recipients without a child under the age of six, but not for welfare recipients with such a child. (We are checking now whether there is a legal way to allow states to count food stamps toward the minimum wage in all cases, but suspect we will not find any.) The state will be able to count the value of other benefits (child care, housing, or transportation) toward the minimum wage only when the FLSA allows the counting of such benefits for workers generally -- which is only in unusual circumstances.

In addition to the minimum wage law, the Occupational Safety and Health Act, unemployment insurance laws, and anti-discrimination laws usually will protect welfare workers; in addition, the NLRA usually will give them organizing rights. More uncertain is how the tax code will apply to individuals in workfare and wage supplementation programs. The Treasury Department is still considering whether monies paid to welfare recipients will be subject to FICA and other taxes or would qualify for the EITC. Our 1994 and 1996 welfare bills prohibited recipients from receiving the EITC or being subject to FICA.

Anticipated State and Congressional Response

We should expect the announcement of Administration policy to provoke strong criticism from the states and Congress. On March 3rd, Governor Whitman wrote in a letter to you that applying minimum wage laws to workfare participants would "end welfare reform as we know it" by placing states in the position of either failing to meet the law's work requirements or incurring large new costs. Even The New York Times editorial board, in discussing union plans to organize workfare participants, has opined that "what they are doing does not amount to a job" -- a view consistent with what many States and members of Congress will be saying.

The reason states will protest is obvious: applying minimum wage laws will increase the cost of running workfare programs. (Of course, requiring the minimum wage will not make it more expensive for states to help welfare recipients find unsubsidized private sector jobs or to subsidize private sector jobs.) In 36 states, the current cash welfare benefit for a family of three will fall short of a minimum wage salary even for a 20-hour work week. As the work requirement in the law increases to 25 and then to 30 hours, and as the minimum wage also increases, 48 states (all but Hawaii and Alaska) will discover that their welfare grants are insufficient. (See attached document.)

Counting the value of food stamps will ease this difficulty, to the extent that states can do so. (As noted above, states may not be able to count food stamps for individuals with children under six.) But even if both TANF and food stamp benefits are counted toward the minimum wage, Mississippi will immediately come up short. As the minimum wage increases and the work requirements increase to 30 hours, a total of twenty states will find themselves in this position.

This policy is a mixed blessing for recipients. The increased expense of public employment will encourage state efforts to find private sector jobs for welfare recipients -- a policy we believe is desirable. But that same expense also may encourage states to cut recipients from the welfare rolls sooner, rather than place them in public sector jobs.

There is little doubt that once we announce our reading of the law, efforts will begin in Congress to exempt workfare programs from worker protection laws entirely or to enact more limited "fixes." We will have to track these efforts carefully and decide, as we gain more information, how to respond to them.

IMPACT ON STATES
OF PAYING MINIMUM WAGE FOR WORKFARE[1]
Example: Family of Three

Minimum Wage Costs

The monthly cost of a $5.15 minimum wage for 20 hours a week is $443 and for 30 hours a week is $664. The welfare law's work rates for single parent families are currently 20 hours a week; they rise to 30 hours in the year 2000.[2]

If States Use TANF Funds as "Wages"

In 36 states, current TANF benefits are not enough to pay for 20 hours a week at the minimum wage. In 48 states (all but Alaska and Hawaii), current TANF benefits are too low to pay for 30 hours per week of work at the minimum wage.

If States Use TANF and Food Stamps Funds as "Wages"

In one state, Mississippi, the combined TANF and food stamp grants are not enough to pay for 20 hours a week of work at the minimum wage. In 20 states, the combined benefits are not enough to pay for 30 hours a week of work. These states are:

Nevada	Oklahoma	North Carolina	Louisiana
Arizona	Florida	Kentucky	Texas
Ohio	Missouri	West Virginia	Tennessee
Delaware	Indiana	Arkansas	Alabama
Idaho	Georgia	South Carolina	Mississippi

New legislation may be required to count food stamps as wages for certain families.[3]

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[1] This table points out the potential shortfall for workfare programs, in which public funds would be the only source of wages for the recipient. In a wage subsidy program, the shortfall would be filled by a contribution from the employer. Thus, the application of the minimum wage will likely encourage states to have work subsidy, rather than workfare, programs.

[2] The new law requires for single parent families a minimum of 20 hours of work a week in 1997 and 1998, 25 hours in 1999 and 30 hours in 2000. The minimum for two parent families is 30 hours a week for all years. These calculations assume an average of 4.3 weeks per month.

[3] New legislation would likely be required to count food stamps as wages for most families, because the Food Stamp Act contains a prohibition against requiring individuals with children under age 6 to participate in work activities. This prohibition may be only partially waivable. Approximately 62% of families subject to the TANF work requirements have children under age six.

THE WHITE HOUSE

WASHINGTON

DATE: 4-4-97

NOTE FOR: Mark Penn

The President has reviewed the attached, and it is forwarded to you for your:

Information ☒

Action ☐

Thank you.

Staff Secretary
(x6-2702)

cc:

Mark Penn
2201 N Street, NW
Apartment 15
Washington, DC 20037

COS

THE WALL STREET JOURNAL. •••• WEDNESDAY, APRIL 2, 1997 B1

MARKETPLACE

investors feared disputes might be subject to tribal law, and partly because few tribes collected taxes or had other revenue streams to service the debt. "They've had trouble gaining recognition in the marketplace as tax-exempt issuers," says Jerry Dumas of Southwest Securities, ties. He notes that white ethnic groups socialize and intermarry freely with each other, rather than living in separate communities. "It's not really a matter of cultural inheritance. It's more of a mindset," he says, and "just not sustainable" as a basis for marketing.

Excuse Me, but Would You Please Read This? Thank You Very Much

By KEVIN HELLIKER
Staff Reporter of THE WALL STREET JOURNAL

THE PRESIDENT HAS SEEN 4-3-97

Mother Teresa has devoted her life to the poor of India. But is she any nicer than Michael Jordan, who earns $30 million a year playing basketball?

Not according to a new survey of niceness conducted by Hallmark Cards Inc. The nation's largest maker and seller of greeting cards is respectfully trying to become its official expert on niceness.

That's because the same research into social trends that led Hallmark to create cards for cynics, cards for the angst ridden and cards for the status conscious now tells it to emphasize the nice. "Nice is back in style," a Hallmark spokeswoman proclaims, pointing to the popularity of books on etiquette and such heart-warming television shows as CBS's "Touched by an Angel."

Hoping the impulse toward niceness will prompt people to send thoughtful greeting cards for no special reason, Hallmark is launching a new line called "Out of the Blue," as well as a new national television campaign called "Look Who's Nice."

To ascertain the national position on niceness, the company, known as the General Motors of emotion, surveyed 1,027 Americans. Asked to rank a list of five celebrities, the respondents called Oprah Winfrey the nicest and Martha Stewart the least nice. Invited to write in their own candidates, they chose Bill Cosby, Bill Clinton and—tied for third—Billy Graham, Mother Teresa and Michael Jordan.

Asked to rank 10 instances of niceness, the respondents said they would most appreciate a neighbor jump-starting their car, followed by being allowed to merge in front of another car in traffic. The act of niceness they would perform most quickly: opening a door for somebody. Least quickly: informing someone of food stuck in his or her teeth.

There's a gender gap when it comes to niceness. Only 47% of men would let someone cut in line at a checkout counter, compared with 67% of women. Only 37% of men would compliment someone on a new outfit, compared with 73% of women. Asked to name the nicest person they know, men most often named their spouse; women most often named a friend.

The results were mixed for Hallmark. Sending a card for no particular reason ranked ninth out of 10 among acts that respondents would be likely to perform. But in terms of gestures that they most appreciate, it ranked fifth out of 10.

THE WHITE HOUSE

WASHINGTON

Date April 4, 1997

To: Michael Cohen

From: The Staff Secretary

For your information, from the Oval Office.

Pres. wants this sent to whoever handles it —

4-4-97

Send to Dorskind

Yes ___

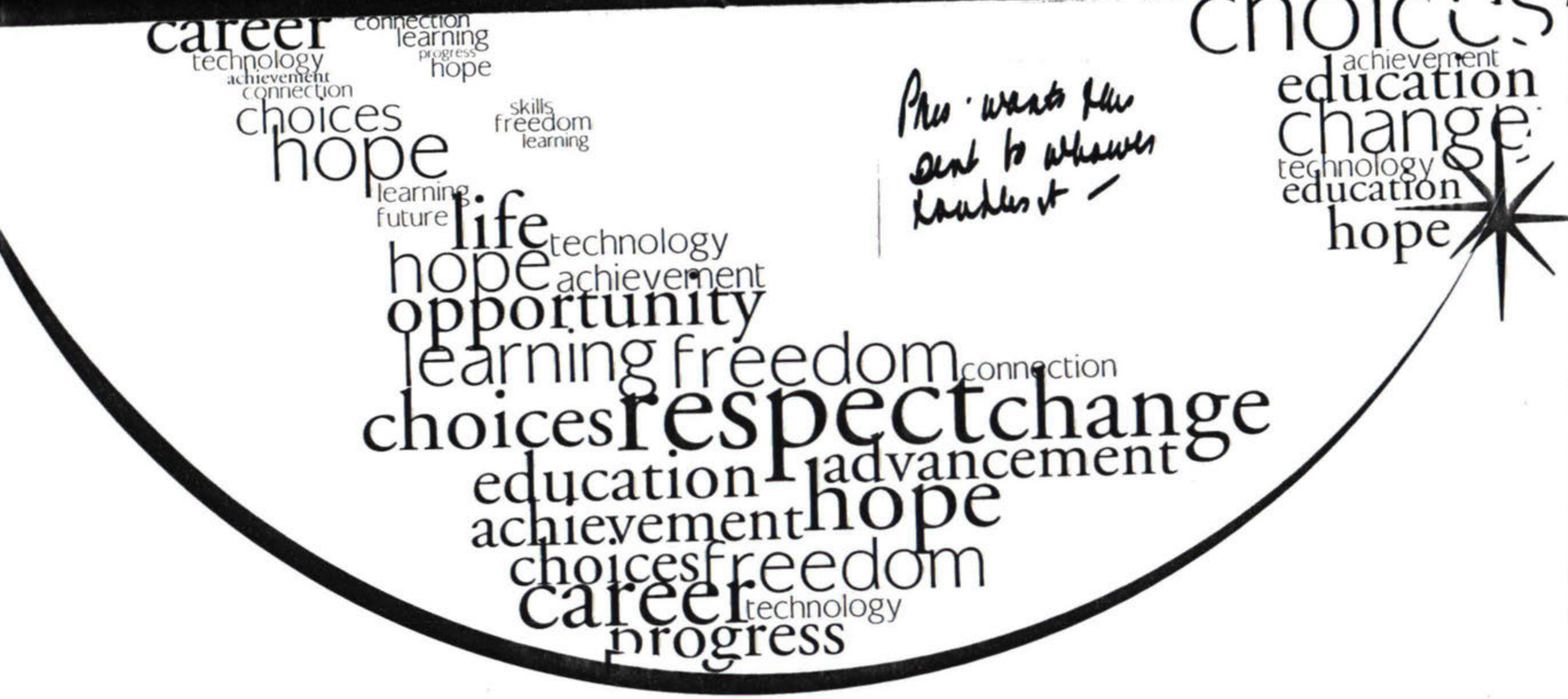
No ___

coordinate w/ Mike Cohen)

Yes ___

No ___

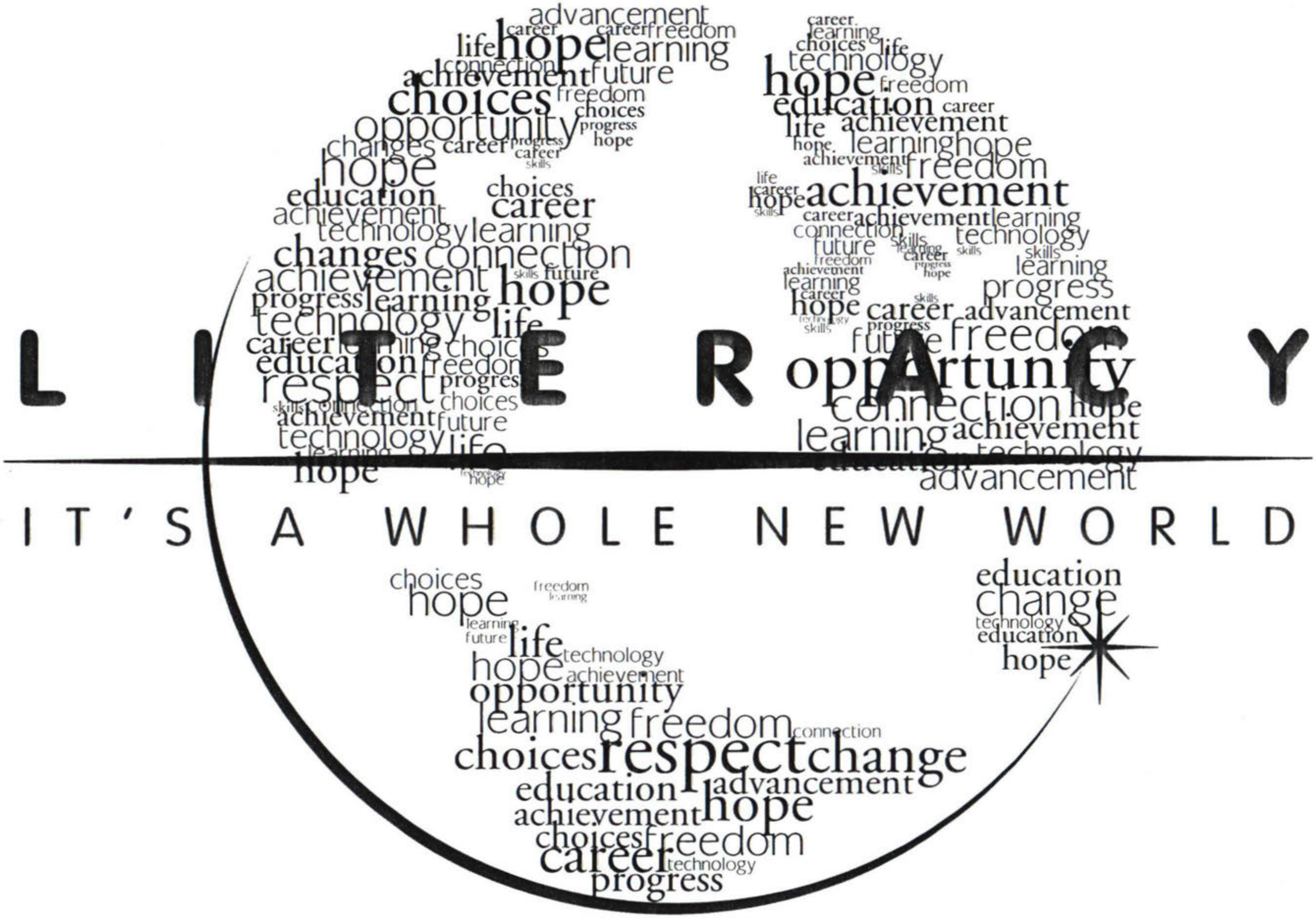
Just send FYI to Mike Cohen from Oval Office



Pres. wants this sent to whoever handles it —

LITERACY

IT'S A WHOLE NEW WORLD


LITERACY
IT'S A WHOLE NEW WORLD

LITERACY

IT'S A WHOLE NEW WORLD

LITERACY

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The National Institute for Literacy

Public Awareness Campaign:

Campaign Overview

February 28, 1997