THE PRESIDENT HAS SEEN
6-3-97

Lost

David K. Lifschultz
641 West 59th Street
New York, New York 10019

Gene S

— What do you think of this?

— Need a reply

— Make copy for Secy Rubin BC
(I want to get a note in it) BC

May 1, 1997

Dear Bill,

Here's another Carroll Quigley analysis of the trade deficit from a former student of our Professor Quigley that so brilliantly taught us as Georgetown U. Watch out for the Wall Streeters that they don't make you another Hoover, old classmate!

Best regards,

David

copied
Sperling
~~Rubin~~
Bowles
POTUS

Chron

Deficits Without Tears

The United States has racked up over one trillion in current account deficits since 1984. These deficits have caused few tears for our governmental authorities as foreign central banks in their dirty float operations have aquired 646 billion of these deficit dollar deposits and used these deposits to acquire an equivalent amount of Treasury bonds (April, 1997, Federal Reserve Bulletin, page A51, Chart 3.13). Foreign central banks have an interest in acquiring these dollar deposits in order to foster exports to the United States by making their currencies cheaper. Their short-term thinking is such that they worry little about the ultimate redeemability of these dollar holdings in goods, services or gold, but are entirely focused on either increasing their power of production as in China, or reducing their 12% unemployment as in Germany. [1] It is questionable whether it is in the long-term interest of the United States to build up such potential adversaries as China or Japan. The cultural differences are enormous.

The end of 1996 saw U.S. assets abroad of 3.237 trillion, while foreign assets here were 4.320 trillion, a negative-U.S. investment position of 1.083 trillion. In excess of 2.2 trillion of foreign investments were liquid while about 1.5 trillion of U.S. assets were liquid (excluding central bank government holdings).[2] This rather dismal picture of the United States as the world's largest debtor was not always the case. Back in 1972 foreign assets in the United States were 149.372 billion of which 82.9 billion were liquid. U.S. assets abroad were 206 billion of which 18.8 billion were liquid (includes our entire gold reserve).[3]

Even in 1972 there was a liquidity problem despite the United States being the world's largest creditor. Foreigners had a liquidity position in the United States of 82.9 billion while the United States had a liquidity position of 18.8 billion largely consisting in our gold reserve. It was obvious then that our gold reserves were insufficient to cover a run on the dollar and that gold convertibility long before then was a myth. For every dollar of gold and liquid reserves there were $4.40 in liquid liabilities.

The international financial system then was held together by the fear of the Soviet threat and the desire of central banks to foster their countries' exports to the United States. There are now 2.2 trillion of foreign liquid assets in the United States held here only by economic considerations and about 646 billion of foreign central bank holdings of Treasuries. The great international financial question of the day is whether in the event of a stock market crash in the United States (due to a middle east shutoff of oil or a financial accident) the foreign central banks will buy those 2.2 trillion in dollar deposits should they be dumped on the market or would they let the dollar crash and collapse the world economy as in 1929?[4] I turn now to a discussion of how we arrived here from 1972.

A lion's share of the blame has to do with bad central bank management. In the old days of the gold standard, a trade deficit was self-correcting as gold left the deficit nation to pay the deficit forcing the U.S. central bank to decrease the amount of outstanding credit to the loss of its gold equivalent (if an ounce of gold was worth $20, then the loss of one million ounces to pay the deficit would force the U.S. central bank to extinguish 20 million dollars of domestic credit), while the surplus nation received the gold triggering a proportionate increase in credit (if an ounce of gold were worth 80 marks, then Germany would create 80 million marks of credit if it were the surplus country receiving the one million ounces of gold). The decrease in bank credit for the deficit nation decreased demand for foreign goods, while the increase in credit in the surplus nation increased their demand for foreign goods. This system led to trade balance. This self-correction could be achieved today simply by contracting credit in the United States until demand for foreign goods evaporated. This mechanism remains untried as the unemployment it would engender based on the rigidity of the wage level would not be deemed acceptable. We want no tears. The only other self-correcting method would be to allow the currencies to float against each other whereby the deficit nation's excess of dollar credits would drive down its currency making it harder for the surplus country to sell to us. This is the free market approach of Dr. Milton Friedman.

Before turning to an analysis of Dr. Friedman's approach and how it is presently playing out, a brief-discussion of how the so-called gold standard really worked would be highly instructive. Arthur Kitson, an Englishman who advised William Jennings Bryan, wrote in 1933 as follows:

> As to the effect of our free gold market upon securities, some years ago the Bankers' Magazine gave a startling example of the depreciation in the prices of 325 of our representative investments caused by the withdrawal of 11,000,000 British pound sterling in gold from the Bank of England by a group of American financiers. The transfer of this amount from London to New York during the period of a few weeks caused a fall of prices equivalent to 115,500,000 in British pound sterling! Whilst the absorption of the same gold in New York caused a corresponding advance in the prices of certain American securities. By first selling English securities and buying American, they had merely to transfer so much gold and afterwards reverse these transactions by buying and selling respectively and the game was won! As a well-known financial writer stated at the time: "These speculators were playing upon two tables at the same time/ one in London and the other in New York / with the certainty of winning on both."[5]

This will give us some help in understanding today's problems and the rise in our stock market. The central banks against all textbook rules are practicing today a dirty float against the United States. Clyde Prestowitz, Jr. maintains the Yen has been undervalued since the 1949 Dodge Plan by the dirty float mechanism.[6] The way the dirty float mechanism works is that foreign central banks intervene in the foreign exchange market to buy dollars thereby holding up the value of the dollar and preventing the self-correcting mechanism from working. Otherwise, the surplus dollars of the trade deficit would force the dollar down based on the law of supply and demand.

This is demonstrated by the interesting correlation between the 1996 balance of payments deficit in goods and services of 122.623 billion and the purchase of foreign central banks of Treasuries and other smaller items of 122.778 billion. The much vaunted flow of funds into the United States of 525.046 billion dollars composed of 402.268 billion of private investment is largely offset by an increase of 306.830 of U.S. assets abroad of which 312.833 billion is private. Consequently, the foreign central banks are making up the critical 122.623 billion in goods and services by their dirty float intervention preventing the self-correcting mechanism of the floating currency exchanges from working. The actual current account deficit of 165.095 billion is calculated by adding to the 122.623 deficit 42.472 for unilateral transfers that represent foreign aid, U.S. pension and charitable outflows. The remaining 53.122 billion is an allowance for statistical discrepancies.[7]

Thus the dollar's strength is largely caused by central banks' manipulations of interest rates, which they do by driving rates down by buying Treasury bonds or raising rates by selling them (Japan's .5% Central Bank rate is created by massive credit expansion in Japan to reflate their banking system), and dirty float interventions. This should not be tolerated by the U.S. authorities.

In a recent speech in Belgium Federal Reserve Chairman Alan Greenspan[8] gave an interesting reason why the United States likes the dirty float operations of the foreign central banks because they hold down U.S. inflation and wage rates. If the dollar falls in value raising the prices of imported goods, this would contribute to inflation. But this is very short-sighted because it deflects attention from a deteriorating current account that for centuries has been regarded as the true test of a nation's economic health. A trade deficit was always regarded as being caused by excessive credit creation in the offending country. In addition, when U.S. manufacturers saw that our government's policy was to prevent self-correction of the trade deficit by free floating exchange rates, they immediately ran to shift manufacturing from the higher wage level U.S. market to slave labor sites[9] as in China where industrial pollution is a way of life. There our manufacturers need not worry about the E.P.A. Now 40% of our imports are represented by U.S. manufacturing concerns which shifted their production abroad at the expense of the American worker.[10]

Anecdotal evidence on Wall St. relates that huge profits are being made in arbitrage operations between Japan and the United States. Hundreds of billions of dollars are being borrowed on 1% to 2% margins in Japan at 2% interest and invested in the United States at 6%. Therefore, an investment of 1 to 2 billion can reap 4 billion in profit per year.[11] This harms U.S. manufacturers as these borrowings first occur in Japan in Yen and then are converted into dollars that drive up the dollar and depreciate the Yen causing a rapid increase in Japanese exports to the United States. Wall Street's interests are therefore adverse to General Motors and the United

Automobile Workers Union, and yet Wall St. staffs the Treasury and the Fed.

I see a major obstacle in the development of a solution to the trade deficit problem in the apparent conflicts of interest in the staffing at Treasury, the Federal Reserve and the World Bank. Most of the key job holders come from Wall St. as Robert E. Rubin, Secretary of the Treasury, from Goldman Sachs, and Alan Greenspan, Chairman of the Federal Reserve, and James Wolfensohn, President of the World Bank, from their own Wall St. firms. Departures from these key government jobs often lead to immediate jobs on Wall St. such as the former President of the N.Y. Federal Reserve Bank, William Corrigan, to Goldman Sachs, and Wayne Angell, a former member of the Federal Reserve Board of Governors, to Bear Stearns. Aside from the question as to whether Wall Street's interests are the same as our manufacturing interests, as will be discussed again in more detail below, the other question is whether these Wall St. houses seek through these relationships undue influence on our monetary and regulatory policies.

For example, Goldman Sachs, after paying the largest bonuses and salaries in history, posted a quarterly profit of 905 million on 1.96 billion in revenue based on 5.26 billion in capital.[12] These were said to be made largely in the Japan-U.S. arbitrage operation where security in the exchange rate was vital. A large unexpected drop in the exchange rate could destroy all these huge arbitrage operations and the participating paramount Wall St. houses and hedge funds. Here is where we see the problem of conflict of interest in staffing key financial posts in Washington by Wall Streeters instead of General Motor executives or economists from the United automobile Workers Union.

To put the Goldman Sachs earnings in perspective, it would do well to look at General Motors whose domestic production suffers greatly from the 56% depreciation of the Yen. In the 1995 Annual Report General Motors showed 5 billion in profit on 164 billion in sales with 23.4 billion in equity. They had 647,000 employees to about 10,000 at Goldman Sachs. Where do the real interests of the United States lie, at Goldman Sachs or General Motors? I say, General Motors.

The only policy that best fits America's circumstances at this time is to let the dollar float freely and depreciate until the trade deficit is eliminated. By encouraging through substantial tax credits the use of new domestic bank credit for productive investment, the nation's productivity can be considerably improved dampening domestic inflation while surging domestic production from the lower dollar will eliminate completely the budget deficit. By curtailing immigration those Americans losing welfare can be assured of jobs in a growing economy. General Motors' profits will rise and those of Goldman Sachs will fall once markets stabilize and the artificial swings are stopped. Work will be rewarded, not speculations.

ENDNOTES

[1] The dirty float issue is pregnant with meaning. In 1995 the U.S. had a 187 billion trade deficit with the following significant trade deficits with individual trading partners:

	Deficit (billions)	Treasury Holdings (billions)	
	Year 1995	**12/31/94**	**8/31/96**
Canada	22	24.6	30.3
Japan	63	175.7	263.3
Germany	16	54.4	67.1
China	37	20.5	38
Malaysia	9	not shown	not shown
Taiwan	11	25.8	37.3
Mexico	17	7.9	16.9

The figures of Treasury holdings for each of these countries sheds light on their intervention in the market preventing the self-correcting mechanism of supply and demand of dollars to lower the value of the dollar irrespective of purchasing power parity. Foreign holdings now represent 30% of total privately held public debt. Figures taken from "Direction of Trade Statistics Yearbook 1996" of the International Monetary Fund, and Quarterly Press Conference of November of Asst. Secretary of Domestic Finance Darcy Bradbury.

A large support for the dollar against the Yen is the Japanese subsidized half a percent central bank rate to relieve their beleaguered banks which has generated one of the largest speculative manias in the history of Wall Street sending average stock yields to their lowest level in 100 years. What is happening is that hundreds of billions are being borrowed in Japan at low interest rates and then invested in the U.S. in Treasuries at higher yields in a classic arbitrage operation. This artificially lowers interest rates in the U.S. sponsoring the stock market. Senior central bank officials expressed their concern about these developments but feel the Japanese must reflate their banks. Shall it result in an uncontrollable financial crash? In the meantime, the Japanese exporters to the U.S. are having a heyday with the high U.S. dollar.

Some argue that the 1995 trade deficit is inconsequential as it represents only 2.5 % of the U.S. Gross Domestic Product (187 billion out of 7.5 trillion). However, this forgets about the inequity of the dirty float and the significant composition of industrial products such as cars and steel that these imports represent and how such attacked industries have been in periodic distress. Imports now account for about 28% of our car industry and a significant portion of our steel industry. It must be remembered that the power of a modern nation is found in its power of production (see Tacitus Annals, Book XII, 43).

What we see happening is whenever another country has a problem such as the Mexican debacle, the U.S. surplus of 5 billion in 1992 is turned into a deficit of 17 billion in 1995 to solve the problem. Or Japan's bank problems stemming from the crash of their crazed real estate and stock markets requires our acceding to their low interest rates which exacerbated the U.S. - Japanese trade deficit. Japan's speculations were symptoms of excessive trade surpluses and excessive industrialization, and attempts by the Japanese central bank to encourage and discourage surpluses resulting from alternating foreign pressures. In any event, the U.S. has in the last 12 years switched from a net creditor nation in 1984 to a not inconsequential debtor nation to the tune of 773.65 billion dollars (Balance of Payments statistics. Yearbook, 1996, International Monetary Fund). This 773.65 billion does not tell the whole story, however. Federal Reserve and U.S. policy is held hostage to a 1.9 trillion foreign portfolio investment consisting of equities and debt securities. In 1995 alone 192.38 billion poured into U.S. equity and debt securities. The great fear that our authorities have is that this investment will be sold if the dollar were to fall, so they are quite prepared to sacrifice American industry by supporting a strong dollar through manipulation to avoid a panic. But it was the artificially propped up dollar in the first place that brought us to such a pass. These manipulations, of course, are faciliated by the inflation of currency and credit. (Statistics obtained from the "Balance of Payments Statistics Yearbook," 1996, International Monetary Fund).

[2] U.S. Dept of Commerce News, Washington, D.C. 20230, March 13, 1997.

[3] Figures obtained by telephone call to Dept. of Commerce.

[4] This system is prone to other grave risks. There is 1.2 trillion dollars daily trading in foreign exchange markets in an estimated 7 trillion yearly world trade of goods and services (5 trillion of 1995 goods yearly traded per I.M.F. Yearbook 1996, and an estimate on services. U.S. exports and services were 786 billion in 1995). This exposes large trading banks to significant exposures in relation to their net worth in the event of a default of a bank trading partner in another country. Citicorp, for example, shows only 7.6% (19.581 billion) equity and a 16 billion foreign exchange contract exposure before netting agreements in their 1995 Annual Report. A major trading bank default can cause a major chain reaction of defaults. There is no established lender of last resort mechanism covering foreign exchange transactions or insurance as in the case of bank deposits under $100,000.00 insured in the U.S. by the Federal Deposit Insurance Corp. The huge foreign exchange markets trade

far in excess of actual real trade (1.2 trillion per day versus 7 trillion world trade per year) as the abolition of fixed exchange rates with currencies linked to gold (its collapse was inevitable as this paper explains) forced companies in world trade to hedge their commercial transactions in future currency markets to be sure their sales in marks or yen would have the same value in the future as when the sale was made. Pure speculation also contributes to these figures but the B.I.S. has no such figures available or estimated. See March 1996 and May 1996 Bank for International Settlement Reports entitled "Settlement Risk In Foreign Exchange Transactions" and "Central Bank Survey of Foreign Exchange and Derivatives Market Activity" respectively. Conversations with authorities at the Federal Reserve at New York and the Bank for International Settlements in Basle, Switzerland revealed that for the most part the 1.2 trillion daily foreign exchange market was a black hole to them, and that the Federal Reserve in N.Y. restrained them from making a more extensive study. The B.I.S. estimates six transactions in the future market relating to manufacturer's trade hedging for each trade transaction. If we say that there are 260 working days in the year, and 1.2 trillion daily trading in dollars in the foreign exchange market, then annual foreign exchange trading will amount to 312 trillion. The ratio to world domestic product calculated on value added accruals would be 10.776 on a 28.953 trillion world domestic product (312/28.953). The ratio on world trade (not an end product figure) in services and goods, which is a gross transactions total, would be 44 on an estimated 7 trillion in directional trade or 312 divided by seven. Since the B.I.S. estimates 6 hedges, it leaves 38 trades unaccounted for, or 13.6 % (6/44) accounted for.

If we examine the Fedwire transactions we find a daily turnover of 841 billion per day in 1994 on a gross domestic product of nearly 7 trillion. When we use the 218.66 trillion figure (260x841), then the ratio is 31 (218.66/7). Since 7 trillion G.D.P. only represents the total value added, or end product value, the 218.66 trillion would represent gross underlying domestic transactions relating to this seven trillion G.D.P.

If we examine The Clearing House Interbank Payments System, or CHIPS, we find in the January 1991 report of the Federal Reserve of N.Y. that about one trillion of payments were handled by offset between the members with the balance at the end of the day settled by Fedwire. "82% of CHIPS' dollar volume of payments resulted from foreign exchange transactions or Euro-dollar placements (pages 1 and 9 of report)." When we search for what this N.Y.C. turnover consists of we must make a broad survey. The total valuation of the N.Y.S E. is 7.3 trillion dollars with 4.1 trillion trading annually (U.S. G.D.P. about 7.5 trillion dollars). If we divide 260 trading days into 4.1 trillion, we come out to 157 billion per day trading. Nasdaq total valuation is 1.5 trillion with 3.3 trillion trading annually. The American Stock Exchange total valuation is 126 billion with 91 billion trading annually. Federal debt amounts to 5.2 trillion although turnover figures are not shown on available reports. On page A 41 in the Federal Reserve Bulletin there is 19 trillion of various debt holdings listed, and it is in here as well as in the stock markets that most of the one trillion daily CHIPS transactions are composed. Some of these debt instruments will trade in multiples daily and others not at all. It is questionable on the basis of economic utility whether a large part of this turnover, or churning, can be regarded as socially useful.

There is thus a direct connection between the Fedwire and CHIPS transactions and the turnover on the foreign exchange markets, and a large part of the 1.2 trillion daily trading on the foreign exchange market relates to N.Y. security and bond trading. Thus severe stock and bond market fluctuations in N.Y. can be instantaneously translated through the foreign exchange market with tidal wave force. (Data obtained from IMF 1996 "Direction of Trade Statistics Yearbook," the March 1995 Federal Reserve Bank of NY, "Fedwire," Bank for International Settlements, and Swiss bankers).

It is difficult to analyze where stock selling could engender a panic because of black holes in data. There is over 90 billion in bank margin lending for individual stock purchases at up to 50% margin, which is in itself not overly large when you consider the total valuation of the N.Y.S.E. alone of over seven trillion (or about the same as the entire G.D.P). It is more difficult to analyze exposures in option and derivative markets which periodically surface in Orange County debacles through lack of information generated by regulatory authorities (these same authorities refused to even subpoena the relevant transaction data after the manipulation in the cash settlement market precipitated the 1987 stock market crash). Wall Street's senior executives have expressed deep concern on this subject. Another area where information is deficient is the purchase of stocks here by foreigners on foreign borrowings and borrowings by foreign domiciled hedge funds. Huge stock market participation of mutual funds consisting largely of funds of inexperienced investors without time withdrawal requirements are more obvious areas for massive panic selling in a mushrooming stock market decline. The sophistication of the managers of pension funds is highly in doubt when one only briefly reviews the Orange County catastrophe, and more especially when one looks at their high percentage of stock market exposure with yields at 100 year lows below 2 % (average yields on stocks over 100 years were 4 % , and has been as high as 6 % which latter figure could presage a significant fall in stock indexes). The suggestion that the salvation of the Social Security System is to be found in the stock market at such a valuation is irresponsible.

Wall St. houses' equity ratios are very low as Citibank and could be very vulnerable to a stock market crash. For example, Salomon Inc. had equity of 4.143 billion against 183.725 billion in liabilities, or 2.255% (See 1995 Annual Report). Therefore, the notion that the system must explode into a hyper-inflation as in Germany has not the certainty some think. It could easily implode in a cross-default bank crisis where such defaults destroy massive amounts of bank credit, as in the deflation crises in Germany and the United States in 1929-33. It is the overextension of credit and currency discussed in this paper which makes the system vulnerable to inflation and deflation crises.

[5] The Banker's Conspiracy by Arthur Kitson, London: Elliot Stock, 1933.

[6] The Impact of U.S.-Asian Economic Ralations by Clyde Prestowitz, Jr., President, Economic Stratagy Institute, Washington D.C. 20005, October 15, 1996.

[7] U.S. Dept. of Commerce News, Washington, D.C. 20230, March 13, 1997.

[8] On Jan. 14, 1997 Alan Greenspan, Chairman, Board of Governors of the Federal Reserve System delivered a speech entitled Central Banking And Global Finance at the Catholic University Leuven, Leuven, Belgium. Aside from the typical central bank mechanics talked about on such occasions, Mr. Greenspan said that "on the external side, emerging nations, especially in Asia and Latin America have become increasingly important production sites and markets and thus as competitors. Faced with this broadened foreign competition, firms in many countries now find it less easy than in the past to raise prices during periods of rising demand at home" (page 15). And " I can say with some confidence that everywhere, not just in Europe, the concept of a domestic market will have even less meaning in a decade than it does today (page 17)."

There are logical fallacies in these comments. It suggests that the withering away of the nation state will follow increasing competition among nations as was thought in the 19th century, but this led to World War One. Competition involves strife, and when a company like Matsushita destroys an industry like U.S. television manufacturers, it is a kind of warfare. They did this using traditional geographic price discrimination over national borders. Low prices in the U.S. were subsidized by high prices in Japan. A leading airline consultant told me privately that the Japanese government has a 16 year plan to destroy Boeing. It is this kind of thinking that led to World Wars One and Two.

It is cooperation between individuals or nations under that concept of "love your neighbor as yourself," and the concept of the "just price" (Lev. 25:14, Lev. 6:2, Lev. 19:18, Lev. 19:34) that leads to international cooperation and peace. It is cooperation and fairness that logically leads to peace not unfair competition, strife, economic welfare and dirty floats.

[9] In the March/April issue of Foreign Affairs an article entitled China's Troubled Workers described "the crushing daily routine of 20,000 workers, most of them women. Their situation resembles the plight of most workers in the foreign- funded sector: exhausting work hours, no overtime pay, complex work rules, fines for breaking them, ever-increasing quotas, draconian sick leave policies, etc." " In some cases, the coercive regulations that management imposes on workers, during and after working hours, are unbelievably detailed : prohibitions on talking, even while eating; marked routes for walking within the factory-dormitory compound; bans of leaving the compound at any time without special permission; prohibitions on getting pregnant, married, or even engaged. In one factory, anyone using the toilet more that twice in a workday forfeits nearly a fifth of her wage, etc."

[10] Survey of Current Business, U.S. Department of Commerce, February, 1977, page 26.

[11] Anonymous Wall St. Source. A friend.

[12] Anonymous Wall St. Source. A friend.

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5. The Impact of the U.S.-Asian Economic Relations On The American Economy by Clyde Prestowitz, Jr., President, Economic Strategy Institute, 1401 H. St., N.W., Suite 750, Washington, D.C. 20005. Oct. 15, 1996.

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Sent by '97 JUN 3 PM 7:31

THE WHITE HOUSE
WASHINGTON

June 3, 1997

Erskine --

I have interviewed a number of people to fill Helen Howell's slot in my office as the second Deputy and have a recommendation -- Sean Maloney (resume attached).

He was first interviewed in the White House by John Podesta, who was impressed by him and recommended him to me. He worked in the 1992 Campaign in Little Rock as Susan Thomases' Deputy and worked in the 1996 Campaign in New York as the Director of Scheduling for the Coordinated Campaign.

He graduated from U. Va. Law School in 1992 and has been practicing at Wilkie Farr & Gallagher in New York since then. He strikes me as very sharp, with good technical skills (e.g., writing, analysis), good interpersonal skills, a feel for politics and sound judgment. His references are excellent. One additional point -- his resume lists the Gay and Lesbian Independent Democrats as one of his professional activities, so presumably he is gay and in that way would add some diversity to the office.

If it's ok with you, I will go ahead and make him an offer.

Todd
Todd Stern

cc: John Podesta
Sylvia Mathews

SEAN PATRICK MALONEY
115 Perry Street - #1A
New York, New York 10014
(212) 989-1840 / (917) 750-2469

EDUCATION:

UNIVERSITY OF VIRGINIA SCHOOL OF LAW - J.D. May, 1992.
Charlottesville, Virginia. Managing Editor. Virginia Journal of International Law. Note: "Re-examining the Commercial Activity Exception to the Foreign Sovereign Immunities Act."

UNIVERSITY OF VIRGINIA - B.A. Government and Foreign Affairs. May, 1988.
Charlottesville, Virginia. Distinguished Majors Program. Thesis: "Drugs and Dictatorship in Noriega's Panama."

GEORGETOWN SCHOOL OF FOREIGN SERVICE - Fall, 1984 to May, 1986.
Washington, D.C. Concentration in Economics and International Politics.

EXPERIENCE:

VICTORY '96/N.Y. COORDINATED CAMPAIGN - Director of Scheduling.
New York, New York. September to November, 1996. Planned and coordinated New York travel of President and Mrs. Clinton, Vice President and Mrs. Gore, and members of the Clinton cabinet and other senior surrogates.

WILLKIE FARR & GALLAGHER - Litigation Associate.
New York, New York. Fall, 1992 to Present. Specializing in personal, criminal and institutional investigations, including: Major League Baseball's investigation of Cincinnati Reds Owner Marge Schott; U.S. Senator Sam Nunn's Permanent Subcommittee on Investigation's subpoena of Empire Blue Cross and Blue Shield and related hearings; investigation of criminal and professional misconduct by officers of Orange & Rockland Utilities Company; investigation of the preliminary co-executors of the Estate of Doris Duke; Whitewater investigations of Independent Counsel and Senate Special Committee; White House Travel Office investigations of Independent Counsel and House Committee.

CLINTON/GORE '92 - Deputy to Director of Scheduling and Advance.
Little Rock, Arkansas. June to November, 1992. Worked as Deputy to Director of Scheduling and Advance Operations at Campaign Headquarters.

SAINT PAUL'S SCHOOL - Teacher.
Concord, New Hampshire. 1990. Taught course in Law & Government for gifted students. Soccer coach.

PERU - Social Worker.
Lima and Chimbote, Peru. June, 1988 to June, 1989. Worked as social worker in impoverished areas of Peru. Focused on construction of community soup kitchens, development of women's groups, English instruction, and medical vaccination. Developed proficiency in Spanish.

ACTIVITIES:

PROFESSIONAL: New York County Lawyer's Association (Homelessness and Foreign Affairs Committees). New York Community Board No. 4. Democratic County Committee Member. Chelsea Reform Democratic Club. Village Independent Democrats. Gay and Lesbian Independent Democrats. Member of District of Columbia Bar. Previous: Action for a Better Living Environment Homelessness Program. Migrant Farmworkers Legal Assistance Program. Earthbound Environmental Camp.

PERSONAL: Scuba Diving. Sea Kayaking. Golf. Soccer. Hiking.

THE PRESIDENT HAS SEEN
6-3-97

New vs. Old Democrats

By Al From

The next round in the fight for the soul of the Democratic Party won't have to wait for the next presidential campaign. It has begun already—and some of its most decisive battles will take place this year.

By opposing the bipartisan budget agreement and most-favored-nation trade status for China, House Minority Leader Richard Gephardt (D., Mo.) has directly challenged the direction in which President Clinton is leading his party. Conventional wisdom has it that Rep. Gephardt is laying the groundwork for a presidential primary race against Vice President Al Gore in 2000. We'll know whether that contest will materialize in due time. What we know right now is that Rep. Gephardt is attempting to reverse the transformation of the Democratic Party that President Clinton and his New Democrat allies have brought about in the 1990s.

Political memories tend to be very short. But when this decade began, Democrats had been routed in three straight presidential elections—and in five of the last six—and many observers doubted we would occupy the White House again in this century. The party had lost its sense of national purpose, seen its broad coalition disintegrate into narrow interest-group fiefdoms, and lost the confidence of hard-working Americans, who no longer believed it stood for their economic interests or their values. Mr. Clinton summed up the party's state in a May 1991 speech to the Democratic Leadership Council: "Too many Americans have lost faith in our party's willingness . . . to put their values into our social policy at home or to spend their tax dollars with discipline."

By moving his party to the "vital center," the president ended Democrats' long dry spell in presidential elections. His New Democrat policies have contributed to a sharp decline in crime in most American communities, the movement of millions of Americans from welfare to work and, most important, a vibrant economy that has reestablished the Democrats as a party of economic growth and opportunity.

As a result, millions of Americans who lost faith in the Democrats in the 1970s and 1980s now see New Democrats as reflecting their values and economic interests again. That's the foundation for rebuilding a Democratic majority in national politics. But the president's New Democrat policies also challenged old Democratic orthodoxies and engendered the opposition of the leaders of many of the party's organized interests and their allies, particularly in the House of Representatives. Now the opponents of his policies are fighting back—and Rep. Gephardt is their leader. As such, he is challenging President Clinton's transformation of our party in two fundamental ways.


Al Gore

First, he is attacking the heart of the president's spectacularly successful economic policy. The cornerstones of that policy are fiscal discipline, expanded trade, and investment in education and training, including the call for high national standards in our schools.

The policy has yielded terrific results: more than 12 million net new jobs created in the past 4½ years; unemployment under 5% for the first time in a quarter century; inflation running under 3%; rapid economic growth; the restoration of American leadership in the global economy; and a firm foundation for prosperity well into the 21st century. And it has allowed the Democrats to shake the politically damaging tax-and-spend and protectionist labels that, for so long, prevented Democrats from even being heard on many other issues.


Dick Gephardt

Rep. Gephardt would turn the clock back, casting doubt on our party's ability to forge forward-looking fiscal and trade policies for the new global economy. More importantly, he would change the mix of policies that has brought about one of the longest periods of noninflationary economic growth in American history. That likely would reduce, not enhance, the opportunities to get ahead for the hard-working Americans to whom the Democratic Party must give voice.

Rep. Gephardt's second challenge to the transformation of the Democratic Party is his attempt to undermine the president's efforts to transcend interest-group politics. As a party with a strong base of powerful interest groups, Democrats have often found it difficult to assert the national interest over the narrow interests of our most loyal constituencies. We have paid a huge price for that. As long as we were seen as putting constituency concerns above national purpose—as we were throughout most of the 1980s—Democrats were seldom competitive in presidential elections.

President Clinton's New Democrat polices look out for the interests of ordinary citizens rather than the special interests—an essential element in the party's presidential resurgence. By responding to the demands of organized labor and other powerful Democratic constituencies to oppose the balanced budget agreement and to restrict trade, Rep. Gephardt would have us revert to the old interest-group politics.

So Democrats face a choice. Will we complete the transformation of our party in accordance with the New Democrat course President Clinton has laid out? Or will we reverse course and fall victim again to the old approaches that left us in the political wilderness for much of the past quarter century? The outcome of the battles this year over the budget and international trade will likely determine which course our party takes well into the next century. It is important that New Democrats win them if we expect the American people to continue to turn to our party for national leadership.

Mr. From is president of the Democratic Leadership Council.

IRS Bogey-Man Threatens Caddies

By Michael C. Fondo

Golf courses used to be sanctuaries from life's injustices. No more.

Over the past few years, the IRS has turned its auditing energies to examining the tax treatment of workers who have historically been treated as independent contractors. Among the victims of this arbitrary strategy are nurses, bus drivers, beauty salon workers, landscapers—and now golf caddies.

Typically, an individual who works as an independent contractor is responsible for paying his own income and Social Security taxes. The IRS has found it particularly lucrative, however, to determine on audit that such an individual is an employee. The IRS then requires the "employer" to pay portions of the required withholding and Social Security taxes retroactively for the newly designated "employee"—whether or not the individual has already paid all his taxes. If the individual has been working with the company for more than two years, he is not entitled to a refund of the amounts he "erroneously" paid to the IRS as an independent contractor. Thus, with interest and penalties, the IRS can ultimately collect more than the worker originally earned.

Whether an individual is an employee or an independent contractor is based on whether the company exercises sufficient control over the way he performs his job. This determination turns on a set of 20 factors, including the training provided by the company, the level of instruction the individual is required to follow, a continuing relationship, set hours of work and whether full-time hours are required. Moreover, congressional "safe harbor" rules prohibit the IRS from recharacterizing an individual where the payer has consistently treated him as an independent contractor and similar practices are found in a significant segment of the industry.

Applying these standards, the IRS has successfully recharacterized many classes of workers. Typically, a company's IRS settlement requires treating its workers as employees in the future. The employer often has little choice; a hospital, for instance, cannot function without nurses. This is not the case, however, with the IRS's most recent targets. The IRS has apparently concluded that caddies are employees of golf courses—even though it is often the golfer, and not the course, that actually pays the caddy. This position is exactly contrary to a 28-year-old IRS revenue ruling.


MARTIN KOZLOWSKI

Golf courses have since relied on this ruling for guidance in treating their caddies as independent contractors. Now, however, the Westchester Country Club in suburban New York finds itself facing hundreds of thousands of dollars in back taxes and penalties. The WCC has treated its caddies as independent contractors for many years. On audit, however, the IRS is contending that the club is now responsible for withholding and Social Security taxes on behalf of the caddies—even though the club itself doesn't pay for the caddies' services.

At least 20,000 caddies between the ages of 12 and 18 are working in the U.S., according to the conservative estimates of the Western Golf Association. If the IRS is successful, rather than face the continuing financial and administrative burdens of treating caddies as employees, many golf courses will simply end their caddy programs and replace them with electric golf carts. To be sure, caddying is long, hard, hot work, and often involves handling an irate golfer having a bad round. Nonetheless, it is a great opportunity for young people to earn some money in a safe and healthy environment. The IRS, however, thinks that these youngsters would be better off unemployed.

This IRS action is particularly disturbing in light of the law at issue. Most caddies work when they want, receive minimal training at their golf courses, and are paid "by the bag," not by the hour—all earmarks of independent contractors. As for the "safe harbor," the IRS has apparently concluded that golf clubs may not rely on it in cases in which the golf clubs have not issued caddies IRS Forms 1099 showing amounts the caddies were paid—a particularly outrageous position since it is typically the individual golfer, and not the golf club, who pays the caddy, and thus a golf club would have no reason to issue a Form 1099.

Congress should amend the Internal Revenue Code to make clear its intention that caddies not be treated as employees, as it already has for newspaper carriers under 18. And it should do so before thousands of caddies find themselves unemployed. Instead of learning the value of hard work and solid interpersonal skills, these youths may soon be learning about how their government can arbitrarily eliminate anyone's job.

Mr. Fondo, a tax attorney with Choate, Hall & Stewart in Boston, is a former attorney-adviser on the U.S. Tax Court.

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THE WALL STREET JOURNAL
TUESDAY, JUNE 3, 1997

Copied
Bowles

EBB → can we fix this?

BC

THE WHITE HOUSE THE PRESIDENT HAS SEEN
WASHINGTON 6-3-97

Bruce — Very good memo

May 29, 1997

MR. PRESIDENT:

The attached is a memo from Ellen Lovell on White House leadership for activities celebrating the Millennium. The only decision she is seeking from you is an ok to move forward on the planning process. I understand that the First Lady may wish to discuss this with you on the way back from Europe.

After briefly reviewing historical precedents and other Millennium activities already underway in federal cultural agencies, other countries, and the private sector, the memo turns to the development of a White House Millennium plan. Ellen discusses possible themes, objectives and ways to use the White House as a venue, setting forth a wide variety of ideas.

She also discusses a structure for organizing the White House effort, recommending that a small White House Working Group be established immediately to get started on planning. She recommends against creating a formal commission, though she raises the possibility of a small group of outside "President's Advisors on the Millennium" to advise on goals, raise resources for White House activities, etc.

We have circulated this memo to relevant senior staff.

Approve going forward ✓ Disapprove___ Discuss___

Todd Stern

Copied
Lovell
COS

THE PRESIDENT HAS SEEN
6-3-97

THE WHITE HOUSE

WASHINGTON

May 26, 1997

'97 MAY 26 PM 3:27

MEMORANDUM FOR THE PRESIDENT
THE FIRST LADY

FROM: Ellen McCulloch Lovell

CC: Erskine Bowles
John Podesta
Melanne Verveer

SUBJECT: Planning for White House Leadership for the Millennium

---

Year 2000 Celebration in the State of the Union Address

On February 4, 1997, you said, "Our economy is measured in numbers and statistics, and it's very important. But the enduring worth of our nation lies in our shared values and our soaring spirit." You challenged "our artists, musicians, and writers, our museums, libraries and theaters, to join with all Americans to make the year 2000 a national celebration of the American spirit in every community - a celebration of our common culture in the century that has passed, and in the new one to come in the new millennium, so that we can remain the world's beacon of liberty and creativity, long after the fireworks have faded."

Your State of the Union statement sets the themes of "celebrating our common culture" and "remaining the world's beacon of liberty and creativity" for a national millennium celebration.

A Once in a Thousand Years Opportunity

Your second term extends into the milestone year of 2001. At the convergence of a new millennium and the next century, America will reflect on its past and imagine the future. The inevitable turn of the calendar offers a moment in history when humankind reassesses our progress and thinks about the legacy we leave to the next generations, while at the same time envisaging the time to come. As you lead our nation into the next era, you have a unique opportunity to educate and to lead a celebration that engages all Americans. Beginning in 1997, through the year 2000, the White House can provide special leadership of a national Millennium Initiative for the American people to appreciate our common heritage and rejoice in our creativity.

The overarching goals of the White House Millennium Initiative should include:

- Stimulating, through White House leadership, a sense of optimism and renewal and the faith that Americans can build a better future;
- Setting some concrete, attainable objectives to marshall our collective will and resources, such as

preserving our cultural heritage for the next generation, or renewing our great tradition of philanthropy.

- Recognizing the creativity and inventiveness of Americans and our gifts to the world.
- Valuing the diversity of our peoples and forging greater unity as Americans as we enter the 21st Century.

By July 14, 1997, the White House will develop a plan for its Millennium leadership, addressing themes, goals, structure, events and the ways we will involve citizens, the private sector, nonprofit organizations, and other levels of government. This memorandum describes the thinking that has been devoted to the Millennium, the factors that need to be considered and a planning process that will result in decisions for our directions over the next three and a half years. (See Appendix 1: The Meaning of Millennium)

Historical Precedents

Historical precedents - such as the Columbian Exposition of 1893 in Chicago, or the opening of the Jefferson Building of the Library of Congress in 1897, or the 1904 St. Louis World's Fair - demonstrate that anniversaries and ambitious projects can both affect the popular imagination and leave lasting marks on the nation's cultural landscape. The Chicago Exposition, for example, commissioned new works by America's leading artists and architects and convened an international congress of scholars which influenced design and intellectual exploration for decades.

The year 2000 also marks the 200th anniversary of the White House as the President's home. John and Abagail Adams first occupied the White House in 1800, the first peaceful transition of government in the United States after an election. In 1900 President McKinley was President and the official turn-of-century celebration was focussed on the White House, its history and expansion.

Other national commemorations offer lessons to learn. The 1976 American Revolution Bicentennial, the 1987 - 1991 Bicentennial of the Constitution and the Bill of Rights and the 1992 Columbus Quincentenary all provided occasions for national and local events, and for educational and media projects. Each was led by a commission formed years in advance which drew on both a Congressional appropriation and private funds. The 1976 Bicentennial commission had an elaborate endorsement procedure, whereby events and projects got designated as 'official' and were allowed to use the official logo.

President's Committee Recommendations

Several Administration leaders and advisors have been exploring what opportunities this milestone offers. At the same time, the President's Committee on the Arts and the Humanities, of which Hillary Rodham Clinton is the Honorary Chair and John Brademas the Chairman, spent over a year writing a report on the contributions of the arts and the humanities to society and how America's cultural life can be preserved and supported. This report, *Creative America*, was released at a press conference in February 1997, at which Mrs. Clinton spoke. *Creative America* describes the United States as a "country of creators and innovators," with a spirit of inquiry and discovery unleashed by our democratic system and amalgam of peoples.

Arguing that this century deserves no less a commitment to the future than past commemorations have provided, the main recommendation of the President's Committee is that the President lead a national Millennium Initiative to explore human thought and expression, to help unify us as a people and to reveal the future in all its possibilities. By calling on individuals, local communities, state governments, federal agencies and private sector partners to create millennium programs, the President can set the themes and goals of this momentous time of change. (See Appendix 2: List of President's Committee Recommendations)

Other Millennium Activities

Because the year 2000 looms so large and so soon, many millennium activities in the U.S. and other countries are already under way. The following are samples of initiatives we know of that illustrate the focus and ferment of this time of endings and beginnings:

Federal Cultural Agencies:

- The National Endowment for the Arts has a millennium grants program and just awarded more than four million dollars to projects such as reviving American operas, a public TV series on the American novel, and a tour of the Boys Choir of Harlem.
- The National Endowment for the Humanities is funding films which may include "Millennium Moments," great moments in history to be aired as TV spots.
- The Kennedy Center plans to be the focal point for millennium celebrations, increasing educational outreach and acting as a site for White House programs. Recently the Kennedy Center opened the "Millennium Stage" - free events every night in the foyer.
- The Library of Congress will celebrate its bicentennial in 2000. Among other events, it will produce the "Reach of Ideas," gatherings of great thinkers to examine the state of knowledge in at least twenty disciplines in the sciences, arts and the humanities.

International:

- The United Kingdom created a Millennium Commission to fund projects funded by the lottery. Millennium projects include all kinds of capital improvement projects, and The Millennium Exhibition and Festival in Greenwich. The Arts Council of Great Britain has declared 2000 the "Year of the Artist." U.K. millennium projects are required to attract wide public support as well as private funding; they will also create lasting monuments. By 2000, an estimated $4 billion will go into grants. Sample projects are: a new building for the Tate Gallery on the south bank of the Thames; the University of the Highlands and Islands - a new university for life-long learning; Millennium Greens - at least 250 new greens designed by local communities; 21st Century Halls - around 180 new rural community centers; and Ringing in the Millennium - bell-ringing in 100 churches and civic buildings, restoring old bells and hanging new church bells.
- The Vatican is celebrating its Jubilee of the Year 2000 in Rome for the 2000th anniversary of Christianity.
- Germany is hosting the Expo 2000, a world's fair in Hanover, featuring themes of culture, the end of the Cold War, and the millennium. The U.S. is one of the few countries *not* participating in the Hanover fair. → Why? When was that decision made?
- Australia will host the Olympics in year 2000, including a Cultural Olympiad at the site in Sydney.
- At least fifteen other European countries are planning Millennium festivities. Other regions, even those that do not use the Christian calendar, will be planning events to attract tourism.

Private:

- Times Square 2000, Inc., the nonprofit which plans the New Year's celebrations, is planning documentaries to be shown on December 31, 1999 on the themes of international cultures and understanding.

- ABC and Hallmark Corporation announced they will jointly commission new works from American playwrights for broadcast on the network.
- There is a Millennium Institute in Arlington, VA., that has created a web site to collect millennium ideas and discuss the meaning of this time.

Congress:

- Last year members of both the House and Senate submitted legislation to designate a private organization in Chicago, The Millennium Society, as the official organization to celebrate the achievements of the second millennium, and raise funds. The legislation never passed, but Congressional interest in official celebrations might reappear.

Developing a White House Millennium Plan

By July 14, we hope to develop a White House plan for the Millennium Initiative addressing the following elements:

Themes - What overall theme and purposes are conveyed to the public? If we articulate clear themes, and illustrate them with our events, appearances and speeches, then White House leadership could unleash the creativity of other leaders at the state and community levels, stimulating thousands of activities across the country. Some suggested themes are: harnessing American optimism for the age of renewal; promoting American creativity and innovation - recognizing our cultural and scientific accomplishments; and celebrating a world at peace and the spread of democratic values.

Objectives - What do we want to accomplish for the Millennium, through 2000 and beyond? What lasting results, monuments, and public attitudes do we hope to leave as a result of our leadership and national commemoration? Should we define and announce four to six projects that will become our lasting legacy for the 21st century?

Possible objectives include:

- Engaging citizens at the community level in some shared projects and activities such as collecting and preserving their family stories; creating new civic spaces such as town greens and community centers; and producing plays and pageants based on local history or shared concerns;
- Identifying the White House with high-level scholarship and art; showcasing new work commissioned for the new era;
- Preserving the White House and the President's Park area, and improving it for future First Families and Administrations;
- Increasing philanthropy and reinforcing the ethic of giving as a great American tradition, perhaps setting a measurable goal;
- Creating a permanent funding stream to support the arts and the humanities, exploring the creation of an "American Cultural Trust;"
- Convening a world leaders' teleconference on January 1, 2000 to express the world's hope for peace;
- Inviting leaders of religious communities to discuss faith at this time of reflection and change.

Structure - Do we need an additional structure, beyond government agencies and administration committees, to provide advice and leadership and to raise the necessary resources? The former directors of other commemorative events have advised against creating a Commission; such groups are easily captured by a few strong personalities. Plus, there is the practical problem of appointing one, even by Executive Order, with enough time and resources to be active. Another option is a small group of President's Advisors on the Millennium - a prestigious, nonpartisan group of citizens who would advise on the goals, raise resources for White House activities, designate "official" events and products, and publish materials that would help states and communities plan their celebrations. Our planning process should explore whether the millennium advisors could work with a 501(c)3 organization to give them greater flexibility.

Planning a structure will include organizing for the Millennium inside the White House to promote consistency and communication. We recommend a small White House Working Group be established immediately to advise on the planning phase over the next month and beyond. Outside experts will be consulted regularly. We could develop an interagency working group as well.

The White House as a Venue - How do we use the White House? How do we set an example for State Houses, cities, towns and for other civic organizations? The key is to sequence the events so there is a lead-up to the Millennium, an appropriate New Year's 1999 celebration, and a more intense year of accomplishments and celebrations in 2000. The White House as a venue and a catalyst prompts many creative possibilities:

- A White House Lecture Series and "conversations" with opinion leaders, to be televised or down-linked to sites which will organize their own forums;
- Cultural events which showcase our nation's "best" in many genre, culminating in a 1999 New Year's Gala at the White House of "New Masters," our most promising talent;
- Highlight "new works for the new era," commissioned by cultural organizations, foundations, and the national endowments;
- Use federal programs to preserve and create new monuments, incorporate art in public buildings, improve federal design, and commission new compositions for armed forces music ensembles;
- Add to the White House collections, pursue renovations, continue installations in the First Lady's Sculpture Garden, and conduct a televised tour of the Clinton White House;
- Launch Millennium projects of federal agencies, such as "Reach of Ideas" with the Library of Congress, films of the National Endowment for the Humanities, and national tours with the NEA.
- Ask the Smithsonian Institution to organize a National Folk Festival of traditions from all 56 states and territories on the Mall in 1999 or 2000; organize a National Science Fair for youth and adults, as well as amateurs and professionals;
- With federal or private institutions, organize the "Ten Great American Ideas" exhibition, book and television show to celebrate U.S. innovations and contributions to the world. Examples: The Declaration of Independence, modern dance, jazz, the semi-conductor chip;
- Host a White House Forum on international education and cultural exchange;
- Use a White House forum and speeches to renew the great tradition of American philanthropy;
- Create a Millennium Children's Festival.

Participation of the Principals - How will the appearances and speeches of the President and Mrs. Clinton be used to highlight the themes and events and to build a lasting legacy? You must decide how big a priority this is, how many Presidential activities can be framed by the Millennium and incorporated as part of our themes and goals, how much time you want to devote to Millennium activities, and what you want to accomplish as their lasting legacy.

Partnerships - How can we attract the resources needed to create a significant and dignified Millennium celebration, without it appearing to be too commercial or unfocussed? We must consider the tone we want to set as well as the resources that will be needed to support White House leadership on the Millennium. Fund-raising and the commercial possibilities for the Millennium will be part of the planning process.

A White House Millennium Group - Will begin meeting to develop a plan addressing these issues and will submit it to you by July 14, 1997. Recommended members: Maria Echaveste, Rahm Emanuel, Ann Lewis, John Podesta, Melanne Verveer, Ellen Lovell, Steve Silverman, Ann Stock and Susan Liss.

Planning time-line

May 22-June 6
- Research the 1976 Bicentennial of the American Revolution, Bicentennial of the Constitution and the Bill of Rights and Columbus Quincentenary Commissions.
- Explore the possibilities of a cultural endowment fund.
- Research Millennium programs of other countries for models; search U.S. databases for Millennium projects. Identify state and local initiatives being planned.
- Meet with White House Working Group and Mark Penn; discuss structure, recommend themes, develop ideas with national impact; meet with Social Office to develop sequence of White House events.
- Consult with private foundations on willingness to supplement efforts. Consult with outside experts.
- Continue to convene federal cultural agencies, to develop programs that reinforce themes, discuss logo; plan joint projects.

June 6 - 20
- Examine possible structures with White House Working Group, outside experts.
- Develop budget, examine revenue sources.
- Recommend White House projects that both illustrate our themes and that can capture the national imagination, perhaps in these categories: youth, preservation, international, cultural awareness, technology, philanthropy, White House bicentennial.
- Ask federal agencies (beyond cultural) for ideas of how they might participate. Meet with interagency group.
- Explore possible partnership with non-profit organization to expand both citizen participation and resources.
- Consult with state and local organizations to develop plans for grassroots activities.
- Consult with supportive members of Congress to advise on structure and whether there will be a congressional Millennium effort.

June 20 - 30
- Develop concrete recommendations on themes, goals and lasting legacy, structure and resources, White House leadership activities and events, Federal Agency involvement, the extent of state and local participation, partnership with other organizations, Presidential announcement, and 1997 events.

- Review recommendations with the President and the First Lady.

July 1 - 14
- Revise recommendations.
- Draft Executive Order or other vehicle necessary for structure.
- Develop announcement, speech, or event to establish White House leadership and themes, and call for participation.
- Final decisions by the President and the First Lady.

We recommend initiating the Millennium planning process.

_✓_ Approve   _____ Discuss   _____ Disapprove

Appendix 1: The Meaning of Millennium

A millennium is a period of a thousand years. The end of the second millennium, as measured by the Christian calendar, will be reached on January 1, 2001, according to the U.S. Naval Observatory, The Greenwich Observatory, *Encyclopedia Britannica* and the *World Almanac*. The calendar by which we reach this date was created in 526 A.D. (*Anno Domini*, Year of Our Lord) by Dennis the Diminutive, the head of a Roman monastery who forged a common calendar from the divergent dating systems of the Eastern and Western Churches. Rather than starting at zero, this calendar began with the date of January 1, 1 A.D., not 0 A.D. Thus on January 1, 2 A.D. the calendar system was one year old, not two. Despite the fact that the next millennium is not officially reached until January 1, 2001, the world will celebrate on December 31, 1999 as the calendars flip to the year 2000. But "when our 20th Century reaches midnight ... it will have yet the 366 days of (leap) year 2000 to close out its hundredth year."(Hillel Schwartz)

For some Christians, the millennium refers to the prophecy in the Book of Revelations, the time of judgement, followed by a "a new heaven and a new earth." "Millennial" or "millenarian" also has a darker connotation as a time of apocalyptic expectations. Hillel Schwartz, historian and author of Century's End, points out the myth of the "panic terror" in the year 999, when Christians supposedly waited in churches for the world to end, people gave away their possessions and went on pilgrimages, a comet appeared, and storms raged. Historians disagree with this description of events, but not with the metaphor that persists. Some countries are referring to their millennium activities as "Year 2000" or "Jubilee" celebrations.

The millennium is a historical divide; the end of a century and an epoch, the start of the next generation for which one hopes a future brighter than ever. The anticipation of the new millennium brings a sense of urgency, a need to take stock, to enlist people in a new program, and to "take into serious account the host of highly contradictory tendencies at century's end: to retreat/ to go on treks and quests; to retrench/ to be bold; to look out for one's immediate family/ to look toward the well-being of future generations." Schwartz' analysis tells us that people become fascinated with metaphors that express the interrelatedness of things, such as the Internet. People also require rituals to "rehearse the passage from an old to a new century." The anxiety that the human race is degenerating, nature losing its vitality, that things are out of control is countered by the broader perspective of time that encourages renewal of all kinds.

As we consider what rituals to enact in this time of possibility, it is important to remember that many peoples and nations still mark time by the Jewish, Muslim, Chinese and other calendars. Still, most countries will recognize the powerful meaning inherent in the Western calendar changing to 2000.

Appendix 2: List of President's Committee Recommendations

The report of the President's Committee on the Arts and Humanities, *Creative America,* reminds us that the 20th century has witnessed a burst of American creativity and our nation now stands as the world leader in cultural as well as scientific, economic and political realms. Our democratic system and amalgam of people unleashed a spirit of inquiry and discovery; the resulting cultural and scientific gifts benefit us and the world. Our cultural heritage defines us as Americans. The history of each American *is* America's history. We are a "nation of nations" - a people of peoples from different backgrounds who have forged common bonds. The millennium provides an opportunity to ensure the continued greatness of our national cultural life, to preserve our achievements for future generations, and to increase cultural understanding among groups within our country and with other nations.

The main recommendations that ask for White House involvement are as follows:

- A call by the President to individuals, local communities, state governments, federal agencies, and private sector partners to create Millennium programs that reflect upon and present our unique cultural heritage;
- Showcasing outstanding examples of American art, scholarship and heritage at the White House;
- An assessment of the nation's preservation needs and a plan to protect our cultural legacy, including the involvement of creative commercial enterprises and of individuals;
- The creation of a massive new public-private partnership to ensure that cultural resources are made available through the new technologies, in concert with the President's and Vice-President's goal of connecting all school rooms and libraries by 2001;
- A national initiative to increase philanthropic giving;
- A White House forum on enhancing international education and cultural exchange;
- An investment in the public role, by identifying a dedicated revenue to supplement funding for the arts, humanities, museums and libraries, and an increase in appropriations.

Additional recommendations incorporate Administration goals, such as the adoption of national educational standards for teaching the disciplines of the humanities and the arts, but do not call for further specific government action. Many of the other recommendations in the report are directed toward private foundations, corporations and individual donors, and cultural institutions themselves.

At the release of *Creative America,* Mrs. Clinton said,

> "...The President and I are very excited about the Millennium Initiative described in this report. The approach of a new millennium and a new century presents us with a wonderful opportunity to celebrate the past two centuries of our collective American journey, to raise awareness about the importance of the arts and humanities in our lives, and to examine the ideas, values and experiences that can shape or future.... The President is eager to lead this initiative and will call upon all citizens, local communities, state governments, federal agencies and private sector

> partners to create Millennium programs that reflect and celebrate our cultural heritage. As we have over the past four years with performances, new art acquisitions, and rotating sculpture exhibits, the President and I will continue to showcase outstanding examples of American art and scholarship at the White House....

One element of our planning will be to determine which of their recommendations the President's Committee is willing to implement and which this Administration wants to embrace as part of our Millennium initiative.

THE WHITE HOUSE

WASHINGTON

Date 6/3/97

To: Dan Tarullo

From: The Staff Secretary

For your information

THE WHITE HOUSE

WASHINGTON

Date 6/3/97

To: NSC

From: The Staff Secretary

For your information

Higgins

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UNITED STATES ENVIRONMENTAL PROTECTION AGENCY
WASHINGTON, D.C. 20460

MAY 22 1997

'97 MAY 28 PM1:43

THE ADMINISTRATOR

NOTE FOR THE PRESIDENT
THE VICE PRESIDENT
SECRETARY OF STATE ALBRIGHT
AMBASSADOR RICHARDSON

Subject: G-7 Environment Leaders' Meeting

I am pleased to be able to report to you on the successful meeting we held last week in Miami with the Environment Ministers of the G-7 Nations and Russia. This meeting forged broad agreement on steps needed to protect children from environmental health threats. I trust that the agreements we reached in Miami will assist in preparation for your Denver Summit.

Attached please find an agreed-upon letter summarizing our meeting, the text of the Declaration on Children's Environmental Health adopted by the Ministers, and the specific implementation actions the Ministers agreed to advance.

We also held valuable discussions on climate change, environmental enforcement and compliance, and the upcoming United Nations General Assembly Special Session on progress since the Rio Earth Summit. In our climate change discussions, we succeeded in gaining agreement on the need for flexibility in meeting any binding targets, so as to allow each country to employ the most efficient and cost effective policies and measures.

I would be pleased to provide you with additional information concerning our Miami environmental ministers' meeting and wish you great success in Denver.

Carol M. Browner

Carol M. Browner

cc. Dan Tarullo
Katie McGinty

MAY 23

UNITED STATES ENVIRONMENTAL PROTECTION AGENCY
WASHINGTON, D.C. 20460

MAY 22 1997

THE ADMINISTRATOR

Dear Mr. President:

As you prepare to go to the Denver Summit of the Eight, I wish to provide you with a summary of the results of the recent Environment Leaders' Summit in Miami. This conference allowed us to forge an important new international understanding on protecting children's health from threats in the environment.

All of the Eight Ministers represented in Miami recognized that protecting the health of our children from environmental threats is a fundamental value for each of our nations. We pledged to work aggressively -- individually and together -- to fulfill our promise of assuring a healthy future for our nations' children.

We recognized that children throughout the world face significant threats to health from an array of environmental hazards. We agreed to the following specific actions:

- **Environmental Risk Assessments & Standard Setting:** Assure that environmental protection programs, including risk assessments, testing protocols, and standards -- as well as future international agreements -- take into account the unique exposures and special sensitivities of infants and children.

- **Children's Exposure to Lead:** Execute timely actions to phase out the use of lead in gasoline and other products, and promptly share information on lead health threats.

- **Safe Drinking Water:** Exchange data on serious waterborne disease outbreaks associated with microbiological contaminants. Explore approaches to providing worldwide technological and financial assistance to address these threats, which are the world's leading environmental health problem for children..

- **Air Quality and Environmental Tobacco Smoke:** Undertake to reduce air pollution in our countries to address the particular threats to infants and children that exacerbate asthma and other respiratory ailments. Take action to inform families of proven hazards to children's health from environmental tobacco smoke.

- **Endocrine Disrupting Chemicals:** Compile an international inventory of research activities, develop an international assessment of the state of the science, and identify and address research and testing needs to understand better the emerging threats to children's health from endocrine disruptors.

- **Impacts of Global Climate Change:** Recognize that future negotiations must address the special susceptibilities of children to the serious health, environmental, and economic consequences of global climate change.

In addition to achieving this important progress toward protecting children's environmental health, we held fruitful discussions on the impacts of climate change, on environmental enforcement and compliance, and on the upcoming U.N. General Assembly Special Session.

Sincerely,

Carol M. Browner

Carol M. Browner

ID# 219771

THE WHITE HOUSE
CORRESPONDENCE TRACKING WORKSHEET

INCOMING

DATE RECEIVED: MAY 27, 1997

NAME OF CORRESPONDENT: THE HONORABLE CAROL M. BROWNER

'97 MAY 28 PM12:45

SUBJECT: ENCLOSES AN AGREED UPON LETTER SUMMARIZING THE G-7 ENVIRONMENT LEADERS'S MEETING, THE TEXT OF THE DECLARATION ON CHILDREN' ENVIRONMENTAL HEALTH ADOPTED BY THE MINISTERS

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
KATHRYN "KITTY" HIGGINS	ORG	97/05/27			/ /
REFERRAL NOTE:					
STERN TODD	AA	97/05/28			/ /
REFERRAL NOTE:					
		/ /			/ /
REFERRAL NOTE:					
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REFERRAL NOTE:					

COMMENTS:

ADDITIONAL CORRESPONDENTS: MEDIA:F 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.

D

Sandy
How should I respond —
Need to reply —

THE PRESIDENT HAS SEEN
6-3-97

Mike Medavoy on the Middle East

PHOENIX PICTURES

Copied
Berger
COS

PERSONAL and ~~CONFIDENTIAL~~

May 30, 1997

DETERMINED TO BE AN ADMINISTRATIVE
MARKING INITIALS: OB DATE: 7/29/19
2019-0774-S

Bill Clinton
The White House
1600 Pennsylvania Ave., N.W.
Washington, DC 20500

Dear Mr. President:

I am writing to you imposing on our friendship because I have been deeply troubled by the current impasse in the Middle East peace negotiations. Any further breakdown in the process that you have nurtured since you first took office could have a devastating impact on the whole Middle East so vital to American interests.

In my view and in the view of many of my Jewish colleagues, your personal involvement is needed in order to preserve the peace process. The vast majority of American Jews. will support you wholeheartedly if you take the bold steps that are now necessary. The minimal risks of your engagement are far outweighed by the danger of what appears to be pulling America back from playing and active leadership role at this most critical time, and while back door diplomacy often is very effective, I believe we need to do more than that at this particular time. It seems to me that while there has been a shuttling of Arab and Israel leaders, the process seems stalled.

More specifically, I believe you should make private phone calls to Middle East leaders, to gain assessments and suggestions of how to reestablish the negotiations. Secondly, I think you should make clear that whatever may have been true in the past, Israel should neither expand nor place any new settlements on the West Bank or Gaza. Without such a public commitment from you, Israel will proceed with its partly covert expansion of those settlements. It would be desirable to get Israel to provide a further allocation or water supplies to Jordan, consistent with the terms of the Israeli-Jordanian peace treaty.

Our Secretary of State should publicly and clearly outline what America's interests in the area are (e.g. protecting Israel and modern Arab regimes, countering weapons of mass destruction, proliferation of terrorism). At the same time, she should articulate a series of fundamental principles that will communicate to the parties where the United States thinks we should go from here. This would be an evenhanded statement on the issue of security cooperation with Israel and human rights at home for the Palestinians and on the dangers of rhetorically unlimited settlement policy accompanied by no redeployment concessions by the Israelis.

No President has gone farther than you have to underline US support for Israel's security. The commitment means that you, of all people, can justify an effective balance between supporting Israel and making sure an effective agreement is achieved which favorable to all sides.

I have and will continue to be in contact with a number of Jewish leaders who believe that this is the only sensible course right now. I am available to discuss this further with you or anyone you designate at your earliest convenience. Several of these leaders want to be helpful and I want to do anything I can to achieve these ends.

Warmest Regards,

Mike

Mike Medavoy

MM/ep

I saw Hillary in Los Angeles recently, she looked great, it was a really nice moment for both of us.

THE PRESIDENT HA
6-3-97

BY DAVID GERGEN / EDITOR AT LARGE

To VP
Let's discuss at lunch

copied
VP
COS

The 7 percent solution

RG

Funding basic scientific research is vital to America's future

As many of us gazed up at the Hale-Bopp comet this spring, wondrous and serene in the heavens, an angry E-mail ripped through the scientific community below. It was written by Alan Hale, one of the men who discovered the comet two years ago.

Hale, it turns out, earned a Ph.D. in astronomy from New Mexico State University in 1992 and has since had terrible trouble finding decent-paying work. His wife, a nurse, is the family's main source of income. So disillusioned is he with America's "scientific illiteracy" and the drying up of research jobs that he would not encourage today's students to pursue scientific careers.

For many in the field, there is poignant irony in Hale's story. He is one of many younger Ph.D.'s who could put their names on new discoveries in science and technology in the years ahead. A recent visit to the California Institute of Technology and the Jet Propulsion Laboratory nearby found scientists bubbling with excitement about prospective breakthroughs. Yet there is a legitimate and growing fear among these same people that the nation really doesn't understand or support their endeavors. Few are as gloomy as Hale, but nearly all share his concerns.

> There is a legitimate fear among scientists that the nation doesn't understand or support their work.

Down, down, down. The clearest form of national support for science is the federal budget, which funds 60 percent ~~of the country's~~ basic research. For decades, expenditures increased. In each of the past four years, however, federal investment in research has declined, and President Clinton's budget calls for yet another drop next year.

Since March, in an unprecedented show of unity, the heads of over 40 organizations representing more than 1.5 million scientists, engineers, and mathematicians have endorsed a joint statement expressing alarm that research investments as a percentage of GDP are approaching a 40-year low. They urge that federal spending on research and development be increased by 7 percent next year—enough to make up for past inflation and to reverse the trend. A growing number of Republicans, led by Texas Sen. Phil Gramm (a deficit hawk), and some Democrats are joining the fight. Gramm wants a doubling of science spending over the next decade.

The arguments for substantial increases are compelling. Some believe the end of the cold war means we no longer need scientific research to protect our security. What they ignore is that the lag time between basic research and military application is often 20 to 30 years; weapons used in the Persian Gulf war, for example, emerged from research in the 1960s. Who can say with certainty today that we will not need advanced military technology a quarter century from now?

Economists believe research is also essential to growth and keeping our competitive edge. Stanford's Michael Boskin estimates that half of all long-term economic growth since World War II in industrialized nations is due to technological progress—which, in turn, is rooted in basic research. At the University of Pennsylvania, Edwin Mansfield has found that academic research in science has a "social rate of return" in the form of lower prices, better products, and higher productivity that exceeds 20 percent.

Finally, we should understand how science advances our quality of life. Allan Bromley, science adviser to President Bush and now dean of engineering at Yale, points out, for example, that in the past five years "we have learned more about the human brain and central nervous system than in all prior history," thanks to imaging and chemical tests developed by engineers from basic physics, chemistry, and mathematics. Since brain-related disorders send more Americans to the hospital than any other disease group, this progress is very good news indeed.

At a time of scarce resources in Washington, it is tempting to see the scientific community as just one more hungry claimant. That's shortsighted. Like public education, serious funding for science is a vital national investment. The men and women in our laboratories stand at the threshold of dazzling new breakthroughs, and the nation should be standing there with them, supporting their work and sharing in their joy of discovery. ■

The Welfare to Work Partnership
1250 Connecticut Ave., NW • Suite 610
Washington, DC 20036
Phone 202-955-3005 • Fax 202-637-9195

May 29, 1997

<u>DELIVERY BY HAND</u>

Ms. Nancy Hernreich
Deputy Assistant to the President and
Director of Oval Office Operations
The White House

Dear Nancy:

Eli Segal asked me to send the enclosed Memorandum to the President to you. Eli doesn't think it needs to go through the "regular system." If possible, he would like to have it delivered to the President sometime tomorrow.

Thank you for your help.

Sincerely yours,

Grace Orestis

Grace Orestis
Assistant to Eli J. Segal

Enclosure

copied
Emanuel
Reed
COS

THE PRESIDENT HAS SEEN
6-3-97

Rahm/Bruce
— Can we do anything w/ this story? It's great
— Can Americorps take a portion of welfare folks?
— cc: EJS
must win budget fight here
BC

MEMORANDUM

TO: THE PRESIDENT

FROM: ELI J. SEGAL EJS

SUBJECT: AMERICORPS AND WELFARE REFORM

DATE: MAY 29, 1997

I have recently learned of yet another way that AmeriCorps augments your fundamental objectives.

One of our finest AmeriCorps programs is a partnership with the Enterprise Foundation, Jim Rouse's low income housing initiative. In the year just completed, 64 of the approximately 100 AmeriCorps members associated with Enterprise began their year of national service by leaving the welfare rolls. Perhaps the most stunning result of their year in AmeriCorps is that not one of the 64 returned to welfare. Every single member is now in college or in the workplace, or in a majority of cases doing a combination of the two. This means that in addition to its other benefits, AmeriCorps could be the best intermediary we have in moving people from lives of dependence to lives of independence.

AmeriCorps was not conceived as a low income jobs program so we need to proceed with care as to the policy and publicity implications of this "welfare-to-work" and "welfare-to-school" development. I'll discuss this with Bruce and try to get an inventory of all AmeriCorps programs involving welfare recipients, but the results of this one program were so stunning that I thought you'd want to know. AmeriCorps, in short, is turning into more than just financial aid for responsible citizenship. Its role in America Reads, its role in community policing, its role in child immunization and now its role in welfare reform begins to give it a new dimension: a cost effective delivery system for change.

One last matter: this is reauthorization year for AmeriCorps. Stories like the above; alliances with Republican Governors, volunteer groups like Habitat for Humanity and I Have a Dream; and a universe of 50,000 (soon 75,000) mobilizable AmeriCorps Alums and their new allies throughout America should give us the tools to reach a happy conclusion without major changes in the law. But I will be surprised if we don't have a battle on our hands. AmeriCorps is still a slender reed, born in an age of cynicism, sometimes referred to derisively as your "pet project." I'm afraid success is likely to require more of your personal time than it should.

THE PRESIDENT HAS SEEN
6-3-97

'97 MAY 30 AM9:05

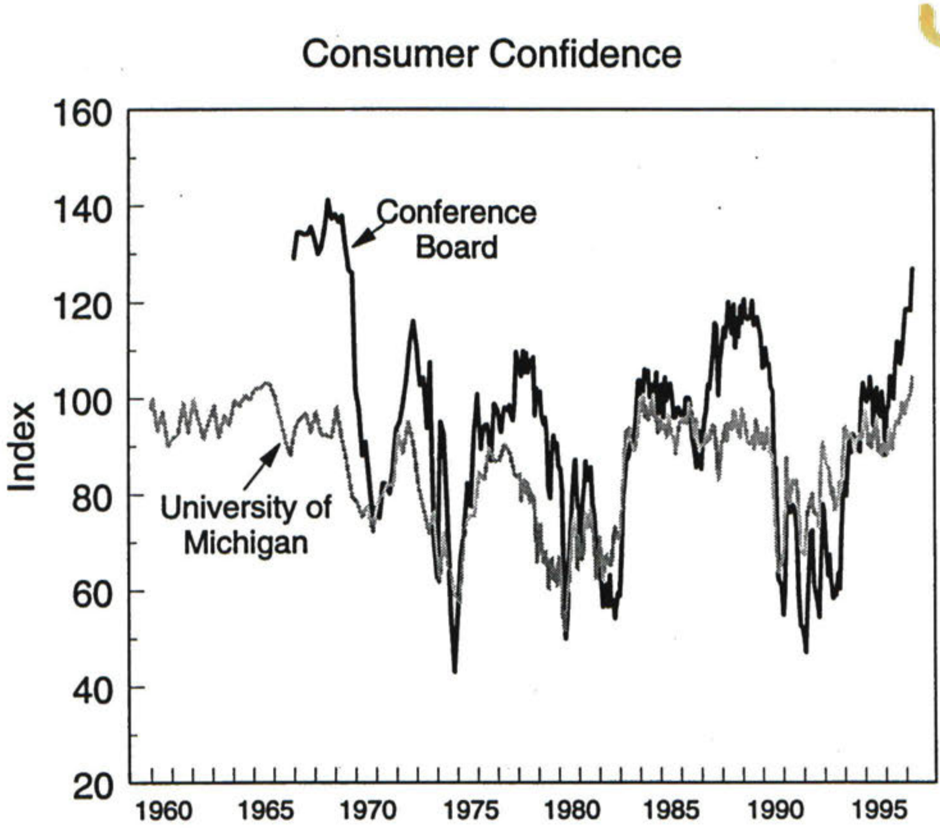
WEEKLY ECONOMIC BRIEFING OF THE PRESIDENT OF THE UNITED STATES

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

May 30, 1997

copied entire rept to COS
pgs: cover, 1, 2, 3 - Yellen + Chron
page 3 - C. Jennings

CHART OF THE WEEK



In line with the strength of the economy, both the Conference Board's index of consumer confidence and the University of Michigan's consumer sentiment index have risen substantially recently. The Conference Board index is higher than it has been since Americans first landed on the moon in July 1969; the Michigan index, which goes back farther, is higher than it has ever been.

CONTENTS

"I keep hitting 'escape,' but I'm still here."

THE PRESIDENT HAS SEEN
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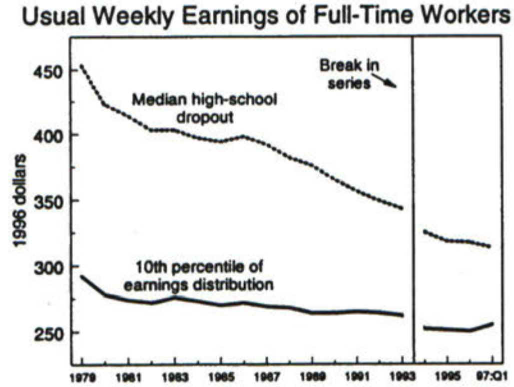
CURRENT DEVELOPMENT

Leaky Boats in a Rising Tide

Recent press reports have trumpeted an improvement in earnings among low-wage workers in the first quarter. But apart from gains due to the recent minimum wage increase, trends in earnings at the bottom of the distribution remain disappointing in the face of a strong overall economy.

Trends. Although some indicators show gains for the average worker, wage increases for less-skilled workers remain elusive. In the first quarter, the median weekly earnings of full-time high school dropouts slipped from $317 to $313 (see chart). True, weekly earnings for full-time workers at the tenth percentile edged up from $250 to $255 in the first quarter. But a preliminary analysis suggests that, rather than being associated with the economic expansion, higher earnings at the very bottom of the distribution are roughly what would be expected based on the increase in the minimum wage from $4.25 to $4.75 per hour.

Usual Weekly Earnings of Full-Time Workers



This expansion has seen no substantial turnaround in the long-term decline in earnings at the bottom of the distribution. Between 1994 and 1996, median weekly earnings for high school dropouts working full-time fell from $325 to $317; earnings at the tenth percentile of the distribution of full-time workers also fell very slightly, from $252 to $250 per week.

What about net income w/ EITC - would that change things? What about next 4020 - i.e. 10-50%?

Analysis. Structural changes that have increased the relative demand for skilled workers may be holding down the earnings of less-skilled workers, despite the expansion. Alternatively, the continuing decline in earnings at the bottom may be partly a statistical artifact, reflecting compositional effects due to the entry of increasingly less-skilled workers into the labor market as the expansion has continued. But this composition effect is probably not large enough to be hiding a rise in earnings for continuously employed workers.

THE PRESIDENT HAS SEEN
6-3-97

cc Clinton

SPECIAL ANALYSIS

A Medicare Managed Care Report Card

About 11 percent of Medicare beneficiaries are now enrolled in managed care plans. A recent survey conducted for the Physician Payment Review Commission suggests that they are generally satisfied, but some concerns arose.

The survey. Information was collected on the access to, satisfaction with, and utilization of medical care received by people enrolled in Medicare "risk plans" (mainly HMOs) for at least 2 months during the 12 months ending in February 1996. Only limited comparisons with traditional Medicare are possible, but some of the survey's key findings include the following:

- Frequency of preventive care. Medicare risk plans compare favorably with traditional Medicare fee-for-service plans on the only two measures of preventive care for which comparable data are available. Sixty-six percent of enrollees in risk plans reported receiving a flu shot, compared with 58 percent in fee-for-service plans. And 62 percent of female risk plan enrollees reported having a mammogram in the last year, compared with 39 percent in traditional plans.

- High benefits and low costs. Medicare risk plans typically offer comprehensive benefits at low cost to enrollees. Over three-quarters of enrollees paid no additional premium when they entered the plan and 83 percent had outpatient prescription drug coverage. By contrast, individually purchased Medigap policies, which supplement benefits in the traditional Medicare program, typically cost over $1,000 per year and seldom include drug coverage.

- High rates of satisfaction. Medicare risk plan enrollees are generally satisfied with their choice. Ninety-one percent said they would recommend their plan to friends or family members and 96 percent rated the overall health care they received as good, very good, or excellent. Forty-seven percent rated the overall value of the care received for premiums paid as excellent, compared with just 6 percent who considered it to be fair or poor. Only 8 percent of those enrolled during the previous 12 months had left their plans by the survey date, and most who had done so switched to another managed care plan rather than returning to fee-for-service Medicare.

- Experiences of vulnerable beneficiaries. Certain groups of vulnerable beneficiaries (such as those over 85, the functionally impaired, or those classifying their health as fair or poor) reported greater problems with access to care than did others in the survey. For instance, they were more likely to report delays in obtaining health care while waiting for plan approval. Yet they were no more likely to report dissatisfaction with their plan. Nor did they consider fee-for-service to be a better option. One reason for these seemingly contradictory responses might be that vulnerable groups also experience more frequent access

THE PRESIDENT HAS SEEN
6-3-97

problems in traditional fee-for-service Medicare. Or they might be willing to accept slightly greater access problems in return for the comprehensive coverage and low cost that risk plans typically provide.

Implications. Low costs and comprehensive benefits are major attractions to those currently in Medicare risk plans, suggesting that managed care may also be an acceptable option for some people now in the traditional Medicare program. However, the first beneficiaries enrolling in managed care are likely to be those most comfortable with this style of medical care. They may also be relatively healthy, implying that, as managed care grows, average costs may increase.

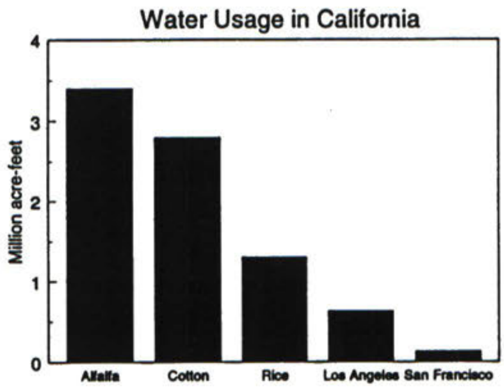
Still should push
higher enrollment
for prevention, drugs

SPECIAL ANALYSIS

Trading Water Rights

Conflicts over water allocation, which have existed in the arid western United States for decades, persist today. Rapid population growth and, more recently, active enforcement of Federal and state environmental laws are the sources of much of the current debate. Water markets might be able to ameliorate conflicts over water use and ease the economic burden of improving aquatic habitat.

California water rights. California is a prime example of the intense conflicts over water allocation. Currently, farmers in the state use about 75 percent of all developed water supplies; municipal and industrial uses receive the rest. To put this in perspective, each year California farmers use more than five times as much water to produce a single crop—alfalfa—than the entire population of Los Angeles receives in the same period for residential consumption and industrial use (see chart). Alfalfa, cotton, and rice together have a value equivalent to less than half a percent of personal income in California.



Water allocation in California is strongly influenced by 19th century laws designed to encourage settlement. The current allocation system has two principal features: a queuing system that determines how water is rationed during periods of shortage; and a requirement that users must make beneficial use of their water supplies, a "use it or lose it" feature that strongly discourages trading. Not surprisingly, this allocation system provides little incentive to conserve water. As a result, farmers in California produce several water-intensive crops with low-tech irrigation methods. This behavior does not reflect irrationality; it is a profit-maximizing response to current incentives.

Benefits of marketable water rights. Recently, water trading has emerged as a way to relieve the pressure on California's water system. During the severe 1987-1992 drought, the state initiated a State Water Bank to purchase water from willing sellers, mostly farmers, and sell it to willing buyers, primarily cities, at fixed prices. More recently, farmers in the San Joaquin Valley have begun trading among themselves through an on-line water market. These efforts are the first steps in the development of a more market-based allocation system, and follow naturally from conditions of scarcity.

Trading among holders of water rights can increase economic welfare by shifting water from lower-valued to higher-valued uses. For example, if farmers were to trade water rights to residential users, both could benefit. The farmers would, in effect, be paid to conserve water by improving their irrigation methods, lining irrigation canals, growing less water-intensive crops or simply fallowing their fields; city residents would receive water that would be freed up by this conservation.

Another positive aspect of water marketing is that it can alleviate perceived conflicts between environmental quality and economic activity—what is sometimes seen as a "fish versus jobs" trade-off. If a certain amount of water must be reallocated from agricultural and urban uses to the environment in order to protect an endangered species, trading can reduce any economic losses from the reallocation. At a given market price, the sellers will be those making the least productive use of their water.

The Central Valley Project Improvement Act of 1992 (the "Miller-Bradley Act") contained provisions to reallocate water to environmental uses and to allow a limited amount of trading. A recent economic study concluded that under current water trading practices, the economic cost of the required improvement in water quality in the San Francisco Bay/Delta estuary would be $100 million. With fully tradable water rights, these costs would fall to about $50 million. In this sense, water trading may be the most cost-effective way to achieve a given water quality standard in the estuary.

Conclusion. California's water system is under increasing pressure from competing interests, including agricultural, urban, and environmental. Water markets have the potential to increase the efficiency of water allocation, and thereby maximize the value of scarce supplies. Further, trading water rights can significantly lower the cost of improving instream water quality.

<u>ARTICLE</u>

Zaire: The Latest Example of Hyperinflation

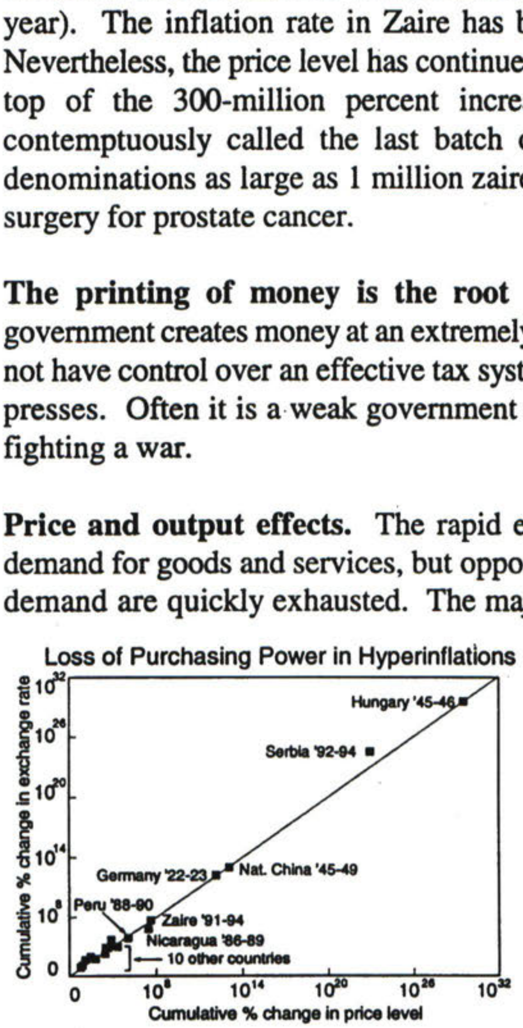
One of the many factors contributing to the downfall of Zaire's President Mobutu was a hyperinflationary period that began in 1991. Zaire is the latest of a number of instances this century in which governments have allowed their currencies to be debased to the point of worthlessness.

Zaire's experience. From November 1993 to September 1994, the inflation rate in Zaire averaged 81 percent per month. Hyperinflation is customarily defined as a sustained rate of inflation in excess of 50 percent per month (12,875 percent per year). The inflation rate in Zaire has been below this rate since October 1994. Nevertheless, the price level has continued to rise—a cumulative 10,000 percent on top of the 300-million percent increase from 1991 to 1994. The people contemptuously called the last batch of currency—notes issued in January in denominations as large as 1 million zaires— "prostates," in reference to Mobutu's surgery for prostate cancer.

The printing of money is the root of all... Hyperinflation results when a government creates money at an extremely rapid rate. Typically the government does not have control over an effective tax system, but does have control over the printing presses. Often it is a weak government seeking to finance large expenditures like fighting a war.

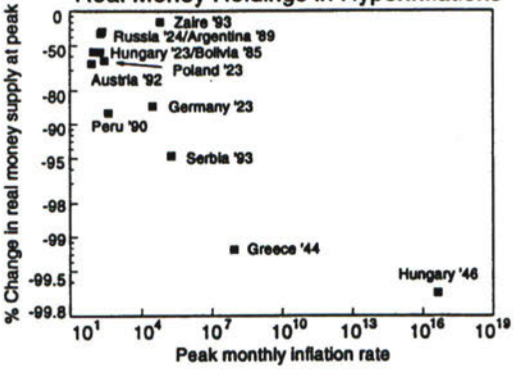
Price and output effects. The rapid expansion of the money supply raises the demand for goods and services, but opportunities for expanding output to meet this demand are quickly exhausted. The major effect is to increase prices, wages, and other nominal quantities—including the exchange rate—roughly in proportion to the rate of growth of the money supply. The currency loses value, whether measured in terms of purchasing power over domestic goods or purchasing power over foreign goods (see chart). Output tends to be adversely affected in hyperinflations as the usefulness of money as a medium of exchange is undermined.

Loss of Purchasing Power in Hyperinflations



Reduced demand for money. Paradoxically, hyperinflations, which arise from rapid increases in the money <u>supply</u>, lead to a reduced <u>demand</u> for money. People realize that every piece of currency that they hold is rapidly losing purchasing power. Currency becomes a "hot potato." (See the box on the next page for an example from Germany in the 1920s.) Of course, the nominal money supply is increasing rapidly and it is being held by someone. The reluctance to hold cash balances translates into

Real Money Holdings in Hyperinflations



a decline in the real value of the stock of money. In the hyperinflations of this century, the greater was the inflation rate, the greater were the efforts of people to reduce their holdings of real money balances (see chart).

Central bankers who print money at a hyperinflationary rate are often trying to finance spending without resort to explicit taxation. The inflation itself and the damage to the rest of the economy are presumably regarded as necessary evils. But even a revenue-maximizing government errs if it pushes the rate of money growth too high. At very high inflation rates, people almost cease to use the currency at all. If people will no longer accept the currency, then the government cannot finance spending by printing more of it.

How to end a hyperinflation. Hyperinflations end relatively quickly when the government stops printing money. In Serbia, for example, the inflation rate reached 313,563,558 percent per month in January 1994. Residents tried desperately to buy marks or dollars—anything to avoid holding domestic currency. Then, a new central bank director stopped the hyperinflation dead in its tracks, simply by turning off the printing presses. By then Serbians were so unwilling to hold currency that the government presumably no longer had much to lose by foregoing inflationary financing. When the inflation ended, the central bank governor became an instant national hero. Not all hyperinflations are ended so painlessly, but it is to be hoped that the new Democratic Republic of Congo will be able to re-establish monetary stability.

How the Germans Acquired Their Fear of Inflation

The German experience, from February 1920 to November 1923, has been extensively studied. In October 1923 the rate of money growth reached 1,300 percent per month. The inflation rate reached 29,586 percent per month and the rate of change of the exchange rate 29,957 percent per month. That is just over 20 percent per day; at that rate, the price level doubles in less than 4 days. Fascinating stories abound of what life was like under such conditions. Wages were paid twice a day so workers could shop at lunchtime before prices rose again. So much paper currency was needed to make simple purchases that a wheelbarrow might be needed to carry it to the store. It is said that one shopper left a wheelbarrow full of cash briefly, and found on returning that the wheelbarrow had been stolen...but the currency had been left on the ground.

BUSINESS, CONSUMER, AND REGIONAL ROUNDUP

Do More Generous Welfare Benefits Encourage Participation? Canada is currently conducting a social experiment that provides an earnings supplement for long-term welfare recipients who find a full-time job and leave income assistance. Single parents who are in the treatment group are eligible for the subsidy—which typically doubles the gross take-home pay of recipients—only if they have received welfare for a year or more. The subsidy provides an incentive for long-term welfare recipients to find work more quickly. But it also provides an incentive for short-term welfare recipients to remain on the rolls for at least one year to become eligible for the subsidy. A recent study examined whether women responded to the latter incentive. The experimental design allows for a simple comparison between members of the control and treatment group of the probability a welfare spell lasts for one year. Findings indicate that only a small share of recipients increase the length of their welfare spell in order to become eligible for the supplement. Estimates of the response among long-term welfare recipients to the incentive to find jobs more quickly are not yet available.

Ohio Rules School Vouchers Unconstitutional. Cleveland's school voucher program was recently ruled unconstitutional by the Franklin County Court of Appeals because it was "skewed toward religion." The vouchers had paid 75 to 90 percent of private-school tuition costs this year for about 1,000 students who would have attended Cleveland public schools, plus some who were already attending religious schools in Cleveland. In addition to violating the Establishment Clause of the U.S. Constitution and comparable provisions in the Ohio Constitution, the Court found that the program also violated Ohio's Uniformity Clause, which maintains that state-funded programs must be administered in a fair and uniform manner. The ruling will halt the school voucher program at the end of this school year, unless Cleveland's request for a stay is granted.

Public Health Insurance May Decrease Private Saving. One reason the U.S. saving rate is so low, according to some economists, is that government programs provide insurance against events that people might otherwise guard against through their own saving. Recent research shows, for example, that those eligible for Medicaid may reduce their "precautionary saving." The study finds that if there were no Medicaid system, the number of people in the current Medicaid-eligible population under the age of 65 with some positive net worth would be 4.7 percent higher, and holdings for those with positive net worth would be 18.1 percent higher. Although these effects are large in percentage terms, the dollar value of the increase in holdings is only about $2,000.

INTERNATIONAL ROUNDUP

Australian Car Tariffs Stir Debate. Carmakers and component suppliers are attempting to influence the historically high degree of protection Australia will offer its domestic car industry after 2000. Under an existing "car plan," tariffs have fallen from around 57.5 percent a decade ago to 22.5 percent at present and are set to fall to 15 percent by 2000. Imports now account for more than 50 percent of cars sold in Australia, compared with about 15 percent in the mid-1980s. Meanwhile labor productivity improved from around 11 vehicles per employee in 1984 to about 16 by 1995. Australia's Productivity Commission issued a draft report just before Christmas recommending, on efficiency grounds, that tariffs be cut another 2.5 percentage points per year between 2001 and 2004 until they reached 5 percent, in line with the manufacturing sector generally. Carmakers, local component suppliers, and state-based politicians, who fear the economic impact of further downsizing in the local manufacturing industry, are opposed. Their principal concern is that imports will continue to sweep into the home market while much higher levels of protection in many neighboring Asian countries will limit exports.

Czech Koruna Takes a Plunge as a Floating Currency. This week the Czech currency, the koruna, entered the foreign exchange markets as a floating currency. No longer tied to a hard currency basket that included the U.S. dollar and the German mark, the koruna plunged about 10 percent below its last fixed level. The Czech Republic was one of the fastest starters of the Central and Eastern European countries with regard to economic reform. Initially, economic success translated into a stable currency and political success for the free-market Prime Minister, Vaclav Klaus. More recently, the economy is perceived to have encountered difficulties, and Klaus' political support has declined. The Czech current account deficit reached 8 percent of GDP last year, increasing the currency's vulnerability to speculative attack. For the last 2 weeks, speculators have assaulted the koruna in waves. In trying to maintain the value of the currency, the central bank spent $2.5 billion of reserves, before finally giving up.

Malaysia Plans Currency Futures Market. Malaysia plans to launch a currency futures contract in its own currency, the ringgit, and in other regional currencies as part of an attempt to create southeast Asia's leading futures exchange. The initiative would include the Thai baht, Indonesian rupiah, and Singapore dollar. The plan announced this week follows a statement earlier this month by the New York Cotton Exchange that it would launch futures trading in the baht, ringgit, rupiah, and Singapore dollar starting in June. The futures contracts would be traded 24 hours a day between New York, Kuala Lumpur, and Dublin. Rising merchandise trade, plus the emergence of Singapore as the region's financial center, has rapidly increased regional currency trade. Interestingly, expanding Southeast Asian currency markets could open up opportunities for those traders who will lose work when the EMU is established.

RELEASES THIS WEEK

Gross Domestic Product

****Embargoed until 8:30 a.m., Friday, May 30, 1997****

According to revised estimates, real gross domestic product grew at an annual rate of 5.8 percent in the first quarter of 1997.

Advance Durable Orders

Advance estimates show that new orders for durable goods rose 1.4 percent in April, after decreasing 2.2 percent in March.

Consumer Confidence

Consumer confidence, as measured by the Conference Board, rose 8.6 index points in May to 127.1 (1985=100).

MAJOR RELEASES NEXT WEEK

NAPM Report on Business (Monday)
Leading Indicators (Tuesday)
Employment (Friday)

U.S. ECONOMIC STATISTICS

	1970-1993	1996	1996:3	1996:4	1997:1
Percent growth (annual rate)					
Real GDP (chain-type)	2.7	3.1	2.1	3.8	**5.8**
GDP chain-type price index	**5.4**	2.1	2.0	1.9	**2.8**
Nonfarm business (NFB) sector:					
Productivity (chain-type)	1.5	0.9	0.0	1.1	2.0
Real compensation per hour:					
Using CPI	0.6	0.4	0.7	0.2	2.3
Using NFB deflator	1.3	2.2	2.0	2.7	2.3
Shares of Nominal GDP (percent)					
Business fixed investment	10.9	10.4	10.6	10.6	10.6
Residential investment	4.5	4.1	4.1	4.1	4.0
Exports	8.2	11.3	11.1	11.5	**11.5**
Imports	9.2	12.6	12.7	12.6	**12.9**
Personal saving	**5.3**	3.6	3.9	3.8	**3.5**
Federal surplus	-2.7	-1.7	-1.6	-1.4	N.A.

	1970-1993	1996	February 1997	March 1997	April 1997
Unemployment Rate	6.7**	5.4**	5.3	5.2	4.9
Payroll employment (thousands)					
increase per month			314	139	142
increase since Jan. 1993					12053
Inflation (percent per period)					
CPI	5.8	3.3	0.3	0.1	0.1
PPI-Finished goods	5.0	2.8	-0.4	-0.1	-0.6

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

New or revised data in **boldface**.
GDP data for 1997:1 **embargoed until 8:30 a.m., Friday, May 30, 1997.**

FINANCIAL STATISTICS

	1995	1996	March 1997	April 1997	May 29, 1997
Dow-Jones Industrial Average	4494	5743	6901	6658	7330
Interest Rates					
3-month T-bill	5.49	5.01	5.14	5.16	4.89
10-year T-bond	6.57	6.44	6.69	6.89	6.75
Mortgage rate, 30-year fixed	7.95	7.80	7.90	8.14	7.94
Prime rate	8.83	8.27	8.30	8.50	8.50

INTERNATIONAL STATISTICS

Exchange Rates	Current level May 29, 1997	Percent Change from Week ago	Year ago
Deutschemark-Dollar	1.700	0.3	10.0
Yen-Dollar	116.2	0.2	6.8
Multilateral $ (Mar. 1973=100)	94.75	0.3	6.5

International Comparisons	Real GDP growth (last 4 quarters)	Unemployment rate	CPI inflation (last 12 months)
United States	**4.1** (Q1)	4.9 (Apr)	2.5 (Apr)
Canada	2.3 (Q4)	9.3 (Mar)	1.7 (Apr)
Japan	3.1 (Q4)	3.4 (Feb)	0.5 (Mar)
France	2.0 (Q4)	12.9 (Jan)	0.9 (Apr)
Germany	2.2 (Q4)	7.8 (Feb)	1.3 (Apr)
Italy	0.1 (Q4)	12.3 (Jan)	1.8 (Apr)
United Kingdom	3.0 (Q1)	7.2 (Mar)	2.4 (Apr)

U.S. GDP data **embargoed until 8:30 a.m., Friday, May 30, 1997.**

'97 MAY 30 PM 10:51

THE PRESIDENT HAS SEEN
6-3-97

THE WHITE HOUSE

WASHINGTON

May 30, 1997

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We need [illegible]
give #s of students
involved —

MEMORANDUM FOR THE PRESIDENT

FROM: **GENE SPERLING**

RE: **NEC Weekly Report**

America Reads: The work-study challenge has begun to pick up steam, with 225 colleges now on board. The new regulation waiving the work-study match for reading tutors goes into effect on July 1, and we are looking for a possible event that could highlight that action as well as the summer reading program sites that are now in operation.

Comp Time: We began negotiations on comp time this week. NEC, Legislative Affairs, and Democratic Senate staff met with Senators' Jeffords, Ashcroft, and Dewine staff. The Republicans were insistent on using S.4 (the Ashcroft bill which undermines the 40 hour work week) as the starting point for discussions. We reiterated our objections and offered to produce a paper laying out our changes to S.4. We don't expect to reach an agreement until Senate Republicans decide to abandon the most objectionable provisions to S.4 -- those which undermine the 40 hour work week -- and they clearly have not decided to do so yet.

PM/OZ. In coordination with Katie McGinty and Sally Katzen, the NEC held another principals meeting on the EPA's proposed particulate matter and ozone standards. Katie, Sally and I feel it is best to use a few days for informal conversations with Carol Browner and others to hopefully help move us towards a decision consistent with the spirt and letter of the law. As you would expect, outside reaction is very split with environmental and health groups pushing for strong provisions, while Congressman Dingell, whom I spoke with today, continues to threaten us with a "bloody war" over this. It is clear that there is a Breaux-Chafee letter being organized that, while far less strident that Congressman Dingell, will call for a more cautious approach than they believe the EPA is considering.

Volunteers/Tort Reform: We completed work on the volunteer liability bill signing statement. With Legislative Affairs and DPC, we met with the staff of Senators Breaux and Hollings to discuss broader product issues. We will meet with staff of Senator Rockefeller and Mr. Dingell on Monday, as well as have an interagency meeting to continue work on alternatives. The main topics of discussion are joint and several, punitive damages and the statute of repose.

Stock options: Ellen Seidman met with representatives of the high tech and retail industries concerning the bill to restrict tax deductions for stock options submitted by Senators Levin and McCain. They discussed their reasons for opposing the bill, as well as their assessment of likely legislative strategy. Senator Levin is hoping to talk to Bob Rubin soon.

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6-3-97

Real Estate Industry: I met with representatives from the real estate industry to discuss their concerns about depreciation recapture rules. In particular, they want a capital gains tax package to include a cut in the recapture rate -- the rate at which amounts that had been previously deducted as depreciation are taxed upon sale of the property. I reassured them that we had not finalized our position on capital gains, and that we would go back to them if we were to carve out the recapture rules (which is one of the many options available to reduce the cost of a capital gains tax cut). One strategy we will be talking about in our budget meetings is that if we agree to include depreciation recapture schedules in the capital gains tax cut, we will seek to have the clear support from the real estate industry for key parts of our package.

City Jobs Data: Myself, Elena Kagan and others from the NEC and DPC met with Secretary Cuomo to go over a possible "State of the Cities" report that could be presented in conjunction with the U.S. Conference of Mayors. One major issue we talked about was how to show long-term negative trends for city populations and jobs that justify our key urban initiatives without glossing over the progress made over the last couple of years. We decided to run the numbers from 1993-1996 which presented that way, show while there are long-term negative trends, there has been important progress since 1992.

good

House Republicans on Welfare-to-Work: Elena Kagan and I, along with DPC, NEC, OMB, Labor and HHS staff, met with House Republican committee staff to discuss the Administration's priorities regarding the $3 billion in welfare-to-work funds. Under the draft Republican proposal circulated yesterday, all of the dollars would be distributed to States by formula, with no dollars directly to city governments, no performance-based funding and no competitive application process. Job creation would not be allowed. We presented the Administration position on these points.

very important

Ron Haskins, the chief Republican welfare staffer, indicated that job creation would be added to the allowable uses and seemed amenable to distributing at least part of the money through a competitive grant process. He did not indicate any flexibility re: strengthening the nondisplacement provisions and was relatively unenthusiastic about performance bonuses. His position on channeling funding directly to cities was unclear. Drafting began today; we will keep you posted.

good if we can afford

Historic Homeownership Tax Credit: I met with Dick Moe (President of the National Trust for Historic Preservation) to discuss a proposal for a historic homeownership tax credit. This proposal is based on the existing historic rehabilitation tax credit (which applies to commercial buildings). It would provide a 20 percent tax credit for rehabilitation and reconstruction expenditures for historic homes (or homes in certified historic districts). The goal of the tax proposed credit is to provide an incentive for people to buy, refurbish, and live in older homes, generally in central cities.

One potential problem is that the benefits from this proposal could flow mainly to real estate developers and to those with upper incomes, unless the proposal is well-targeted. We will bring this into our budget process to see if this is an idea worth considering.

good

Economic Event: The Vice President, Secretary Rubin, Director Raines, Chairman Yellen, and I briefed the press on Friday on how well the economy has been performing since you took office. We noted the revised GDP growth rate of 5.8 percent during the first quarter of 1997 --the highest in a decade -- and emphasized our three-part economic strategy. The reaction was positive: reporters asked a series of substantive questions on the economy and our budget plans. We also distributed a packet of charts and an updated report card on the economy over the past 4 years which I showed you at the radio address taping.

At your request, we will work with others in the White House to come up with a larger distributional plan on this and other areas where our economic and budget policies have made a major difference.

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6-3-97

THE WHITE HOUSE

WASHINGTON

'97 MAY 31 PM2:22

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Reed
Kagan
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May 31, 1997

MEMORANDUM FOR THE PRESIDENT

FROM: Bruce Reed
Elena Kagan EK

SUBJECT: DPC Weekly Report

1. Welfare -- Balanced Budget Legislation: The House Way and Means Committee is moving forward quickly on the welfare portion of the reconciliation bill. The Republicans hope to have draft legislation this Tuesday and to hold a subcommittee markup on Friday, with full committee markup to follow the next week. We briefed a bipartisan group of staff on our welfare-to-work plan on Friday. We emphasized the importance of providing a substantial portion of the money directly to cities and of applying identical program rules and requirements to cities and states. We also urged a competitive (rather than formula) program, a performance-based bonus set-aside, a wide range of allowable activities (including public sector job creation), and strong anti-displacement language. The Republicans seemed skeptical about giving grants directly to cities, but clearly have not reached any final decisions on this matter. They were agreeable to providing some portion (but not all) of the funds on a competitive basis and to including public sector job creation in the list of allowable uses. They were extremely negative about establishing performance-based bonuses or drafting any anti-displacement language that is stronger than the provision in the welfare law. We expect to get an early draft of the legislation Monday morning and to speak with the same group of staff that evening to register our concerns.

We have seen no paper on the immigrant provisions and have not yet discussed this issue with committee staffers. We have heard rumors, however, that trouble us greatly. One is that the Republican legislation, in contravention of the budget agreement, will offer benefits only to legal immigrants on the rolls when the welfare law was passed, rather than to any legal immigrant then in the country. Another is that the legislation will incorporate some of the provisions in last year's immigration bill that we successfully removed at the eleventh hour, such as the ban on Medicaid coverage for immigrants with AIDS.

We also expect the Republican legislation to address the privatization and FLSA issues. We have heard that the legislation will authorize states to privatize the entire eligibility process (excluding appeals) for Medicaid, Food Stamps, and WIC. In addition, the legislation will exempt workfare participants from the FLSA and all other federal laws; require, independent of the FLSA, that workfare participants be paid the minimum wage for any hours worked; but then authorize states to count not only cash assistance and food stamps, but also Medicaid, child care, and housing benefits toward the minimum wage. The Intergovernmental Affairs office is trying hard to keep Democratic Governors from attacking our position on FLSA and signing on to this

we don't agree - by merely min wage workers (or some similar) Republican proposal. Governors Chiles and Carper, however, are very unhappy with our insistence that the FLSA applies to workfare participants and may well join a coalition of governors to demand legislative changes.

2. Welfare -- Litigation: You recently asked whether the Department of Justice must oppose suits challenging the welfare law's denial of benefits to legal aliens. The Department is currently the defendant in at least four class actions of this kind. The legal theories presented by the plaintiffs in these cases vary somewhat, but focus on alleged denial of equal protection and due process to legal aliens. The Department has argued in the cases that the challenged provisions in the welfare law have a "rational basis" and fall well within Congress's broad authority over immigration. The Department believes that these constitutional arguments are strong and that a refusal to defend would undermine the federal government's ability to regulate immigration and/or provide welfare services in the future.

3. Welfare Study: A new study, by Mathematica Policy Research and the Institute for Social and Economic Development, provides one of the first glimpses of what happens to families who are dropped from the welfare rolls because they reach time limits. The study looks at Iowa's Limited Benefit Plan (LBP), under which welfare recipients who do not comply with employment and training requirements -- by failing to sign employment and training contracts or to keep appointments -- receive three months of regular cash benefits, followed by three months of reduced cash benefits, and then six months of no benefits. Mathematica found that only 17% of those initially referred to the LBP ultimately lost benefits. Another 53% rectified their situation and returned to the main welfare program, while 30% chose to leave the welfare program entirely before their benefits were scheduled to end.

Among those whose benefits ended (i.e., the 17%), recipients were equally divided between those who were working two to six months later and those who were not. Those who were working had an average income of $170 per week, with 43% working only part-time. Forty percent of all the families terminated experienced an increase in monthly income, while 49% experienced a decline. According to the study, there was "little systematic evidence of extreme deprivation during the period of no cash benefits." The percentage of those living in emergency shelters remained at 1-2%. Other than food pantries, families did not tend to seek help from community organizations. Families did report a much greater reliance on friends and extended family members. The report notes, however, that Iowa limited its period of no benefits to six months, whereas a system that cuts people off benefits permanently might see family support decline over time and welfare recipients more likely to go to shelters or seek other private help.

4. Crime -- New FBI Statistics: The FBI will release on Sunday preliminary data on crimes reported in 1996. The data show that the number of serious crimes reported in the U.S. is down 3% since 1995 -- the fifth annual decline in a row. The data indicate that this year's decline was fueled by a 7% drop in the number of violent crimes -- including an 11% drop in the number of murders.

THE PRESIDENT HAS SEEN
6-3-97

5. Education -- Vocational Education Reauthorization: The Department of Education will transmit to Congress early next week the Perkins Career Preparation Education Act, which would restructure the Perkins Vocational and Applied Technology Education Act. The proposed legislation generally aims to promote a stronger academic component in voc-ed programs, thereby bringing vocational education into line with broad standards-based school reform. The legislation also would consolidate 23 existing voc-ed programs into three: a formula grant to states, Tech-Prep education, and a discretionary grant program allowing the Department of Education to fund a wide variety of activities. The proposed grant to states would provide them with enhanced flexibility, removing a number of set-asides that now require states to fund programs for groups such as displaced homemakers and criminal offenders. The bill also establishes new accountability provisions and a system of performance goals and indicators. We expect the House Education and Workforce Committee to adopt much of the Administration's proposal in its bill, though it may well resist our efforts (more symbolic than anything else) to make explicit links between the programs in this bill and our School-to-Work Program.

Good

6. Education -- Multilingual School Districts: You have said on a number of occasions that the nation has four school districts in which students speak over 100 foreign languages as first languages. We asked the Department of Education to verify this number and identify the specific school districts. According to the Department, there are now five school districts with over 100 languages and one with just under 100 languages. The five school districts are: New York City (140 languages), Prince George's County MD (128), Montgomery County MD (119), District of Columbia (116), and Fairfax County VA (over 100). In addition, Chicago enrolls students speaking 96 different languages.

Los Angeles?

7. Immigration Study: A recent study released by the National Research Council and funded by the U.S. Commission on Immigration Reform found that immigration increases the nation's total economic output by about $10 billion each year and has little negative effect on the income or job opportunities of most native-born Americans. The study finds, however, that immigration has contributed to a 5% decrease in the wages of native high school dropouts since 1980. (For the most part, African Americans have escaped the burden on low-paid native workers because they do not generally live in pockets of heavy immigration.) In addition, the study finds that in communities and states with high concentrations of low-skilled, low-paid immigrants, taxpayers incur a burden: for example, the study estimates that because the average immigrant family in California collects about $3,000 more in public services (including education) than it pays in taxes each year, native households in the State pay an average of about $1,000 in taxes to provide services to immigrants. The study made no policy recommendations, but its findings could support efforts to give greater preferences to more highly educated or skilled immigrants.

6-3-97

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

May 30, 1997

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MEMORANDUM FOR THE PRESIDENT

FROM: KATHLEEN A. McGINTY

CC: ERSKINE BOWLES

RE: CEQ WEEKLY REPORT

OZONE/PARTICULATE MATTER RULEMAKINGS

Under the agreed-upon internal schedule in the OMB/CEQ/NEC process that is underway with the Environmental Protection Agency (EPA) as they finalize this rule, EPA's draft rule is scheduled to come to the White House for review late next week. (Although I believe now that that date will slip into the week following next). EPA is under a court-ordered deadline to publish the particulates rule no later than July 19. We are working hard to reach consensus among EPA, the other agencies, and White House offices, but are not there yet. Our goal is to provide you with a consensus recommendation if at all possible, but much work remains to be done.

There continues to be considerable press and congressional interest in this. The press is very mixed. Most of the congressional correspondence has expressed concern about the proposed rules, although it is far from clear that the proposals would be overturned by Congress if it actually came to a vote. Rather, the correspondence clearly reflects the fact that many in Congress would much prefer to have the Administration modify these rules than have to make the difficult decision themselves in a recorded vote.

PACIFIC SALMON

As the June 2 Canadian elections approach, tensions over Pacific salmon are escalating. Last week Canada suspended talks on the issue; this week Canada began seizing U.S. fishing boats trying to traverse the Inside Passage between Vancouver Island and Alaska. To date, four boats have been seized. British Columbia Premier Glen Clark has threatened to cancel the U.S. Navy's lease on a submarine torpedo test facility used since the 1960's.

In a letter this week to the Secretary of State and Secretary of Defense, Senator Ted Stevens (R-AK) threatened to oppose our budget request for cleanup at several former military bases in Canada. In a letter to the Commandant of the Coast Guard, Senator Frank Murkowski (R-AK) asked the Coast Guard to escort US fishing vessels through contested waters.

THE PRESIDENT HAS SEEN
6-3-97

Ironically, the past several months of "stakeholder talks" over Pacific salmon has produced good progress in addressing difficult issues. We are hopeful that tensions will subside and talks resume after the Canadian elections next week.

SALMON SUMMIT

Governor John Kitzhaber (D-OR) has asked me to attend a summit meeting next week with Governors Marc Racicot (R-MT), Gary Locke (D-WA), and Philip Batt (R-ID) and the heads of 13 tribes to discuss governance of the Columbia and Snake Rivers and issues surrounding the competitiveness of the Bonneville Power Administration as competition (and deregulation) in the energy sector increase. The substance and politics here are very tricky for us. I have welcomed Governor Kitzhaber's involvement because the interests of Oregon and Washington most align with our own in this situation and I think an alliance with him will help us buffer the conflicting interests of the tribes and the states of Idaho and Montana. I think we can continue to contain this situation (and, indeed make some progress substantively). I will keep you apprised of developments.

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THE WHITE HOUSE

WASHINGTON

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May 30, 1997

MEMORANDUM TO THE CHIEF OF STAFF

FROM RAHM EMANUEL

SUBJECT WEEKLY REPORT

CRIME/DRUGS: Over the weekend we are putting out a Presidential statement marking the historic decline in the rate of violent crime. The statement comments on the positive impact community policing and gun control laws are having on the nations crime rate and makes a push for a tough juvenile crime bill.

We also prepared and released a Presidential statement on the jury's decision to find Meegan Kanka's attacker guilty of rape and murder. News coverage of the verdict mentioned the Meegan's Law that now protects children from this type of predator.

I have asked Counsel and Domestic Policy to research whether the President can sign a directive to ATF requiring that all hand guns sold in America come with a warning label. The warning would advocate keeping guns away from children. If ATF is not the proper venue, then I suggest we look into the Consumer Protection Agency.

Next week the Massachusetts Attorney General is unveiling new regulations on gun sales that would treat guns as a common consumer product. The regulations would focus on child safety. This will only add pressure that we do something on the Federal level. That is why I want to explore a new and different approach to limiting a child's access to guns.

Along similar lines, I talked to Ray Kelly about adding 10 new cities to the Youth Handgun Tracking project. We are due to release a one year report on the project and I was hoping to join that report with an announcement to expand the project.

talk to

IMMIGRATION: As I mentioned in my previous weekly report, the Attorney General feels they are making real progress in reforming the naturalization process. They called to see if I wanted a briefing. I said I was willing to be briefed, but wanted the record to show I did not request or want the briefing. They do believe they are making real progress turning the situation around and think we will see the first results by the end of the Summer.

I stressed that we needed to see the same type of progress in the office of Enforcement. I am

THE PRESIDENT HA[illegible]
6-3-97

concerned that they will take too long in replacing Mr. Slattery, the director of the office of Enforcement.

INS and Justice last week put out their projected number of 5,000 people who will be denaturalized because they improperly received citizenship. This is 5,000 out of 1.3 million. Although the number is low, our tone should be that 5,000 is to high and that it is unacceptable.

CAMPAIGN FINANCE: This coming Friday we are sending a letter and petition from the President to the FEC regarding their regulation of soft money. We will organize supportive comments from House and Senate members. I have had discussions with Senator Feingold and Congressman Meehan, both will be supportive. To make the petition work you need to call Senator Daschel, Kerry, Congressmen Frost and Gephardt.

The selection of members to the Free TV Commission is proceeding along. It is important that we finish the background check and be ready to announce all members this month. We will face criticism on the lack of action by July 4 and the above announcements are crucial to our credibility.

FOLLOW-UP: I have sent you a memo on the steps we need to take if we want to establish the President's Council. The President indicated he wanted this to go forward. If you would like to discuss this further let me know what else I have to do.

Chris Jennings is looking into what steps we can take administratively on the issue of Children's Health. He is looking into waivers, an HHS report, and other steps.

NOTE: Monday, June 2nd is Ann Devory's first day back at work. I think that the President should call or invite her up to the Oval to welcome her back.

THE WHITE HOUSE

WASHINGTON

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May 30, 1997

MEMORANDUM FOR THE PRESIDENT

FROM: Emily Bromberg
Lynn Cutler
Fred DuVal

SUBJECT: Weekly Report

Fair Labor Standards Act: The Governors continue to oppose the DOL ruling that the Fair Labor Standards Act applies to the new welfare law. The NGA is currently considering the following policy options: exempting workfare participants from the Fair Labor Standards Act; allowing Medicaid, child care, and housing benefits to count toward the calculation of the minimum wage; and expanding the definition of work to include job search, education, and training. The Governors are debating these options and are likely to put their position in writing to the White House and Congress next week.

Democratic Governors' Association: The DGA hosted a breakfast this week featuring Governors Howard Dean (VT), Roy Romer (CO) and Bob Miller (NV) as guest speakers. Most of the discussion revolved around the application of the minimum wage to welfare workers. The participants indicated support for the minimum wage requirements but wished to hear ideas as to "what counts" toward the minimum wage.

Guam: A group representing Governor Carl Gutierrez (D-Guam) met with our office to seek the support of the Administration in reviving the inter-agency negotiations on the status of Guam. Marcia Hale co-chaired a working group with Jeff Farrow on this issue and Fred DuVal has begun to address these concerns.

Governor Lawton Chiles: Governor Chiles (D-FL) is seeking a specific statement from the Administration confirming our commitment to the budget increase for the Everglades. Our office will work with CEQ and the Interior Department to consider this request.

Race Reconciliation: We are currently contacting African-American mayors from the major cities for their input on your efforts to improve race relations. They have been very responsive to our interest in their opinions.

Flemming Fellows: We hosted a briefing for 50 progressive state legislative leaders in the

Roosevelt Room on May 29. OPL Director Maria Echaveste presented an overview of the Administration's efforts to implement your recent initiatives, OMB Communications Director Larry Haas highlighted the status of the balanced budget agreement, and Transportation Secretary Rodney Slater focused on the importance of the passage of the NEXTEA package.

Native American Community: We have received a request for you to meet with the Democratic Congressional leadership concerned with Indian Affairs. Erskine Bowles has agreed to host this meeting in your stead. This session will focus on the Administration's relationship with the Native American community.

We are also coordinating with Legislative Affairs to facilitate a meeting to address the gaming tax proposal.

"Big Seven" Intergovernmental Organizations: The official and administrative leadership of the "Big Seven" Intergovernmental organizations will meet with the Vice President on Friday, June 6.

State Treasurers: We are coordinating a conference call with State Treasurers to discuss the balanced budget agreement.

Puerto Rico Status Legislation: U.S. Senator Bob Graham (D-FL) personally called to ask that we expeditiously address issues raised within current legislation regarding the status of Puerto Rico. U.S. Senators Bob Graham, Larry Craig (R-ID), and ten others sponsored this bill in hopes that Senate Energy and Natural Resources Committee Chairman Frank Murkowski (R-AK) would hold a hearing in July. The bill is similar to the one approved by the House Resources Committee last week that would call for Puerto Ricans to choose among continuing the status quo (Commonwealth), nationhood, or statehood next year, and possibly provide an implementation process. Senators Murkowski and Graham's key staffers agreed to create an alternative prior to the legislative hearing to be held in July which will serve as the basis of our comments on this sensitive matter.

Additionally, we began talks with the staff of House Resources Committee Chairman Don Young (R-AK), Ranking Minority Member George Miller (D-CA), and Resident Commissioner Carlos Romero (D-PR) on the Resources bill's Commonwealth option. As you will recall, both the Administration and Miller were disappointed when Congressman Young revoked his support for a compromise on the option. Commissioner Romero was concerned that Congressman Miller and House Minority Leader Dick Gephardt would drop their support of the bill if there was no compromise.

Puerto Rico Investment Incentive: House Ways and Means Committee Ranking Majority Member Phil Crane (R-IL) and five other Republicans urged Chairman Bill Archer (R-TX) to agree to amendments to the corporate tax credit based on wages and other spending in Puerto Rico similar to those that you proposed. A letter from you to Governor Pedro Rossello (D-PR) pledging continued support for your proposal made headlines in Puerto Rico.

EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF SCIENCE AND TECHNOLOGY POLICY
WASHINGTON, D.C. 20502

May 29, 1997

THE PRESIDENT HAS SEEN
6-3-97

MEMORANDUM FOR THE PRESIDENT

'97 MAY 29 PM1:35

FROM: JOHN H. GIBBONS JHG for

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Gibbon
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CC: ERSKINE BOWLES

SUBJECT: OSTP WEEKLY REPORT

REGIONAL WORKSHOPS ON CLIMATE CHANGE

The first of a series of workshops on the regional impacts of climate change was held this week (May 27-29) in Fort Collins,CO. These workshops will help the United States, as you said in Costa Rica, "meet the challenge of climate change -- regionally and beyond our hemisphere." Approximately 150 participants turned out the first day to hear presentations by Tim Wirth and Jerry Melillo, and many stayed to participate in the following two days devoted to identifying regional vulnerabilities, adaptation and natural resource management options, and a strategy for meeting regional research needs.

Additional workshops are scheduled to occur over the Summer in Fairbanks, Nashville, Seattle, and locations in the Southwest, New England, and the Mid-Atlantic. Subsequent workshops in 1997 and 1998 will focus on California; Caribbean, Atlantic, and Gulf coastal areas; the Eastern Midwest; the Great Lakes; Hawaii and the Pacific Islands; the Metropolitan East Coast; the Northern Great Plains; Texas and the Southern Great Plains; and the Rocky Mountains and Great Basin.

OSTP organized these workshops with the Executive agencies in advance of the Kyoto negotiations to stimulate analysis of the regional climate change impacts facing the United States and to increase public understanding of this complex issue. We believe these workshops can help educate the American people about our vulnerability to climate change and build State and local support for congressional endorsement of your Administration's actions to confront this problem.

INTERNET PRIVACY STANDARD

Your Administration has placed the highest premium on creating "win-win" situations for industry and government that reduce or avoid the need for laws and regulations. This week's announcement by Netscape Communications Corp. and other high-technology companies of a proposed global standard for protecting the privacy of World Wide Web users without compromising the ability of marketers to target them is evidence of your success.

THE PRESIDENT HAS SEEN
6-3-97

The Open Profiling Standard (OPS) is an important step in advancing market-based approaches to privacy protection. The new standard enables users to develop their own profile for use in transactions on the Internet. For each transaction, users will be able to choose the parts of their profile they disclose and set limits on the use of that information.

Technology that empowers users to understand their options and express their preferences is a powerful and versatile tool. OSTP, OVP, and NEC are working closely with industry to develop and implement standards such as OPS that permit more effective use of the Internet by more people under a wider variety of circumstances.

PARTNERSHIP FOR A NEW GENERATION OF VEHICLES (PNGV)

PNGV is one of the flagship industry-government technology partnerships of your Administration. With DOC Undersecretary Mary Good's announcement of her retirement, we are losing one of our most valuable players in this enterprise. Since PNGV is likely to be an important part of your discussion with the "Big 3" auto CEO's on June 27, I plan to work closely with Bill Daley and Bob Nash over the next few weeks to ensure we have a seamless transition between Mary (a very hard act to follow) and her successor.

CYBERNATION

When the supercomputer Big Blue beat Kasparov at chess, many Americans expressed a fear that artificial intelligence would, someday, dominate us. That will never happen, of course, but **cybernation** -- or automation -- of the domestic infrastructure in transportation, finance, energy, and telecommunications has been building for decades. We have become a wired nation, dependent on computers, electronic data, and information networks. Our dependency requires a clear and concise strategy for dealing with possible threats, which range from natural disasters to cyberterrorists. Last week the NSC submitted to you a proposed response to recent congressional interest in this issue, which included an OSTP report, *Cybernation: The American Infrastructure in the Information Age*, in the package that addresses the Kyl amendment.

INTERNATIONAL SPACE STATION

NASA has confirmed to me that the Russian Space Agency has obtained the 800 billion rubles necessary to continue work on the Service Module, their main contribution to the International Space Station. Between now and the end of the year, they expect to receive an additional 700 billion rubles. On this basis, NASA (with the concurrence of our international partners) has decided to keep the Russian Service Module in the baseline assembly sequence and schedule it for launch in December 1998. As a hedge against possible Russian funding problems in the future, your Administration is funding a U.S. back-up option to the Service Module. By early Fall, and assuming the Russians stay on schedule, we should be in a position to determine whether further funding of the back-up option is necessary.

HUMAN FRONTIER SCIENCE PROGRAM

Last week OSTP hosted an Intergovernmental Conference of the Human Frontier Science Program -- a multilateral science program that aims to advance the frontiers of human knowledge by promoting basic research focused on the brain and molecular biology. Reviews by the international community and within the U.S. government have given the program high marks for supporting first-rate science, with a particular focus on younger investigators. Nations participating in the conference agreed to continue and expand this program for another 5 years. In 1996, the U.S. contributed $4 million to this $46 million international program. Japan currently provides about 80 percent of the funding and is likely to mention its role and encourage more extensive U.S. participation at your Summit next month in Denver.

CLONING

On June 7 the National Bioethics Advisory Committee (NBAC) will complete its work on your charge to them to develop recommendations regarding the ethical and legal issues surrounding cloning of a human through somatic cell nuclear transfer technology. OSTP is working with DPC and OVP to develop an Administration response to measures NBAC is expected to propose, including a possible legislative initiative. At the same time, we are all working with NEC on preparations for the Denver Summit, where President Chirac is expected to introduce a proposal for an international ban on the cloning of entire human beings.

THE WHITE HOUSE

WASHINGTON

Date 6-3

To: Erskine, John P., Sylvia, Rahm, Ann Lewis, Bruce Reed, Frank R.

From: The Staff Secretary

Any view on this suggestion?

TD

Personal

EXECUTIVE OFFICE OF THE PRESIDENT 97 JUN 3 PM 5:16

OFFICE OF NATIONAL DRUG CONTROL POLICY

Washington, D.C. 20503

June 2, 1997

Dear President Clinton:

We need your help. Our proposed $175 million youth-oriented, anti-drug media campaign is at risk. It has yet to gain broad congressional support from Republicans.

We are now entering the short mark-up period during which the campaign's fate will be decided. Would suggest that using a Saturday radio address to endorse the campaign would help sway those who are still unconvinced about its merits.

There are many demands on your time. Few, however, offer such a potential pay-off. As you know, drug use has doubled among our youth, tripling among eighth graders in the past five years. We are confident this campaign can drive down drug use rates among eighth-graders by fifteen percent within three years. Your intervention will increase our chances of succeeding.

Very respectfully,

Barry

Barry R. McCaffrey
Director

The Honorable William Jefferson Clinton
The White House

EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF NATIONAL DRUG CONTROL POLICY
Washington, D.C. 20503

Potential Benefits of ONDCP's Youth-Oriented Anti-Drug Media Campaign

PURPOSE. To suggest the potential benefits of the $175 million youth-oriented anti-drug campaign on a typical congressional district.

ASSUMPTIONS.

1. **Without intervention, usage of illegal drugs will continue to rise among America's 68 million children.**

2. **There are approximately 7,250 eighth-graders in a typical congressional district. This number will not change drastically in the next five years.**

   - If the increase in current usage rates of the past five years among 8th-graders is unchecked, by 2001, 22.8% of eight-graders will be using illegal drugs. That means 1,653 8th-graders in a typical congressional district would be using illegal drugs.

3. **This $175 million media campaign, in conjunction with other ongoing drug prevention efforts, will result in a fifteen percent reduction in drug usage rates among our youth.**

   - The annual investment, per child, of this campaign is just $2.57.

POTENTIAL BENEFITS.

1. **If the media campaign is fully funded, 551 fewer 8th-graders will be using drugs in each congressional district in 2001.**

2. **This reduction in use translates into dramatic savings.**

   - Columbia University's Center on Addiction and Substance Abuse estimates that children who smoke marijuana are eighty-five times more likely to use cocaine.

   - A recent study suggests that the saving a high-risk youth (i.e. a current illegal drug user) might prevent costs to society of between $1.5 - $2 million -- the estimated damage caused by a typical addict over a life-time of drug use.

   - If this Campaign deters just one 8th-grader in each congressional district from beginning the descent toward addiction, the campaign will have achieved a three-fold return on a modest investment.

Prepared by PB&E and OSP May 30, 1997

EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF NATIONAL DRUG CONTROL POLICY
Washington, D.C. 20503

Excerpts from May 14, 1997 statement by General Barry McCaffrey, before the Senate Appropriations Committee, Subcommittee on Treasury, General Government and Civil Service

Comments about the $175 Million Youth-Oriented Anti-Drug Campaign.

- Drug use has gone up among America's youth during the past five years. The principal reasons that more of our children are using drugs is that fewer of them disapprove of illegal drug use and fewer perceive regular drug use as dangerous. The University of Michigan's *Monitoring the Future Study* makes clear this association between attitudes and usage rates.

- Unfortunately, in recent years the number of drug-related public service announcements (PSAs) carried by television, radio, and print media have decreased markedly. The economics of the media industry have made advertising space so competitive that pro-bono advertising has dropped more than 30 percent in recent years. Even worse, virtually no PSAs appear in prime-time.

- We seek to reverse this trend by developing a public education campaign that supplements anti-drug announcements already offered by dedicated organizations like the Partnership for a Drug-Free America under Jim Burke's leadership and the Ad Council.

- The President's FY 1998 budget seeks to fund this targeted educational campaign through the $175 million provided in ONDCP's Special Forfeiture Fund. ONDCP will also seek matching private sector donations. The campaign will use both paid and public service television announcements to inform youth and their parents of the consequences of drug use.

- Targeted TV ads are among the quickest, most efficient and effective means of reducing drug use. They can modify adolescent perception of drug harmfulness and increase societal disapproval of drugs. They can also reach "baby boomer" parents who may be ambivalent about sending strong antidrug messages to their children.

- Attitudes can be changed with accurate and convincing messages. ONDCP believes this campaign can help to reduce youth drug use dramatically.

EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF NATIONAL DRUG CONTROL POLICY
Washington, D.C. 20503

ONDCP's National Anti-Drug Media Campaign

- **The challenge: To reverse the current sharp rise in illegal drug use by young Americans.**

- **The Problem:**

  - Drug use has been increasing among our youth over the past five years, tripling among eighth graders.

  - This upsurge in drug usage rates was preceded by changing attitudes towards drugs. Young Americans became more tolerant of illegal drug use and less worried about the consequences.

  - Anti-drug messages have declined markedly since 1989, even while messages normalizing illegal drug use have proliferated in popular music, TV, film, Internet, fashion, humor, and other forms of mass communications.

- **The rationale for a funded anti-drug media campaign.**

  - Targeted, mass media advertising works. It sells products and ideas from cereals to seat belt use.

  - Public Service Announcements (PSAs) by themselves are insufficient. They do not reach the right audiences with the required frequency because they air sporadically and in the wrong time spots.

  - Children spend more time watching TV than in school. Other media outlets (i.e. radio, cinema, computer software, the Internet, newspapers, and magazines) are also vehicles to reach young Americans and their parents.

- **Why $175 million?**

  - The cost of effectiveness -- reaching 90% of all 9 - 17 year olds at least four times a week.

  - In line with per capita costs (< $1) of publicly-funded CA & MA anti-smoking campaigns.

  - Represents "seed money." Crucial component of the campaign is matching contributions from corporate partners.

Prepared by Office of Strategic Planning May30, 1997

THE CHRISTIAN SCIENCE MONITOR
BOSTON – FRIDAY, MAY 30, 1997
Internet address: www.csmonitor.com
75¢

The Next Front in the Drug War: the Media

The nation's youth too often get a pro-drug message from TV, films, and ads, but that's about to be countered

By Barry R. McCaffrey

CORPORATIONS spend billions of dollars on advertising because it works. The electronic media – television, radio, film, videos, Internet, CD ROM, and multimedia (including print augmented by color photography) – are the strongest educational tools of the modern world. They change attitudes and behavior among youth in the fastest, most effective way. So if Americans are serious about reducing substance abuse, an aggressive media campaign is a crucial addition to drug prevention at home, in schools, and in communities.

Congress is now considering just such a campaign – our proposal to spend $175 million to motivate young people to reject illegal drugs. Through support from the media and others in the private sector, this figure could double – allowing us to increase both paid advertisements and public service efforts.

The need is clear

Such an initiative is unquestionably necessary. Even though overall drug use in our country has dropped by half in the last 15 years, teenage drug use rose precipitously. Eighth-grade use, for example, nearly tripled in the last five years. During this period, the number of antidrug public service announcements fell by 30 percent, and many aired in time slots that attract few children.

The media initiative is only the beginning of a greater educational campaign that will use every tool available to reach US youngsters. Documentaries about the history of drug use, the impact of narco-terrorism, and the link between drugs, crime, and the justice system can be supplemented by factual, dramatic shows about the consequences of substance abuse. Young viewers would be more likely to shun addictive substances if they were better informed about the violence associated with this criminal industry, as well as the health risks posed by illegal drugs.

Today's kids spend more time watching television than attending classes in school. By high school graduation, the average youth has seen approximately 15,000 hours of TV, as compared to 12,000 hours in school. Whether we like it or not, electronic media have revolutionized the way people learn – much as Gutenberg's printing press and movable type changed Renaissance Europe from an oral to a written culture. In the 20th century, mass communication has brought us back to word-of-mouth, conveying information through speech and pictures that are electronically enhanced to magnify impact.

The media are more than the message; they have become our environment. The signs on buses we see when riding, the eye-catching packaging we view while eating, the music that fills our cars while we're driving, characters like Roseanne, Seinfeld, or the Bunkers who join our families at home, commentators who bring us news from around the world – all create a media envelope that shapes the way we think.

The idea is not to control young minds, but to offer accurate data that enable individuals to make rational choices.

Because mass media act like a "proxy peer" to our youth, defining culture by identifying what's "cool" and what's not, a broad-based antidrug campaign can counteract pro-drug messages that youngsters receive from many sources. Ad experts suggest a minimum of four exposures a week, reaching 90 percent of the target audience (mostly children but also parents, coaches, youth leaders, and other adults who work with young people) is necessary to change attitudes. The University of Michigan's "Monitoring the Future" study indicates that changes in behavior are preceded by changes in attitude. We believe that, over a five-year period, the right kind of media campaign – along with other prevention programs – can educate students to reject illegal drugs.

A recent study by the National Institute on Drug Abuse (NIDA) notes that media efforts work best at the community level in conjunction with other programs. To maximize impact, the new campaign will tailor ads to match the age, social, and psychological profile of target audiences. Alan Leshner, director of NIDA, points out that scientific research has established which types of ads achieve good results. For instance, messages that encourage audiences to think about issues – as opposed to celebrities delivering slogans – tend to produce enduring changes in viewers. Likewise, research-based material is more effective than scare tactics.

Creative minds in the arts and industry can help. We hope the Advertising Council, and the leadership of Jim Burke with the Partnership for a Drug-Free America, will provide experience and talent to help guide this effort.

A powerful counterforce

Education cannot be confined to classrooms any more than morality is limited to religious institutions. The electronic age has seen magazine covers, cereal boxes, food cartons, clothing, video games, and other consumer items turned into billboards. Young people are bombarded by thousands of images, many of which normalize or glamorize drug use. To counter these influences, we must use equally powerful channels of communication.

The idea is not to control young minds. Our purpose is to offer accurate data that enables maturing individuals to make rational choices. Drugs are wrong because they hurt people. We cannot stand idly by while toxic, addictive substances endanger children, family, friends, and neighborhoods.

■ *Barry R. McCaffrey is director of the White House Office of National Drug Control Policy.*