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THE WHITE HOUSE

WASHINGTON

July 11, 1997

THE PRESIDENT HAS SEEN
7-14-97

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MEMORANDUM FOR THE PRESIDENT

FROM: **THURGOOD MARSHALL, JR.** TM

SUBJECT: **Summary of Cabinet Weekly Reports**
July 5 - 11, 1997

DEPARTMENT OF TREASURY

- **Ukraine:** This week, Assistant Secretary Lipton and Deputy Assistant Secretary Medish will travel to Salzburg, Austria, to meet with Ukrainian President Kuchma and his economic team to discuss strategies for meeting conditions under a proposed IMF program. After seven months of effort the Ukraine has still failed to meet several requirements of this program.

- **Bank Enterprise Awards (BEA):** This week, the CDFI Fund will release a report on the impact of the BEA Program, which awards loans to banks that promote community development. Treasury will distribute a package which includes this document to members of the House and Senate Appropriations Subcommittees and also to members of the House Banking Committee to build support for the CDFI program as the appropriations process moves forward.

- **NADBank:** On July 10, Secretary Rubin met again with Representative Torres to give him a progress report on the NADBank and the status of its loans, as agreed to at their June 5 meeting. They were joined by Representative Reyes, who has expressed a similar interest in the NADBank. Representative Torres sent a letter to Representative Callahan in support of the NADBank. It was consigned by fourteen other Border State Members, including Representative Pelosi. At the July 1 meeting of the NADBank Finance Committee, 35 communities were selected as the initial sites for the community adjustment program.

DEPARTMENT OF JUSTICE

- **Mexican Fugitive:** On June 27, Mexican immigration authorities handed over Ernesto Martinez Lopez to the custody of the Dallas County Sheriff. Martinez Lopez was serving a life sentence for the rape and murder of a 12 year old girl when he escaped from a TX Prison Farm in November 1962 and fled to Mexico. He could not be extradited because the statute of limitations had expired. Under a new program developed by the INS and DOJ's Office of International Affairs in cooperation with Mexican immigration authorities, Martinez Lopez, a U.S. citizen, was determined to be living illegally in Mexico. On June 26, he was arrested at his home in Guanajuato, Mexico, and expelled from Mexico the following day.

- **Drug Kingpins:** On June 27, as part of Operation Meth 3, Emiliano Barrajas-Diaz and Ramon Montano were found guilty in NM of conducting a criminal enterprise involving distribution of methamphetamine, cocaine, and marijuana. The jury also returned forfeiture verdicts against $22 million in drug trafficking proceeds. The convictions result from an investigation of the seizure of 700 pounds of methamphetamine and 200 pounds of marijuana on February 3, 1995. The conspiracy involved over 1,400 kilograms of cocaine, 2,400 pounds of marijuana and 700 pounds of methamphetamine.

- **HIV Child:** A civil suit was filed against three child care centers in Beloit, WI, charging that they refused to admit a 4-year-old boy because he had tested positive for HIV. This is the first action brought by DOJ regarding the right to child care under Title III of the ADA. There is no known case of HIV transmission in a school or child care center. DOJ is also seeking civil penalties and compensatory damages for the child and the child's guardian.

- **Violence Against Women Act:** On June 23, District Judge Mark W. Bennett upheld the constitutionality of the civil rights provision of the Violence Against Women Act (VAWA) in Doe v. Hartz, et al. (N.D. IA). The Judge upheld VAWA as a valid exercise of Commerce Clause power, ruling that Congress had a rational basis to conclude, based on extensive legislative findings, that gender-motivated violence has a substantial effect on interstate commerce. The court finally held that VAWA is reasonably adapted to the legitimate goal of combating gender-motivated violence.

- **Major Drug Distributor Arrested:** On June 25, Justin King crossed the border into San Diego, CA and was arrested by U.S. law enforcement authorities. He is wanted in the Western District of Texas for conspiracy to distribute methylene-dioxy-methamphetamine (MDMA) and his participation in one of the largest MDMA laboratories ever seized in North America. Several million tablets of this drug -- commonly known as "Ecstasy" -- were manufactured in Tijuana, Mexico, then distributed throughout TX, GA, FL CA, and NJ.

- **Tobacco Settlement Hearings:** On June 26, the Senate Judiciary Committee held a hearing to review the recent agreement between the attorneys general of several states and the tobacco industry.

DEPARTMENT OF COMMERCE

- **Hispanic Chamber Speech:** On July 17, Secretary Daley is scheduled to speak at the U.S. Hispanic Chamber of Commerce's First Annual International Conference.

- **Weights and Measures:** On July 17, the National Institute of Standards and Technology expects to join with the FTC, USDA and FDA in announcing an interagency study that has found substantial short filling of milk cartons in schools, hospitals and retail locations. Congressional committees and industry will be briefed before the public news release.

- **Research Vessel Ron Brown Dedication:** On July 19, NOAA's newest research vessel, the R/V RONALD H. BROWN, will be commissioned in Charleston, SC.

- **The following economic indicators will be released during the next two weeks:**

Advance Retail Sales (June):	July 15
Manufacturing and Trade: Inventories and Sales (May):	July 16
Quarterly Financial Report for Retail Sales (1st Q):	July 16
Housing Starts and Building Permits (June):	July 17
U.S. International Trade in Goods and Services (May):	July 18
Housing Vacancies (2nd Q)	July 22
State Personal Income (1st Q)	July 24
Advance Report on Durable Goods, Manufacturers' Shipments and Orders (June)	July 25

- **Census 2000:** On July 14, DOC will issue its 30 Day Report to Congress on Census 2000. The report, which was required by last month's supplemental appropriations legislation, outlines the sampling techniques that may be used in conducting the Census. It also provides detailed cost estimates and an analysis of all available options for counting hard-to-enumerate individuals without sampling. The report confirms DOC's earlier conclusion that sampling is not just an acceptable means of creating an accurate Census -- it is the only means of doing so.

- **Census 2000 Partnership Roll-outs:** On July 15, in Hartford, CT, and on July 16, in Portland, ME, Census Director Riche will lead two more in a series of Census 2000 Partnership Roll-out meetings. These are designed to inform state, local, tribal and community representatives around the nation of plans for Census 2000 and to discuss ways to improve methods of communication and community involvement.

DEPARTMENT OF LABOR

- **CA Flood Grant:** Secretary Herman approved a $29.4 million grant for CA to create an additional 2,171 temporary jobs to assist in the cleanup and restoration efforts in the aftermath of last January's floods.

- **GM Strike:** Over the July 4 weekend, little progress was made in negotiations at the General Motors truck assembly plant in Pontiac, MI. Some 5,400 workers who produce full-size Chevrolet and GMC pickup trucks walked out in late April in a dispute on the union's demand for staffing increases to reduce excessive overtime.

- **CNA/Kaiser Permanante Negotiations:** At the request of the FMCS, Kaiser Permanente and the CA Nurses Association (CNA) have agreed to resume negotiations on July 12, and the union has announced that it will delay its planned two-day strike until July 17 - 18. The last talks between the parties were held on April 9, a week before CNA's one-day stoppage, which was supported by members of five unions representing most of the other employees at the health care provider's hospitals and clinics in northern CA. Some 7,500 registered nurses are covered by the union's contract with Kaiser which expired on January 30.

- **United Airlines/AFA Talks:** Negotiators for United Airlines and the Association of Flight Attendants (AFA) have resumed talks. AFA's contract, which covers some 21,000 flight attendants, became amendable on March 1, 1996. The union is continuing its informational picketing that advocates raises, retirement and respect. On July 7, Dulles International Airport was the site of such activity.

DEPARTMENT OF TRANSPORTATION

- **Family Assistance Task Force:** On July 9 -10, The Secretary's Task Force on the Assistance to Families of Aviation Disasters meet. Secretary Slater and Chairman Hall chaired the meeting included testimony from the public and a discussion on the role of the media in covering aviation disasters and how that impacts families.

- **TWA 800:** Major activities centering on the TWA 800 investigation include: (1) July 8- Boeing 747 operators meeting with FAA; (2) continued coordination with the NTSB and Boeing to finalize the test plan for the Boeing 747-100 flight test. The flight test will take place in mid-July and will measure various fuel tank temperatures and other data needed to address the TWA 800 issues; (3) On July 1, the NTSB responded to the FAA's position on NTSB's four safety recommendations by classifying two of the recomendations as acceptable and two as unacceptable. The unacceptable recomendations were those dealing with short-term operational issues such as adding

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cooler fuel to the center fuel tank carrying more fuel in the tank, and operational procedures to reduce heat sources. The FAA is confident that the data will be developed to address the Boards recommendations.

- **NAACP Address:** On July 16, Secretary Slater will address the NAACP Annual Armed Services Dinner in Pittsburgh, PA. Admiral Kramek, Commandant of the Coast Guard, will receive an award from the NAACP.

- **Africa Initiative:** From July 21-25, Secretary Slater and Jesse Jackson will lead the U.S. delegation of government officials in the Fourth African-American Summit to be held in Harare, Zimbabwe. The main emphasis for the Summit will be economic development, education, human development and peace. During the trip, the Secretary will meet with his transportation counterpart to lay the framework for a U.S. transportation initiative with Africa.

- **Haiti:** On July 28-29, as part of a White House initiative, Secretary Slater will be visiting Port-au-Prince, Haiti to discuss DOT assistance requested by the Haitian Government to improve their transportation infrastructure. Discussions will focus on assessment of Haiti's existing transportation network, planning for improvements in intermodalism and identification of costs and possible financing options for upgrades. On July 30, the Secretary is planning to meet with ministers of transport from certain Caribbean nations in San Juan, Puerto Rico.

- **Explosives Detection:** The annual evaluation of teams for FAA certification in explosives detection proficiency continues. To date, 48 teams at 20 locations have passed. FAA Security workgroups continue to work on multiple initiatives to upgrade the K-9 program from 30 to approximately 80 airports over the next three years.

- **France Aviation Talks:** On July 9-14, the French have agreed to resume aviation negotiations in Paris looking toward a liberal aviation agreement. While the U.S. is seeking an "Open-Skies" aviation agreement phased in over a 3-year period, the French have proposed a 9-year phase culminating in a liberal arrangement for U.S.-France services only.

- **Summer Jobs Program:** The Federal Railroad Administration (FRA), continuing its working relationship with the local community and brought eleven minority youths to the agency under the District of Columbia's Summer Youth program. This is the largest number of summer youths ever to participate in the program at the FRA.

- **Aggressive Driving:** On July 17, the House Transportation and Infrastructure Subcommittee on Surface Transportation has tentatively scheduled a hearing on aggressive driving. Administrator Martinez will testify.

UNITED STATES TRADE REPRESENTATIVE

- **Financial Services:** During the week of July 14, the U.S. will table a MFN-based, conditional offer in the WTO financial services negotiations. The offer will cover banking, insurance and securities sectors. USTR will only make the offer into a binding WTO commitment if it can obtain significantly improved offers from a range of countries, particularly in Asia and Latin America.

- **APEC Sectoral Initiative:** On July 15, proposals for APEC sectoral liberalization are due. The U.S. plans to propose or support proposals by other APEC members concerning a range of sectors, including chemicals, medical equipment services, automotive, telecom (MRA), oilseeds, power generation equipment, non-ferrous metals, forest products, fish, environmental goods and services and possibly others.

- **Bananas:** On July 21-22, the U.S. will present oral argument before the WTO Appellate Body in the Administration's case against the EU's banana regime.

- **NAFTA Study:** On July 16, the Ways and Means Trade Subcommittee may hold a hearing on your NAFTA study, at which Ambassador Barshefsky is scheduled to testify.

- **EU Aircraft:** USTR continues bilateral consultations with the EU on the U.S.-EU Bilateral Agreement on Civil Aircraft. The EU has implicitly linked these consultations to the approval of the Boeing-McDonnell Douglas merger.

SMALL BUSINESS ADMINISTRATION

- **Welfare to Work:** SBA received 252 applications in response to its job announcement on this initiative. SBA committed to hire 30 new employees off welfare each year for the next four years. SBA expects to hire the first of these candidates by mid-August and easily fill the 30 available positions before the end of the fiscal year.

- **Section 8(a) Program:** On July 9, Deputy Administrator Lew met with members of minority chambers of commerce in Las Vegas, NV, on proposed changes for the section 8(a) business development programs. The proposed rules will allow existing and graduated 8(a) firms to enter into mentor/protégé relationships with new 8(a) firms and allow small businesses to combine in joint ventures to compete for larger contracts. The rule changes will conform 8(a) to DOJ guidance post-Adarand and to recent proposed changes in the small disadvantaged business program at DOD. On July 11, SBA will send the proposed rules to OMB for clearance.

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FEDERAL EMERGENCY MANAGEMENT AGENCY

- **Disaster Declarations:** On July 7, TX received a major disaster declaration as a result of severe thunderstorms and flooding beginning June 21. On July 7, WI received a major disaster declaration as a result of severe storms and flooding from June 21-23.

DEPARTMENT OF INTERIOR

- **Draft Bison Agreement:** The National Park Service (NPS) and the State of MT have discussed a tentative agreement for long-term bison management in Yellowstone. This agreement would form the basis for the draft EIS, which is due to be published in late summer for public review. Meetings to clarify management actions will conclude July 21. Negotiations with the state will resume at that time. A lawsuit on interim Bison management was filed against federal agencies and the MT on July 3. Failing to reach settlement could affect the draft EIS schedule.

- **Chesapeake Bay Restoration:** USGS studies are under way to determine how long it will be before water quality improves in the Chesapeake Bay and its rivers. USGS studies of trends in nitrogen and phosphorus indicate a general improvement in river water quality. On July 16, the results of these studies will be presented to area jurisdictions and the EPA.

- **Commonwealth of the Northern Mariana Islands Initiative Report:** During the week of July 14, DOI expects to issue the Third Annual Report to Congress on the Commonwealth of the Northern Mariana Islands Initiative. This report on the status of labor, immigration and law enforcement will presumably generate controversy, as the Governor is strongly supportive of the locally-directed policies that permit the employment of temporary foreign workers at wage levels well below those set by the Federal minimum wage law, particularly in the garment industry. The report will recommend the extension of both the Fair Labor Standards and the Immigration and Nationality Acts, to the Commonwealth, as well as tighter controls over the use of "Made in the U.S.A." labels. Most of the textiles and the workers come to the Mariana from the People's Republic of China.

- **Big Bend Border Crossings:** DOI and the Customs Service reached agreement on the problem of U.S.-Mexico border crossings within Big Bend National Park. The agreement is that the border crossings will become official within the Park boundaries, contingent upon a minimum set of actions, including cross-training of Park rangers and distribution of border crossing documents.

- **Tribal Leaders Outreach:** On July 15, the Secretary will host over 300 tribal leaders from around the nation to discuss water rights concerns.

- **Grand Staircase-Escalante Monument:** The BLM prepared an Environmental Assessment (EA) on Conoco's application to drill a single exploration well on one of its oil and gas leases within the Monument. Based on comments received, the agency is supplementing the EA and will accept additional comments before making a final decision around August 1. (Conoco holds leases on 104,000 acres of federal land within the Monument that pre-date your proclamation). The press has recently reported strong opposition from environmental groups to any oil and gas development in the Monument. The proposed decision would allow Conoco to drill one well and the likelihood of production is very small.

- **Presidio Trust Board:** On July 9, the Presidio Trust Board will hold its first meeting in San Francisco, CA. The meeting will trigger a request that NPS transfer most of its property on the former Army post to the Trust within one year of the first meeting of the Trust.

- **Bob Stanton Hearings:** On July 17, the confirmation hearings on National Park Service Director-designate Bob Stanton will begin before the Senate Energy and Natural Resources Committee.

- **Heritage Rivers:** On July 17, Secretaries Babbitt and Glickman, along with CEQ Chair Katie McGinty, will testify before the House Natural Resources Committee on the American Heritage Rivers Initiative. This is an important opportunity to present the facts on the initiative and correct misinformation that has been circulating among private property rights organizations.

UNITED STATES DEPARTMENT OF AGRICULTURE

- **Poultry Dioxin:** On July 8, USDA advised owners of poultry, livestock and eggs that the commodities may have been exposed to high levels of dioxin in animal feed produced by Riceland Foods Inc. and Quincy Soybean Company.

- **Civil Rights:** USDA reduced its civil rights case backlog by submitting 761 cases to Alternative Dispute Resolution (ADR). Since April 1, USDA has settled 137 cases from the ADR equal employment opportunity backlog. Since the beginning of the backlog project, 212 cases have been closed.

- **Upcoming Forest Demonstrations:** The Western Ancient Forest Campaign plans a demonstration in the Stanislaus National Forest, CA, protesting salvage logging resulting from 1996 wildfires. A MD chapter of the Ku Klux Klan has contacted George Washington and Jefferson National Forests officials in VA for a permit to hold a meeting at a recreation site for about 100 people.

- **CO Ski Area Decision:** On June 30, the supervisor of the Grand Mesa, Uncompahgre and Gunnison National Forests, CO, withdrew his July 15, 1996, decision to authorize expansion of Telluride Ski Company operations. The environmental impact statement for the project, which has generated much public attention, will be supplemented with analysis prepared by a new project manager before a new decision is reached.

- **Hog Firm Expansion:** With concerns across the U.S. over new hog-raising facilities, Carroll Foods of N.C., one of the nation's leading pork-producing firms, has decided to build new hog feedlots in Veracruz, Mexico, where it plans to produce 600,000 hogs per year at 12 locations for export to Japan.

DEPARTMENT OF ENERGY

- **Mars Mission:** The Sojourner rover vehicle was successfully deployed from NASA's Pathfinder spacecraft and is now exploring the surface of Mars. DOE provided three radioisotope heater units (RHUs) for the rover. These RHUs contain plutonium-238 which is used to provide the heat needed to maintain the rover's instruments within their operating temperature during the cold Martian nights.

- **Gore-Chernomyrdin:** On July 19-23, the Secretary will travel to Russia to meet with his counterparts on the Gore-Chernomyrdin Commission to discuss the agenda for the Energy Ministerial in Moscow next year and to set the priorities for discussion of the Commission's next Energy Policy Committee meeting.

DEPARTMENT OF EDUCATION

- **CA Minority Enrollment:** CA papers have covered the announcement by UC-Berkeley's Boalt Hall School of Law in late June that only one African American student would enroll in this fall's first-year class. Other schools in the state have experienced major, though less dramatic, declines in minority enrollment as a result of the abolition of affirmative action in admissions by the UC Board of Regents last year. On July 2, a task force recommended to the Board that it double its spending on minority outreach programs to $120 million a year. The Board is expected to vote on the proposal next week.

- **Juvenile Justice:** On July 1, Secretary Riley sent a letter to Senator Specter opposing his proposed amendment to the juvenile justice bill. The amendment would give the Attorney General broad authority to waive, at the request of a governor, any and all provisions of a wide variety of programs at DOEd and other Departments. Secretary Riley indicated that waivers of DOEd requirements should be granted by the Secretary of Education, not the Attorney General.

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ENVIRONMENTAL PROTECTION AGENCY

- **Air Quality Standards:** EPA is working with OMB and other agencies to finalize the rule package. During the week of July 14, Administrator Browner plans to sign the new air quality standards for smog and soot. Administrator Browner also plans to participate in press events surrounding the July 19 court-ordered deadline for the particulate standard.

- **FL Medfly:** FL is spraying malathion in and around Hillsborough County, including the City of Tampa, to eradicate the medfly. A serious medfly outbreak could put at risk FL's $3.6 billion citrus industry and other agricultural commodities. Residents in the area have raised concerns about the spraying. EPA, USDA and the FL Department of Agriculture are working to ensure that the restrictions set out in EPA's exemption for malathion use in FL are upheld and that residents are notified of the time of applications.

DEPARTMENT OF HEALTH AND HUMAN SERVICES

- **Home Oxygen Payments:** This week, HCFA will propose to reduce Medicare payments for home oxygen equipment and supplies by 40 percent. The proposal would save $1.05 billion over five years from suppliers, while continuing to provide home oxygen services for beneficiaries. HCFA is prohibited from using competitive bidding to get the best price for home oxygen equipment and supplies; the current rates are based on past charges. The proposed new payment rate is based on the amount paid for oxygen suppliers by the VA.

- **Blood Products and Tick-Borne Illnesses:** On July 3, FDA advised the public about a voluntary recall of certain blood products collected by United Blood Services (UBS), also known as Blood Systems Inc. (BSI), at the Fort Chafee, AR, military base. The recall is a precautionary measure because donors of the products may have been exposed to a tick-borne disease, which may be transmitted through blood transfusions. The following states may have received the recalled blood products: AL, AR, LA, MS, OK and TX. CDC, officials at Fort Chafee, FDA, and the National Guard are investigating.

- **Inmate Drug Testing:** Drug treatment of prison inmates dramatically reduces criminal behavior and drug use upon release, according to a recent study. Researchers at the University of Delaware found that comprehensive treatment of drug-addicted inmates, coupled with post-release aftercare, reduces the probability of their being re-arrested by 57 percent and reduces the likelihood they will return to drug use by 37 percent.

- **Obesity Drug Advisory:** On July 8, FDA and researchers at the Mayo clinic alerted the public health community to reports of valvular heart disease in women treated for obesity with the combination of fenfluramine and phentermine, also known as "fen/phen." The

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two drugs were approved separately more than 20 years ago for single-drug, short-term treatment of obesity, but, since about 1992 have been widely used "off-label" in combination and for long-term treatment of obesity. FDA has received reports of 33 cases of unusual abnormalities in heart valves in women using these medications. FDA believes patients and health professionals should be notified because of the seriousness of the cardiac problems and their occurrence in otherwise healthy women. FDA will meet with manufacturers to discuss possible labeling changes.

- **NY Medicaid Waiver:** Negotiations continue on NY's 1115 Medicaid waiver request. On July 9, Secretary Shalala called Governor Pataki to discuss the terms and conditions of the waiver. On July 10, the NY Health Commissioner will meet with HHS staff to resolve the final outstanding issues.

- **Eggs and Catfish:** On July 7, the FDA directed commercial catfish and egg producers not to ship human food products from animals who may have been given feed contaminated by dioxin. The source of the dioxin, found by EPA in two chicken samples, is a single strip mine in MI. The mine has also been asked to stop shipping "bald clay" -- used to prevent caking in animal feed -- in which high dioxin levels have inexplicably occurred. FDA officials emphasize that the levels of dioxin found in catfish and eggs present no immediate hazard. Shipping may resume if producers can demonstrate through testing that their products contain minimal "background" levels of dioxin.

- **Kassebaum-Kennedy Act:** RI did not enact state regulations to enforce last year's Health Insurance Portability and Accountability Act (HIPAA). RI formally requested Federal enforcement of HIPAA provisions related to group and individual health insurance coverage. On July 8, HHS staff met with RI officials to discuss federal enforcement.

- **Cyclospora Update:** On May 30, at FDA's request, the government of Guatemala and the Guatemalan Berries Commission announced their voluntary decision to suspend exports of fresh raspberries to the U.S. (the last shipment was on May 28). FDA is working with CDC, the government of Guatemala, and the Commission to determine when exports can resume. A meeting to discuss this issue is planned for July 10.

- **IN Welfare Waiver:** As early as July 22, HHS may announce approval of a demonstration project to improve child welfare services in IN. This will be the seventh waiver granted by the Administration for states to undertake innovations in their child welfare programs. The IN project focuses on expansion of services to a subset of children currently placed in residential care facilities.

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- **Tobacco:** In the July 10 *Federal Register*, the FDA announced the availability of a draft document with answers to questions most frequently asked about the age and identification requirements of the regulation restricting the sale of tobacco products to protect children and adolescents. The draft document answers these questions as well as questions that FDA has received on its toll-free hotline and over the Internet.

DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

- **Fair Housing Enforcement:** On July 11, HUD and USDA signed an agreement on fair housing enforcement. The agreement represents the first-ever joint effort of HUD and USDA to bring the federal Fair Housing Act to rural America. Under the agreement, HUD and USDA will cooperate in an education and outreach campaign to make sure those living outside major metropolitan areas understand how their right to housing is protected by the federal government. The agreement will also ensure that all fair housing complaints received by USDA will be forwarded to HUD for timely investigation and action.

- **Communities 2020:**

  - On July 13, Secretary Cuomo will deliver the key note address at the Opening Session of the National Association of Counties annual meeting in Baltimore, MD. The Secretary will announce the roll-out of HUD's mapping software system, "Communities 2020." The new system charts Administration-wide funding that will aid local officials in community development.

  - On July 29, Secretary Cuomo will host the second session of the Community 2020 Series. This session will focus on "Access, Opportunity, Mobility: Making Diversity Work in America's Cities." The panel will feature Randall Kennedy of Harvard Law School, Linda Chavez-Thompson, Executive Vice President of the AFL-CIO and Hugh Price, President of the Urban League.

- **Tax Incentives:** Next week, Secretary Cuomo will hold a conference call with editorial writers to discuss your tax incentives for urban areas. The discussion will include a second round of Empowerment Zones and Enterprise Communities and plans to reclaim polluted "brownfield" sites.

- **Empowerment Zone Conference:** On July 22, Boston, MA, Secretary Cuomo will host the second regional White House Conference on Empowerment Zones with the Vice President, and 16 Mayors from the northeast region.

VETERANS AFFAIRS

- **Tobacco in Military Service Compensation:** Next week, VA expects considerable media interest in the release of a VA General Counsel opinion providing criteria for compensating veterans for diseases resulting from post-service smoking based on nicotine dependence beginning in service. The release is also expected to increase Congressional and veterans service organization interest in this issue. VA is working with the White House to brief other Administration officials.

- **Brownfields:** VA is participating in the Brownfields steering committee for the National Partner Act Agenda announced by the Vice President to target areas in need of environmental cleanup. The steering committee has been developing a selection process to choose ten showcase communities that provide replicable examples of outstanding community redevelopment and sustained economic viability. This effort would mean jobs for veterans being trained through the compensated work therapy or vocational rehabilitation programs.

- **Agent Orange Study:** On July 3, VA announced plans to launch a study to determine the possible health effects of Agent Orange exposure on Vietnam veterans. Letters are being sent to 500 randomly selected veterans, inviting them to participate in the pilot phase. Included are 250 veterans who served in Army chemical corps units in Vietnam and 250 veterans who served elsewhere during the Vietnam conflict. The study may ultimately include 2600 veterans.

OFFICE OF NATIONAL DRUG CONTROL POLICY

- **Drug Awareness Programs:** On July 9, Director McCaffrey traveled to Chicago, IL, to address the National Elks Convention on youth-oriented drug awareness programs. The director also participated in a round table discussion with Mayor Daley on Chicago's new drug awareness programs.

SOCIAL SECURITY ADMINISTRATION

- **Disabilities Act:** At the request of the U.S. Court of Appeals for the D.C. Circuit, SSA filed an *amicus* brief in the Michael Swanks v. Washington Metropolitan Area Transit Authority case. The district court, concurring with SSA, found that receipt of Social Security disability benefits barred ADA relief for a claimant, who alleged he was fired because of his disability.

UNITED STATES INFORMATION AGENCY

- **Cambodia Crisis:** Embassy and USIS staff managed to escape this week's violent clash between forces of Hun Sen and Prince Ranariddh, according to USIS Phnom Penh. Public Affairs Officer Damaris Kirchhofer and many foreign officials and journalists have taken refuge at the Sofitel Cambodiana Hotel during the fighting. Despite the turmoil, the PAO managed to travel to the Embassy Tuesday to retrieve the WASHINGTON FILE and distribute it to an audience eager to learn more about international reaction to the recent coup by Hun Sen's forces in Cambodia.

- **Bosnia:** Over the July 4 weekend, electronic media in Bosnia's Srpska Republic ignored a groundswell of support for actions against Serb hardliners by President Biljana Plavsic. VOA's Serbian, Croatian and Bosnia Services pierced the information blackout. The VOA services carried news of overwhelming support for Plavsic in the northern Srpska Republic city of Banja Luka, where 20,000 rallied in her behalf. VOA's Serbian Service also reported unequivocal backing for President Plavsic by Secretary Albright.

cc:
The Vice President
Erskine Bowles
Franklin Raines
John Podesta
Sylvia Mathews
Ron Klain
Rahm Emanuel
Melanne Verveer
Michael McCurry
Doug Sosnik
Craig Smith
Mickey Ibarra
Don Baer
Maria Echaveste
John Hilley
Janis Kearney
Ann Lewis
Bruce Reed
Gene Sperling
Kathleen McGinty
John H. Gibbons

DEPARTMENT OF STATE

- **Albanian Elections:** The second round of the Albanian elections proceeded smoothly, with only scattered incidents of violence. The OSCE is expected to pronounce elections "adequate and acceptable." The Socialist Party under Fatos Nano appears to have secured over two-thirds of the 155 parliamentary seats in a repudiation of President Berisha and his Democratic Party. Berisha appears prepared to resign as early as next week. Parliament must elect Berisha's successor and approve the new prime minister. Nano has not yet decided to seek the presidency or the prime ministry. Berisha is expected to lead his party into opposition.

UNITED NATIONS

- **UN Reform Package:** On July 8, Ambassador Richardson met with SYG Kofi Annan to discuss Administration efforts to move the reform package through Congress. Richardson outlined that the U.S. would support an UN peacekeeping mission in Congo/Brazzaville only if there is a viable cease-fire agreement, a clear political framework in place and the parties' consent to the presence of a peacekeeping force.

- **Haiti:** On July 14-15, Ambassador Richardson will travel to Haiti to meet with Haitian and UN officials to emphasize U.S. support for a continuing UN presence in Haiti and underscore the importance of a free and fair ballot in Haiti's upcoming elections.

DEPARTMENT OF DEFENSE

- **Korea:** The U.S., ROK and DPRK have agreed on a four-party, preparatory session with PRC on August 5 in New York, at the Deputy-Minister level. The DPRK has asked for 1.5 million tons of food, while warning the U.S. and ROK not to use food as a weapon.

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

July 10, 1997

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Dear Mr. President:

The Office of National Drug Control Policy will lead an inter-agency drug policy team visiting the Southwest border from August 24 to 29. The primary purpose of our visit is to examine first-hand how the federal government can better respond to the drug threat along the entire border. We will also consider how federal, state, and local drug control efforts can be better coordinated. Our long-term objective is to better shield the two-thousand mile border from the drug threat and increase the protection of all Americans from drug-related crime.

Enclosed is our draft itinerary. We would welcome any advice or questions you might have about the trip.

Very Respectfully,

Barry R. McCaffrey
Director

The Honorable William J. Clinton
President of the United States
1600 Pennsylvania Avenue
Washington, DC 20500

THE WHITE HOUSE
WASHINGTON

Date 7/14

To: Rahm

From: The Staff Secretary

Gen. McCaffrey delivered this to Betty Currie.

I don't think POTUS needs to see it. Can you handle with McCaffrey? Let me know

Thx

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

Draft Itinerary for ONDCP-Led Southwest Border Trip

Sunday, 24 August (El Paso, Texas)
Travel to El Paso. Suggested flights:
0905 - 1105 Fly from National Airport to Dallas-Fort Worth (AA Flt 1023)
1145 - 1219 Fly from Dallas-Fort Worth to El Paso (AA Flt 1693)
1300 - 1800 Federal briefings (EPIC, JTF-Six, Op Alliance, SW Border Initiative)
1900 - 2200 Working dinner followed by West Texas HIDTA briefing

Monday, 25 August (El Paso/Las Cruces, N.M.)
0800 - 1000 POE (Customs/INS) & USBP visits
1030 - 1130 Briefings with U.S. & Mexican officials
1130 - 1200 Press opportunity
1200 - 1330 Lunch with U.S. & Mexican officials
1330 - 1500 Enroute to Las Cruces (bus)
1500 - 1700 New Mexico HIDTA briefing
1700 - 1800 Press Opportunity
1800 - 1930 Enroute El Paso (bus)
2020 - 2245 Fly from El Paso to Dallas Love Field (WN Flt 740)

Tuesday, 26 August (Laredo)
0830 - 0900 Fly from Dallas Love Field to Laredo (WN Flt 120)
0900 - 0930 Enroute South Texas HIDTA
0930 - 1130 South Texas HIDTA briefing
1130 - 1200 Enroute Nuevo Laredo
1200 - 1400 Working lunch with U.S. & Mexican officials
1400 - 1500 POE (Customs/INS) & USBP visits
1500 - 1530 Press opportunity
1726 - 2134 Fly from Laredo to Tucson (via DFW, AA Flt 5067 & DL Flt 1619)

Wednesday, 27 August (Tucson/Nogales)
0900 - 0930 Ribbon Cutting Ceremony for Arizona HIDTA Intel Center
0930 - 1130 Arizona HIDTA briefing
1130 - 1200 Press opportunity
1200 - 1330 Enroute Nogales (bus, box lunch)
1330 - 1430 POE (Customs/INS) & USBP visits
1430 - 1530 Briefings with U.S. & Mexican officials
1530 - 1700 Enroute Tucson
1900 - 2100 Working dinner with state and local officials

(as of 6:00PM, July 10, 1997)

Thursday, 28 August (San Diego)

0700 - 0815 Enroute San Diego (SW Flt 1751)
0900 - 1100 Southern California HIDTA briefing
1100 - 1130 Press opportunity
1130 - 1200 Enroute Otay Mesa (box lunch)
1200 - 1300 View inspection activities at Otay Mesa
1330 - 1400 Enroute San Ysidro
1400 - 1600 POE (Customs/INS) & USBP visits
1600 - 1630 Press opportunity
1630 - 1700 Enroute Tijuana
1700 - 1830 Briefings with U.S. & Mexican officials
1830 - 2100 Working dinner with U.S and Mexican officials
2100 - 2200 Enroute San Diego

Friday, 29 August (San Diego, Washington DC)

0900 - 1200 Overview visit of HIDTA maritime interdiction program
1200 - 1230 Wrap-up press event
1230 - 1325 Enroute San Diego airport
1325 - 2259 Enroute Washington National Airport (DL Flt 2014)

THE WHITE HOUSE
WASHINGTON

Date 7/14

To: Elizabeth Dye

From: The Staff Secretary

Marcia Becky letter as discussed. You should let Chris Walker know if a reply is necessary.

Phil

cc: Chris Walker

THE WHITE HOUSE

Chief of Staff

Todd —

I was given
this by Marion —
I + should go to
the appropriate
policy council for
review —

Mark

MARION BERRY
1ST DISTRICT, ARKANSAS

1407 LONGWORTH H.O.B.
WASHINGTON, DC 20515
TEL.: (202) 225-4076
FAX: (202) 225-5602

615 S. MAIN STREET
SUITE 211
JONESBORO, AR 72701
TEL.: (800) 866-2701
FAX: (501) 972-4605

Congress of the United States
House of Representatives
Washington, DC 20515-0401

July 11, 1997

~~CONFIDENTIAL~~

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

Dear Mr. President:

I am writing to provide a brief outline of the actions taken by federal authorities regarding dioxin contaminated poultry and catfish feed, and to express my resulting concerns with their handling of the situation.

First, let me state clearly that the public's safety will always be my top priority. As you may be aware, during routine testing of dioxin levels in poultry the Environmental Protection Agency (EPA) discovered higher than expected levels of 2,3,7,8 TCDD (dioxin). In cooperation with the poultry industry, it was soon discovered that the source of the dioxin contamination was "ball clay" added as an anti-caking agent to soybean meal used in animal feed. It is still unknown why dioxin is in the clay. This particular feed was produced in two facilities in Arkansas: Riceland in Stuttgart and Quincy in Helena, both of which are in the 1st Congressional District. The feed is used extensively by the poultry and catfish industries in the region, and is also distributed around the country and used to feed a variety of animals.

Upon learning of the contaminated clay, several steps were immediately taken to ensure that no more dioxin would flow into the food chain. The first move was to cease shipments of clay from this contaminated clay mine to any feed production facilities. Next, the Riceland and Quincy *voluntarily* halted shipments of feed containing the contaminated clay and immediately discontinued use of the clay in their products. The poultry producers, due to their initial involvement in discovering the source, also voluntarily discontinued use of the contaminated feed.

This chain of events had effectively halted any further introduction of contaminated clay into the human food supply. On July 3, 1997, the Department of Health and Human Services' Food and Drug Administration (FDA) ordered a *mandatory* cessation of distribution of the contaminated feed - despite the voluntary cooperation of the feed manufacturers and distributors. This action was followed on July 8, 1997, by another notice by FDA to egg producers and catfish farmers and processors that foods produced by animals that consumed this feed would be considered "adulterated" unless tested and proven to contain below 1 part-per-trillion of dioxin. Later the same day, the Department of Agriculture's Food Safety and Inspection Service (FSIS)

DETERMINED TO BE AN ADMINISTRATIVE

PRINTED ON RECYCLED PAPER

MARKING INITIALS: DB DATE: 07/30/19

2019-0774-S

issued a similar notice to poultry producers.

By issuing such notices, FDA and FSIS essentially quarantined a large quantity of produce in Arkansas and the surrounding region, closing food processing plants and laying off workers within hours. This notice was apparently issued notwithstanding the stated opinion of FDA that, "...the agency believes the dioxin levels found in animal feed, and in the foods produced by animals that consumed the feed do not present an immediate public health hazard." Furthermore, the food safety authorities did not deem the situation serious enough to issue a recall of product from stores, indicating again the non-emergency status of the situation. I believe that the federal government is stepping beyond its authority and implementing dioxin level standards for food without the requisite scientific evidence, deliberative processes, or Congressional oversight.

The two agencies have since stated to me and other Members of Congress that they will not begin enforcement action until July 13, 1997. This information is not being adequately disseminated to the farmers with whom I have spoken, and in some cases is not being provided during the initial contact between farmers and agency officials. While I appreciate the concept of giving farmers a brief reprieve, it is totally worthless if the farmers are unaware of it. At a meeting in Arkansas yesterday, farmers and Administration officials discussed issuing a temporary moratorium on these testing requirements. This would result in farmers having more time to understand and comply with agency requests, and the agencies having more time to gather information and inform their field agents as to proper procedures.

I am fully committed to protecting the interests of the people of the 1st Congressional District, while protecting the safety of the public at large. The actions taken by FDA and FSIS do not achieve either of these goals.

I respectfully request that you personally review the actions taken by Administration officials responsible for unnecessarily causing extreme emotional and economic distress to our mutual friends. Please do not hesitate to call on me if I may provide further assistance in resolving this matter.

Sincerely,

MARION BERRY
Member of Congress

MB/pgc

'97 JUL 14 AM8:33

Sheffield COMPANY

P. O. BOX 467 QUITMAN, GA. 31643

PHONES (912) 263-4692 (912) 263-4007

July 10, 1997

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

Dear President Clinton:

Government has the ability to improve quality of life when it focuses on truth.

Narrow interests coupled with obsolescent and sub-standard management procedures has denied the Nutrition Program for the Elderly and other federal nutrition efforts of investment that improves service delivery.(The included memo to the states of: Alabama, Florida, Georgia, Kentucky, Mississippi, North Carolina, South Carolina and Tennessee--this March 25, 1993 and the July 10, 1987 memo indicate a need for revision in resource management.)

We think that government through OMB Circular A-102 and the volume of federal grant funds can successfully confront narrow interests with truth and meet future macroeconomic necessities.

We will cooperate!

Respectfully submitted,

John E, Sheffield, Jr.
Owner

copy to: John A. Koskinen, PCIE Chairperson, USDA Undersecretary Mary Ann Keeffe and IG Roger Viadero; Energy Assistant Secretary Marc Chupka and IG John Layton; EPA Assistant Administrator David Gardiner and IG Nikki Tinsley; HHS-HCFA Officer Carolyn Johnson and IG June Brown; Governors: James, Chiles, Zell Miller, Patton, Fordice, Hunt, Beasley and Sundquist; note: states will receive only this cover letter and AOAs should share it with their Governor; and Senators Coverdell and Cleland and Representative Bishop.

7/14/97

Send to Koskinen?

Yes V

No

10/17/96 FAX to President Clinton, Secretary Shalala and Secretary Glickman. page 2 of 5 pages.

Sheffield COMPANY

P. O. BOX 467 QUITMAN, GA. 31643

PHONES 263-4092 263-4007

President Clinton-7/10/97 fax-page 2 of 5

March 25, 1993

MEMO

TO: THE STATE AND AREA AGENCIES ON AGING IN AOA REGION IV(ALABAMA FLORIDA, GEORGIA, KENTUCKY, MISSISSIPPI, NORTH CAROLINA, SOUTH CAROLINA AND TENNESSEE).

FROM: SHEFFIELD COMPANY-JOHN E. SHEFFIELD,JR., OWNER

RE: SHEFFIELD SYSTEM OF FOOD SERVICE

This is to continue on our January28 and March 12, 1993 conVacts with President Clinton, on improving biomass management and utilization through investment for the food delivery infrastructure.

To assist the Nutrition Program for the Elderly and other federal nutrition programs, we are talking with White House staff, Departments of Agriculture, Energy.Health and Human Services and the Enviromental Protection Agency on their obligations and opportunities for input in the discussion. With this initiative we are proposing basic changes that reducehandling, energy consumption, and garbage in food delivery; and gives an opportunity for applied research and capital investment in biomass management and utilization.

The autonomy of Agencies on Aging is an important service delivery concept. Our experience with the concept is that it is vunerable to narrow interest decision-making, which has deprived the Nutrition Program for the Elderly of the sequential investment for service delivery improvement Sheffield Company has proposed since the beginning of the program. (The attached July 10, 1987 memo documents our position).

Presently, we are proposing sufficient cornerstone investment for a dialogue to identify what tools are needed to overcome program vunerabilities and give devices which enhance service delivery.

A letter, to us, indicating your feelings on this basic macro economic issue would be most helpful.

copies to: HHS Region IV State Governors, Vice-President Gore, ChiefofStaff McLarty, Domestic Policy Advisor Rasco, Intergovernmental Affairs Advisor Montoya, OMB Director Panetta, Secretary Espy, Secretary O'Leary, Secretary Shalala, and Administrator Browner.

10/17/96 FAX to President Clinton, Secretary Shalala and Secretary Glickman. page 3 of 5 pages.

Sheffield COMPANY

P. O. BOX 467 QUITMAN, GA. 31643

PHONES 263-4692 263-4007

President Clinton-7/10/97 fax-page 3 of 5

July 10, 1987

MEMO

TO: THE STATE AND AREA AGENCIES ON AGING IN AOA REGION IV(ALABAMA, FLORIDA, GEORGIA, KENTUCKY, MISSISSIPPI, NORTH CAROLINA, SOUTH CAROLINA AND TENNESSEE).

FROM: SHEFFIELD COMPANY-JOHN E. SHEFFIELD, JR., OWNER

RE: THE ESTABLISHMENT OF THE SHEFFIELD SYSTEM OF FOOD SERVICE IN REGION IV AS A MORE VERSATILE AND EFFICIENT TOOL FOR MEETING THE NUTRITIONAL NEEDS OF OUR ELDERLY.

If purchasing procedures allowed it, would you be interested in the proposal we sent the Georgia Area Agencies on Aging Directors on December 16, 1986?

In the event that the food vendor decision is made at the Project level, please get their reactions for us.

We will be grateful for a return mail reply.

Please reply to: John E. Sheffield, Jr., Owner
Sheffield Company
P.O. Box 467
Quitman, Georgia 31643

copies to: Inspector General Kusserow, Chairman Senator Matsunaga, Chairman Senator Leahy, Chairman Senator Bumpers, Senator Fowler, Senator Nunn, Chairman Congressman de la Garza, Chairman Congressman Roybal, Chairman Congressman LaFALCE; and Congressman Pepper, Thomas, Ray, Swindall, Lewis, Gingrich, Darden, Rowland, Jenkins and Barnard.

10/17/96 FAX to President Clinton, Secretary Shalala and Secretary Glickman. page 4 of 5 pages.

Sheffield COMPANY

P. O. BOX 467 QUITMAN, GA. 31643

President Clinton-7/10/97 fax-page 4 of 5 PHONES 263 4002 263 4007

December 16, 1986

MEMO

To: Georgia Area Agency on Aging Directors

From: Sheffield Company-John E. Sheffield, Jr., Owner

Re: Proposal for meals with service beginning July 1, 1987.

Sheffield Company Proposes:

(1) that the Georgia Area Agencies on Aging consider a contract for both home delivered and congregate meals with Sheffield Company.

(2) that non competitive negotiation be used to arrive at the contract content.

(3) that the contract contain a provision for the initial purchase of meals at 5% under your present cost and data be reviewed after 90 days for the influence of volume on unit costs-with the savings passed on to the Program.

(4) that the agency pay Sheffield Company 10¢ per meal for on site equipment-at the beginning of the contract annually. The payment will be deducted from the meal payments made to Sheffield.

Your early reply to this proposal will be greatly appreciated.

copies to: State and Area Agencies on Aging Region IV, Mr. Nicholson-Regional Director, Ms. Henderson-Staff Director Senate SubCommittee on Aging, Senator Mattingly, Senator Nunn, Senator-Elect Fowler, Representatives Pepper, Thomas, Hatcher, Ray, Swindall, Gingrich, Darden, Rowland, Jenkins, Barnard and Representative-Elcet Lewis.

10/17/96 FAX to President Clinton, Secretary Shalala and Secretary Glickman. page 5 of 5 pages.

James G. Ledbetter, Ph.D. / Commissioner

GEORGIA DEPARTMENT OF HUMAN RESOURCES

878 PEACHTREE STREET, N.E. / ATLANTA, GEORGIA 30309

President Clinton 7/10/97 fax page 5 of 5

February 19, 1987

Mr. John E. Sheffield, Jr.
Sheffield Company
P.O. Box 467
Quitman, Georgia 31643

Dear Mr. Sheffield:

Office of Aging staff have reviewed your correspondence of December 16, 1986, to the Georgia Area Agencies on Aging. While the Sheffield Company remains eligible to submit bids for food vendor contracts throughout the State, there is one provision in your proposal to the Area Agencies on Aging that is clearly outside of the control of either the Georgia Department of Human Resources or the local Area Agencies on Aging. You suggest that: "non-competitive negotiation be used to arrive at the contract content." The Federal Older Americans Act of 1965, as amended, 42 U.S.C. Sec. 3058(d)(b)(as amended), states that: "No contract awarded after September 30, 1982, shall be entered into for the provision of nutrition services unless such contract has been awarded through a competitive process." Federal legislation thus requires that nutrition service providers be selected through a competitive process, not through non-competitive negotiation.

We appreciate your continued interest in the Georgia nutrition program for the elderly.

Sincerely,

Fred McGinnis

Fred McGinnis, Director
Office of Aging

FM: jj

cc: Area Agencies on Aging

AN EQUAL OPPORTUNITY EMPLOYER

HONORARY PARTICIPATION REQUEST

'97 JUL 11 PM3:41

Please return to Woyneab Wondwossen, Room 93

Today's Date: July 11, 1997

Date of Request:	7/2/97
Request for:	POTUS/FLOTUS
Type of Request:	Honorary Chairpersons
Requestor Name:	Mr. Andrew Young and Ms. Coretta Scott King
Title:	Honorary Co-Chairs
Address:	Southern Christian Leadership Conference C/o Eventions, Inc. Suite 230 1280 W. Peachtree Street, N.W. Atlanta, Georgia 30309
Contact Tel. #:	404/853-5008
Event Date:	7/27/97
Event Description:	40th Anniversary of the Southern Christian Leadership Conference (SCLC) and Tribute to Reverend Joseph Lowery
Notes:	This event will kick off the 40th annual convention of the SCLC and recognize the retirement of Reverend Lowery from his position as President and Chairman of the Board of the SCLC. Andrew Young and Coretta Scott King are serving as Honorary Co-Chairs. President Carter and the Reverend Jesse Jackson are among a group of approximately 12 people who also are lending their names as Honorary Chairpersons. Ben Johnson in the Office of Public Liaison requests that we send a message and photo to the group. Because the President and First Lady have not been asked to be the sole honorary chairs for the event they should REGRET but offer a message.

Recommendations:

MV _____ TS agree 7/14/97

(Unless otherwise noted, a yes answer will automatically generate a message as well as acceptance of the honorary position).

Comments:

Tribute to Reverend Joseph E. Lowery

scheduler 7/27/97 cc: Alex Burkhardt

#225692

rec'd 7/10/97
Wayne - p/u expedite.
Recommend message only.
DWB

Honorary Co-Chairpersons

Coretta Scott King
Honorable Andrew Young

Honorary Chairpersons

Dr. Maya Angelou
Reverend Joseph Crawford
President Jimmy Carter
Dick Gregory
Reverend Jesse L. Jackson
Honorable John Lewis
Honorable Cynthia McKinney
Reverend John Nettles
Rosa Parks
Reverend Leon Sullivan
Ted Turner
Dr. Claud Young
Bishop McKinley Young

Tribute Chairpersons

Reverend Cameron Alexander
Xernona Clayton Brady
Douglas Brown
Johnnie R. Carr
Honorable Emmanuel Cleaver
Dr. Thomas Cole
Curley Dossman
Christine King Farris
Carole Hoover
Honorable Maynard H. Jackson
Ingrid Saunders Jones
Dr. Barbara King
William "Bill" Lucy
Betty Marshall
Kent Matlock
Reverend E.R. Osburn
Reverend Joseph Roberts
Rita J. Samuels
Reverend C.T. Vivian
Reverend Wyatt T. Walker
Eleanor Williams
Dr. Walter F. Young
(In formation)

July 2, 1997

The Honorable and Mrs. Bill Clinton
United States President
1600 Pennsylvania Avenue
Washington, DC 20500

Dear President and Mrs. Clinton:

This year marks the *40th anniversary of the Southern Christian Leadership Conference (SCLC) and Reverend Joseph Lowery's* term as President, Vice President, and Chairman of the Board.

On Sunday, July 27, 1997, prominent men and women from around the world will gather to honor the ***retirement*** of a man who has been one of the leading spokespersons for minorities and the underprivileged. ***A Tribute to Reverend Joseph E. Lowery*** will be held at the Hyatt Regency Hotel in downtown Atlanta with a VIP Reception at 6:30pm followed by Dinner at 8:00pm. The Co-Chairs for this event are Andrew Young, Coretta Scott King and President Jimmy Carter. This Tribute will launch the *40th Annual Convention of SCLC.*

The evening will include friends of Reverend Lowery who will make his retirement a global testimonial to his years of committed service and dedication to the cause of civil rights and human rights. The program will consist of notable leaders from across the country paying tribute to one of our greatest champions.

We are asking you to join us for this one time historic event by serving as an **Honorary Chairperson** which includes your participation in the program and the use of your name on printed promotional materials. A special souvenir program book is being designed for the event and we would like to include a letter of greeting from you. Attached is an Honorary Chairperson Response Form, please complete and fax to Mrs. Sonjia Young, the Event Coordinator at (404) 853-5008 or you may call (404) 853-5006 if you have questions.

Thank you for your immediate attention to this request.

Sincerely,

Andrew Young
Honorary Co-Chair

Coretta Scott King
Honorary Co-Chair

40th Anniversary

SOUTHERN CHRISTIAN LEADERSHIP CONFERENCE

'97 JUL 11 PM6:11

Congress of the United S

Washington, DC 20515

to Chris Walker for reply

July 10, 1997

Coord with Jennys

President William Jefferson Clinton
The White House
Washington, DC 20500

Dear Mr. President:

We are in critical need of your assistance to ensure that cost reductions in Medicaid's "Disproportionate Share Hospital" (DSH) program do not unduly damage "high DSH" states.

Since the time you called us to the White House to obtain a bipartisan budget agreement, we have done our best to achieve an agreement that implements the values of your Administration and the American people. Although the process has been long and difficult, we go into conference hopeful that a bipartisan agreement can be reached on most of the issues in contention. But at this point, we are not sanguine about the allocation of DSH cost cuts. The allocation formulas in both the House bill and the Senate bill mean sharp reductions in medical care for the poor in the states we represent. If DSH is cut as deeply as these bills propose in "high DSH" states, hospitals in rural and inner-city areas will be likely to close, and there will be a major loss in health care for low-income Americans.

In the reconciliation process, the authorizing committees dispensed with the formula that you recommended and came forth with formulas that target a small number of states for the lion's share of the cuts. These states have little recourse in the regular legislative process, largely because we are so few in number. Therefore, in conference, it is critically important that we have the Administration's strong and unwavering support, first, in developing a more equitable formula, and second, in insisting that it be part of the conference agreement.

We have supported the bipartisan budget discussions from the start. We ask now for your support on an issue of profound importance to our states and at least ten others. We urge you to insist that the conferees ensure that DSH reductions are spread equitably across the states and are held to levels that spare all states from deep, crippling cuts.

Very sincerely,

Senator Frank R. Lautenberg

Representative John M. Spratt, Jr.

TIME OF TRANSMISSION: TIME OF RECEIPT:

WHITE HOUSE SITUATION ROOM

PRECEDENCE: IMMEDIATE

CLASSIFICATION: UNCLASS

RELEASER:

DATE/TIME: 0819452

MESSAGE #: SR111

FROM: MARIA ECHAVESTE PHONE: 6-6594 ROOM: 2EOB WN

SUBJECT: LEADERS MEETING PAGES: 2

PLEASE DELIVER TO:

LOCATION	DELIVER TO	ROOM	PHONE
TRP SITE	SYLVIA MATHEWS		

SPECIAL DELIVERY INSTRUCTIONS/REMARKS:

THE PRESIDENT HAS SEEN
07-14-97

July 7, 1997

MEMORANDUM FOR THE PRESIDENT

FROM: Maria Echaveste
Craig Smith

SUBJECT: July 15 meeting with Hispanic leaders

As you will recall, several weeks ago we sent you a tentative plan for constituency and outreach meetings to be scheduled over the remainder of the year. The first of these meetings will take place on July 15 with a number of Hispanic leaders. The following list represents input from OPL, Intergovernmental and Political (as well as assorted other folk) and the meeting would involve about 12 people. The first three in each group would be invited, although I am providing you with alternates in case of regrets. We would appreciate receiving your thoughts with respect to this list as soon as possible, in order to extend invitations by Wednesday of this week.

State Officials: Annie Betancourt--state rep from Florida
Cruz Bustamante--speaker of California State Assembly
Anabelle Jaramillo--former Oregon state rep; works for governor
Wilfredo Caballero--state senator, New Jersey

Naitonal Organizations:
Elisa Sanchez--president, Mexican-American Women's National Assn (DC)
Becky Barrera--director Latino Children's Agenda (San Antonio)\
Raul Yzaguirre--president National Council of La Raza (DC)
Luis Miranda--president, Hispanic Federation (NYC)
Dennis Rivera--president of Hispanic Education Leadership Foundation and Local 1199 (NYC)

Business:
Maria Elena Torano (Cuban-American businesswoman FLA/DC)
Charlie Uribe--construction company, NYC (Uruguayan)
Willliam Rodriguez--president, National Assn of Supermarkets (associcaiton of Dominican-American owned markets)
Richard L. Carrion--president, Banco Poplar de Puerto Rico
Robert Rivera--lawyer, New Mexico

Education/Activists:
Prof. David Montejano--director, Mexican-American Studies, Univ of Texas, Austin, winner of a prestigous History Book Award for "Anglos and Mexicans: the Making of Texas"
Dorothy Gonzales--member Bd of Trustees, Michigan State Univ.
Sophia Lopez--founder of Mothers Against Gangs, Arizona (community-based group formed after child killed by gangs)
Juana Gutierrez--Mothers of East LA, anti-gang group

Then can you get (not sure) a) check w/ Henry Cisneros
B) add a few people who have been close to us over the years for you—
BC

Copies to
Echaveste
Smith
COS

EB/Gens

Need to discuss—

① no recession in '03

Budget deal !! estimates

② could redo estimates

for purpose of spending on tax cuts

cuts new spending

③ Tax cuts don't pay for themselves

Quick good → numbers early/easy

Valentine

Bill

THE PRESIDENT HAS SEEN
07-14-97

Copied to
Sperling
COS

Hollings

Don't stall
new economic
projections.

Compromise Redo budget
w/agreement
no taxes
spending

helps
explosion

all yes
defer

INTERNET TRADES SCOTTRADE TRUE DISCOUNT ONLINE TRADING

Today's Top News: breaking news updated 24 hours a day.

All Front Page stories from this morning's Washington Post and an image of the Front Page.

All the stories inside the "A" Section of this morning's Washington Post.

Robust Economy Could Erase Deficit

Clinton, Hill May Be Kept From Taking Credit for Balanced Budget

By Clay Chandler and Eric Pianin
Washington Post Staff Writers
Wednesday, July 9, 1997; Page A01
The Washington Post

As President Clinton and Congress gear up this week for final negotiations to close a balanced budget deal, some fiscal experts are warning that the strong U.S. economy threatens to erase the deficit before Washington can claim credit for eliminating it.

In what could prove a public relations nightmare for Democrats and Republicans eager to boast about bringing spending and revenue into line for the first time since 1969, the economy's sustained vigor has generated an unexpected surge in tax receipts that could wipe out the deficit as early as next year -- without any change in federal policies.

Administration and congressional officials said yesterday that a jump in taxes flowing into the Treasury in June suggests that, in the fiscal year ending Sept. 30, the deficit -- the annual difference between what the federal government spends and what it collects in revenue -- may fall to as low as $45 billion.

That figure would have only a slight impact in slowing growth of the national debt -- the federal government's cumulative borrowings -- which over the years has swollen to more than $5.4 trillion.

But it would be a sharp drop from the $67 billion deficit Clinton and the Congress had predicted for fiscal 1997 in their May 2 budget agreement, and about a third the size of the $126 billion deficit the administration had forecast in February. It also would be less than a fifth of the deficit's $290 billion peak in 1992.

Just two months ago, Clinton and the Republican leaders were congratulating themselves on reaching what they billed as a historic agreement on the outlines of a tax and

spending plan that would result in balance by 2002. But many economists now say that goal is already within shouting distance -- and probably could be attained much faster if the politicians would only keep on bickering, thereby precluding the passage of tax and spending proposals that are expected to push up the annual deficits over the next several years.

"I'm predicting a balanced budget by next year, but only if there's no budget deal," declared Kurt Karl, chief economist at WEFA Inc., an Eddystone, Pa.-based forecasting firm. "One more year of gridlock and we're home."

Balance by the next fiscal year is "not impossible at all" if there is no budget deal, concurs Bill Dudley, chief economist at the Wall Street investment bank Goldman Sachs & Co. With incomes rising due to the healthy economy and more investors paying taxes on their gains from the sale of soaring stocks, Treasury revenue is likely to continue rising, Dudley argued. "That could bring us pretty darn close."

Budget negotiators at both ends of Pennsylvania Avenue have come to view the Treasury's windfall as a mixed blessing. The extra revenue means balance can be achieved with fewer painful spending reductions and more popular tax cuts. But negotiators also worry that the recent flurry of good news could breed complacency just as the two-year struggle over tax and spending priorities has reached its most delicate phase.

One sign of that concern: GOP leaders in Congress have urged the administration to postpone the release of a regular midyear report by the White House Office of Management and Budget. "We would probably prefer to complete this work under the current estimates and get it done," House Majority Leader Richard K. Armey (R-Tex.) said yesterday.

THE PRESIDENT HAS SEEN
7-14-97

The White House, for its part, seems happy to oblige. "It may not make sense for the administration to allocate resources from OMB and Treasury to complete a report that we believe could be out of date within three weeks," said OMB spokesman Lawrence J. Haas.

Such reserve from an administration that is usually eager to trumpet good economic news has prompted critics of this year's budget proceedings to cry foul. "The budget negotiators are still trying to create an artificial environment of crisis that does not exist today," charged Rep. Edward J. Markey (D-Mass.), who has argued for months that the budget and tax cut deal would only get in the way of a balanced budget. "If we did nothing," Markey argued, "the budget would balance itself."

Many economists dispute the notion that Washington can

coast to a balanced budget without further legislative effort. "The business cycle hasn't been repealed," said Sung Won Sohn, chief economist at Norwest Corp. in Minneapolis, who predicts annual budget deficits "in the $75 billion range" throughout the rest of the century in the absence of policy changes and warns that the added complication of a recession could send deficits shooting back up to $150 billion.

"We should not make the mistake of assuming today's good times will continue into eternity," Sohn admonished.

"There is a set of circumstances that could produce a zero deficit in 1998 or 1999," said former Congressional Budget Office director Robert D. Reischauer. "But that's like planning to draw four aces."

Congressional and administration officials argued yesterday that bipartisan cooperation on budget issues had contributed heavily to recent improvement in the deficit outlook by convincing financial markets that U.S. policymakers share a commitment to responsible fiscal policies.

"We're benefiting from a positive cycle of credibility on deficits leading to a stronger economy leading to lower deficits," said Gene Sperling, chairman of Clinton's National Economic Council. "It would be a profound mistake to return to the negative cycle of complacency and gridlock leading to less confidence, higher interest rates and bigger deficits."

They also warned that the failure of this year's negotiations could make it harder for the two sides to turn next to addressing the long-term budget challenges that lie ahead in the early part of the next century, when members of the baby boom generation reach retirement and begin drawing Medicare and Social Security benefits.

Some analysts noted, however, that the Republican and administration budget proposals do not address such long-term concerns, and call for a series of tax cuts that would reach maximum size beyond the 10-year horizon of the budget deal.

THE PRESIDENT HAS SEEN
7-14-97

And earlier this week the Senate Budget Committee's GOP staff issued an analysis showing that the balanced budget bills just passed by the House and Senate didn't even meet their five-year deficit reduction targets.

According to the analysis, the House bill would fall $2.3 billion short of balance in 2002 while the Senate bill would fall $7.2 billion short.

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THE PRESIDENT HAS SEEN
7-14-97

THE WHITE HOUSE

WASHINGTON

July 11, 1997

MEMORANDUM FOR THE PRESIDENT

FROM: Maria Echaveste
Richard Socarides

CC: Sylvia Mathews

RE: Proposed Participants for July 22, 1997 Gay and Lesbian Outreach Meeting

---

Here for your approval is a list of the twelve proposed participants for the July 22, 1997 gay and lesbian outreach meeting, which we have developed in consultation with and with the approval of the Offices of Political Affairs and Intergovernmental Affairs. Only the twelve names in bold type would be invited; we would invite alternates in each category if any of the original twelve are unable to attend.

We believe that the recommended participants represent a excellent mix of people from different walks of life. Together they represent the broad spectrum of views in the mainstream gay and lesbian community. If all twelve recommended participants were invited and were able to attend, the breakdown would be as follows:

copied Echaveste Socarides CGS

7 women	8 Caucasian	4 New York
5 men	2 African American	2 California
	2 Latino/a	2 Washington, DC
		1 Maine
		1 Massachusetts
		1 Colorado
		1 New Mexico

EXECUTIVE DIRECTORS OF NATIONAL ORGANIZATIONS (3)	
1. Elizabeth Birch	**Washington, D.C.** Executive Director, Human Rights Campaign
2. Sandra Gillis	**Washington, D.C.** Executive Director, Parents and Friends of Lesbians and Gays
3. Kevin Cathcart	**New York** Executive Director, LAMBDA Legal Defense and Education Fund
Alternates: Kerry Lobel, Washington, Executive Director, National Gay and Lesbian Task Force Brian Bond, Washington, DC, Executive Director, Gay and Lesbian Victory Fund Joan Gary, New York, Director, Gay and Lesbian Alliance Against Defamation (GLAAD) Martin Orneles-Quintero, Washington, DC, Executive Director, National Latino/a Gay and Lesbian Organization Keith Boykin, Washington, DC, Executive Director, Black Gay and Lesbian Leadership Forum Matt Coles, New York, Executive Director, ACLU Gay and Lesbian Rights Project Rae Carey, Washington, DC, Executive Director, National Youth Advocacy Coalition	

STATE AND LOCAL ELECTED / APPOINTED OFFICIALS (3)	
4. Sheila Kuehl	**California** (Los Angeles) Speaker Pro Tem, California State Assembly
5. Susan Leal	**California** (San Francisco) San Francisco Board of Supervisors
6. Dale McCormick	**Maine** State Treasurer
Alternates: Carol Migden, California (San Francisco) San Francisco Board of Supervisors Ken Chevront, Arizona, State Representative Ed Flanagan, Vermont State Auditor	

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BUSINESS, LABOR, EDUCATION, OTHER SUPPORTERS (3)	
7. Jeff Soref	New York Businessman, Soref Associates Also Co-Chair, Gays and Lesbians for Clinton/Gore '96
8. Tim Gill	Colorado Computer software entrepreneur, Quark, Inc. philanthropist, The Gill Foundation.
9. Verna Eggleston	New York Executive Director, The Hetrick-Martin Institute (gay and lesbian youth/education)
Alternates: Michael Palm, New York ~~Andy~~ Tobias, Florida Paris Barclay, California ~~Roberta~~ Achtenberg, California ~~Scott~~ Hitt, California ~~David~~ Mixner, California	

ACTIVISTS, RELIGIOUS COMMUNITY, OTHERS (3)	
10. Kevin Jennings	New York The Gay, Lesbian, and Straight Teachers Network
11. Gloria Nieto	New Mexico Local New Mexico Democratic Party Activist. Co-Chair, (New Mexico) Lesbians and Gays for Clinton/Gore '96. Runs local AIDS organization
12. Reverend Peter Gomes	Massachusetts Chaplin, Harvard University
Alternates: Eric Bauman, California, Stonewall Democratic Club Lori Jean, California, Executive Director, Los Angeles Gay and Lesbian Community Services Center Wigsy Silverstein, California, Professor, San Jose State University Lavi Solaway, New York, immigration rights activist	

RECOMMENDATION:

We recommend that you approve these participants for the July 22, 1997 session:

✓ Approve _____ Disapprove _____ Discuss Further

THE WHITE HOUSE

WASHINGTON

THE PRESIDENT HAS SEEN
7/14/97

July 12, 1997

MEMORANDUM FOR THE PRESIDENT

FROM: PHIL CAPLAN

SUBJECT: Recent Information Items

We are forwarding the following recent information items:

(A) **John Sweeney letter on the budget.** Via John Podesta. Sweeney was in this week and met with Erksine, Podesta, Hilley and others. Sweeney lays out the AFL's position on three major issues: 1) supports our position on minimum wage applicability and employment status of workfare workers; 2) urges that we continue to oppose privitization of social services for welfare recipients, and 3) on Medicare -- urges us to oppose increasing the Medicare eligibility to 67, means-testing of premiums, and imposition of co-payment for Part B home health care. Sweeney also applauds the Adminisration for our positioning on the tax bill, and urges that we stand firm in our opposition to broadening of definition of independent contractors. *We have sent copies of the letter to Erskine, Hilley and Gene and will have a reply prepared.*

(B) **Raines letter to Sen. Daschle on flood assistance.** Franks forwards a copy of his letter confirming the progress various agencies have made with Federal emergency assistance. Frank writes, "I believe Senator Daschle is satisfied with our efforts to make the appropriate resources available to help his state recover from the floods."

TAB B
Copied Raines COS

(C) **Roll Call article by Mort Kondracke.** Forwarded by Rahm. Piece is entitled, "Surprise! Clinton is a Good Foreign Policy President." Kondracke writes that, given some of the foreign policy problems in the first term (e.g., Somalia) your "strategy and execution so far have been very good, setting up the structure for continued US global leadership in the 21st century....Clinton deserves credit for developing a sound overall strategy from the outset on two key fronts: world trade and Europe."

(D) **Howard Paster letter on Jesse Jackson.** Rev. Jackson delivered a speech at the end of June to a group of national business leaders convened in L.A., which Howard attended. Rev. Jackson's speech was delivered from a prepared text and addressed the need to solve racial divisions. "It was gratifying to hear him [offer] endorsements of your race initiative...he took a positive tone, albeit with reasonable and expected calls for Administration follow-up...but took the view that you are providing the moral leadership and the business leaders need to provide the economic leadership."

(E) **McGinty response to NYT editorial.** You saw a NYT editorial entitled "A Poor Deal for the Tongass" and asked Katie for her response. The editorial criticizes the Forest

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

THE DIRECTOR

July 11, 1997

THE PRESIDENT HAS SEEN
7-14-97

MEMORANDUM FOR THE PRESIDENT

FROM: Franklin D. Raines

SUBJECT: Federal Emergency Assistance to South Dakota

I know that you were interested in the progress of our conversations with Senator Daschle and others regarding Federal emergency assistance to help South Dakota recover from the recent Midwest floods. Attached is my letter confirming that various Federal agencies -- including HUD, the Federal Highway Administration, and the Army Corps of Engineers -- have committed funds to this purpose, in addition to the funds coming to South Dakota from the FEMA and SBA emergency programs.

I believe that Senator Daschle is satisfied with our efforts to make the appropriate resources available to help his State recover from the floods.

cc: Erskine Bowles

Attachment

Copied
Raines
COS

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

THE DIRECTOR

July 10, 1997

THE PRESIDENT HAS SEEN
7-14-97

The Honorable Thomas A. Daschle
Minority Leader
United States Senate
Washington, D.C. 20510

Dear Mr. Leader:

Recently you asked what funds may be available through several programs to assist South Dakota in its recovery from the recent Midwest Floods. I am happy to inform you that in addition to the funds already allocated, further funding will be available for the following programs: the Department of Housing and Urban Development's Community Development Block Grant (CDBG) program; Department of Transportation's Federal Highway Administration (FHWA) Emergency Relief (ER) program; and the U.S. Army Corp of Engineers' Operations and Maintenance (O&M) and Flood Control and Coastal Emergencies (FC&CE). These are in addition to funds coming to South Dakota through Federal Emergency Management Agency and the Small Business Administration emergency channels, as well as others.

Based on measures of need in each of the 31 states that qualify for supplemental CDBG disaster assistance funds, HUD expects to provide South Dakota with just over $58 million, including $5 million already made available. Most of the funds will be allocated to the State, with the remainder to local governments. The money can be used for a wide variety of purposes, including relocation of homes and businesses, downpayments for home mortgages, repair of public facilities, and job development. In order to receive its CDBG allocation, South Dakota will need to submit, and HUD will need to approve, a consolidated action plan that details the proposed use of the funds. HUD will expedite its review of this plan to ensure there is no delay in meeting the State's recovery needs.

The Federal Highway Administration (FHWA) already has allocated $14.2 million to South Dakota for federal-aid highway and road repairs eligible under its Emergency Relief program. An additional $9 million is available if South Dakota identifies additional repairs to federal-aid highways and roads that meet the eligibility criteria established for the ER program. In addition, South Dakota is already designated to receive $6.4 million in Emergency Railroad Rehabilitation program funds to repair damage to small freight railroads.

The Army Corps of Engineers will spend a total of approximately $16.6 million in South Dakota on flood fighting, recovery, repair and rehabilitation operations. The Corps has spent approximately $4 million on flood fighting and advanced measures along the Missouri, James, and Big Sioux Rivers, and will spend another $1 million to repair levees damaged by the floods. It also will spend an additional $6.6 million to repair embankments and infrastructure for the Fort

Randall, Big Bend and Oahe Dams. Finally, the Corps has allocated $5 million to modify and enhance levees along the James River to help protect those areas from flood damage in the future.

Thank you for sharing with me your concerns. We will continue to work with you and the various Federal agencies assisting the recovery efforts to ensure that the Federal response is closely coordinated with State, local, and private efforts. Please be assured that this Administration will do everything possible to lessen the hardship caused by this disaster.

Sincerely,

Franklin D. Raines
Director

THE PRESIDENT HAS SEEN
7-14-97

Copied
Janet Yell
COS

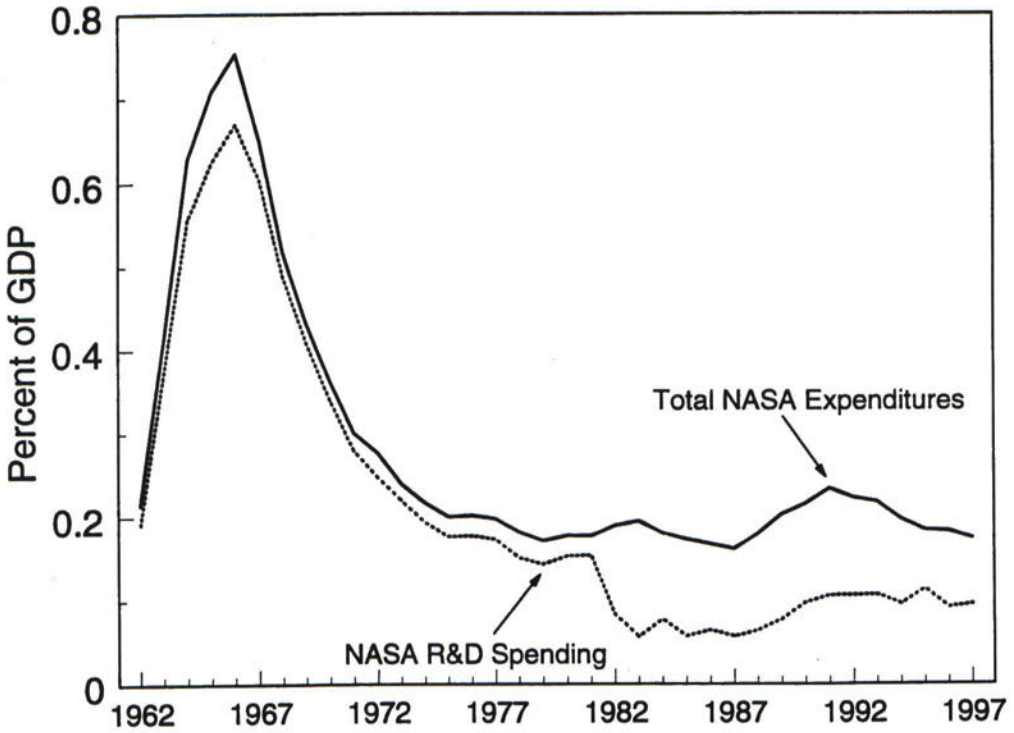
WEEKLY ECONOMIC BRIEFING OF THE PRESIDENT OF THE UNITED STATES

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

July 11, 1997

CHART OF THE WEEK

Trends in NASA Expenditures



Spending for space took off like a rocket in the 1960s as the United States raced to the moon. Subsequently, NASA spending has fallen to a more modest level as a share of GDP. The gap between total NASA expenditures and NASA R&D spending largely represents non-R&D-related Space Shuttle and Space Station activities.

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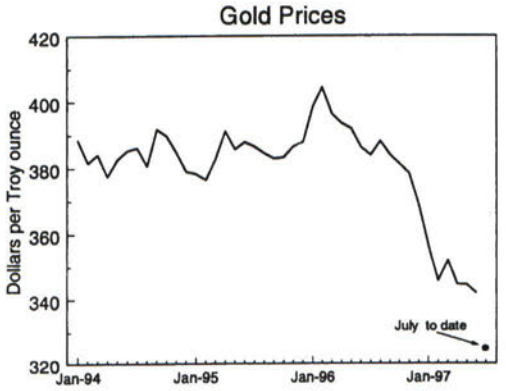
"Sure, we need more research in alchemy, necromancy, and sorcery, but where is the money going to come from?"

THE PRESIDENT HAS SEEN
7-14-97

SPECIAL ANALYSIS

Should Governments Hold All That Gold?

The price of gold has fallen substantially from its highs early last year, reaching levels not seen for more than a decade. This decline follows several years of relative stability (see chart) and appears to be due, in part at least, to sales by central banks.



Government sales. Sales last year by Belgium and the Netherlands totaled about 500 (metric) tons. The market's decline in recent quarters may also have reflected concerns about possible gold sales by Switzerland and the IMF. The drop in the price of gold over the past week appears to have been touched off by an announcement by the Reserve Bank of Australia that it had completed sales of about two-thirds of its gold reserves—about 170 tons—during the first half of this year. Reportedly, some market participants feared that Australia's sales could precipitate further sales by other governments. While the recent government sales are small relative to the total stock of mined gold, which exceeds 110,000 tons, they are substantial relative to mining output, which totaled less than 2,400 tons last year. Official gold stocks, including those of multilateral institutions like the IMF, account for more than 30 percent of the total stock.

Why are countries selling gold? Sales by some European governments may reflect efforts to reduce their countries' debt in order to move closer to compliance with the Economic and Monetary Union convergence criteria. By contrast, Australia, a major gold producer, decided that it did not need to hold substantial gold reserves and could earn interest income by selling gold and purchasing securities.

Who needs it? Currently, government holdings of gold (valued at market prices) account for about 15 percent of total international monetary reserves; industrialized countries hold 23 percent of their reserves in gold. Gold reserves may be desirable because they offer diversification and a backstop of liquidity in the event of a financial or political catastrophe. As gold has become less important in international transactions, however, many governments may have larger gold reserves than can be justified on these grounds. Moreover, releasing gold from official reserves can free gold mining resources for other uses. Doing so would also lower the price of gold in uses that include jewelry, dentistry, and electronics, increasing the economic welfare of gold consumers. A recent study suggests that the total welfare gain from selling all government gold reserves could exceed $350 billion.

How much do we have?

SPECIAL ANALYSIS

Is Aircraft Manufacturing a Natural Monopoly?

The Boeing-McDonnell Douglas merger would leave only Boeing and Airbus producing large commercial aircraft worldwide. This is hardly a textbook definition of a competitive market, but is the demand for commercial airplanes large enough to allow more than (or even) two producers to stay in business?

How many firms? The answer depends upon the extent of economies of scale—whether and how much average costs fall as output expands—relative to the size of the market. If the output at which average cost stops decreasing is small relative to industry demand, many firms can "fit" into the market. At the other extreme, if average cost continues to fall at large levels of production, the existence of more than one firm would be inefficient and quite possibly unsustainable. Each firm would have an incentive to expand output and lower costs, but only one firm would survive an intense, sustained price war.

Fixed costs. A crucial determinant of the extent of economies of scale is the size of fixed, up-front costs relative to the variable costs associated with actual production. When a firm has large fixed costs, they tend to dominate average costs when output is small, but they become a smaller proportion of total and average costs as output expands. In traditional monopoly industries, the fixed costs are those related to construction of a single network large enough to meet demand, such as the local electricity grid or water system. Another important up-front cost can be research and development expenses necessary to innovate and bring new products to market.

The aircraft industry. Aircraft production exhibits large development costs of this type. A modern jet aircraft consists of millions of components, incorporating a wide range of seemingly unrelated technologies, including materials, propulsion, electronics, hydraulics, and aerodynamics. These components are then combined into complex subsystems. Interestingly, it is the integration of these subsystems rather than their separate development that accounts for much of the $4 to $6 billion up-front R&D costs required to develop a new commercial jet. Technological uncertainty adds additional costs: Crucial, even fatal, defects are sometimes discovered only at the test flight stage.

How many aircraft firms can fit? The costs of developing a new aircraft are large relative to the size of the market. Some analysts estimate that a manufacturer has to sell roughly 600 units of a new airplane just to break even at standard industry prices, and about 1,000 for a solid return on its investment. This usually takes at least 8 years, following about 4 years of development time. For comparison, the total number of orders of an established class of airplanes (Boeing 777 or AirBus' 330/340) was little more than 650 as of 1996. According to Boeing, at most 1600 more planes are estimated to be sold in this size class over the next 10 years. The

production level required for a couple of firms to exhaust the scale economies associated with a single product family is thus on the order of total global demand.

Judged solely on the basis of production efficiency, the large jet aircraft industry may tend toward a "natural duopoly," with room for just two efficient firms. (To the extent that older planes are viable substitutes for newer, state-of-the-art aircraft, a third producer may be able to remain profitable for a time without incurring extensive development costs.) It is noteworthy, however, that in the market segment for very large planes, where none have yet been built, industry analysis suggests that demand would be small, justifying at most one producer.

Is the day of reckoning here? Since its inception, the commercial jet aircraft industry has been highly concentrated. In 1953, when Boeing was bringing the U.S. industry into the jet age, a leading industry analyst wrote, "It is pretty clear that all three builders cannot stay in this market; perhaps not even two can make money on jets in the next 10 years." Such claims are often made in defense of mergers that lead to anticompetitive market structures. Nonetheless, nearly 45 years later, this analyst's prediction may not be far off the mark.

SPECIAL ANALYSIS

Annuities: Insurance Against Living Too Long

Because retired people do not know how long they will live, they can find it difficult to decide how much they can spend each year without running too great a risk of outliving their retirement savings. An effective solution to this problem is to purchase individual *life annuities*, which provide a fixed, guaranteed monthly income for life (other types of annuities are also sold; see box on next page). Yet the number of retired households who actually receive income from life annuities remains quite small—fewer than 7 percent of senior households in 1994.

Reasons *Not* to Buy Annuities. Although annuities are an effective solution to the problem of outliving one's savings, people may not wish to spend all of their savings on annuities for several reasons.

- Emergencies. A person whose entire wealth is invested in annuities would have no reserves for emergency expenditures, such as medical expenses not covered by health insurance or family crises.

- Bequests. Annuity payments stop at death, leaving nothing for heirs. Any wealth that the person wishes to bequeath must therefore be kept in non-annuitized form.

- Poor value. Adverse selection problems distort the annuities market in ways that can make buying annuities a bad deal for the average person.

The adverse selection problem. Retirees who know their health is poor are unlikely to purchase annuities, because they might receive the annuity income for only a short time before dying. By contrast, those who expect to live a long time (perhaps because their parents were long-lived) should be eager to buy annuities. Indeed, those people who currently buy annuities do tend to live considerably longer than average. As a result, insurance companies charge high premiums that make annuities a good deal only for those who expect a long life. A recent study estimates that if a person with average health prospects were to buy a typical individual annuity, the monetary value of the expected annuity income would be only about 80 to 85 percent of the purchase price of the annuity. About half of the loss in value is due to the selection problem (the fact that the premium is set on the basis of the healthier-than-average annuity clientele), and the other half reflects the operating costs and profits of the insurance company that sells the annuity.

Implications. Annuities appear to solve the problem of retirees outliving their savings. However, the market for private life annuities is small and distorted by adverse selection. This adverse selection problem would need to be addressed in any proposal to privatize the Social Security system. (The present system does not suffer from adverse selection problems because all retirees are required to participate.)

The Recent Rapid Growth in "Annuities"

In recent years, ownership of individual "annuity" products has surged. Essentially all of this increase reflects a sharp rise in a form of annuity called the *variable annuity*. The term *variable* refers to the fact that, rather than being fixed in dollar terms like a traditional annuity, a variable annuity's payout is directly related to the value of an asset portfolio, such as the S&P 500 stock index. However, like an IRA or other tax-favored investment, variable annuities are not subject to taxes until funds are withdrawn.

The increasing popularity of variable annuities is probably mainly attributable to the combination of this tax break and the fact that most variable annuities allow annuitants to withdraw their entire annuity balance in lump sums, rather than receiving monthly payments until death. When a variable "annuity" is used in this way, it is no longer serving as insurance against long life; effectively it is serving as a mutual fund that is eligible for better tax treatment than a regular mutual fund.

ARTICLE

Does the Country Need Another Astrodome?

It is almost an article of faith among local leaders that a "major league" city requires at least one first-class, modern, sports facility. One result has been an almost fanatical building boom in sports stadiums and arenas across the country. Much of this boom has been financed out of public coffers. But do the economics justify such public investment in stadiums?

An analytical framework. Public officials building sports facilities to attract (or retain) teams is an example of state and local officials "bidding" to attract firms (see *Weekly Economic Briefing*, June 27, 1997). In the case of professional sports teams, the leagues limit the number of available teams, hence each team has a significant amount of market power. Therefore, teams generally are able to extract large concessions from localities. Quite often, these concessions take the form of publicly-funded stadiums provided at below-market rents.

The benefits of attracting a team. Benefits of attracting a team include the value to consumers of being able to attend games, the value to fans of having a team to root for even if they do not attend games, the possibility of stimulating urban redevelopment using a stadium as an anchor, and an amorphous sense of increased civic pride. The first of these benefits can largely be captured by the franchise through differentiated ticket prices. The other benefits accrue in varying amounts to residents, although their value is uncertain.

The sense of civic pride that accompanies the attraction of a professional sports franchise defies exact quantification, but it may be important nonetheless. For instance, Pittsburgh is often considered to be a major city, in part because of its trio of major professional sports franchises, even though it ranks 45th in the nation in population. Several larger cities with less prominent sports franchises (such as Oklahoma City, El Paso, and Sacramento) may be perceived as minor municipalities, even though they have larger populations than Pittsburgh.

Other benefits? Proponents also offer some more dubious rationales for building sports facilities. These include claims of jobs created in constructing and operating a stadium, increased entertainment spending in the locality, increased tourism, and a "multiplier effect" whereby increased local spending translates into even greater amounts of local income. Often, these kinds of benefits are oversold. Increased entertainment spending in the stadium area may come at the expense of lower entertainment spending elsewhere in the locality; stadium construction jobs displace other construction jobs if the local economy is operating at full-employment; and professional sports teams may draw few tourists to a city during the regular season.

The costs of attracting a team. To the extent that a locality spends tax monies or diverts a specific revenue stream to support a stadium construction project and

charges below-market rent, the costs to the local government are explicit. If tax-exempt bonds are used to finance the construction of a new stadium, however, the Federal government provides the main subsidy, through foregone income taxes on interest received by creditors. (The Tax Reform Act of 1986 denied tax-exempt treatment for interest on bonds paid from the rental payments on the stadium, but states have gotten around this restriction by using tax revenues to service the bonds.) Since professional sports teams have to locate somewhere, it is unclear why the Federal Government should subsidize luring franchises from one locality to another.

Weighing the cost and benefits. A recent study concludes, after carefully trying to compute the net benefits to the locality of constructing a stadium, that "the economic benefits of sports facilities are de minimus." This conclusion indicates that teams are quite successful at appropriating for themselves most of the benefits generated by having a team locate in a particular area. By itself, stadium construction does not rank as a highly desirable investment of public funds. One possible explanation is that public officials may place a premium on constructing a stadium that can serve as a long-lasting monument to their term in office. This "edifice complex" can lead to uneconomic decisions about constructing stadiums and other public infrastructure. But, given the popularity of sports in America, it is unlikely that simple economics alone will ever drive decisions to construct stadiums.

THE PRESIDENT HAS SEEN
7-14-97

BUSINESS, CONSUMER, AND REGIONAL ROUNDUP

Nearly 4 Million College and High School Students Are Armed. Researchers at Cornell University and the Core Institute at Southern Illinois University asked more than 25,000 college students on 61 campuses whether they had carried a gun, knife, or other weapon within the last 30 days. Overall, 7 percent said they had—11.1 percent of the males and 4.3 percent of the females. Two-thirds of the armed students were Caucasian. This study is the first comprehensive look at weapons-carrying by college students nationwide. Studies of high school students show much higher rates of armament. A Centers for Disease Control survey found that 22 percent of high-schoolers were armed in 1993, up from 20 percent in a 1990 CDC survey. These survey results imply that nearly 1 million college students and 3 million high-schoolers were armed in 1993.

Lawyers Doing Fine, Thank You. The *National Law Journal*'s ninth annual "What Lawyers Earn" survey finds that American lawyers are earning more than ever. Twenty-nine of 30 large law firms had increased revenues, with several reporting increases in profits-per-partner of over $60,000. The median base salary of seventh-year associates at firms with more than 250 lawyers was $100,000, up from $92,500 last year. The median salary for chief legal officers in corporate law departments rose from $225,000 in 1995 to $260,000 in 1996. Not all lawyers reaped such gains, however. Lawyers in the Federal government faced stagnant pay scales, and public interest lawyers continued to receive low salaries.

Treasury Auctions New Indexed Note. Following two auctions of 10- year indexed notes earlier in the year, the Treasury held its first auction of 5-year inflation-indexed notes on Wednesday. Tenders at the auction totaled about $26 billion, more than three times the $8 billion of securities offered, a somewhat higher ratio than in recent auctions of conventional 5-year securities. The median yield on accepted competitive tenders was 3.668 percent, and the high yield was 3.744 percent. These yields were somewhat higher than had been expected and were within about 2½ percent of those on conventional 5-year securities. The relatively high yields may reflect the recent subdued pace of inflation. The Treasury has announced that it intends to hold a second auction of 5-year inflation-indexed securities in October, and auctions of 10–and 30-year inflation-indexed securities next year.

THE PRESIDENT HAS SEEN
7-14-97

INTERNATIONAL ROUNDUP

Japanese Trade Surplus Surges. Japan's trade surplus with the world continued to surge in the first 20 days of June, according to the Ministry of Finance. Because the surplus was much higher than financial markets had anticipated, the news spurred a decline in the dollar against the yen earlier this week. Among the forces cited as contributing to the large surplus were seasonal factors, the recent implementation of a consumption tax in April, and a weak yen. Early economic indicators suggest that the dampening effect of the consumption tax on economic activity may have been milder than anticipated by many Japanese analysts and market participants, notwithstanding its contribution to the trade surplus.

Philippine Peso Under Pressure in the Wake of Thai Devaluation. The Philippine central bank rejected calls to devalue the peso, and instead raised key overnight interest rates from 15 to 30 percent to defend its currency against speculation. The speculative attacks began after Thailand announced last week that it would float its currency, the baht, leading to investor fears that the Philippines would follow suit. Prior to the Thai float, interest rates in the Philippines had been on a downward trend, and some analysts have expressed concern about the economic cost of defending the peso through higher interest rates. The Central Bank counters, however, that a devaluation would be inappropriate policy, and it points to robust export growth (almost 18 percent in 1996) as evidence that the peso is not overvalued. Furthermore bank officials maintain that the economy is in generally good health and that comparisons with Thailand's economic difficulties are not justified. The Central Bank states that it will keep interest rates high until the turbulence in the foreign exchange markets subsides.

ASEAN to delay entry of Cambodia. Following the weekend coup in Cambodia, the foreign ministers of the Association of South East Asian Nations announced this week that they will postpone indefinitely that country's application to join their organization. Cambodia, along with Burma and Laos, had been approved by the Foreign Ministers for ASEAN membership last month, and all three states were set to comply with their new tariff obligations by 2008. Although Cambodia's candidacy has been suspended, the ministers stated that admission into ASEAN for Laos and Burma, would proceed as scheduled, even though the latter country's admission had been in question only a month ago because of human rights violations.

RELEASES THIS WEEK

Producer Price Index
****Embargoed until 8:30 a.m., Friday, July 11, 1997****

The producer price index for finished goods fell 0.1 percent in June. Excluding food and energy, producer prices rose 0.1 percent.

MAJOR RELEASES NEXT WEEK

Retail Sales (Tuesday)
Consumer Prices (Wednesday)
Industrial Production and Capacity Utilization (Wednesday)
Housing Starts (Thursday)
U.S. International Trade in Goods and Services (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	5.9
GDP chain-type price index	5.4	2.1	2.0	1.9	2.7
Nonfarm business (NFB) sector:					
Productivity (chain-type)	1.5	0.9	-0.2	1.3	2.6
Real compensation per hour:					
Using CPI	0.6	0.4	0.8	0.3	2.8
Using NFB deflator	1.3	2.2	2.4	2.8	2.7
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	4.1
Exports	8.2	11.3	11.1	11.5	11.5
Imports	9.2	12.6	12.7	12.6	12.8
Personal saving	5.3	3.6	3.9	3.8	3.5
Federal surplus	-2.7	-1.7	-1.6	-1.4	-1.0

	1970-1993	1996	April 1997	May 1997	June 1997
Unemployment Rate	6.7**	5.4**	4.9	4.8	5.0
Payroll employment (thousands)					
increase per month			327	166	217
increase since Jan. 1993					12538
Inflation (percent per period)					
CPI	5.8	3.3	0.1	0.1	N.A.
PPI-Finished goods	5.0	2.8	-0.6	-0.3	**-0.1**

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

New or revised data in **boldface**.
PPI data **embargoed until 8:30 a.m., Friday, July 11, 1997.**

FINANCIAL STATISTICS

	1995	1996	May 1997	June 1997	July 10, 1997
Dow-Jones Industrial Average	4494	5743	7242	7600	7887
Interest Rates					
3-month T-bill	5.49	5.01	5.05	4.93	5.01
10-year T-bond	6.57	6.44	6.71	6.49	6.26
Mortgage rate, 30-year fixed	7.95	7.80	7.94	7.69	7.47
Prime rate	8.83	8.27	8.50	8.50	8.50

INTERNATIONAL STATISTICS

Exchange Rates	**Current level July 10, 1997**	**Percent Change from Week ago**	**Year ago**
Deutschemark-Dollar	1.752	0.1	14.8
Yen-Dollar	113.1	-0.3	2.6
Multilateral $ (Mar. 1973=100)	95.69	0.1	8.5

International Comparisons	**Real GDP growth (last 4 quarters)**	**Unemployment rate**	**CPI inflation (last 12 months)**
United States	4.1 (Q1)	5.0 (Jun)	2.2 (May)
Canada	2.8 (Q1)	9.5 (May)	1.4 (May)
Japan	2.6 (Q1)	3.6 (May)	1.9 (May)
France	1.0 (Q1)	13.0 (Mar)	0.9 (May)
Germany	2.8 (Q1)	7.8 (Apr)	1.5 (May)
Italy	-0.4 (Q1)	12.3 (Jan)	1.6 (May)
United Kingdom	3.2 (Q1)	6.9 (May)	2.6 (May)

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THE WHITE HOUSE

WASHINGTON

97 JUL 12 PM 1:35

July 12, 1997

MEMORANDUM FOR THE PRESIDENT

Copied
Bruce Reed
Elena Kagan
COS

FROM: BRUCE REED
ELENA KAGAN

SUBJECT: DPC WEEKLY REPORT

1. Tobacco -- Review of Settlement: We are making good progress on our review of the tobacco settlement. We met this week with Drs. Koop and Kessler, Attorneys General Moore and Gregoire, and representatives from leading public health and tobacco control groups. In interagency meetings, we have identified the major legal and policy issues, have begun to analyze the economic effects of the settlement, and are developing options in key areas. Next week, we will meet with the tobacco industry, tobacco farmers, and additional public health experts. We will also consult with Members of Congress, beginning with a Senate Democratic Task Force chaired by Senator Conrad.

2. Education -- NAACP Speech: Your speech to the NAACP on Thursday will provide an opportunity to discuss education issues in the context of your race initiative. In addition to talking about the value of integration in educational institutions, you can discuss how to improve schools in those urban and rural areas with large concentrations of poor and minority students. Here, you can discuss the importance of national standards and tests, but also focus on providing students with the tools and opportunities that will help them meet those standards. Emphasizing that the quality of teaching in inner city and rural schools is much lower than in the rest of the nation, you also can announce a new initiative to recruit, prepare, and retain teachers in urban and poor rural communities. This program, which is part of the Department of Education's proposal for the reauthorization of the Higher Education Act, would provide about $250 million over five years to strengthen teacher training programs that place large numbers of graduates in urban or poor rural communities, as well as to provide scholarships to talented and diverse students who will commit to teach in urban and poor rural areas for at least three years after graduation

3. Crime -- Youth Handgun Tracing/Interdiction: In next week's radio address, you will release a 1-year report by the Treasury Department on the 17-city Youth Handgun Tracing initiative. The report provides an unprecedented amount of information about the guns used to commit crimes and how juveniles obtain them. The report finds, for example, that (1) four out of 10 crime guns recovered by police are from youth (17 and under) or juveniles (18 to 24); (2) about 60 percent of crime guns recovered from juveniles and youth are semiautomatic pistols, and more than 80 percent are handguns; and (3) at least a quarter of the crime guns that police recover from juveniles and youth are firearms that were rapidly diverted from first retail sales to

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a black market. In addition to releasing the report, you will announce a $12-15 million expansion of the initiative that will enable 5 to 10 new cities to join the tracing program and strengthen the investigation of gun crimes in these cities.

4. Crime -- Brady Follow-up: On Wednesday, the Attorney General and Secretary of the Treasury will host a meeting for law enforcement representatives from the 23 Brady states and a number of national organizations. The Attorney General and Secretary will: (1) brief the law enforcement officers on the Supreme Court's decision and issue guidance on how they can continue to conduct background checks; (2) get county and/or state law enforcement agencies to agree to do background checks for the handful of local jurisdictions that have stopped doing them; and (3) discuss and seek support for legislation that makes clear that states, unless expressly prohibited by state law, have the authority to conduct background checks. This legislation is necessary because the NRA is challenging the authority of 19 of the 23 Brady states to continue to conduct Brady checks, and the Attorneys General of Arkansas and Ohio are claiming that they lack this authority.

5. Crime -- Crack Cocaine Sentencing: We are working with the Justice Department and ONDCP to move forward on their recommendations to reform crack cocaine sentencing. At the urging of Senators Biden and Kennedy, we decided to postpone making these recommendations public until after the Senate Judiciary Committee's mark-up of the juvenile justice bill. We instead engaged in private discussions with Senator Abraham to prevent him from offering an amendment to drop the mandatory minimum threshold for powder while leaving the threshold for crack intact. (Senator Abraham would have offered, and the Committee would have passed, this amendment if we had made the DOJ/ONDCP recommendation public.) After the mark-up is over, Justice and ONDCP will take the lead in reaching out to members of the Judiciary Committees and the Congressional Black Caucus, as well as to law enforcement representatives. If we can build enough support for our approach, we will try to attach an amendment to the juvenile justice bill when it is considered on the floor of the Senate this fall.

6. Health -- Genetic Screening Event: On Monday, you will release a new HHS report on the use of genetic screening and challenge Congress to pass legislation addressing this issue. The report shows that over one-fifth of individuals who have a family member with a genetic disorder have suffered discrimination by insurers. The report includes specific legislative recommendations to prevent health insurers from making improper use of genetic screening information. Although they cannot be at the event, two key Republican Senators (Jeffords and Frist) who sit on the primary Senate committee of jurisdiction will announce their support for legislation consistent with the recommendations outlined in the HHS report.

7. Health -- Budget Reconciliation Developments: Although no Medicare issues have been finally resolved, Thursday's overwhelming support (over 400 votes) for a Sense of the House Resolution rejecting the increase in eligibility age from 65 to 67 effectively has killed this proposal. The income-related premium and the home care copayment still remain potentially viable, although the latter is losing steam. We are advising Members that you support relating

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the Medicare premium to income, but only if your administrative concerns (Treasury, not HHS administration) and policy design concerns (e.g., reducing maximum premium payment from 100 percent to 75 percent of Part B program costs to reduce the incidence of well-to-do elderly leaving the program) are adequately addressed. Although Senator Domenici and others have acknowledged the advantages of your approach, many Republicans ~~are not interested~~ in ~~considering any premium administered through the Tax Code~~.

As for Medicaid, Members are now focusing most of their attention on the allocation of the disproportionate share hospital (DSH) payments. On Thursday, Senator Domenici and Congressman Spratt asked the Administration to help co-chair a DSH study group, to begin meeting early next week, to help determine alternative formulas. The Senators are concerned about placing excessive burdens on high DSH states. But because the low-DSH states do not want any of the burden shifted back to them, there may be a great deal of pressure to find some additional money to reduce the overall DSH cut.

Good

8. Welfare -- White House Hiring: ~~Thanks to Jody Torkelsen and her staff, the EOP has achieved its goal, set in April, of hiring six welfare recipients~~. One of them is working for the Domestic Policy Council. We are saving this announcement for an appropriate time and trying to ensure that the announcement will not jeopardize the privacy of these workers.

9. Welfare -- Speech to the NGA: After reading Secretary Shalala's memo on how states are using "excess" funds from the welfare block grant, you asked whether you should write a letter to governors on this subject. We suggest you send such a letter on July 28th -- the same day you speak to the National Governors' Association on welfare issues. In that speech, you can discuss the state policies and programs (both good and bad) that have emerged as a result of welfare reform. You also can expand on the challenge you issued in last week's radio address for "every state to take the money they save from lowering their caseloads and use it -- for child care, for transportation, to subsidize the training and wage help that people need to move from welfare to work."

10. Welfare -- Children's SSI Cut-offs: This month, SSA will begin to cut off SSI benefits for children found not to meet the new definition of childhood disability included in the welfare law. Time Magazine ran a story on the issue this week, and ABC World News Tonight is expected to cover the story soon. The law calls for SSA to complete all eligibility reviews by August 22, but Congress is likely to give the SSA another six months to finish the review process. SSA expects about 135,000 children to lose benefits as a result of the new standard. Under the budget agreement, these children would continue to receive Medicaid benefits. The Senate, however, failed to include this provision in its budget legislation, and the House made it a state option. We are working hard to get all that the budget agreement promised in this area.

11. Welfare --California and New York Plans: California and New York have about one-third of the nation's welfare recipients between them, but battles between Republican governors and Democratic legislators long have stymied welfare reform plans in both states.

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Somewhat surprisingly, this battle appears to be coming to an end in New York. Governor Pataki recently signaled that he will drop the most onerous features of his welfare plan, such as decreasing welfare benefits over time and converting the state's general assistance program to a voucher system. Though an agreement could still fall through, passage of a welfare plan -- with a quite significant increase in child care spending -- now appears likely. Meanwhile, in California, Governor Wilson vetoed a plan sent to him by the Democratic legislature. Wilson wants to cut benefits by 15 percent after a family has been on the rolls for six months; limit any new recipient to 12 months of continuous benefits; require women to start job search when their children are 12 weeks old; and eliminate the state requirement that counties provide general assistance. The Democratic plan rejected each of these demands (though it would have limited each period of welfare receipt to 24 months). Democrats are now negotiating with the Governor, but it is not clear when or whether an agreement will emerge.

12. Welfare -- Teen Parents: Last week, several newspapers reported on a study showing that the New Chance project for teen mothers does not help participants become self-sufficient. New Chance is a voluntary program, which offers extensive employment and support services, but does not sanction individuals for failing to meet program expectations. The study found that teen mothers in New Chance were no more likely than teens in a control group to gain jobs or leave welfare. The Washington Post editorialized that a "values-free program that relies exclusively on 'services' and material successes but de-emphasizes the importance of self-discipline, character, commitment, and responsible personal conduct may do little to address some of the problems that led to dependency in the first place." A related conclusion emerges from comparing the New Chance study with well-known and respected studies of Ohio's LEAP program and the Teenage Parent Demonstration project. Both of these programs require teen parents to stay in school and follow other rules, and both sanction participants for failing to do so. These programs show significantly better outcomes than New Chance, with participants leaving welfare and getting jobs at a higher rate than other teen mothers.

13. Service -- Girls Nation Event: Next Friday, as part of an event with Girls Nation, you will announce that in the first year of a program you announced last year at Penn State, a total of 1,600 high school juniors and seniors across the country have received $1,000 "National Service Scholarships." High school principals selected these students based on their outstanding service records. The federal government, through the Corporation for National Service, put up $500 per scholarship, and civic organizations and other groups matched that amount. The matching organizations include the Kiwanis, Rotary, VFW, Junior Leagues, Chambers of Commerce, PTAs, the Miss America organization, and the American Legion. Sallie Mae provided the match for all high schools in D.C., while the Minnesota state legislature voted to provide matching funds for every high school in the state next year. Our goal is to institute this scholarship in as many of the 20,000 high schools in the country as possible. We are drafting a letter for you to send to all high school principals advising them of this opportunity. On the same day that you will make this announcement, the Rev. Tony Campolo and an organization called "Youth for Christ" are holding a rally on the Mall with 25-30,000 young people, all of

whom have pledged to serve 3 hours a week for the next 6 months in their communities. A similar event in Los Angeles in June drew 11,000 young people.

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THE WHITE HOUSE
WASHINGTON

July 12, 1997

'97 JUL 12 PM 3:18

Copied
Gene Sperling
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MEMORANDUM FOR THE PRESIDENT

FROM: **GENE SPERLING**

SUBJECT: **NEC Weekly Report**

Social Security Reform. Following up on my memorandum to you last week, I led two meetings on our strategy for Social Security reform this week, including one in Erskine's office with your economic team. One conclusion from our internal meetings was that we did *not* want a Social Security commission included in the budget legislation -- the collective judgement of Erskine and your top advisers was that such a move would unduly complicate the budget negotiations, would not allow sufficient time for carefully designing a commission, and would represent too stark a contrast with the Medicare commission already included in the legislation (which we are trying to shape into more of an advisory commission).

The discussion therefore moved on to other related and complicated issues. A key question is whether we should come out with our own specific proposal early next year. Some felt that we can not afford to wait until past the fall 1998 elections, and that acting soon was therefore essential. Coming out with a proposal early, according to this argument, would demonstrate your leadership, help to focus the debate, and move the process along. Others questioned whether it would be possible to develop a coherent proposal by early 1998, would prefer taking the time to invest in a public education effort and a bipartisan process, and were concerned that a proposal without bipartisan support would politicize potential solutions and harm prospects for legislation. Related questions include how we should approach the Republican leadership to sound them out on how they want to proceed; whether you should seek other bipartisan support (Rudman, Peterson, Dole) if the Republican leadership initially balks; whether you should give a speech in the near future laying down a marker on the issue; and whether it would be helpful to appoint a group of eminent Americans to serve on an education panel or an advisory commission. These are huge questions, and we plan to meet again soon to refine the various options before presenting a memo and, if appropriate, arranging a meeting with you on the topic.

Erskine and Secretary Rubin did consult, as you requested, with Senator Moynihan. He said he would get back to us, although his initial response to Erskine was a one-page substantive

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plan -- of which 75 percent was the 1.1 percent CPI adjustment recommended by the Boskin Commission.

Medicare. This week, Chris Jennings and Jeanne Lambrew discussed major Medicare issues both internally and with Congressional staff and Members. The focus has been on issues surrounding the income-related premium. NEC has been coordinating an interagency working group comprised of staff from Treasury Economic Policy, Tax Policy, and IRS; HCFA; Social Security Administration; and OMB. This group has thoroughly examined issues associated with administering the premium through Treasury versus HHS/SSA. We have produced internal documents detailing concerns and costs, as well as summary documents for public distribution.

Climate Change. Dan Tarullo, Katie McGinty and I hosted a principals meeting on climate change to restart the decision process in light of your U.N. speech calling for a dialogue with the American public. We will hold principals meetings every week for the next five weeks so that, by early September, we will have developed the best ways of reaching different emissions target levels. To support the principals' decision-making process, we are also creating a set of working groups -- which will draw upon the best people in the Administration -- to study a set of specific questions (such as how to design the best possible emissions trading system). Janet Yellen was selected to represent the Administration at Congressional testimony next week focusing on the economic aspects of policies to reduce greenhouse gas emissions. Our policy process will be working hand-in-hand with Todd Stern. Todd and others, as you know, will help us in ensuring that we are aware of, and are addressing as much as possible, concerns being raised in the business, environmental, and other outside communities.

EU Review of Boeing-McDonnell Douglas Merger. Dan Tarullo chaired an NEC principals' meeting on Tuesday to decide what (if any) actions the Administration should take toward the European Union, which has voted preliminarily to prohibit the proposed merger of Boeing and McDonnell Douglas. Even though neither company has operations in the Europe, the EU has authority to prohibit the merger and (if the merger were to proceed anyway) to impose fines of up to $5 billion on Boeing.

As a result of decisions made at the principals' meeting, we are pursuing a three-track plan: First, the Justice Department requested formal consultations under the 1991 U.S.-EU agreement on antitrust cooperation. The EU agreed to consultations, and Joel Klein and others will meet with EC counterparts over the weekend in Brussels. Second, senior Administration officials communicated to EU officials their serious concerns about the EU merger review process and what a prohibition of the merger would do to U.S.-EU relations. And, third, the NEC is developing a list of retaliatory actions that the U.S. might take, if necessary. Boeing and EU negotiators will meet on Sunday and Monday to try to reach a compromise on remedies. We have scheduled another NEC principals' meeting for Tuesday to consider next steps. If appropriate, we will give you a decision memo laying out possible retaliatory actions that we might want to threaten prior to the EU's final decision on July 23.

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NAFTA Report. We released the NAFTA Report Friday at a press briefing with Secretary Rubin, Secretary Daley, Ambassador Barshefsky, Special Envoy Mack McLarty and me. The event drew an overflow crowd of reporters. Press reports previewing the NAFTA report on Friday morning were balanced and generally favorable. We arranged to have surrogates, such as Mickey Kantor, provide validation on television and in the papers, while Charlene and I made calls to editorial boards and handled requests from the financial cable stations. The usual NAFTA opponents were very well organized and very quick to react.

Family Friendly Internet. Tom Kalil on the NEC staff is working with OVP and others to prepare for your meeting with industry executives, leaders of groups representing parents and teachers, and members of Congress next Wednesday to discuss making the Internet "family-friendly." Internet companies will be making commitments that will make it easier for parents to prevent their children from getting access to inappropriate material. Groups such as the American Library Association will be launching an initiative to make it easier for parents and children to find educational resources on the Internet.

Fed Nominees. We announced on Thursday your nomination of Edward M. Gramlich and Roger W. Ferguson, Jr., to the Federal Reserve Board. I held a conference call with reporters; the reception to the formal nomination of the candidates was generally positive. The Federal Reserve's legislative affairs office will now guide the candidates through their confirmation hearings with the Senate Banking Committee. As you know, we will have to fill another slot on the Board early next year, when Susan Phillips's term ends.

Budget Agreement and Education Appropriations. The House Labor-HHS-Education Appropriations Subcommittee next week will not likely provide the full amount for America Reads, nor do they plan to make the Pell Grant change to expand benefits for 218,000 independent students -- both required by the budget agreement. We are hearing a similar message from the Senate. Secretary Riley is sending a letter today to the Hill on the issue. We have been working with Education and WH Legislative Affairs to send a strong message to the Committees on this issue, and the education groups have become more engaged.

America Reads Work-Study Commitments. We now have *more than 500* colleges signed on. You recently asked about the number of *slots* that are filled in the coming year. We had found that many colleges were reluctant to sign up if they were required to commit to a specific number of slots. Working with Carol Rasco, we therefore determined that our priority should be getting the colleges to commit to the concept, *then* working with them to develop a high-quality, high-participation program. The strategy has worked: we had only 183 colleges at the end of May, and we now have over 500. And many of those colleges will be sending representatives to four training sessions around the country scheduled for the next two weeks. Colleges were reluctant to promise a particular number of slots for several reasons, including: (1) they want to run pilot efforts in the fall before they expand; (2) there are not yet significant resources for training large numbers of tutors; (3) they want to base the size of their program on the interest

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level from students, which they could not predict without having experience first; (4) they were afraid that they would be audited based on the commitment level, and (5) they (especially some of the sectarian schools) want to focus on volunteers, not paid tutors.

Tax Package Rollout -- Urban Tax Event with Mayors. We held a press event with the Vice President and Secretary Rubin at the White House on Monday. They were joined by Mayor Marc Morial of New Orleans, Mayor Ron Kirk of Dallas, Mayor Anthony Masiello of Buffalo, Mayor Tom Murphy of Pittsburgh, Mayor Floyd Adams, Jr. of Savannah, and Supervisor Mary Rose Wilcox of Maricopa County (Phoenix). The Vice President focused on the urban tax initiatives in your tax package -- specifically discussing the EZ/EC expansion, WTW tax credit, Brownfields tax incentive, and CDFI tax credit. There was good coverage by National Public Radio, *USA Today, The Washington Times*, *The Los Angeles Times, Dallas Morning News*, and other regional papers.

Tax Package Rollout -- Roundtable on Higher Education Tax Cuts. We worked with the Vice President's office to coordinate a roundtable on your higher education tax package on Tuesday in Pittsburgh. The Vice President was joined by several students and families, as well as Mayor Tom Murphy and Rep. William Coyne. We drafted a detailed package on the higher ed tax cut plan, which included a state-by-state analysis of how many students would benefit from the plan compared with the congressional alternatives. The packet was distributed to the Senate and House Democratic members, Democratic governors and mayors, higher education groups, as well as the Cabinet. We also worked with the Vice President's press office, the Education Department, and Media Affairs to distribute the state-by-state to regional media and the wires.

Tax Package Rollout -- Press Event on Tax Cuts for Working Families. We worked with the Vice President's office on a press event at the White House on Thursday to discuss the Administration's $500 child tax credit. Joining the Vice President were Sen. Daschle, Rep. Gephardt, Sen. Landrieu, and Rep. Rangel, as well as several lower-income families who would benefit from our child tax credit, but would be shortchanged by the congressional alternatives. We released a packet on our child credit, as well as a state-by-state analysis of the four million families that are left out of the congressional alternatives. There was solid coverage on CNN and in the *Washington Post*, *New York Times, and LA Times*.

Electricity Restructuring. The interagency process is preparing to advance options and recommendations to the NEC principals later this month, and we expect to have a number of meetings to consider the issues relating to possible Administration legislation on this subject. We are also working closely with CEQ on possible linkages between electricity restructuring and global climate change to see whether it would be prudent to pursue carbon reductions in the electricity restructuring legislation, and to assess whether it would be possible to do so without making the Administration's bill non-viable. Secretary Pena and I met Friday about possibly accelerating a memo to you on the general parameters of the legislative options.

Tobacco Settlement. As a part of the DPC-led effort, NEC staff continued to participate in meetings relating to the tobacco settlement. In the economics/industry meetings, we are assessing how much of the payments will be passed through to consumers in the form of higher prices, how effective the youth "lookback" provisions will be, and what the impact of the settlement on government revenue will be.

Product Liability. NEC staff went over some last questions with Staff Secretary concerning the options memo to you. The memo is scheduled to be forwarded to you this weekend.

DC Pensions. Together with OMB, PBGC and Treasury, we met with House (committee and legislative counsel) and CRS staff to discuss concerns legislative counsel and CRS had raised about the pension provisions. The meeting was productive, and legislative counsel better understands what we were trying to do. Rep. Davis' staff was very supportive. We will meet on Monday with Senate staff.

Black Colleges. Bob Shireman on the NEC staff spoke to HBCU college presidents at the annual meeting of the National Association for Equal Opportunity in Higher Education. He emphasized the investments in higher education in the budget agreement, the improvements in the tax package (and the contrast with the Republican plans), concern about the direction of Congress on affirmative action, and made a pitch for America Reads involvement by the colleges. He responded to questions about the need for more effort to increase the number of minority graduate students, and a concern about the lack of refundability in the HOPE Scholarship and tuition credit. Privately, some of the NAFEO leadership expressed concerns about the Education Department's plan to elevate the status of Hispanic-Serving Institutions in the reauthorization of the Higher Education Act.

THE WHITE HOUSE

WASHINGTON

July 11, 1997

'97 JUL 12 PM 1:43

MEMORANDUM TO THE CHIEF OF STAFF

FROM RAHM EMANUEL

SUBJECT WEEKLY REPORT

THE PRESIDENT HAS SEEN 7-14-97

Copied Rahm Emanuel COS

CRIME/DRUGS: The Treasury Department has completed the Youth Handgun Tracking Report. We plan to release the report in next Saturdays radio address. We are inviting police chiefs and local officials from the 17 different cities. The report is in response to the President's directive issued one year ago at the beginning of this initiative.

Time Magazine is preparing a large piece this week on juvenile crime. The article focuses on the problems of juvenile crime as well as the legislation now on the hill. Karen Tumulty, from Time, called to asking about our legislation and our objections to the GOP bill.

Senator Leahy heeded our advice and at the opening of the Juvenile Crime Bill hearing and submitted amendments focused on fighting gangs. The amendments deal with gang witness intimidation similar to the provisions in the President's bill. The amendments were defeated, but the Senator plans on re-introducing the provisions next week. I have asked the Justice Department to write a letter to Senator Hatch and Senator Leahy criticizing the committee's vote.

We are holding back the President's decision on the Sentencing Guidelines until the week of July 21st. I think it would be a mistake to release the numbers before his event on Thursday. Also, we were able to convince Senator Abraham not to introduce his fix as an amendment to the juvenile crime legislation.

TOBACCO: The first week of the White House Review was very successful on both policy grounds and media coverage. RJR's decision to pull Joe Camel a day after the FDA hearing only strengthened the White House effort.

I have suggested to Bruce Reed that next week we should bring in the corporate community to review the penalty provisions. We also need to have a day in which tobacco farmers visit the White House.

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A strong second week will only help legitimize the White House Review effort in the eyes of the press. It will also help build expectations for the final report.

CAMPAIGN FINANCE: On Thursday I attended a meeting on the Hill with Senators McCain, Feingold, Collins, and Levin. They agreed to go to the floor in September with their legislation and I supported that effort. McCain wanted to start with a soft money ban and a better reporting bill. Everyone in the room rejected the idea of a minimalist bill at this time. It is my view that in the end we will need to have an alternative to McCain Fiengold, but now is not the time to introduce a minimalist bill.

It is essential that Bob Nash finish staffing the Free TV Commission. Norm Ornstein needs the Commission up and running no later than mid-August.

MISCELLANEOUS: Dan Balz from the Washington Post is heading to England for three months to head up the bureau. I thought we could have him in to visit with the President in an off the record session before he travels overseas. In the same vein, we should consider inviting the new Washington bureau chief of the New York Times the next time the President has a scheduled off the record session.

The Vice President has agreed to dedicate some time on his schedule for his own off the record sessions with the White House press. I believe this could only benefit him in the long run as well as assist the overall White House effort.

Upon the President's return, we need to extend an invitation to former Presidents to come to the White House for a briefing on the NATO agenda. This would be the first of the bi-annual meetings of the President's Council.

I have mentioned this to you before, but we need to think of the timing between signing the tax and reconciliation bills with the launching of an effort on Entitlement Reform.

We need a through review of our economic agenda in a post balanced budget world. Beyond Fast Track and Entitlement Reform, we need to look at reinvigorating our support for passage of a worker's G-I Bill, corporate welfare, an Infrastructure account, health insurance for the unemployed, new corporate mandates (especially in the areas of retirement and pensions) and FDA and FCC appointments.

These are just some random thoughts for an economic agenda to fill out the remaining years of a second term. There are strong policy and political arguments to be made for a progressive economic agenda to off-set Fast Track and Entitlement Reform.

THE WHITE HOUSE

WASHINGTON

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MEMORANDUM FOR THE PRESIDENT

FROM: **JOHN HILLEY**

Copied
John Hilley
COS

SUBJECT: **WEEKLY LEGISLATIVE REPORT**

House of Representatives

1. Military Construction Appropriations: On Tuesday, July 8, the House passed (395--14) H.R. 2016, the Military Construction Appropriations Act for FY98. This legislation, which is the first of the thirteen annual appropriations bills, would provide $9.2 billion in funding, $800 million more than the Administration's request.

2. Interior Appropriations: This week, the House began consideration of H.R. 2107, the Interior Appropriations Act for FY98. This $13 billion bill, the second of the 13 annual appropriations bills to come to the House floor, would provide $132 million less than the Administration's request. While considering H.R. 2107, the House:

a. Narrowly passed (217--216) the Rule for floor consideration of the Interior bill. Democrats and a key bloc of moderate Republicans had initially opposed passage of this Rule because it did not permit a vote on increasing the bill's funding for the National Endowment for the Arts (NEA), which would be abolished in H.R. 2107.

b. Rejected (155--271) Representative Ehlers' (R-MI) Administration-opposed amendment to provide $80 million in arts-designed funding in the form of block-grants for state art agencies and public and private schools, bypassing and terminating the NEA. This level of funding was $19.5 million less than this year's NEA funding. Since the amendment was defeated, there remains only $10 million for the NEA in the bill which was to be used to close out the agency. This level of funding was the concern that originally provoked the Republican moderates. The Republican leadership had hoped that this amendment would mollify its caucus. However, the amendment ended up being defeated by a coalition of Democrats and Republicans who have vowed to eliminate the NEA and who believed that $80 million in any configuration was unacceptable.

c. Began consideration of Representative Chabot's (R-OH) amendment to strike all of the bill's funding for the National Endowment for the Humanities. A vote on this amendment was postponed until Tuesday, July 15.

There is a Senior Advisors' veto-recommendation on H.R. 2107 due to the lack of NEA funding. The House will likely resume and complete consideration of this legislation on Tuesday, July 15.

3. Budget Reconciliation: On Thursday, July 10, the House considered motions to instruct

conferees on both the spending and tax portions of the Budget Reconciliation bill; H.R. 2015, the Balanced Budget Act of 1997, and H.R. 2014, the Taxpayer Relief Act of 1997. The House:

a. Passed (414--14) Representative Spratt's (D-SC) motion to instruct conferees on the Balanced Budget Act of 1997. This motion urges conferees to: oppose the Senate provision raising the age for Medicare retirement from 65 to 67; and to cover all workers under the Temporary Assistance for Needy Families program with the same protections as other workers, including the Fair Labor Standards Act, OSHA, and the anti-discrimination laws.

b. Rejected (199--233) Representative Rangel's (D-NY) motion to instruct conferees on the Taxpayer Relief Act of 1997. This motion instructs conferees to recede from the House position that provides for the indexing of capital gains and makes the $500 per child tax credit refundable to those who do not pay income tax.

4. **Intelligence Authorization:** On Wednesday, July 9, the House passed by voice H.R. 1775, the Intelligence Authorization Act for FY98. The bill would authorize general intelligence programs, with goals such as countering terrorism, nuclear proliferation, narcotics trafficking and foreign intelligence. It also would authorize covert action programs, research and development, the Central Intelligence Agency, and improvements in information dissemination. The amount of money authorized by the bill is classified, but it has been estimated at $30 billion.

5. **Forest Management:** On Wednesday, July 9, the House passed (429 to 1; Republican Representative Ron Paul of Texas voting no) H.R. 858, the Quincy Library Group Forest Recovery and Economic Stability Act of 1997. This legislation would require the Forest Service to thin three California forests to provide forest firebreaks and to otherwise trim forests in an effort to prevent fires. The Administration had objected to the measure, saying that certain provisions were inconsistent with current environmental law. But, in an amendment which passed by voice, Resources Committee Chairman Don Young (R-AK) agreed to change the bill's language to clarify that it is consistent with environmental law.

The Week Ahead

On Tuesday, July 15, the House is expected to vote on final passage of the Interior Appropriations bill. For the majority of the week, the House will consider the VA-HUD, Agriculture, and Foreign Operations Appropriations bills. Majority Leader Armey stated this week that he expects the House to complete action on all Appropriations measures before the month-long August recess.

Senate

1. **FY98 DoD Authorization Bill**: On Friday, July 11, the Senate passed (94--4) S. 936, the National Defense Authorization Act. Senior advisors recommend a veto because the $268 billion measure reallocates funds from DoE's 1998 defense discretionary budget request to DoD programs and also because the measure imposes severe restrictions on management of DoD's depot contracting process.

a. The Senate approved (66--33) a Sen. Dorgan sponsored second degree amendment which had the effect of wiping out a competing McCain amendment which would have authorized two more rounds of base closings. Sen. Dorgan's amendment instructs the Department of Defense to examine the impact of past base closures before authorizing new ones.

2. **Governmental Affairs Committee**: On Tuesday, July 8, the Senate Governmental Affairs Committee began hearings into alleged irregularities during the 1996 campaign. The Committee heard testimony from Richard Sullivan, former Finance Director of the Democratic National Committee.

3. **CIA Director**: On Thursday, July 10, the Senate confirmed by unanimous consent the nomination of George Tenet to be the Director of the Central Intelligence Agency.

4. **Joel Klein Nomination**: On Friday, July 11, the Senate filed a motion to invoke cloture on the nomination of Joel Klein to be the Assistant Attorney General for the Antitrust Division of the Justice Department. The Senate will vote on the motion to invoke cloture on Monday, July 14.

The Week Ahead

On Monday, July 14, the Senate will turn to consideration of the FY98 DoD Appropriations bill. The measure provides $247 billion in discretionary budget authority, $3.7 billion above the President's request, and about $3.2 billion above FY97. Later in the week, the Senate may turn to consideration of both the Energy and Water and Foreign Operations Appropriations measures. Majority Leader Lott stated that he expects the Senate to complete action on all Appropriations bills before the August recess.

cc: The Vice-President
Erskine Bowles
John Podesta
Sylvia Mathews

THE WHITE HOUSE

WASHINGTON

July 11, 1997

THE PRESIDENT HAS SEEN
7-14-97

Copied Mickey Ibarra COS

MEMORANDUM FOR THE PRESIDENT AND THE VICE PRESIDENT

FROM: Mickey Ibarra MJ

SUBJECT: Office of Intergovernmental Affairs Weekly Report -- July 7 - 11, 1997

I. PRESIDENTIAL PRIORITIES

Balanced Budget/Tax Cut Proposal

- Working closely with the Vice President's office and NEC, Intergovernmental Affairs assisted with a White House event on Monday, July 7, 1997, which included five mayors and one county official who helped highlight the components of your tax cut proposal that benefit cities and counties. The Vice President, Secretary Rubin, Mayor Marc Morial (D-New Orleans), and Supervisor Mary Rose Wilcox of Maricopa County (D-AZ) discussed your Brownfields tax credit, Empowerment Zones/Enterprise Communities and the Community Development Financial Institutions tax credit at a well- attended press briefing.

- On July 15, 1997, Governors Bob Miller (D-NV), Tom Carper (D-DE), and Roy Romer (D-CO), and possibly Lawton Chiles (D-FL) and Howard Dean (D-VT) will be meeting with OMB Director Frank Raines to discuss their concerns regarding Medicaid cuts and children's health provisions in the budget. Along with a number of Republican governors, they will meet earlier in the day with budget conference conferees.

Education

- We have been working with DPC to gain more commitments from governors and mayors to adopt your new education testing program to support the July 25 education event at the White House. We are targeting 17 major cities in this effort.

One America Race Initiative

- We met with the executive directors of the "Big Seven" intergovernmental affairs

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organizations on July 9, 1997. We proposed a meeting between the leadership of the "Big Seven" and Race Advisory Board members Governors William Winter and Tom Kean following the first Board meeting July 14 to discuss the initiative and how the bipartisan intergovernmental affairs organizations can become meaningfully involved in our One America initiative.

- We will complete a mass mailing next week to mayors which will include transcripts of your speech on race reconciliation, your address to the Annual Meeting of the U.S. Conference of Mayors, and a memo that asks mayors to let us know what race initiatives are underway in their communities.

- We will also distribute copies of your UCSD address and talking points on your race initiative to the Annual Conference of the National Association of Counties this week in Baltimore.

II. INTERGOVERNMENTAL CONSTITUENCIES

County Officials

- We have ensured that the Administration's presence at the National Association of Counties Annual Conference (NACo) will be enhanced. Secretaries Cuomo, Slater, Babbitt, and Herman will speak to the Conference, which will be held July 11 - 15, 1997 in Baltimore. We are pleased to report that fifteen departments/agencies have agreed to participate in the Administration "One Stop Shop" Service Center that you encouraged us to organize. On Monday, July 14, these agencies will hold "office hours" on site at the conference in one location and will be available to answer questions and respond to comments from delegates.

Indian Country

- We worked with Legislative Affairs to support a meeting in the Capitol with COS Bowles, Senators Daniel Inouye (D-HI), Tim Johnson (D-SD), and Congressmen Dale Kildee (D-MI), Patrick Kennedy (D-RI), and George Miller (D-CA). These Members, all active in the Indian Caucus, raised issues including personnel, legislation, and race reconciliation.

- Efforts are still underway to resolve the constitutional crisis on the Cherokee Nation reservation. Press interest in the situation has heightened. The Office of Tribal Justice at DOJ is addressing the issue and is working closely with the Interior Department.

- The Indian Health Service leadership team met with us to determine how we can work together to address some of the serious health issues both on reservations and among

urban Indians.

III. OTHER ISSUES

Electronic Commerce

- At the July 9, 1997 meeting of the executive directors of the "Big Seven," concerns about our electronic commerce policy and the Internet Tax Freedom Act (S. 442/"Cox-Wyden Bill") were identified as their number one priority. They fear the Federal government may erode their existing tax revenue from the Internet and future tax authority.

  We have been able to reduce the intensity of the concerns of the "Big Seven" somewhat as a result of convening two meetings and a conference call with DPC, the Treasury Department, the Office of the Vice President, and IGA staff since June 6, 1997. We also coordinated with Legislative Affairs to help delay the mark-up of S. 442. It is a complicated matter, but by keeping our local and state officials engaged in dialogue, we believe we have a reasonable chance of gaining their support or at the very least, softening their opposition. DCOS Podesta has agreed to coordinate a strategy meeting to discuss these issues soon.

Oklahoma City

- The scheduling request for a White House ceremony with the co-directors of the Oklahoma City Memorial Foundation and the memorial design winners announced July 1, 1997 has been accepted and will be scheduled to be held at the White House in August.

Disaster Relief

- Governor John Engler (R-MI) and Mayor Dennis Archer (D-Detroit, MI) asked that we convey our appreciation for the Administration's rapid response and effective work in Michigan regarding their request for disaster relief due to damage resulting from severe storms, tornadoes, and flooding on July 2, 1997.

- We met with ten mayors of small communities recently ravaged by the most recent flooding of the Red River. While most of the attention was focused in North and South Dakota, communities on the other side of the river in Minnesota also suffered terrible damage. Representatives of Governor Arne Carlson (R-MN) and the state Economic Development Agency were in attendance, as well as Congressman Colin Peterson (D-MN). The state is working to find ways to rebuild, and will seek special legislation. We will coordinate with Cabinet Affairs and FEMA to continue to monitor the situation.

- Mayor John Norquist (D) of Milwaukee, City Councilman Marvin Pratt (D) and Congressman Tom Barrett (D-WI), met with us the day after you approved the state of Wisconsin for disaster relief. These officials were extremely grateful for the quick and effective results of the decision, and held a press conference on the North Lawn to praise you and the Administration. The Mayor also met with Gene Sperling and Craig Smith while he was in Washington.

Insular Affairs

- Puerto Rico Status Bill: We helped negotiate an agreement between House Resources Committee Ranking Democrat George Miller (D-PR) and Resident Commissioner Carlos Romero-Barcelo (D/NP) on a compromise substitute for the 'Commonwealth' option in the Committee's bill. It now includes language by Chairman Don Young (R-AK) that statehooder Romero likes but Commonwealthers view as an unfair response to their proposal. Governor Pedro Rossello (NP), also a statehooder, appears to be willing to accept the compromise as well.

  Meanwhile, the House Rules Committee was expected to clear the bill and Chairman Gerald Solomon (R-NY) indicated that he will continue to try to have it require that Puerto Rico use English in schools under statehood. A similar Senate bill received more bipartisan support.

- Guam Phone Service: In response to a request from Governor Carl Gutierrez (D), we prepared a congratulatory letter for you marking the island's shift from international to domestic telephone rates.

- Northern Marianas Labor Problems Report: We are helping finalize the interagency report that will substantiate the need for Federal immigration and minimum wage laws in the islands. It will also propose a U.S. or U.S.-associated island citizen labor requirement for the free entry of island-made garments into the U.S. market.

Millennium

- We met with staff of the Office of the First Lady regarding the White House millennium project. We have asked the U.S. Conference of Mayors and the National Governors' Association to survey their members to identify efforts that states and local communities have begun to make to organize around the millennium.

U.S.- Russian Commission

- We were asked by Leon Fuerth to explore ways in which local and state governments nationwide can offer technical assistance to emerging democracies in the former Soviet

Union. The U.S. Conference of Mayors has an international department that offers technical assistance in a wide variety of subjects, and has worked for years in Eastern Europe. The National Governors' Association has agreed to assist as well. We will meet with the Russian advance team upon their arrival next week.

IV. PRESIDENTIAL REQUESTS

- A conference call involving IGA, HUD, and the Interior Department was conducted to determine how best to address the Presidio housing issue which San Francisco Mayor Willie Brown discussed with you during the U.S. CONFERENCE of Mayors Annual Meeting. Mayor Brown has recently met with the Presidio Trustees and a dialogue to address his housing concerns is underway. A response letter for your signature will be requested soon.

  We will coordinate with HUD to consider the possibility of directing Community Development Block Grant funds to aid in the completion of the restoration of damage to San Francisco City Hall due to the 1989 Loma Prieta Earthquake.

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

July 10, 1997

THE PRESIDENT HAS SEEN
7-14-97

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MEMORANDUM FOR THE PRESIDENT

FROM: JOHN H. GIBBONS

CC: ERSKINE BOWLES

SUBJECT: OSTP WEEKLY REPORT

ENERGY USE AND CLIMATE DISRUPTION

This week I chaired the technology session of the Aspen Institute meeting on Energy in the Next Quarter Century, which convened international leaders from industry, government, and NGOs. Participants spanned a broad political spectrum, but the group reached (near) consensus on a number of issues:

- Global climate change is a scientific reality, and over the next 50 years or so we must make the transition away from carbon-based fuels. Action on climate is complicated by other stresses that must be attended, including loss of biodiversity and deforestation, thus we should develop broad response strategies.

- Technology can greatly decrease the economic costs of the transition. A theme of "technology first; then taxes" (taxes being shorthand for various policies, including incentives, regulations, surcharges, caps, and trading provisions) prevailed throughout the meeting. Your PNGV partnership program received strong kudos.

How much of Vehicle problem is in oil use? Any to justify investment to help new fuel efforts over?

Technology has short-term and long-term potential. Pacing of the transition is critical to enable technologies to evolve and capital stock to turn over. But much can be done to influence consumers to select existing products, e.g., cars, appliances, housing, now that can significantly reduce energy use at no loss of amenity.

Industry is now giving emphasis to natural gas compared to coal or petroleum, which will help cut CO_2 emissions. Expansion of nuclear power is not a viable option for the United States at this time, though efforts to resolve remaining technological and environmental issues should continue. It is an option that needs to be maintained, and this will not happen without federal participation. Your PCAST study on energy strategies is covering this issue.

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- Your direct engagement is critical to raising public awareness and inducing action. Your recent announcements on climate change were well received.

On many of these points, the Aspen group closely parallels the view expressed by Paul Nitze in his July 2 Post op-ed (which you cited in your annotations on my last weekly report). As Nitze stated, "Over the long run, the innovative, technology-rich U.S. economy could benefit with U.S. industry competing on an equal footing to offer pollution controls in world markets."

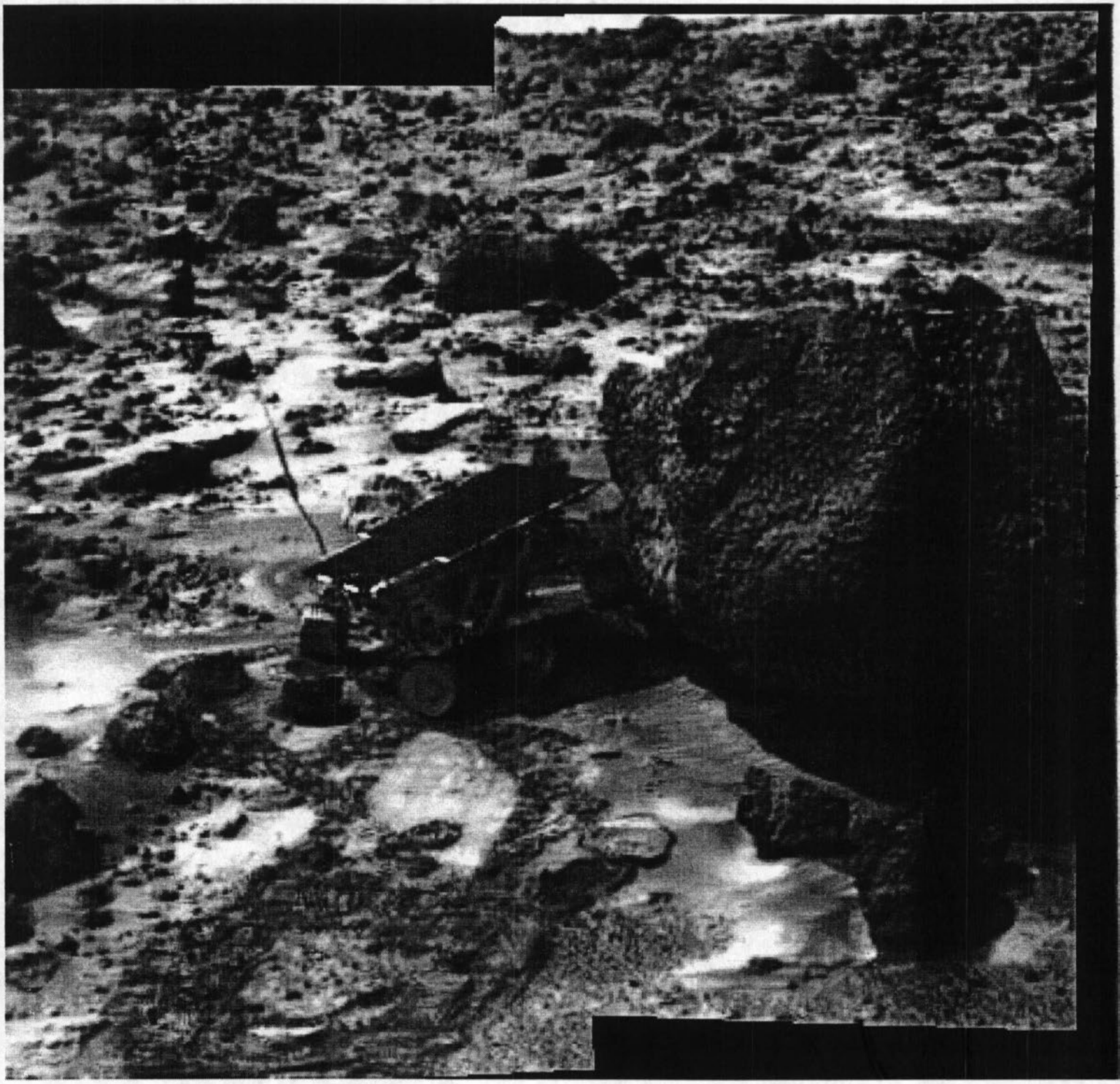
MILITARY SPACE CONFERENCE

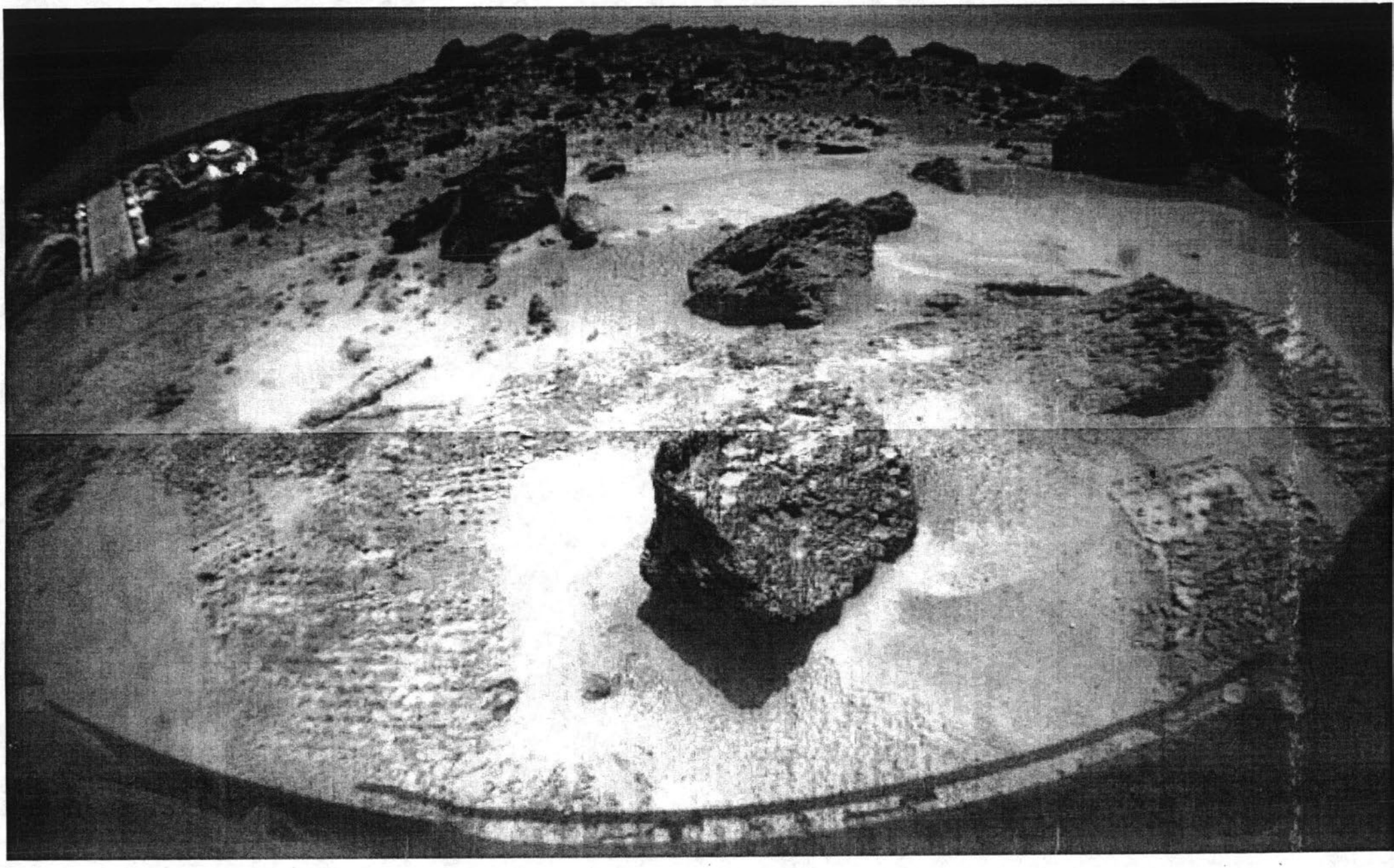
While in Colorado I delivered a speech to the Air Force Conference on the Law and Policy Relating to National Security Activities in Outer Space. I presented your Administration's policies on civilian and military uses of outer space, stressing that technology is a good servant but a poor master, and we must choose wisely among the many possible uses. I specifically referenced the issues of space-based weapons and national missile defense.

SPACE SCIENCE

The Mars Pathfinder continues to produce exciting and unexpected scientific results. Copies of today's newest images are attached: the first picture presents a wide angle view of the Martian soil, some rocks, and the Carl Sagan Station from the perspective of the Sojourner rover. The rocks in the foreground look like large boulders, but they are actually small stones, as the second picture shows. The second picture shows the Sojourner in the process of taking the first picture while standing next to the rock known as Yogi. It appears from analysis of the rocks that Mars, geologically speaking, is much more kin to Earth than we previously thought.

Dan Goldin is keeping me fully apprised of Mir developments and is consulting with me during the review of whether to send another U.S. astronaut (scheduled to be the last of the series) to the station. I will make sure you are fully briefed on all issues as they arise.





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July 11, 1997

MEMORANDUM FOR THE PRESIDENT AND THE VICE PRESIDENT

FROM: Craig Smith

SUBJECT: Weekly Political Update

THE PRESIDENT HAS SEEN
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ALABAMA

George Wallace Jr. stated that he is considering running for the Public Service Commission in 1998 as a Republican. Wallace said that many voters who have traditionally supported his family as Democrats now consider themselves to be Republicans. He will meet with lobbyists and business leaders on July 17 to discuss his possible bid.

ARIZONA

Former Valley National Bank Vice President Jane Proctor testified this week that Governor Fife Symington (R) told her he had guaranteed no long-term loans, when he had already guaranteed more than $11 million in such loans to his development partnerships. Proctor took the stand to discuss details of three separate Symington loans and lines of credit from Valley National.

Representative J.D. Hayworth (R) apparently wants quick Hill hearings on the proposed tobacco settlement, but he's still concerned about the fees being paid to lawyers who engineered the settlement. Attorney General Grant Woods (R) spoke with Hayworth about the deal, a meeting that has been said to be an initial step in what is expected to be a lobbying assault by the states on Congress. '96 nominee Steve Owens (D), who intends to oppose Hayworth in '98, used the meeting to call on Hayworth to return campaign contributions totaling $19,000 from the tobacco industry.

Mark Ranger (D), 35, an environmental lawyer from Tucson, is expected to announce his campaign to challenge U.S. Senator John McCain (R), in '98. Ranger has been canvassing the state and meeting with Democratic party leaders.

CALIFORNIA

The *Chicago Sun-Times* columnist Robert Novak said "well-placed Democratic sources are willing to bet anything that Senator Dianne Feinstein (D) will not run for governor of California in 1998, upgrading Republican chances." Although she would be a "cinch for the Democratic nomination if she ran--"and would be favored against the prospective Republican nominee, Attorney General Dan Lungren (R), Feinstein has run three statewide elections in six years and, at age 64, is described by sources as reluctant to make it four. In her absence, the leading Democratic contenders will be State Controller Gray Davis and former Northwest

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Airlines Co-Chairman Al Checchi.

State Treasurer Matt Fong's campaign committee announced Tuesday that the next Federal Election Commission report will show Fong "hit his summer goal -- raising $940,000 in the last six months." Representative Tom Campbell (R) might consider a run for State Treasurer.

The Democratic Congressional Campaign Committee issued a press release this week stating that Representative Frank Riggs's Congressional District "holds far more registered" Democrats than Republicans. It is worth pointing out that since 1990, Riggs has defeated all three of his Democratic opponents including Michaela Alioto in 1996.

High-tech leaders in Silicon Valley announced Monday the formation of the industry's first broad-based political action committee. The new bipartisan PAC, called the Technology Network, or TechNet, will spend money in both state and national campaigns and serve as a foundation for a new level of political involvement by industry executives. Gary Fazzino, the group's interim president, said he expects as many as 50 or 60 industry executives to join TechNet immediately.

COLORADO

Dottie Lamm, wife of former Colorado Governor Dick Lamm, confirmed Wednesday that she is considering running for the U.S. Senate in 1998. Her opponent in the contest for Democratic State nomination would most likely be Representative David Skaggs of Boulder. Skaggs has a head start in organization and fund-raising, but Lamm said polling done for her in late May and early June showed "stronger statewide support with the general public." The Senate race opened after Governor Roy Romer announced on June 25 that he wouldn't run. He had been considered the Democrats' best hope of unseating Campbell.

Boulder City Council member Homer Page returned to Boulder from Denver to re-register as a Democrat in order to run for the seat being vacated by Representative David Skaggs (D) who is running for Senate. Page expects to make a formal announcement to enter the already crowded race. Potential Democrats include University of Colorado Law School Dean Gene Nichol, Jefferson County District Attorney Dave Thomas, State Representative Mark Udall, former Senator Paul Weissmann, and State House Minority Leader Carol Snyder. Although Republicans appear to have fewer candidates lined up, Boulder city council member Bob Greenlee (R) is being mentioned. Other potential Democrats include state Representatives Ron Tupa and former Senate candidate Josie Heath. Other potential Republicans are Adams County Commission Marty Flaum, State Representative Mark Paschall, former Solicitor General Tim Tymkovich, Shannon Robinson Esq. and Dr. Ted Engel.

All five of the major candidates to replace term-limited Governor Roy Romer (D) "have agreed to spend no more "than $2 million each on their '98 campaigns. Numerous candidates have signed up to accept voluntary spending limits aimed at reducing the cost of campaigns and leveling the playing field. Former Colorado Common Cause executive director Rick Bainter,

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who wrote Amendment 15, the new campaign-finance law that Colorado voters approved last November stated: "To put a reasonable limit on the overall campaign spending was a major goal of Amendment 15, and it seems to be accomplishing that." Many candidates "say they really had no choice but to accept the spending limits, particularly after Amendment 15 passed" with 66% of the vote.

CONNECTICUT

Polls are beginning to indicate Gov. John Rowland (R) might be vulnerable if he runs for re-election next year, although Gov. Rowland has raised over one million dollars for his re-election. Barbara Kennelly (D-01) has hinted that she will make her decision on entering the race in September.

Six months after revelations about Sen. Dodd's cursory contact with some of the key figures in the DNC fundraising controversy, Dodd appears to be on safer ground. Connecticut College's Wayne Swanson states, "The public is just not interested." Former Congressman Gary Franks (R) has declared his intention to challenge Sen. Chris Dodd (D).

FLORIDA

The wife of Rev. Henry J. Lyons--president of National Baptist Convention USA, the nation's largest African American church group--was arrested last weekend and charged with arson. Deborah Lyons told investigators on Sunday, July 7th, that she found a deed showing that her husband had bought a house with another woman in the exclusive Tierra Verde neighborhood of St. Petersburg. Mrs. Lyons allegedly drove to the home, while her husband was in Africa, where she found several of her husbands possessions. The enraged Mrs. Lyons supposedly began destroying the home, by breaking lamps and tearing up pillows. Mrs. Lyons set a match to the upholstery which started a fire throughout the house. Mrs. Lyons was taken to the Pinellas County Jail where she was released after posting $10,000 bail.

GEORGIA

Billing herself as an alternative to the "polyester morality" that she says is destroying Georgia, conservative activist Nancy Schaefer (R) entered the governor's race June 3rd. Schaefer was the Republican nominee for lieutenant governor in 1994 and an Atlanta mayoral candidate in 1993. Although many agree she will invariably impact the race, political analysts doubt Schaefer's ability to actually win the nomination. Representative Saxby Chambliss (R-08), who has been encouraged to make a gubernatorial bid by Republicans scrambling to replace the wounded former Attorney General Mike Bowers (R), restated his intention to seek a third term to the House.

1994 gubernatorial candidate and 1996 senate nominee Guy Millner (R) has been trying to attract party support for a 1998 gubernatorial bid by widely circulating a poll which demonstrates the strength of his candidacy. In his poll, Millner apparently leads Mike Bowers by 18-points and has a nine-point advantage over Lt. Governor Pierre Howard (D). The poll, which allegedly convinced Millner to enter the contest, was taken two weeks after Bowers admitted to having an

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affair with an ex-employee. Pollsters and state GOP leaders are conceding that Millner is in a good position at this point to capture the nomination. However, a spokesman for Bowers said, "Ten million dollars buys a lot of name ID. The question is whether he can translate it into ballots. He hasn't previously." Bowers' camp further responded to Millner's numbers by releasing a survey that indicated GOP leaders across the state resoundingly support Bowers. The survey shows that 46% of the 183 leaders tested feel that Bowers would have the best chance of winning in the general and only 25% said Millner would have the "best shot" in the general.

Secretary of State Lewis Massey (D) has decided against challenging Senator Paul Coverdell (R) in 1998. He cited concerns for his family's welfare and desire to concentrate on his current job as reasons for foregoing the contest. Former Representative Buddy Darden (D) and former DeKalb County District Attorney Bob Wilson (D) both said they would consider the race now that Massey has bowed out. Another name mentioned as a possible contender is Rep. John Lewis (D-5). *The Atlanta Constitution* reported that Lewis "said he would make a decision by the end of the month." Lewis currently has $600,000 on hand and will likely need to raise close to $4 million to wage a credible campaign. Other than a judicial race, an African American has never won a statewide race in Georgia.

Governor Zell Miller (D) joined several of Georgia's most prominent political and business leaders as well as Georgia's overwhelmingly Republican congressional delegation, in an effort to attract the GOP National Convention to Atlanta in 2000. Atlanta is being billed as an attractive option because of its infrastructure and renowned reputation as a convention city. Atlanta is also being touted as an attractive site because its is the home of CNN, which offers gavel to gavel coverage of the convention. Miller said that he is looking into whether Atlanta would be able to invite the Democrats in 2000 as well. Atlanta is joining Chicago, Houston, New Orleans, Philadelphia, San Antonio, and St. Louis in courting the major party conventions.

In the Atlanta mayoral contest, ex-Traffic Court solicitor Louise Hornsby, one of Mayor Bill Campell's (D) "archrivals," has announced her intention to challenge him in the fall elections. Hornsby resigned from her traffic court post last year "largely because of Campell." Also running is City Council President Marvin Arrington.

HAWAII

Governor Ben Cayetano (D), on 7/7, signed a bill into law making candidates for state and congressional races unable to boost their campaigns by disguising their donations as private loans that never have to be paid back. Candidates were using the loophole to exceed the campaign contribution limits.

IDAHO

Businessman Tony Paquin (R) announced on 7/7 that he will challenge Representative Helen Chenoweth (R) in the GOP primary. He has appointed Donna Weaver, "term limits crusader" his campaign chair. Paquin said he would run a conservative campaign focusing on job creation, reducing the size of the Federal Government and dramatic tax reform. While he and

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his brother contributed $1000 to Chenoweth's '94 campaign, Paquin now says that Chenoweth has advanced an "extreme right wing" agenda which does not represent the majority of voters in the district. Moscow Mayor Paul Agidius (R) is also giving careful consideration to entering the race, but declined to set a deadline for the decision. Democrat Dan Williams, the '96 nominee, has also been noted as a potential Democratic candidate.

ILLINOIS

Governor Jim Edgar is being seriously courted by national Republicans to challenge Senator Carol Moseley-Braun next year. His meeting last month with Senate Republican Leader Trent Lott, in which Lott "tried to sell him on the idea," fueled a great deal of speculation. Edgar also recently met with National Republican Senatorial Committee Chairman Mitch McConnell.

Roland Burris ended months of speculation Thursday and said he will run for governor in 1998, pledging to reclaim an office Republicans have controlled for more than two decades. Burris lost his bid for the nomination four years ago and then waged a failed independent run for Mayor of Chicago in 1995. If elected, Burris would become the state's first black governor.

Attorney General Jim Ryan (R) began a three-week stay at Northwestern Memorial Hospital in Chicago for the last phase of his second round of cancer treatments. Ryan will undergo intensive doses of chemotherapy and radiation to eradicate any remaining traces of the non-Hodgkins lymphoma first diagnosed in his mid-section in August 1996. Ryan's office said that "doctors are optimistic that the treatment will lead to a complete recovery."

Former Chicago Alderman Lawrence Bloom, was accused by a Federal grand jury Tuesday of taking $16,000 in payoffs from an FBI informant and an undercover agent. Lawrence was accused of extorting $6,000 in bribes in return for finding a rock-crushing site in his South Side ward, and was charged with taking a $10,000 payoff disguised as a campaign contribution and reporting it under phony names. Bloom denied the charges.

IOWA

The Vice-President continues to get good reviews from Iowa reporters about his trip to the state on June 28.

KANSAS

In a meeting with 200 state agency administrators, Governor Bill Graves (R), who has been at odds with GOP legislative members, said he would propose more tax cuts in January, but to make those cuts possible, he said agencies will have to absorb as much as 2 percent in budget reductions during the fiscal year beginning July 1, 1998.

LOUISIANA

Senate Majority Leader Trent Lott (R) has asked Attorney General Janet Reno to explain the Justice Department's withdrawal of FBI agents from the Louisiana election probe after weeks of delay in appointing them. Lott told Reno that just because the Democrats on the Senate Rules

THE PRESIDENT HAS SEEN
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committee are pulling out of the investigation doesn't mean the FBI agents should be withdrawn. US Senate Republicans are contemplating a strategy of letting the US Department of Justice and the district attorney in Baton Rouge look into allegations of election fraud and witness tampering with the Senate halting its own probe of the 1996 Senate race in Louisiana. A decision could come July 16 when Chair John Warner (R-VA), facing a wholesale walkout by his committee's seven Democrats, said the committee will hold a roll call vote on several proposals, although he declined to say which ones. Sen. Warner has confirmed that the GAO has been unable to substantiate all but a few of Jenkins' claims. Republicans have also joined Democrats to investigate claims of witness tampering and intimidation during the Senate probe.

Sen. Landrieu (D) and her husband, Frank Snellings, adopted a one week-old baby girl named Mary Shannon Snellings. The adoption was handled through a private lawyer in New Orleans. Sen. Landrieu's son, Connor, also is adopted.

MASSACHUSETTS

Mayor Thomas Menino (D) plans to launch a new 30-second television advertisement over the next couple of weeks. With a July 29th filing deadline, the unusual summer buy seems timed to give pause to anyone even contemplating a serious run at the Mayor. Menino has close to $1 million on hand.

Citing a lack of cooperation from the "victim," Norfolk District Attorney Jeffery Locke (R) announced on July 8th that he is ending his investigation of Michael Kennedy. However, *The Boston Globe* reported that Locke was careful to say that he was "suspending" the investigation and not "concluding" it. In a statement, Michael Kennedy apologized for the incident and said he would do all he could to "make up for the serious mistakes I have made." Kennedy further claimed that he would continue to "obtain the help I need." When questioned about Locke's decision, Rep. Joe Kennedy said "I hope there can be healing in Michael's family. There is only a sense of pain that has come out of all these circumstances." Kennedy also said that "he did not view the decision by Locke, a Republican, as a reflection of his family's influence." During the interview Kennedy reaffirmed his desire to run for governor.

Although it appears that Michael Kennedy will not be prosecuted, the episode continues to hurt Rep. Joe Kennedy (D) politically. A *Boston Globe*/WBZ poll, of 400 registered voters conducted July 8-9, shows that the incident has hurt Rep. Kennedy's standing.

Democratic Primary Matchups

	Boston Globe/WBZ July 8-9		Umass poll June 13-17
	2-Way	3-Way	2-Way
Harshbarger	44%	38%	36.6
Kennedy	42	42	37.4
Flynn	--	4	---

General Election Matchups

	Boston Globe/WBZ July 8-9	Umass poll June 13-17
Cellucci	49%	40%
Kennedy	35	37
Malone	48%	41%
Kennedy	37	38
Harshbarger	39%	42%
Cellucci	38	32
Harshbarger	43%	41%
Malone	32	30

Fav/Unfav

Weld	72%/14%
Cellucci	42/22
Malone	41/19
Kennedy	34/45

Effect of Annulment and Michael Kennedy controversies on Joe Kennedy Vote:

Less Likely	34%
No Impact	62

View of the Kennedy Family Now:

Think Less	44%
No Impact	53

MICHIGAN

In an unusual move, Governor John Engler (R) praised Representative John Dingell (D) this week for coming out against the Administration's new air quality rules. Gov. Engler and Rep. Dingell have been long-time enemies, but their current alliance underscores how environmental politics have created strange bedfellows. In a news release, Engler praised Dingell for his leadership "in fighting these job-killing rules."

Former Governor Jim Blanchard (D) is writing a book tentatively titled "Invisible World Next Door: Canada, Clinton, and Quebec."

MISSOURI

Gov. Mel Carnahan (D) vetoed a bill to ban partial-birth abortions and set up a September showdown with lawmakers who approved the bill by wide margins in the Democrat-controlled House and Senate. Gov. Carnahan stated that the bill failed to allow exceptions if a woman's health was jeopardized, even though a 1992 Supreme Court ruling reiterated that state abortion laws must do just that. Carnahan said that the lack of such safeguards makes it bad public health policy and unconstitutional. The sponsor of the legislation immediately promised an attempt to override Carnahan's veto. The veto puts Carnahan, who is pro-choice, at odds with the Legislature's anti-abortion majority, which approved the ban by margins adequate to override

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Carnahan's veto.

Several African-American political officials and activists say they have such strong philosophical differences with Attorney General Jay Nixon (D) that they can't back him in his effort next year to unseat Sen. Christopher Bond (R). St. Louis NAACP official James DeClue stated he wouldn't be surprised to see "a large segment of the black community form a 'Democrats for Bond' Committee." Their main concern seems to be Nixon's push to end state involvement in the St. Louis and Kansas City school desegregation programs. African Americans make up about 20-22% of Missouri Democratic voters. In response to reports that some Democrats might support Sen. Bond over Nixon, the St. Louis Labor Council, which represents 90 different unions, issued a warning to all St. Louis area Democrats: if you support Bond, you will get "no money from organized labor."

MONTANA

Secretary of State Mike Cooney has privately expressed his interest in running for governor in 2000. State party leaders have been trying to persuade him to run instead against U.S. Representative Rick Hill (R), Other potential candidates for the congressional seat include Janet Stevens (D), a Missoula County Commissioner, and Gary Buchanan (D), a Billings stock broker.

NEBRASKA

Lincoln businessman Alan Jacobsen, a 1994 GOP gubernatorial candidate and former chairman of the Nebraska Christian Coalition, changed political party registration from Republican to Democrat on July 9, 1997. Jacobsen cited the GOP endorsed smear campaign against current Democratic Lt. Governor Kim Robak and her family as one of the primary reasons why he changed parties. Jacobsen also said that he was upset with the strong role the Christian Coalition was playing within the Nebraska Republican Party. In addition, Jacobsen was also very unhappy with Omaha Mayor Hal Daub's (R) race in which he used the race card to win a narrow victory over Brenda Council, an African American. Shortly after the announcement speculation began that Jacobsen might seek the Democratic nomination for the open seat of Gov. Ben Nelson, who is term limited out of office in 1998. Jacobsen said he is not seeking the nomination at this time, but would consider the idea if the Nebraska Democratic Party "found him worthy."

NEW YORK

On July 9th, 1984 Democratic Vice President nominee and 1992 Senate candidate, Geraldine Ferraro (D) strongly suggested that she would enter the race against Senator Alfonse D'Amato (R) next year. Ferraro said of her plans in the Senate race: "Well, I'll make a decision in December. But if I were not inclined to do it, I certainly wouldn't be, you know, entertaining all these questions about whether or not I'm going to be doing it. I would put to rest any further discussion as I have when people have talked about the governor's spot." Emily's List has publicly said they would provide strong financial backing for Ferraro if she were to enter the race. The announced Democratic candidates at this point are Rep. Charles Schumer (D-9) and

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New York City Public Advocate Mark Green.

Today's *New York Post* published an editorial urging Ferraro to formally announce her candidacy: "While Ferraro's political associates reportedly assert with confidence that her plans to enter the Senate race next year are definite, she is saying that she won't decide officially until December. Why the delay? Ferraro has a politically helpful job as a panelist on CNN's 'Crossfire.' Were she to announce her candidacy, she'd have to resign, and thus no longer be in a position to provide [TV] commentary favorable to her own cause. It seems to us that Ferraro could strike a blow in her favor by dropping the charade right away."

On July 8th, Assembly member Robert Straniere (R) announced he would not run as a third-party candidate in the election for Rep. Susan Molinari's (R) old seat. State Republicans feared that an independent candidacy by Straniere would hurt the Republican nominee Vito Fossella, a New York City Council member, in the race against Assembly member Eric Vitaliano (D). In an interview with the *Staton Island Advance* Straniere "would not utter" Fossella's name. When asked a second time if he would support Fossella for Congress, Straniere curtly responded "Yes, I will." Straniere further added that he would continue to "support the Republican ticket from Rudy Giuliani on down."

NEVADA

Governor Bob Miller (D) was able to reach compromises on many issues with Senate GOP Leader Bill Taggio (R), making this legislative session the most productive of his tenure. The Las Vegas Review-Journal reported on 7/6, that "many give governor high marks as tenure comes to a close," that Miller "was not treated like a lame duck by legislators, even though this is the last time he will deal with the full Legislature."

NEW MEXICO

Two Democrats are lining up to challenge five-term Representative Steve Schiff (R), who has missed much of the 105th Congress while recovering from skin cancer. Former state Rep. Richard Ray Sanchez (D) has already announced his campaign, and State Sen. Phillip Maloof (D) is expected to launch a well funded race . Democratic Party critics have charged that Maloof's business and gambling connections make him questionable as a candidate for "true Democrats."

NORTH CAROLINA

Republicans have been courting Representative Mike McIntyre (D), the Conservative Democratic congressman from Lumberton, trying to get him to switch parties. However, McIntyre said he is staying with the Democrats and has no interest in joining the other side.

Charlotte Mayor Pat McCrory (R) filed to run for a second term, "saying he needs at least two more years to tackle thorny issues such as transportation, public safety, and helping youth." In his announcement, McCrory also asked the group of 30 or more supporters to work hard to help reelect the current council Republicans.

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NORTH CAROLINA/VIRGINIA-TOBACCO

On July 3rd, Freshman Representative Virgil Goode (D), of Virginia--flanked by farmers complaining that they had no say in the proposed tobacco agreement--promised to represent their interests during congressional deliberations. In North Carolina, Freshman Representative Bob Etheridge (D) announced that his office has set up a statewide toll-free telephone number for tobacco growers, to call and ask questions about the tobacco settlement. The hotline would also allow farmers to offer suggestions on how to protect North Carolina's $1 billion tobacco growing business.

OHIO

Former Rep. Frank Cremeans (R) will challenge Lt. Gov. Nancy Hollister (R) for the Republican nomination in the sixth congressional district. Cremeans, who defeated Rep. Ted Strickland (D) in 1994 but lost in 1996, called himself a political outsider who can best represent people in the sprawling district. Cremeans said Hollister is a political moderate and a carbon copy of Rep. Strickland (D) on many issues, and that the conservatives would not have had someone in the race had he not gotten in it. Hollister could have trouble beating Cremeans in a one-on-one GOP primary battle.

State Treasurer Kenneth Blackwell (R) "threw a wrench" into Gov. George Voinovich's (R) plan to fix school funding, saying tax increases weren't needed, and he would fight them. Voinovich has asked lawmakers to pass his plan to raise $1.2 billion a year for more school funding, because the Ohio Supreme Court overturned the states school funding systems. Blackwell plans to challenge Secretary of State Bob Taft (R), who is supported by Voinovich, for the GOP gubernatorial nomination.

Gov. Voinovich (R) raised $1.3 million in the last six months and has more than $2.2 million on hand for his Senate campaign. The total is more than three times the $357,000 that Democrat challenger, former County Commissioner Mary Boyle (D), has raised so far.

OKLAHOMA

The State Ethics Commission asked an Oklahoma County District Court to toss out a suit filed against it by Governor Frank Keating (R). In a brief, the commission said the two provisions of Oklahoma state law under which Keating has sued the commission do not apply to the matter under consideration. Keating has asked the court to decide whether state law requiring the state to supply him with transportation, security and communications prevailed over an Ethics Commission rule banning the use of state funds for political purposes. Oklahoma Democratic Party Chair Robert S. Kerr said of Keating, "Now that his own ox is being gored to the tune of 32 alleged ethics violations and a potential $620,000 in fines, the governor is calling the Ethics Commission 'vindictive,' 'irresponsible,' 'partisan,' and 'nuts, double nuts, triple nuts, quadruple nuts.'"

State Representative Laura Boyd (D) confirmed on 7/9 that she's "taken the first official step to run" against Governor Frank Keating (R) and plans to make a decision by the end of the year.

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State Representative James Hagar (D) said that he's also exploring the idea of running. Jack Mildren (D), a '94 nominee, said he intends to make a decision "certainly before Labor Day," and denied reports that he had a millon dollars of his own to spend on a campaign.

Rep. J.C. Watts (R) made $13,500 n 1996 for 21 "appearances at churches" around the country, according to *Tusla World.* Watts also "accepted travel provided by other groups" in VA, IN, IA, KS, and MN. His spokesperson Pam Pryor said that while House rules restrict fees for speeches they don't "cover his ministerial services." Watts has reported assets "of at least $1M." Steve Largent (R) is the wealthiest member of the Oklahoma delegation, with assets of at least $2.5M.

SOUTH CAROLINA

Attorney General Charlie Condon (R) made it official that he would not run for the GOP nod to face Senator Fritz Hollings (D) by announcing plans to seek reelection. There also had been speculation that he would challenge Governor David Beasley (R).

TENNESSEE

State Representative Randy Stamps (R) is considering a race against Representative Bart Gordon (D). Stamps is known for pushing Governor Don Sundquist's (R) agenda in the legislature. The Republican Party thinks it has a decent chance to unseat Gordon but they also had the same thought in '96, '94 and '92, to no avail.

VIRGINIA

On July 8th, Lt. Governor Don Beyer (D) unveiled a proposal for $262.4 million in new college scholarships. Beyer claims that his plan would make higher education more affordable for more than 100,000 Virginia students. While his opponent Attorney General James Gilmore (R) advocates using scholarships to reward academic performance, Beyer supports financial assistance based upon need.

WASHINGTON

Divorce papers were filed 7/3 for U.S. Representative Rick White (R) and his wife, Vicki, four months after their separation. Sources close to the couple site the pressures of a cross-country marriage and the time demands places on a House member as reasons for their separation. White still plans to run again.

Republicans finally found a candidate willing to run against King County Executive Ron Sims when State Representative Suzette Cooke (R) announced she would run.

Olympia GOP lobbyist Tom McCabe is considering a challenge to Brian Baird for Congress. McCabe is executive vice president of the Building Industry Association of Washington, one of the largest GOP money machines around. He and United for Washington set up an elaborate labyrinth of 28 independent campaign committees from August 27 to October 15 last year to run independent campaigns. McCabe has spent most of his career as a lobbyist in Olympia and before that as a lobbyist in Washington, DC for the Washington Association of Realtors.

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WISCONSIN

1986 and 1988 Senate candidate Ed Garvey (D) has started a grassroots campaign against three-term Governor Tommy Thompson (R). Democratic Party leaders say their first choice for governor, however, remains Sen. Herb Kohl (D), who has said he will not decide whether to run for several months. Garvey said he would accept no gifts of more than $100.

It was reported this week that the federal government spent less per capita in Wisconsin last year than in any other state in the nation. Wisconsin received only 77% of the national per capita federal spending level in fiscal 1996.

In last week's report I mentioned that the *Wall Street Journal* had strongly criticized Rep. Mark Neumann's (R) national debt retirement proposal. His plan would use two-thirds of budget surpluses to pay down the debt by 2026. The remaining one-third going to tax relief, would maintain higher tax rates that would, according the *WSJ*, reduce the economy's growth potential.

Wisconsin Gov. Tommy Thompson (R), who flirted with running for the 1996 presidential nomination, has scheduled a trip to Iowa on September 18. Thompson will headline a fundraising event for Republican legislative campaign efforts. A top Iowa Republican stated that he thinks Thompson definitely wants to be considered and mentioned among the group of people running for president.

WHITE HOUSE 2000

Ross Perot is quietly shopping around for a half hour of television time on one of the three networks in order to promote his campaign finance reform plan and to protest the lack of progress on the issue. Perot estimates that the air time he is searching for could cost up to $1 million, but so far none of the networks has been willing to sell Perot air time. Perot's likely alternative is to purchase time in individual markets. Perot's plan would bar candidates from raising money until the start of an election year and require TV stations to offer more free air time.

A gathering of Republican activists in Indianapolis to be held August 22-24 is becoming a cattle call for potential Republican presidential candidates. At least four possible candidates are scheduled to address the 1997 Midwest Republican Leadership Conference, and several more have been invited. The confirmed speakers include former Tennessee Gov. Lamar Alexander, 1996 vice presidential nominee Jack Kemp, former Vice President Dan Quayle and Sen. Fred Thompson. Texas Gov. George W. Bush is likely to attend as well. Steve Forbes and Rep. John Kasich have been invited. Also expected to address the group are RGA Chairman Terry Branstad, Sen. Dan Coats, House Speaker Newt Gingrich, RNC Chairman Jim Nicholson, and Rep. J.C. Watts. The organizers would like a woman to participate. They pursued Gov. Christine Todd Whitman and Elizabeth Dole, but neither could attend. They are now trying Kay Bailey Hutchison (R-TX). Indiana GOP Chairman Michael McDaniel said the event will begin a dialogue to refocus Republican agenda on an American renewal that will help elect more local

officials, win control of more State Houses, increase their majorities in the US House and Senate and win back the White House in 2000.

Sources close to the Rev. Jesse Jackson (D) said that he will establish a political action committee called "Keep Hope Alive" early next month. Jackson advisers said it would be the first step toward a possible White House run in 2000, and he is said to be seriously considering setting up a presidential exploratory committee this fall.

ENVIRONMENTAL POLITICS

The Sierra Club is currently running radio ads in Iowa and New Hampshire thanking the President and the Vice President for increased clean air standards. The text of the ad is attached.

cc: The First Lady
Mrs. Gore
Erskine Bowles
Sylvia Matthews
John Podesta
Doug Sosnik
Maria Echaveste
Don Baer
Rahm Emmanuel
Bruce Reed
Mike McCurry
John Hilley
Mickey Ibarra

Sierra Club
Radio :30
"Playground"
7/10/97

7-14-97

AUDIO:

(SFX: Sounds of children playing, yelling, singing at playground, up full and clear)

(Narrator:)

America's children are celebrating.

They'll be breathing fresher, healthier air in the future -- thanks to President Clinton and Vice President Gore's decision to stand up to pressure from industry polluters, and to update our country's clean air standards.

President Clinton and Vice-President Gore deserve our gratitude. Call the White House at 1-202-456-1414 and join us in thanking them for cleaner air, for our families, for our future.

(SFX: Sounds of children playing, up)

Paid for by Sierra Club.

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Service for its management plan of the Tongass in southeastern Alaska. Katie reports that, unfortunately, many of the observations in the editorial are accurate, but believes pressure from the Alaska delegation played a big role in the final plan. Katie did approve its final release, but because of impending court deadlines and the belief that we had reached the limit of pushing the Forest Service, she let it go. But, important improvements were made in it, and there will be an opportunity to make changes in the appeals process. She notes that significant concerns remaining with the analysis of the plan will make it vulnerable to litigation from environmental organizations.

(F) **Sperling/Kalil response to NYT piece on R&D.** You saw a NYT article that reported the budget deal would reduce federal investment in R&D spending by 14% in real terms between FY '98-02 and said, "I thought it was clearly one of our priorities -- I can't believe we missed this." Gene/Tom report that the 14% figure is basically correct, but it does not distinguish between trends in defense and civilian R&D, nor does it highlight the Administration's effort to protect certain priority programs. For example, your FY'98 budget increases civilian R&D by 4% including a 3% increase for NSF and NIH, an additional $100 million for the Next Generation Internet, and a 22% increase for solar and renewable energy research at DOE. Since 1993, civilian R&D has increased from $30 billion to $34 billion, an 11% increase. Overall civilian R&D will increase by 2% between 1998-02, and Defense R&D will decrease by 7%.

TAB F
Copied Sperling Kalil COS

(G) **Thank you note from PM Blair on Denver Summit.** Received by NSC and in our office after you were in Madrid for two days. Blair thanks you and the First Lady for being excellent hosts. The highlight of the Summit for him was meeting Chuck Berry! He hopes the First Lady got Mrs. Blair's letter about the modernization project for the center and center-left: "there is enormous enthusiasm for this, which we can harness."

(H) **Congressional Correspondence.** *Sen. Byrd:* thanks you for the cigars, for your kind words about his work on the disaster supplemental, and regrets he could not join you in Clarksburg for the education town meeting. *Rep. Jay Dickey:* offers condolences on the death of your uncle.

THE WHITE HOUSE

'97 JUL 3 PM 3:59

WASHINGTON

July 3, 1997

MEMORANDUM FOR THE PRESIDENT

THE PRESIDENT HAS SEEN
7-14-97

FROM: Gene Sperling
Tom Kalil

RE: Federal R&D investment in the balanced budget agreement

This memo responds to your concern that the balanced budget agreement does not adequately protect the federal investment in research and development.

The *New York Times* recently reported that R&D funded by government or nonprofit agencies accounted for **73 percent** of the main science papers cited in America's industrial patents. The study cited by the *Times* concludes that "public science plays an overwhelming role in the science base of U.S. industry" and that industry's dependence on science for new innovation is soaring.

The *Times* also states that your balanced budget agreement would reduce federal investment in R&D by 14 percent in real terms between FY 1998-2002. As discussed below, this figure is correct, but it does not distinguish between trends in defense and civilian R&D, nor does it highlight the Administration's efforts to protect certain priority programs.

1. **Your FY98 budget protects R&D funding, continuing the track record of your first term**

- Your FY98 budget increases civilian R&D by 4 percent, including:
  - A 3 percent increase for the National Science Foundation and the National Institutes of Health;
  - An additional $100 million for the Next Generation Internet initiative;
  - A 22 percent increase in the Advanced Technology Program and a 36 percent increase in the Manufacturing Extension Partnership; and
  - A 22 percent increase in solar and renewable energy research at the Department of Energy.
- Under your Administration, civilian R&D spending has increased from $30 billion in

1993 to $34 billion in 1997. This is an 11 percent increase - faster than the overall inflation rate of 9.8 percent.

2. **R&D investment over the 5-year budget window is projected to decline, but mostly on the defense side**

- According to OMB projections, overall R&D spending will be roughly flat in nominal terms, and will therefore decline by 13 percent between 1998 and 2002.

- Civilian R&D will increase by 2 percent between 1998 and 2002 - an 8 percent real reduction. Basic research will increase by 5 percent between 1998 and 2002 -- a 6 percent real reduction.

- Defense R&D will decline by 7 percent over the same period -- a 16 percent real reduction.

- In the budget agreement, we succeeded in protecting your full request for NIST, which will allow us to increase the Advanced Technology Program and the Manufacturing Extension Partnership.

- Your budget also calls for a 25 percent increase (15 percent real increase) in energy efficiency and pollution prevent R&D at the Department of Energy.

- The Republicans were willing to add NSF and NIH increases to the list of protected items. We did not press to do this because both sides felt it was gratuitous, given the strong bipartisan support for NSF and NIH, even without a formal agreement.

- Obviously, the Administration can make changes in the "out-year" numbers, but this does indicate the enormous pressure that non-defense discretionary spending is under.

3. **There may be growing bipartisan support to protect or even expand R&D investment -- at least at the rhetorical level**

Earlier this year, Senators Gramm, Mack and Hutchinson introduced the National Research Investment Act of 1997, which would double the annual authorized amount of federal funding for basic science and medical research over the next ten years -- from $35.75 billion in FY1998 to $65 billion in FY2007. Gramm noted that the percentage of the Federal budget devoted to nondefense R&D had declined from 5.7 percent in FY65 to 1.9 percent in FY97, and that an increased level of investment in basic science and medical research "is essential to maintaining the position of the United States as the technological leader of the world."

Of course, the bill would require that all increases in R&D spending would have to conform with discretionary spending caps adopted by the budget resolution.

In addition, Senator Lott sent a letter to Senator Stevens earlier this year, urging him to maintain strong support for the Defense Department's investments in research and technology. He noted that America's current military superiority is a "direct result of past investments in research and technology," and that DOD's declining support for basic research at our nation's world-class universities is "particularly disturbing."

4. **Possible next steps**

Your decision to maintain support for federal R&D despite a 77 percent reduction in the deficit was a significant first-term accomplishment. With the pressures on non-defense discretionary spending, there is a clearly a risk that the federal R&D investment will not keep up with inflation. Below are some steps that you could consider taking to minimize that risk.

- After some internal analysis of what is feasible to do with respect to R&D in the out-years, the Administration could convene a bipartisan meeting with Congressional leadership to discuss additional steps that could be taken to protect R&D investment.

- The Administration could explore policies that will leverage the federal investment in R&D (e.g. cost-sharing research with industry), or maximize the return on our current investment (e.g. allocating additional resources to peer-reviewed, competitively-awarded research.)

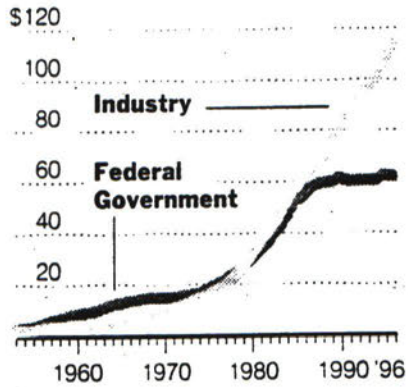
- The Administration could ensure that civilian R&D investment in a few key priority areas is protected.

- We could consider additional technology initiatives as we analyze climate change proposals.

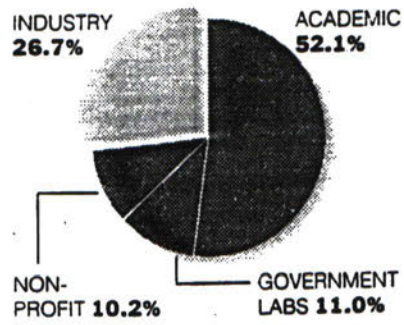
Research: Public vs. Private

Private industry in the United States has surpassed the Federal Government in overall spending on research. But a recent study has found that more than 70 percent of the scientific papers cited on U.S. industrial patents came from public science — research performed at universities, government labs and other public agencies.

Most research dollars now come from industry . . .
In billions of current dollars



. . . but patents cite public science most often.
Source of scientific papers cited on U.S. industrial patents in 1993-1994



Sources: National Science Foundation; CHI Research Inc.

The New York Times

Study Finds Public Science Is Pillar Of Industry

THE PRESIDENT HAS SEEN
5/14/97

Is it true New un reconsidered a 1420 cutin science? I thought it was already in our budget

By WILLIAM J. BROAD

A NEW study has found strong evidence that publicly financed scientific research plays a surprisingly important role in the breakthroughs of industrial innovation in the United States, suggesting that impending cuts in the Federal science budget might eventually hurt the economy.

The study, prepared for the National Science Foundation by a private research group, found that 73 percent of the main science papers cited by American industrial patents in two recent years were based on domestic and foreign research financed by government or nonprofit agencies. Private companies paid for the rest.

Such publicly financed science, the study concluded, has turned into a "fundamental pillar" of industrial advance.

Advocates of Federal spending on scientific research are seizing upon the study to bolster their position. The science foundation finances much basic research, and its officials acknowledged that they had questioned the wisdom of cuts in the science budget. But they said the patent study was part of continuing research on science trends that began long before the current push to trim the deficit.

Democrats and Republicans are generally united in earmarking Government financing for science for sizable cuts as part of a plan to reduce the Federal deficit and balance the budget by 2002. This year, the Federal research and development budget

Continued on Page C10

Continued From Page C1

is about $65 billion. Budget analysts say the Clinton Administration wants to shrink it 14 percent in the next five years, and Republicans want to reduce it by about 20 percent.

The study, to be published in Research Policy, a bimonthly journal based at the University of Sussex in England, a leading forum for this kind of analysis, is starting to circulate in the United States in manuscript form. Science policy groups say no previous study has addressed the intellectual foundations of American industry in such depth and with such rigor.

"It's a watershed," said Dr. Martin A. Apple, executive director of the Council of Scientific Society Presidents, a policy group in Washington that represents 65 science organizations and lobbies for more money for science. "It's a wake-up call for Federal investment policies."

Charles F. Larson, executive director of the Industrial Research Institute, a nonprofit group in Washington that represents large companies, said the report would be widely influential. "It's going to make people realize something they should have known all along — that public investment in academic science through Government-funded programs pays dividends to society," he said. "It pays off handsomely."

On the other hand, budget cutters seem unlikely to find the report so persuasive as to set aside the ax. They argue that much fat can be sliced from the Federal science budget without damaging high-quality work at universities.

Basic science, the kind that pursues fundamental knowledge for its own sake with no clear vision of how it might be practically applied, has long been considered a prime source of military and economic power. Yet the exact relationship between science and innovation has been murky since the start of the Industrial Revolution.

In recent years, as private industry in the United States has grown big and sophisticated enough to surpass the Government in overall spending on research, some conservatives have suggested that public support of basic research is passé. Publicly financed research gave birth to high-technology industry, they say, but it is no longer so important.

The new study sharply contradicts that view. It examined one of the most vivid expressions of industrial creativity: patents, the main way that companies and inventors reap commercial rewards from their bright ideas. Once granted, patents give the holder a monopoly to produce, sell or profit from an invention for a period of years.

Patentable ideas include new kinds of machines, methods, processes and material compositions, including drugs and computer chips. The Supreme Court ruled in 1980 that patents could also be granted for genetically engineered forms of life.

The new study, the most thorough examination to date of the scientific foundation of American patents, strongly suggests that public science lies at the heart of most commercial innovation. The study is the culmination of 17 years of patent investigations by CHI Research Inc., a consulting firm in Haddon Heights, N.J., that analyzes contemporary science for industrial and government clients around the world.

Its customer for the most recent round of patent work is the National Science Foundation, a Federal agency. The foundation's budget is up about 1.5 percent this year, to $3.27 billion from $3.22 billion, an increase that almost matches inflation.

CHI Research, starting in 1980, while working for the National Science Foundation and other clients, began examining the role played by research in American patents. The main clues came from the scientific reports that patents cite on their front pages as evidence of their intellectual foundations.

For instance, patent No. 4,565,785, assigned to Harvard University in 1986, lists 52 scientific reports in journals that include Science and Nature. The patent shows how bacteria can be turned into tiny factories for the production of insulin, human growth hormone, interferon and other pharmacologically active agents.

An early CHI Research study examined patents issued from 1975 to 1986 and found that patented inventions were increasingly drawing on pure science, as measured by the growing number of citations of articles in scientific journals.

The new study, by Dr. Francis Narin, Kimberly S. Hamilton and Dominic Olivastro, sharpened this analytic tool by investigating the sources of the scientific reports. It tracked down and analyzed the institutional ties of the authors, which patent citations ignore.

The CHI Research team examined the science references on the front pages of American patents in two recent periods — 1987 and 1988, as well as 1993 and 1994 — looking at all the 397,660 patents issued.

It found 242,000 identifiable science references and zeroed in on those published in the preceding 11 years, which turned out to be 80 percent of them. Searches of computer databases allowed the linking of 109,000 of these references to known journals and authors' addresses. After eliminating redundant citations to the same paper, as well as articles with no known American author, the study had a core collection of 45,000 papers. Armies of aides then fanned out to libraries to look up the papers and examine their closing lines, which often say who financed the research. That detective work revealed an extensive reliance on publicly financed science. For instance, biomedical papers cited the National Cancer Institute for financial support 7,970 times, the American Cancer Society 2,131 times and the March of Dimes 293 times. Physics papers cited the National Science Foundation 1,072 times, the Navy 708 times, the National Aeronautics and Space Administration 255 times and the Sloan Foundation 22 times. Some research projects were financed by multiple public agencies.

Scientists cite dangers of cutting research budget.

The overall role of public support was impossible to tally because some papers made no mention of their source of funds. That was especially true for reports from industrial laboratories, where the source of funds was often implied but not stated.

Further narrowing its focus, the study set aside patents given to schools and governments and zeroed in on those awarded to industry. For 2,841 patents issued in 1993 and 1994, it examined the peak year of literature references, 1988, and found 5,2 citations to science papers.

Of these, it found that 73.3 perce had been written at public institutions — universities, governme labs and other public agencies, bo in the United States and abroa American institutions represent 43.9 percent of that figure and fo eign ones accounted for 29.4 perce

Over all, only 20.4 percent of t science citations in American indu trial patents referred to papers fro American industry, and 6.3 perce referred to reports from foreign i dustry. Even International Busine Machines — famous for its resear prowess and numerous patents was found to cite its own work only percent of the time.

"Regardless of how the data a arranged," the study said, "it is qu clear that public science plays overwhelming role in the scien base of U.S. industry."

The study found that industry dependence on all science was soa ing. It compared the number of s ence citations, both public and p vate, in the two study periods a found that they had almost triple

The rise, the study concluded, "truly remarkable, and indicative a rapidly increasing dependence patented technology upon contemp rary science."

Expert reaction to the study so f is favorable. David C. Mowery, business professor at the Universi of California at Berkeley who studi technology policy, said the CHI R search team "has gone further th anybody else" in probing the inspir tion behind patents.

Wesley M. Cohen, an economist Carnegie Mellon University in Pitt burgh who studies American indu try, said some experts might que tion whether the rise in citations w simply based on changing habits source documentation, for instanc as the advent of electronic databas eased the tracking of journal ar cles, or actually indicated an i creasing reliance.

But, he added, his own researc involving nearly 1,500 interview with industrial lab managers, su gested the rise was real. "The effec of academic research may be mu more pervasive across industri than previously thought," he said.

Mr. Larson of the Industrial R search Institute said, "Industry d pends considerably on academic sc ence for new knowledge."

Dr. Narin, the lead author of t patent study, said he hoped his wo would help dull the budget ax. "Lo at the things that are coming out the research pipeline," he sai "We'd be fools to close it down."

The New York Times
TUESDAY, MAY 13, 1997

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WASHINGTON

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July 6, 1997

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MEMORANDUM FOR THE PRESIDENT

FROM: **GENE SPERLING**
PETER ORSZAG

SUBJECT: **Paper by William Drayton on shifting to environmental taxes**

You had asked for some analysis and advice on the attached paper from Bill Drayton, in which he argues that we should replace today's payroll taxes with taxes on natural resources. The result, according to Drayton, would be to unleash a "vast reservoir of unutilized labor" and achieve a growth rate that would make Asians blush -- while also better protecting the environment. *But whatever the potential benefits of a shift to environmental taxes, it would be a truly monumental change -- which would entail substantial dislocations, may well exacerbate inequality, and may even undermine the political compact that has supported the Social Security system for over sixty years.* Much more analysis of these potential adverse effects is needed before giving the idea serious policy consideration.

Before examining the tax shift proposal more closely, it is important to note a fundamental flaw in the first part of Drayton's paper: Our objective is not necessarily to maximize the number of hours worked by Americans. Indeed, many of the Administration's policies -- from the Family and Medical Leave Act to our comp time proposal -- are intended to give American workers more flexibility in their work schedules, thereby allowing them to achieve a better balance between the demands of work and family. Similarly, not all part-time workers represent "unutilized labor" who would prefer to work more. Out of the 22.6 million workers working part-time in April 1997, only 20 percent (4.4 million) were working part-time for economic reasons -- such as that business conditions were slack or that they could only find part-time work. The rest (80 percent of the total) were working part-time for non-economic reasons, perhaps because such work better fit their schedules. Our objective should not be to fix this nonexistent problem, and we should not aim for a full-time employment-population ratio of 100 percent.

Whatever their motivation, Drayton's fundamental proposals -- and others like them -- are already being discussed in academic and policy-making circles. Drayton would gradually remove today's FICA and FUTA payroll taxes in exchange for environmental taxes such as an

Energy Inefficiency Tax on energy-inefficient cars and buildings; a Non-labor Value Added Tax on all inputs in the production process except labor; or a Recycling Incentive Tax on non-recycled material. Similar proposals have been floated by others. For example, Redefining Progress -- a three-year-old public policy organization in San Francisco -- recently published a book entitled *Tax Waste, Not Work: How Changing What We Tax Can Lead to a Stronger Economy and a Cleaner Environment*. The book contains a number of alternative proposals, similar to Mr. Drayton's, that would replace payroll and income taxes with environmental taxes or auctionable permits.

Drayton and several other analysts argue that a shift away from payroll or income taxes and toward environmentally-related revenue *could* pay a double dividend. First, such analysts argue that by taxing environmental "bads," we could attenuate the negative externalities that are pervasive in environmental issues and thus improve our management of the environment. Second, they argue that by using the revenue from the environmental tax to reduce payroll taxes, we could decrease the tax wedge on labor and thus reduce one of the distortions imposed on productive activities.

While using the revenue from pollution taxes to reduce other taxes is a large and profound idea -- one that will no doubt come up often in the climate change discussions -- we must stress that it would be a dramatic shift and therefore requires more analysis before it can be given serious consideration. For example, those who advocate this strategy fail to address a huge issue: the switch could undermine support for the Social Security system. Whatever the realities in a largely pay-as-you-go system, many Americans currently view their FICA taxes as "paying for" their Social Security benefits. Removing those FICA taxes could undermine the social compact upon which the system is based. Indeed, under proposals such as the one put forward by Mr. Drayton, Social Security benefits would likely be primarily funded by energy taxes or general revenues. This funding change would represent a radical reform of the Social Security system.

There are at least two other substantial issues with the tax shift proposal:

- The move to environmental revenue by itself would likely be regressive, since lower-income families spend a relatively large percentage of their income on energy. Using the revenue to offset other regressive taxes -- such as payroll taxes -- would reduce and perhaps eliminate the regressivity of the entire package, but much more research is needed before reaching any firm conclusions.

- The switch would be a substantial overhaul of our tax laws and thus cause significant dislocation -- benefitting some regions and industries, and hurting others. Relying on environmentally-related revenue sources would likely hurt the coal-producing areas of West Virginia and Wyoming and the colder regions of New England and the Great Plains states.

The presence of these potential problems militates strongly against endorsing prematurely any proposal to replace payroll or income taxes with environmental taxes. Nonetheless, it is clear that the idea has some logic and coherence, and is worth further consideration. We will keep you apprised as more analysis of it accumulates in the academic and policy-making worlds. As the year proceeds and the issues of global climate change, Social Security reform, and tax reform attract more attention, we will have to develop a serious internal dialogue on large issues such as this one.

cc: The Vice President

Gens Bfc analyze advise

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5/23/97

MEMORANDUM

cc VP

To: **President Bill Clinton** **Dated:** **February 26, 1997**
Honorable Hillary Rodham Clinton

From: **Bob Raymar**

Re: **Increasing Employment by Shifting Tax Burdens**

As you know, Bill Drayton '70 is one of our most creative classmates. He believes that the current federal tax system encourages the consumption of depletable natural resources in the marketplace, and discourages the consumption of labor. The result is under-employment, and anemic national growth.

The enclosed draft article proposes a revenue neutral mechanism to remove tax barriers to the use of labor and increase them on natural resources, so that the marketplace would shift to greater use of human resources and less use of natural resources. The idea and article are quite creative, and worth your while.

* * * * *

As you know, Ashoka has for many years fostered micro-social-entrepreneurs. HRC's efforts to foster micro-entrepreneurs may benefit from a luncheon meeting with Bill.

Enclosure

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bcc: William Drayton
Tel: 703-527-8300
Fax: 703-527-8383

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Potential Titles:

Mass Unemployment: Key to Growth©
or
Doubling Employment©
by William Drayton †

What if America could rev up a growth rate that would make Asians blush? What if it could be done entirely by market forces, without an increase in taxes, or the deficit, or Big Government?

An administration willing to stop taxing jobs -- and get the lost revenue from natural resources -- could bring America roaring into the 21st century with millions of new jobs and truly prove "the hope is back". America could retain world economic leadership, and it would be able to heal the social divisions increasingly tearing us apart.

The first step is to accept that the country is not using 50 percent of its workforce -- i.e., that unemployment is many times the 5.3 percent that the White House trumpets. The numbers are hard to duck. The 1990 census counted 6.87 million officially unemployed versus 133 million employed. However, only 80 million of that 133 million had full-time jobs (at least 35 hours a week). The other 53 million were part-time and seasonal workers, and only 14.6 million of them averaged 20 hours a week or more. A further 49.9 million perfectly healthy adults who are entirely free to work are omitted from the Labor Department's "work force" or "unemployed" categories: Because they are neither working nor actively seeking work, they are officially invisible. Including these invisible souls, 57 percent of the potential workforce are un- or underemployed -- and that does not count millions more who have, for instance, some ailment but nonetheless want work. This makes for a very loose labor market indeed, and it entails gigantic social costs.

If the country has over 100 million un- and underemployed, why do our statistics and discussions focus only on the seven million "unemployed"? Because they are the political problem: The others have psychologically accepted dependency/unemployment and are not actively angry or seeking help.

Giving these tens of millions of people jobs is our country's only possible avenue to fast growth. There simply is no resource other than this vast reservoir of unutilized labor

† *Founder, Ashoka: Innovators for the Public; MacArthur Fellow; former Assistant Administrator, U.S. EPA, McKinsey and Co. management consultant, and Stanford and Harvard faculty member.*

-- and all the education, health care, and other human capital invested in them -- that can provide the energy necessary for the economy to break out of its pathetic 2.5 percent growth rate. We have lost our raw materials advantage: As one of the most exploited continents in the world, we increasingly import, e.g. our oil and metals. Nor do we any longer have privileged access to low-cost capital. Every year it becomes easier for companies in Thailand to tap cheap money in the ever more efficient global financial market. Only in its people and their human capital does America have a huge unutilized resource that could fire growth.

The simplest and most powerful single policy to produce tens of millions of new jobs is to swap today's $525 billion in payroll taxes (chiefly Social Security, health, and unemployment) for equal revenues from a new "patrimony tax" on the continent's natural wealth. This would lower the price of labor *relative* to natural resources by 35 - 40 percent over 7 - 8 years of gradual introduction. (If one also cuts income tax payroll deductions, the *relative* price shift would be well over 50 percent.) This trillion dollar plus *relative* price shift is leveraged jujitsu: higher natural resource prices increase employment; so do lower labor costs. Social security benefits would not be touched, just paid for in a more politically attractive way.

Economic growth would multiply as the new workers produced far more goods and services; as families and government no longer had to pay for tens of millions of dependents; as crime and other social ills receded; as taxes shifted from production towards consumption; and as the economy's new price signals encouraged rather than victimized the fast growth knowledge sectors that are our global strength and our future.

Here's how it would work: Reducing payroll tax rates by 3 percentage points each year would provide a $92 billion annual stimulus to employment. If the policy cut employee contributions first, the typical employee could be sent a $1000 refund check for each such 3 point reduction -- a politician's dream.

Since the payroll tax ultimately comes out of workers' pockets in industries where they have little bargaining power, cutting it is one of the few feasible means of reducing the country's growing, corrosive income inequality.

Where workers do have leverage and therefore rising salaries -- i.e., the knowledge sectors so key to our future -- employers have to absorb the tax. Cutting it would allow them to hire more workers, cut prices (and therefore sell and hire more), and/or enjoy larger profits (which invites new competitors with new jobs.)

Then there's the policy's incentive magic: It compounds such direct increases in the demand for workers by simultaneously raising the lost revenues through new taxes on

the use of natural resources: The first year *relative* price shift thereby suddenly weighs in at $184 billion, not $92 billion.

There's political magic as well: These natural resource taxes can be enacted. As Al Gore (and many environmentalists before him) have learned painfully, stand-alone natural resource taxes are likely to crash and burn. These patrimony taxes, however, should fly politically. That's because they are inextricably married to giant political positives -- increasing jobs and growth while slashing both payroll taxes and mass unemployment's social ills.

Given this popular underpinning and a little creativity, there are many, many politically feasible patrimony taxes. For example:

* Energy Inefficiency Tax. A tax charged each year on the 25 to 50 percent least energy efficient (a) new cars, appliances, etc. and (b) commercial buildings. The tax's automatic annual adjustment keeps revenue steady, spurs innovation, and avoids the political heartburn of periodic adjustments. It spares the poor since they can buy old or relatively efficient new goods untaxed. It entails little administrative cost (most of the information is already available), and the political pain is tolerable (because taxed industries have winners as well as losers and because the super mobilized new property developers are excused). It would raise roughly $10 - 20 billion annually.

* Non-labor Value-added Tax. The standard European consumption tax could be modified to tax all portions of production except labor. Such a tax with a 10% rate would produce over $180 billion. If housing, food, and medicine were excluded, it would still raise $80 billion.

* Recycling Incentive Tax. By charging two cents per box, bottle, or other package unless it contained a minimum percentage of recycled material, this tax would create substantial new demand for scrap and $10 - 20 billion in revenue.

How would people respond to such changed incentives? Farmers, for example, would find summer hires more attractive than before -- because they would cost less and could substitute for machines that chew up newly expensive energy and materials, and because a series of natural resources-conserving activities, ranging from composting to fighting erosion, would warrant the labor required. People intensive outfits, from research labs to consulting firms, would grow as their chief cost is cut.

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There are no bureaucrats, no sectional preferences, no "industrial policies" here. This policy uses what truly moves markets: changed prices.

Much more than national wealth and individual well-being are at stake. Allowing our decades-old below-expectations growth to continue will leave us mired ever more deeply in an historically familiar trap. Our first response -- which is historically typical -- was to keep consumption growing as fast as we felt it should by consuming capital -- be it through rent control, cutting education, or not maintaining our bridges. With the debt blow-off of the 1980s we reached the even more destructive next stage: If the majority can no longer ensure that its consumption continues to compound, it will be tempted to unite politically to protect whatever it does have from the claims of others. Britain, which lost its competitive advantage in the 1880s, got stuck in this dispiriting, divisive stage by 1911 -- miring itself in a century of slow growth, social division, and declining relevance.

So much is at stake here that whichever party provides the needed political leadership could establish itself as the majority party for a long time. Breaking out of the current downward spiral would be as great a contribution as Roosevelt made stopping the similarly self-feeding downward spiral of the Great Depression.

This downward spiral is as global as Roosevelt's. Mass un- and underemployment is even worse in Europe and most of the developing world, and the reform opportunities are similar. The payroll tax burden on legal, formal sector employment in Brazil, for example, ranges from 52 to 72 percent.

Effective leadership in this cause could call forth an extraordinarily powerful coalition, powerful because it serves the central-most interests both of America as a whole and of ten giant constituencies:

* Organized labor can only continue its decline as long as roughly fifty percent of the workforce overhangs a loose labor market.

* The environment would benefit more from this sort of major increase in the relative price of natural resources than from any other plausible advance.

* Women, given leverage by a tighter job market, could close in on wage differentials, open new jobs, and shatter many a glass ceiling.

* Older people who have lost jobs for decades as women willing to work for less have pushed into work and who suffer earlier deaths and more illness as a result, could, because of their numbers and propensity to vote, become a political tsunami as they press back in.

* The disabled, African-Americans, Latinos, new immigrants, the young, and all those concerned about America's social health (beit the well-being of the young, crime, or a competitive workforce) have every bit as much at stake.

Business will be divided. The chief opposition will come from the politically mobilized natural resource industries; but the reform's chief beneficiaries, the knowledge and service sectors, now constitute over eighty percent of the economy.

Some economists suggest that today's unemployment is "natural" and that the economy would explode if we did better. If there is a problem, it certainly is not one of *supply*: If good work were available, hosts of people would respond -- as they did in the first two years of World War II when the number of people working jumped 35 percent and the average work week grew 20 percent.

The problem is *demand*. Do we have the imagination and courage to see the mass unemployment around us and then to act?

The means to break out are there. The political energy waiting to be tapped is enormous.

What is missing is leadership. Unfunded tax cuts would hurt growth. More training would help those trained find work -- but largely at the expense of other marginal workers as long as there is no increase in the total demand for workers. The 1996 welfare reform increases the need for jobs without increasing their supply. Business cycle tweakings don't cause structural change.

Worse, some of America's leaders seem to be headed towards an exclusionary circling of the wagons. However, America is not Britain in 1911. It fires "can't do" leaders. It has the energy and the will to break out.

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MAY-JUNE 1995

The Competitive Advantage of the Inner City



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by Michael E. Porter

The economic distress of America's inner cities may be the most pressing issue facing the nation. The lack of businesses and jobs in disadvantaged urban areas fuels not only a crushing cycle of poverty but also crippling social problems, such as drug abuse and crime. And, as the inner cities continue to deteriorate, the debate on how to aid them grows increasingly divisive.

The sad reality is that the efforts of the past few decades to revitalize the inner cities have failed. The establishment of a sustainable economic base–and with it employment opportunities, wealth creation, role models, and improved local infrastructure–still eludes us despite the investment of substantial resources.

Past efforts have been guided by a social model built around meeting the needs of individuals. Aid to inner cities, then, has largely taken the form of relief programs such as income assistance, housing subsidies, and food stamps, all of which address highly visible–and real–social needs.

Programs aimed more directly at economic development have been fragmented and ineffective. These piecemeal approaches have usually taken the form of subsidies, preference programs, or expensive efforts to stimulate economic activity in tangential fields such as housing, real estate, and neighborhood development. Lacking an overall strategy, such programs have treated the inner city as an island isolated from the surrounding economy and subject to its own unique laws of competition. They have encouraged and supported small, subscale businesses designed to serve the local community but ill equipped to attract the community's own spending power, much less *export* outside it. In short, the social model has inadvertently undermined the creation of economically viable companies. Without such companies and the jobs they create, the social problems will only worsen.

The time has come to recognize that revitalizing the inner city will require a radically different approach. While social programs will continue to play a critical role in meeting human needs and improving education, they must support–and not undermine–a coherent economic strategy. The question we should be asking is how inner-city-based businesses and nearby employment opportunities for inner city residents can proliferate and grow. A sustainable economic base *can* be created in the inner

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city, but only as it has been created elsewhere: through private, for-profit initiatives and investment based on economic self-interest and genuine competitive advantage – not through artificial inducements, charity, or government mandates.

We must stop trying to cure the inner city's problems by perpetually increasing social investment and hoping for economic activity to follow. Instead, an economic model must begin with the premise that inner city businesses should be profitable and positioned to compete on a regional, national, and even international scale. These businesses should be capable not only of serving the local community but also of exporting goods and services to the surrounding economy. The cornerstone of such a model is to identify and exploit the competitive advantages of inner cities that will translate into truly profitable businesses.

Our policies and programs have fallen into the trap of redistributing wealth. The real need – and the real opportunity – is to create wealth.

Toward a New Model: Location and Business Development

Economic activity in and around inner cities will take root if it enjoys a competitive advantage and occupies a niche that is hard to replicate elsewhere. If companies are to prosper, they must find a compelling competitive reason for locating in the inner city. A coherent strategy for development starts with that fundamental economic principle, as the contrasting experiences of the following companies illustrate.

Alpha Electronics (the company's name has been disguised), a 28-person company that designed and manufactured multimedia computer peripherals, was initially based in lower Manhattan. In 1987, the New York City Office of Economic Development set out to orchestrate an economic "renaissance" in the South Bronx by inducing companies to relocate there. Alpha, a small but growing company, was sincerely interested in contributing to the community and eager to take advantage of the city's willingness to subsidize its operations. The city, in turn, was happy that a high-tech company would begin to stabilize a distressed neighborhood and create jobs. In exchange for relocating, the city provided Alpha with numerous incentives that would lower costs and boost profits. It appeared to be an ideal strategy.

By 1994, however, the relocation effort had proved a failure for all concerned. Despite the rapid growth of its industry, Alpha was left with only 8 of its original 28 employees. Unable to attract high-quality employees to the South Bronx or to train local residents, the company was forced to outsource its manufacturing and some of its design work. Potential suppliers and customers refused to visit Alpha's offices. Without the city's attention to security, the company was plagued by theft.

> Inner city businesses should be profitable and positioned not only to serve the local community but also to export to the surrounding economy.

What went wrong? Good intentions notwithstanding, the arrangement failed the test of business logic. Before undertaking the move, Alpha and the city would have been wise to ask themselves why none of the South Bronx's thriving businesses was in electronics. The South Bronx as a location offered no specific advantages to support Alpha's business, and it had several disadvantages that would prove fatal. Isolated from the lower Manhattan hub of computer-design and software companies, Alpha was cut off from vital connections with customers, suppliers, and electronic designers.

In contrast, Matrix Exhibits, a $2.2 million supplier of trade-show exhibits that has 30 employees, is thriving in Atlanta's inner city. When Tennessee-based Matrix decided to enter the Atlanta market in 1985, it could have chosen a variety of locations. All the other companies that create and rent trade-show exhibits are based in Atlanta's suburbs. But the Atlanta World Congress Center, the city's major exhibition space, is just a six-minute drive from the inner city, and Matrix chose the location because it provided a real competitive advantage. Today Matrix offers customers superior response time, delivering trade-show exhibits faster than its suburban competitors. Matrix benefits from low rental rates for warehouse space – about half the rate its competitors pay for similar space in the suburbs – and draws half its employees from the local community. The commitment of local police has helped the company avoid any serious security prob-

lems. Today Matrix is one of the top five exhibition houses in Georgia.

Alpha and Matrix demonstrate how location can be critical to the success or failure of a business. Every location – whether it be a nation, a region, or a city – has a set of unique local conditions that underpin the ability of companies based there to compete in a particular field. The competitive advantage of a location does not usually arise in isolated companies but in clusters of companies – in other words, in companies that are in the same industry or otherwise linked together through customer, supplier, or similar relationships. Clusters represent critical masses of skill, information, relationships, and infrastructure in a given field. Unusual or sophisticated local demand gives companies insight into customers' needs. Take Massachusetts's highly competitive cluster of information-technology industries: it includes companies specializing in semiconductors, workstations, supercomputers, software, networking equipment, databases, market research, and computer magazines.

Clusters arise in a particular location for specific historical or geographic reasons – reasons that may cease to matter over time as the cluster itself becomes powerful and competitively self-sustaining. In successful clusters such as Hollywood, Silicon Valley, Wall Street, and Detroit, several competitors often push one another to improve products and processes. The presence of a group of competing companies contributes to the formation of new suppliers, the growth of companies in related fields, the formation of specialized training programs, and the emergence of technological centers of excellence in colleges and universities. The clusters also provide newcomers with access to expertise, connections, and infrastructure that they in turn can learn and exploit to their own economic advantage.

If locations (and the events of history) give rise to clusters, it is clusters that drive economic development. They create new capabilities, new companies, and new industries. I initially described this theory of location in *The Competitive Advantage of Nations* (Free Press, 1990), applying it to the relatively large geographic areas of nations and states. But it is just as relevant to smaller areas such as the inner city. To bring the theory to bear on the inner city, we must first identify the inner city's competitive advantages and the ways inner city businesses can forge connections with the surrounding urban and regional economies.

The True Advantages of the Inner City

The first step toward developing an economic model is identifying the inner city's true competitive advantages. There is a common misperception that the inner city enjoys two main advantages: low-cost real estate and labor. These so-called advantages are more illusory than real. Real estate and labor costs are often higher in the inner city than in suburban and rural areas. And even if inner cities were able to offer lower-cost labor and real estate compared with other locations in the United States, basic input costs can no longer give companies from relatively prosperous nations a competitive edge in the global economy. Inner cities would inevitably lose jobs to countries like Mexico or China, where labor and real estate are far cheaper.

Only attributes that are unique to inner cities will support viable businesses. My ongoing research of urban areas across the United States identifies four main advantages of the inner city: strategic location, local market demand, integration with regional clusters, and human resources. Various companies and programs have identified and exploited each of those advantages from time to time. To date, however, no systematic effort has been mounted to harness them.

Strategic Location. Inner cities are located in what *should* be economically valuable areas. They sit near congested high-rent areas, major business centers, and transportation and communications nodes. As a result, inner cities can offer a competitive edge to companies that benefit from proximity to downtown business districts, logistical infrastructure, entertainment or tourist centers, and concentrations of companies.

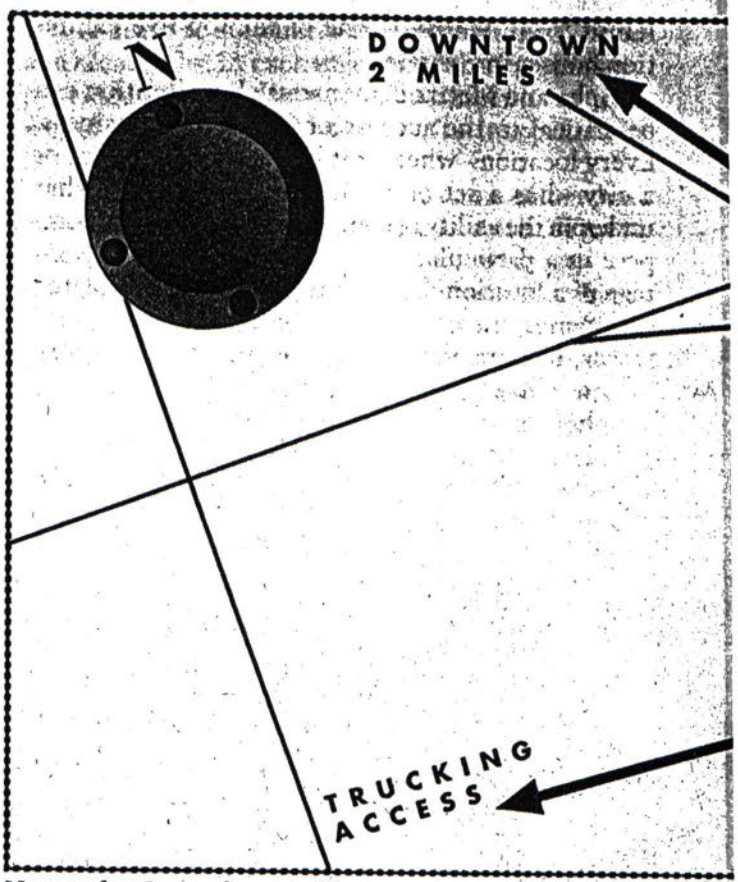
> We must stop trying to cure the problems of the inner city by perpetually increasing social investment and hoping for economic activity to follow.

For example, Boston's food processing and distribution industry gains a competitive edge from its inner city location in Newmarket Square. The industry consists of such businesses as seafood importers, meat processors, bakeries, and food distributors. Because they are near downtown Boston, these businesses can make rapid deliveries, and downtown buyers have a convenient location at which to purchase goods. Land, although more costly than in the suburbs, is cheaper in the inner city than it is downtown, and zoning regulations permit food processing operations. Newmarket Square has excellent access to trucking as well as sea and air transport, which provides it with a particular competitive advantage in the export of seafood. The combination of those factors has produced a dense concentration of processors, caterers, truckers, wholesalers, distributors, and other suppliers in the inner city.

Although the location of Boston's food processing cluster has historic roots that predate the modern inner city, examples of newly formed companies underscore how critical an advantage proximity can be. Consider the catering supplier Be Our Guest. Founded in 1984, the company rents linens, party equipment, and other hard goods associated with the catering business. Located in Boston's inner city neighborhood of Roxbury, the company enjoys immediate and easy access to downtown Boston. As a result, it is able to offer a higher level of service to customers than its competitors can. To reinforce its service strategy, Be Our Guest maintains sufficient inventory levels to meet peaks in demand. Today the company has 36 full-time employees and annual sales of $1.2 million.

In Boston and Los Angeles, it is striking how many of the businesses that have remained in the inner city in the face of numerous difficulties are ones for which location matters. For example, both cities have a concentration of logistics and storage businesses. Advances in transportation and communications may have reduced the importance of location for some kinds of businesses. However, the increasing importance of regional clusters and of such concepts as just-in-time delivery, superior customer service, and close partnerships between customers and suppliers are making location more critical than ever before.

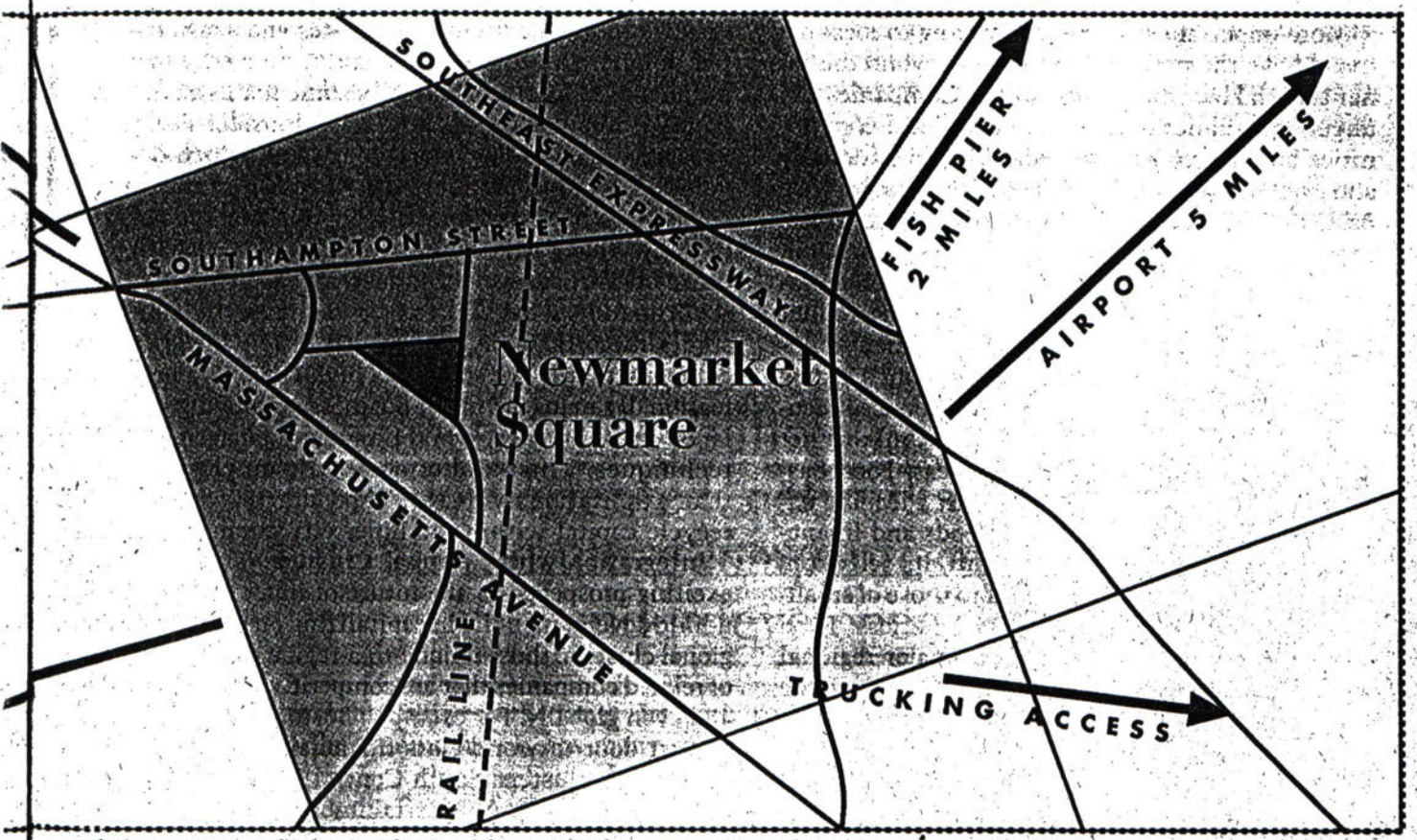
There is significant potential, then, for expanding the inner-city business base by building on the advantage of strategic location. Among the initial prospects are location-sensitive industries now situated elsewhere, nearby companies and industries that face space constraints, and back-office or support functions amenable to relocation or outsourcing. Consider Boston's Longwood medical area, a huge concentration of world-class health care facilities. Longwood is located near the inner city neighborhoods of Roxbury and Jamaica Plain. Today such activities as laundry services, building maintenance, and just-in-time delivery of supplies are performed in-house or by suburban vendors. But, because of Longwood's proximity to the inner city, activities like these could be shifted to businesses based in Roxbury or Jamaica Plain–especially if basic infrastructure such as roads could be improved.



Newmarket Square has excellent access to trucking as well as sea

Local Market Demand. The inner city market itself represents the most immediate opportunity for inner-city-based entrepreneurs and businesses. At a time when most other markets are saturated, inner city markets remain poorly served–especially in retailing, financial services, and personal services. In Los Angeles, for example, retail penetration per resident in the inner city compared with the rest of the city is 35% in supermarkets, 40% in department stores, and 50% in hobby, toy, and game stores.

The first notable quality of the inner city market is its size. Even though average inner city incomes are relatively low, high population density translates into an immense market with substantial purchasing power. Boston's inner city, for example, has an estimated total family income of $3.4 billion.



and air transport, which provides it with a particular competitive advantage in the export of seafood.

Spending power per acre is comparable with the rest of the city despite a 21% lower average household income level than in the rest of Boston, and, more significantly, higher than in the surrounding suburbs. In addition, the market is young and growing rapidly, owing in part to immigration and relatively high birth rates.

A handful of forward-looking entrepreneurs have recognized the opportunities for profit and growth in this large, underdeveloped market and have opened retail outlets in the inner city. Chicago's historic retailer Goldblatt Brothers found new life after bankruptcy with a strategy built on inner city stores. In 1981, the company closed all its stores but six profitable ones located in the inner city. Focusing on cash-and-carry items and offering goods at closeout prices, Goldblatt Brothers has reemerged as a competitive retailer. Today the company has 14 stores, most of which are located in Chicago's inner city. Similarly, Stop & Shop and Purity Supreme are opening new stores in the inner city of Boston.

Another important quality of the inner city market is its character. Most products and services have been designed for white consumers and businesses. As a result, product configurations, retail concepts, entertainment, and personal and business services have not been adapted to the needs of inner city customers. Although microsegmentation has been slow to come to the inner city, it holds promise for creating thriving businesses.

Inner city consumers, in fact, represent a major growth market of the future, and companies based in the inner city have a unique ability to understand and address their needs. For example, Miami-based, Latino-owned CareFlorida has rapidly expanded its HMO business by tailoring its marketing to Latino customers. And Detroit's Universal Casket has grown to $3 million in sales by focusing on African-American-owned funeral homes. Many of the largest and most enduringly successful minority-owned (although not necessarily inner-city-based) businesses have drawn their advantages from serving inner city residents' cultural and ethnic needs in fields such as food products (Parks Sausage and Brooks Sausages), beauty care (Soft Sheen, Proline, Dudley, Luster Products, and Johnson Products), and media (Essence, Earl Graves, Johnson Publishing, and Black Entertainment Television). Although inner city businesses need not be limited to serving local needs, this kind of focused strategy is one way to gain a clear competitive advantage over established businesses such as Procter & Gamble, Safeway, and Levi Strauss.

More important, businesses catering to local demand have the potential to expand beyond the inner city and become major players. Companies can target and sell not only to their own local communities but also to similar communities nationally and even internationally. Consider Americas' Food Basket, a Cuban-owned supermarket based in Boston's inner city. In its second year of operation, the company has reached sales of $8 million annually and is profitable. It has developed a product mix that satisfies local demand better than mainstream supermarkets do. Its management's strong relationship with the community has reduced security problems and employee turnover. Unlike other nearby mom-and-pop stores, Americas' Food Basket has developed a partnership with a leading national wholesaler that provides goods and financing at competitive rates. As a result, its selection, prices, and service are far superior to those of smaller competitors. More important, Americas' Food Basket shows signs of becoming a major regional business by seeking ways to export its goods to the surrounding region. It is currently expanding into wholesaling with a start-up called Selmac Corporation. Selmac will supply mainly Latino products to Americas' Food Basket and to small *bodegas* throughout the inner city and the surrounding region. It also plans to bid on contracts to supply wholesale food services to schools, prisons, and other institutions throughout Massachusetts.

Tailored retailing concepts in a broad range of areas such as food, clothing, pharmaceuticals, toys, books, and restaurants could also set off a chain reaction of opportunities. Companies create demand for new types of products, which in turn creates new opportunities for manufacturers of specialized products. For example, tailored supermarkets are increasing the demand for established ethnic food producers and distributors such as Goya Foods, a supplier of Latino foods with annual sales of approximately $500 million. Such stores also represent a critical distribution channel for recent start-ups such as Glory Foods, which sells canned foods targeted at African-American consumers.

The most intriguing attribute of the inner city market is its potential to be a leading indicator of major nationwide trends. The tastes and sensibilities of inner city communities are cutting-edge in a number of respects and often become mainstream. Popular music is one example. Or consider Parks Sausage, based in Baltimore, Maryland, which developed its food products for African-American consumers but has found a receptive market nationally. Today it is competing head-to-head with Jimmy Dean Sausage, the industry leader.

Ultimately, what will attract the inner city consumer more than anything else is a new breed of company that is not small and high-cost but a professionally managed major business employing the latest in technology, marketing, and management techniques. This kind of company, much more than exhortation, will attract spending power and recycle capital within the inner city community.

Integration with Regional Clusters. The most exciting prospects for the future of inner city economic development lie in capitalizing on nearby regional clusters: those unique-to-a-region collections of related companies that are competitive nationally and even globally. For example, Boston's inner city is next door to world-class financial-services and health-care clusters. South Central Los Angeles is close to an enormous entertainment cluster and a large logistical-services and wholesaling complex.

The ability to access competitive clusters is a very different attribute – and one much more far reaching in economic implication – than the more generic advantage of proximity to a large downtown area with concentrated activity. Competitive clusters create two types of potential advantages. The first is for business formation. Companies providing supplies, components, and support services could be created to take advantage of the inner city's proximity to multiple nearby customers in the cluster. For example, Detroit-based Mexican Industries has emerged as one of the most respected suppliers of head rests, arm rests, air bags, and other auto parts by forging close relationships with General Motors, Ford, Chrysler, and Volkswagen of America. Last year, the company had more than 1,000 employees, most of whom live in the inner city, and revenues of more than $100 million. Bing Steel, a 54-person company with $57 million in

A new breed of professionally managed major businesses will attract spending power and recycle capital within the inner city community.

sales, has made similar connections, supplying flat roll steel and coils to the auto industry.

The second advantage of these clusters is the potential they offer inner city companies to compete in downstream products and services. For example, an inner city company could draw on Boston's strength in financial services to provide services tailored to inner city needs – such as secured credit cards, factoring, and mutual funds – both within and outside the inner city in Boston and elsewhere in the country. Boston Bank of Commerce (BBOC) is a trusted local institution in the inner city with strong ties to the community. It has many small nonprofit customers, such as the Dimock Community Health Center in Roxbury, which has a $1 million endowment. There are many nonprofit organizations like Dimock whose funds are sitting idle in low-interest savings accounts because they lack the investment savvy and size to attract sophisticated money managers. In toto, however, such organizations represent a significant pool of capital. BBOC sees an opportunity here to take advantage of the trust it enjoys within the community and the proximity of world-class asset managers in the city's nearby financial services cluster. The company is developing a product to do asset management for nonprofits in its service area; it will pool funds from its clients and then subcontract their management to companies in the nearby cluster.

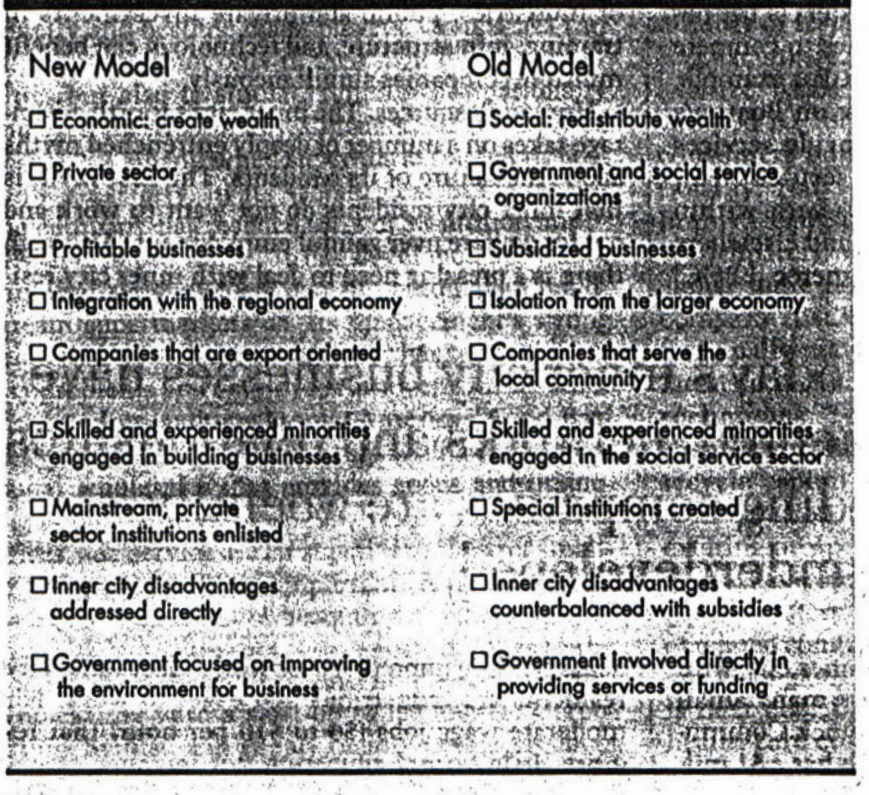
Few of these opportunities are currently being pursued. Most of today's inner city businesses either have not been export oriented, selling only within the local community rather than outside it, or have seen their opportunities principally in terms defined by government preference programs. Consequently, networks and relationships with surrounding companies are woefully underdeveloped. New private sector initiatives will be needed to make these connections and to increase inner city entrepreneurs' awareness of their value. Integration with regional clusters is potentially the inner city's most powerful and sustainable competitive advantage over the long term. It also provides tremendous leverage for development efforts: By focusing on upgrading existing and nascent clusters, rather than on supporting isolated companies or industries, public and private investments in training, infrastructure, and technology can benefit multiple companies simultaneously.

Human Resources. The inner city's fourth advantage takes on a number of deeply entrenched myths about the nature of its residents. The first myth is that inner city residents do not want to work and opt for welfare over gainful employment. Although there is a pressing need to deal with inner city residents who are unprepared for work, most inner city residents are industrious and eager to work. For moderate-wage jobs ($6 to $10 per hour) that require little formal education (for instance, warehouse workers, production-line workers, and truck drivers), employers report that they find hardworking, dedicated employees in the inner city. For example, a company in Boston's inner city neighborhood of Dorchester bakes and decorates cakes sold to supermarkets throughout the region. It attracts and retains area residents at $7 to $8 per hour (plus contributions to pensions and health insurance) and has almost 100 local employees. The loyalty of its labor pool is one of the factors that has allowed the bakery to thrive.

Admittedly, many of the jobs currently available to inner city residents provide limited opportunities for advancement. But the fact is that they are jobs; and the inner city and its residents need many more of them close to home. Proposals that workers commute to jobs in distant suburbs – or move to be near those jobs – underestimate the barriers that travel time and relative skill level represent for inner city residents. Moreover, in deciding what types of businesses are appropriate to locate in the inner city, it is critical to be realistic about the pool of potential employees. Attracting high-tech companies might make for better press, but it is of little benefit to inner city residents. Recall the contrasting experiences of Alpha Electronics and Matrix Exhibits. In the case of Alpha, there was a complete mismatch between the company's need for highly skilled professionals and the available labor pool in the local

Because most of today's inner city businesses have not been export oriented, networks and relationships with surrounding companies are woefully underdeveloped.

Inner City Economic Development



community. In contrast, Matrix carefully considered the available workforce when it established its Atlanta office. Unlike the Tennessee headquarters, which custom-designs and creates exhibits for each client, the Atlanta office specializes in rentals made from prefabricated components–work requiring less-skilled labor, which can be drawn from the inner city. Given the workforce, low-skill jobs are realistic and economically viable: they represent the first rung on the economic ladder for many individuals who otherwise would be unemployed. Over time, successful job creation will trigger a self-reinforcing process that raises skill and wage levels.

The second myth is that the inner city's only entrepreneurs are drug dealers. In fact, there is a real capacity for legitimate entrepreneurship among inner city residents, most of which has been channeled into the provision of social services. For instance, Boston's inner city has numerous social service providers as well as social, fraternal, and religious organizations. Behind the creation and building of those organizations is a whole cadre of local entrepreneurs who have responded to intense local demand for social services and to funding opportunities provided by government, foundations, and private sector sponsors. The challenge is to redirect some of that talent and energy toward building for-profit businesses and creating wealth.

The third myth is that minorities, many of who up in or near inner cities, have abandoned their roots. Today's large and growing pool of talented minority managers represents a new generation of potential inner city entrepreneurs. Many have been trained at the nation's leading business schools and have gained experience in the nation's leading companies. Approximately 2,800 African Americans and 1,400 Hispanics graduate from M.B.A. programs every year compared with only a handful 20 years ago. Thousands of highly trained minorities are working at leading companies such as Morgan Stanley, Citibank, Ford, Hewlett-Packard, and McKinsey & Company. Many of these managers have developed the skills, network, capital base, and confidence to begin thinking about joining or starting entrepreneurial companies in the inner city. Two Harvard Business School graduates, for example, have launched Delray Farms with the aim of creating a national chain of small inner city supermarkets that focus on produce and other perishables. Backed by significant private-equity capital, Delray Farms is operating its first store in Chicago and is planning to open six new stores within a year.

The Real Disadvantages of the Inner City

The second step toward creating a coherent economic strategy is addressing the very real disadvantages of locating businesses in the inner city. The inescapable fact is that businesses operating in the inner city face greater obstacles than those based elsewhere. Many of those obstacles are needlessly inflicted by government. Unless the disadvantages are addressed directly, instead of indirectly through subsidies or mandates, the inner city's competitive advantages will continue to erode.

Land. Although vacant property is abundant in inner cities, much of it is not economically usable. Assembling small parcels into meaningful sites can be prohibitively expensive and is further complicated by the fact that a number of city, state, and federal agencies each control land and fight over turf. For example, development of the Jeffrey Plaza shopping

center in Chicago's South Side required government efforts over eight years to assemble 21 contiguous parcels. Similarly, attempts to rebuild South Central Los Angeles after the 1992 riots have been hampered because only 9 of 200 vacant or underutilized properties are larger than one acre. (By comparison, Wal-Mart requires four to six acres for a single store). Once assembled, an inner city site often requires expensive demolition, environmental cleanup, and extensive litigation. Private developers and banks tend to avoid sites with even a hint of environmental problems because of punitive liability laws.

Building Costs. The cost of building in the inner city is significantly higher than in the suburbs because of the costs and delays associated with logistics, negotiations with community groups, and strict urban regulations: restrictive zoning, architectural codes, permits, inspections, and government-required union contracts and minority set-asides. Ironically, despite the desperate need for new projects, construction in inner cities is far more regulated than it is in the suburbs–a legacy of big city politics and entrenched bureaucracies.

More damaging than regulatory costs is the uncertainty that the regulatory process creates for potential investors. Managers interviewed in Boston, Los Angeles, and Chicago expressed frustration with the three-year to five-year waiting periods necessary to obtain the numerous permit and site approvals required to build, expand, or improve facilities. Undeniably, the wait is expensive, but the uncertainty about whether an application will be approved or when a ruling will be made makes forming a financial strategy nearly impossible.

Other Costs. Compared with the suburbs, inner cities have high costs for water, other utilities, workers' compensation, health care, insurance, permitting and other fees, real estate and other taxes, OSHA compliance, and neighborhood hiring requirements. For example, Russer Foods, a manufacturing company located in Boston's inner city, operates a comparable plant in upstate New York. The Boston plant's expenses are 55% higher for workers' compensation, 50% higher for family medical insurance, 166% higher for unemployment insurance, 340% higher for water, and 67% higher for electricity. High costs like these drive away companies and hold down wages. Some costs, such as those for workers' compensation, apply to the state or region as a whole. Others, such as real estate taxes, apply citywide. Still others, such as property insurance, are specific to the inner city. All are devastating to maintaining fragile inner city companies and to attracting new businesses.

It is an unfortunate reality that many cities–because they have a greater proportion of residents dependent on welfare, Medicaid, and other social programs–require higher government spending and, as a result, higher corporate taxes. The resulting tax burden feeds a vicious cycle–driving out more companies while requiring even higher taxes from those that remain. Cities have been reluctant to challenge entrenched bureaucracies and unions, as well as inefficient and outdated government departments, all of which unduly raise city costs.

Finally, excessive regulation not only drives up building and other costs but also hampers almost all facets of business life in the inner city, from putting up an awning over a shop window to operating a pushcart to making site improvements. Regulation also stunts inner city entrepreneurship, serving as a formidable barrier to small and start-up companies. Restrictive licensing and permitting, high licensing fees, and archaic safety and health regulations create barriers to entry into the very types of businesses that are logical and appropriate for creating jobs and wealth in the inner city.

Security. Both the reality and the perception of crime represent profound impediments to urban economic development. First, crime against property raises costs. For example, the Shops at Church Square, an inner city strip shopping center in Cleveland, Ohio, spends $2 per square foot more than a comparable suburban center for a full-time security guard, increased lighting, and continuous cleaning–raising overall costs by more than 20%. Second, crime against employees and customers creates an unwillingness to work in and patronize inner city establishments and restricts companies' hours of operation. Fear of crime ranks among the most important reasons why companies opening new fa-

Inner city residents have a real capacity for entrepreneurship. The challenge is to redirect some of that talent from the social to the private sector.

cilities failed to consider inner city locations and why companies already located in the inner city left. Currently, police devote most of their resources to the security of residential areas, largely overlooking commercial and industrial sites.

Infrastructure. Transportation infrastructure planning, which today focuses primarily on the mobility of residents for shopping and commuting, should consider equally the mobility of goods and the ease of commercial transactions. The most critical aspects of the new economic model–the importance of the location of the inner city, the connections between inner city businesses and regional clusters, and the development of export-oriented businesses–require the presence of strong logistical links between inner city business sites and the surrounding economy. Unfortunately, the business infrastructure of the inner city has fallen into disrepair. The capacity of roads, the frequency and location of highway on-ramps and off-ramps, the links to downtown, and the access to railways, airports, and regional logistical networks are inadequate.

Employee Skills. Because their average education levels are low, many inner city residents lack the skills to work in any but the most unskilled occupations. To make matters worse, employment opportunities for less-educated workers have fallen markedly. In Boston between 1970 and 1990, for example, the percentage of jobs held by people without high school diplomas dropped from 29% to 7%, while those held by college graduates climbed from 18% to 44%. And the unemployment rate for African-American men aged 16 to 64 with less than a high school education in major northeastern cities rose from 19% in 1970 to 57% in 1990.

Management Skills. The managers of most inner city companies lack formal business training. That problem, however, is not unique to the inner city; it is a characteristic of small businesses in general. Many individuals with extensive work histories but little or no formal managerial training start businesses. Inner city companies without well-trained managers experience a series of predictable problems that are similar to those that affect many small businesses: weaknesses in strategy development, market segmentation, customer-needs evaluation, introduction of information technology, process design, cost control, securing or restructuring financing, interaction with lenders and government regulatory agencies, crafting business plans, and employee training. Local community colleges often offer management courses, but their quality is uneven, and entrepreneurs are hard-pressed for time to attend them.

Capital. Access to debt and equity capital represents a formidable barrier to entrepreneurship and company growth in inner city areas.

First, most inner city businesses still suffer from poor access to debt funding because of the limited attention that mainstream banks paid them historically. Even in the best of circumstances, small-business lending is only marginally profitable to banks because transaction costs are high relative to loan amounts. Many banks remain in small-business lending only to attract deposits and to help sell other more profitable products.

The federal government has made several efforts to address the inner city's problem of debt capital.

Excessive regulation hampers almost all facets of business life in the inner city, from putting up an awning over a shop window to operating a pushcart to making site improvements.

As a result of legislation like the Community Reinvestment Act, passed in order to overcome bias in lending, banks have begun to pay much more attention to inner city areas. In Boston, for example, leading banks are competing fiercely to lend in the inner city – and some claim to be doing so profitably. Direct financing efforts by government, however, have proved ineffective. The proliferation of government loan pools and quasi-public lending organizations has produced fragmentation, market confusion, and duplication of overhead. Business loans that would provide scale to private sector lenders are siphoned off by these organizations, many of which are high-cost, bureaucratic, and risk-averse. In the end, the development of high-quality private sector expertise in inner city business financing has been undermined.

Second, equity capital has been all but absent. Inner city entrepreneurs often lack personal or family savings and networks of individuals to draw on for

capital. Institutional sources of equity capital are scarce for minority-owned companies and have virtually ignored inner city business opportunities.

Attitudes. A final obstacle to companies in the inner city is antibusiness attitudes. Some workers perceive businesses as exploitative, a view that guarantees poor relations between labor and management. Equally debilitating are the antibusiness attitudes held by community leaders and social activists. These attitudes are the legacy of a regrettable history of poor treatment of workers, departures of companies, and damage to the environment. But holding on to these views today is counterproductive. Too often, community leaders mistakenly view businesses as a means of directly meeting social needs; as a result, they have unrealistic expectations for corporate involvement in the community. For example, some businesses interested in locating in Boston's inner city decided against it because of demands to build playgrounds, fund scholarships, and cede control of hiring and training to community-based organizations. Such demands on existing and potential businesses rarely help the community; instead, they drive businesses – and jobs – to other locations.

Demanding linkage payments and contributions and stirring up antibusiness sentiment are political tools that brought questionable results in the past when owners had less discretion about where they chose to locate their companies. In today's increasingly competitive business environment, such tactics will serve only to stunt economic growth.

Changing Roles and Responsibilities for Inner City Development

Overcoming the business disadvantages of the inner city as well as building on its inherent advantages will require the commitment and involvement of business, government, and the nonprofit sector. Each will have to abandon deeply held beliefs and past approaches. Each must be willing to accept a new model for the inner city based on an economic rather than a social perspective. The private sector, not government or social service organizations, must be the focus of the new model.

The New Role of the Private Sector. The economic model challenges the private sector to assume the leading role. First, however, it must adopt new attitudes toward the inner city. Most private sector initiatives today are driven by preference programs or charity. Such activities would never stand on their own merits in the marketplace. It is inevitable, then, that they contribute to growing cynicism. The private sector will be most effective if it focuses on what it does best: creating and supporting economically viable businesses built on true competitive advantage. It should pursue four immediate opportunities as it assumes its new role.

1. Create and expand business activity in the inner city. The most important contribution companies can make to inner cities is simply to do business there. Inner cities hold untapped potential for profitable businesses. Companies and entrepreneurs must seek out and seize those opportunities that build on the true advantages of the inner city. In particular, retailers, franchisers, and financial services companies have immediate opportunities. Franchises represent an especially attractive model for inner city entrepreneurship because they provide not only a business concept but also training and support.

Businesses can learn from the mistakes that many outside companies have made in the inner city. One error is the failure of retail and service businesses to tailor their goods and services to the local market. The needs and preferences of the inner city market can vary greatly – something that companies like Goldblatt Brothers have recognized. The Chicago retailer understands that its inner city customers buy to meet immediate needs, and it has tailored its retail merchandise and purchasing planning to its customers' buying habits. For example, unlike most stores, which stock winter coats in the fall, Goldblatt Brothers stocks its coats in the winter.

Another common mistake is the failure to build relationships within the community and to hire locally. Hiring local residents builds loyalty from neighborhood customers, and local employees of retail and service businesses can help stores customize their products. Evidence suggests that com-

> Community leaders too often view businesses as a means of directly meeting social needs – and drive companies and jobs out of the inner city.

panies that were perceived to be in touch with the community had far fewer security problems, whether or not the owners lived in the community. For example, Americas' Food Basket hires locally and is widely viewed as a good citizen of the community. As a result, management reports that it has not had to hire a security guard and that neighbors often call if they witness anything amiss.

Companies have discovered a number of other effective tactics for dealing with security. For instance, large concentrations of businesses spread security costs and reinforce perceptions of safety. MetroTech, a back-office operations complex serving nearby Wall Street, is located in a high-poverty and high-crime area near the federal buildings in downtown Brooklyn. The developers created an 18-acre campus that could support 4 million to 8 million square feet of office space. The complex is so large that tenants pay only 33 cents per square foot for 24-hour private security. Because transportation infrastructure adds to perceptions of safety in traveling to and from business locations, MetroTech enlisted the city government to renovate the local subway stations and to locate a police branch near the site. Crime has been insignificant, and MetroTech is fully occupied by leading financial institutions.

In other cases, companies have organized themselves into associations to increase the effectiveness of security and to spread costs. The associations work closely with the police department and with members of the community to identify and address security problems. In some cities, special neighborhood-managed tax-assessment districts – such as New York City's many Business Improvement Districts – have been established to provide funds for supplemental security protection and other services.

2. Establish business relationships with inner city companies. By entering into joint ventures or customer-supplier relationships, outside companies will help inner city companies by encouraging them to export and by forcing them to be competitive. In the long run, both sides will benefit. For example, AB&W Engineering, a Dorchester-based metal fabricator, has built a close working relationship with General Motors. GM has given AB&W management assistance and a computerized ordering system and has referred a lot of new business to AB&W. In turn, AB&W has become a high-performing and reliable supplier. Such relationships, based not on charity but on mutual self-interest, are sustainable ones; every major company should develop them.

3. Redirect corporate philanthropy from social services to business-to-business efforts. Countless companies give many millions of dollars each year to worthy inner-city social-service agencies. But philanthropic efforts will be more effective if they also focus on building business-to-business relationships that, in the long run, will reduce the need for social services.

> Every major company should develop business relationships with inner city companies based not on charity but on mutual self-interest.

First, corporations could have a tremendous impact on training. The existing system for job training in the United States is ineffective. Training programs are fragmented, overhead intensive, and disconnected from the needs of industry. Many programs train people for nonexistent jobs in industries with no projected growth. Although reforming training will require the help of government, the private sector must determine how and where resources should be allocated to ensure that the specific employment needs of local and regional businesses are met. Ultimately, employers, not government, should certify all training programs based on relevant criteria and likely job availability.

Training programs led by the private sector could be built around industry clusters located in both the inner city (for example, restaurants, food service, and food processing in Boston) and the nearby regional economy (for example, financial services and health care in Boston). Industry associations and trade groups, supported by government incentives, could sponsor their own training programs in collaboration with local training institutions.

Programs that help inner city residents with the school-to-work transition could also take advantage of regional clusters. Project ProTech in Boston lets high school students compete for apprentice-like positions in the health care cluster. The program mixes classroom work and internship training during the school year and over the summer,

beginning in the junior year of high school. Project ProTech is currently expanding to include other clusters, such as utilities and financial services.

Second, the private sector could make an equally substantial impact by providing management assistance to inner city companies. As with training, current programs financed or operated by the government are inadequate. Outside companies have much to offer companies in the inner city: talent, know-how, and contacts. One approach to upgrading management skills is to emphasize networking with companies in the regional economy that either are part of the same cluster (customers, suppliers, and related businesses) or have expertise in needed areas. An inner city company could team up with a partner in the region who provides management assistance; or a consortium of companies with a required expertise, such as information technology, could provide assistance to inner city businesses in need of upgrading their systems.

Professional associations could develop advisory programs for inner city managers. Business schools could develop and teach custom-designed short and practical executive programs or assist inner city companies through field studies programs. The Harvard Business School, for example, offers a for-credit course that matches teams of M.B.A. students with inner city companies. We are encouraging the development of such programs elsewhere.

4. Adopt the right model for equity capital investments. The investment community – especially venture capitalists – must be convinced of the viability of investing in the inner city. There is a small but growing number of minority-oriented equity providers (although none specifically focus on inner cities). A successful model for inner city investing will probably not look like the familiar venture-capital model created primarily for technology companies. Instead, it may resemble the equity funds operating in the emerging economies of Russia or Hungary – investing in such mundane but potentially profitable projects as supermarkets and laundries. Ultimately, inner-city-based businesses that follow the principles of competitive advantage will generate appropriate returns to investors – particularly if aided by appropriate incentives, such as tax exclusions for capital gains and dividends for qualifying inner city businesses.

The New Role of Government. To date, government has assumed primary responsibility for bringing about the economic revitalization of the inner city. Existing programs at the federal, state, and local levels designed to create jobs and attract businesses have been piecemeal and fragmented at best. Still worse, these programs have been based on subsidies and mandates rather than on marketplace realities. Unless we find new approaches, the inner city will continue to drain our rapidly shrinking public coffers.

Undeniably, inner cities suffer from a long history of discrimination. However, the way for government to move forward is not by looking behind. Government can assume a more effective role by supporting the private sector in new economic initiatives. It must shift its focus from direct involvement and intervention to creating a favorable environment for business. This is not to say that public funds will not be necessary. But subsidies must be spent in ways that do not distort business incentives, focusing instead on providing the infrastructure to support genuinely profitable businesses. Government at all levels should focus on four goals as it takes on its new role.

> The private sector will be most effective if it focuses on what it does best: creating and supporting economically viable businesses built on true competitive advantage.

1. Direct resources to the areas of greatest economic need. The crisis in our inner cities demands that they be first in line for government assistance. This may seem an obvious assertion. But the fact is that many programs in areas such as infrastructure, crime prevention, environmental cleanup, land development, and purchasing preference spread funds across constituencies for political reasons. For example, most transportation infrastructure spending goes to creating still more attractive suburban areas. In addition, a majority of preference-program assistance does not go to companies located in low-income neighborhoods.

Investments that boost the economic potential of inner cities must receive priority. For example,

Superfund cleanup dollars should go to sites in high-unemployment inner city areas before they go to low-unemployment suburban sites. Infrastructure improvements should go to making inner city areas more attractive business locations. And crime prevention resources should go to high-crime inner city areas. Spending federal, state, and local money in that way will have the added benefit of easing critical social problems, thus reducing social service spending.

Unfortunately, the qualifying criteria for current government assistance programs are not properly designed to channel resources where they are most needed. Preference programs support business based on the race, ethnicity, or gender of their owners rather than on economic need. In addition to directing resources away from the inner city, such race-based or gender-based distinctions reinforce inappropriate stereotypes and attitudes, breed resentment, and increase the risk that programs will be manipulated to serve unintended populations. Location in an economically distressed area and employment of a significant percentage of its residents should be the qualification for government assistance and preference programs. Shifting the focus to economic distress in this way will help enlist all segments of the private sector in the solutions to the inner city's problems.

2. Increase the economic value of the inner city as a business location. In order to stimulate economic development, government must recognize that it is a part of the problem. Today its priorities often run counter to business needs. Artificial and outdated government-induced costs must be stripped away in the effort to make the inner city a profitable location for business. Doing so will require rethinking policies and programs in a wide range of areas. There is early evidence that self-inflicted regulatory costs can be overcome. Consider the success of the Indianapolis Regulatory Study Commission in Indiana. In two short years, Indianapolis ended its taxi monopoly, streamlined its building permitting process, and eliminated a wide range of needless regulations.

Indeed, there are numerous possibilities for reform. Imagine, for example, policy aimed at eliminating the substantial land and building cost penalties that businesses face in the inner city. Ongoing rent subsidies run the risk of attracting companies for which an inner city location offers no other economic value. Instead, the goal should be to provide building-ready sites at market prices. A single government entity could be charged with assembling parcels of land and with subsidizing demolition, environmental cleanup, and other costs. The same entity could also streamline all aspects of building–including zoning, permitting, inspections, and other approvals.

That kind of policy would require further progress on the environmental front. A growing number of cities–including Detroit, Chicago, Indianapolis, Minneapolis, and Wichita, Kansas–have successfully developed so-called brownfield urban areas by making environmental cleanup standards more flexible depending on land use, indemnifying land owners against additional costs if contamination is found on a site after a cleanup, and using tax-increment financing to help fund cleanup and redevelopment costs.

Government must shift its focus from direct involvement and intervention to creating a favorable environment for business.

Government entities could also develop a more strategic approach to developing transportation and communications infrastructures, which would facilitate the fluid movement of goods, employees, customers, and suppliers within and beyond the inner city. Two projects in Boston are prime examples: first, a new exit ramp connecting the inner city to the nearby Massachusetts Turnpike, which in turn connects to the surrounding region and beyond; and a direct access road to the harbor tunnel, which connects to Logan International Airport. Though inexpensive, both projects are stalled because the city does not have a clear vision of their economic importance.

3. Deliver economic development programs and services through mainstream, private sector institutions. There has been a tendency to rely on small community-based nonprofits, quasi-governmental organizations, and special-purpose entities, such as community development banks and specialized small-business investment corporations, to provide capital and business-related services. Social service institutions have a role, but it is not this. With few

exceptions, nonprofit and government organizations cannot provide the quality of training, advice, and support to substantial companies that mainstream, private sector organizations can. Compared with private sector entities such as commercial banks and venture capital companies, special-purpose institutions and nonprofits are plagued by high overhead costs; they have difficulty attracting and retaining high-quality personnel, providing competitive compensation, or offering a breadth of experience in dealing with companies of scale.

Consider access to capital. Government must help create the conditions necessary for private, mainstream financial institutions to lend and invest profitably in inner city businesses. Efforts to eliminate discrimination are vital but are not sufficient. Financing in the inner city must be profitable, or private sector institutions will never have the enthusiasm to develop it aggressively. Some conventional lenders claim that the reason they have not found inner city loans profitable is not higher default rates, as is commonly assumed, but the high transaction costs of finding and actually making inner city loans. Government should address those costs head on through better information and relaxed paperwork requirements and regulations. In addition, it could provide direct incentives, giving banks a transaction fee rather than a loan guarantee for closing a qualifying inner-city-based business loan. Such an approach would encourage banks to make and maintain good loans, instead of forcing capital into bad loans to fill lending quotas based on race, ethnicity, or gender.

The most important way to bring debt and equity investment to the inner city is by engaging the private sector. Resources currently going to government or quasi-public financing would be better channeled through other private financial institutions or directed at recapitalizing minority-owned banks focusing on the inner city, provided that there were matching private sector investors. Minority-owned banks that have superior knowledge of the inner city market could gain a competitive advantage by developing business-lending expertise in inner city areas.

As in lending, the best approach to increase the supply of equity capital to the inner cities is to provide private sector incentives consistent with building economically sustainable businesses. One approach would be for both federal and state governments to eliminate the tax on capital gains and dividends from long-term equity investments in inner-city-based businesses or subsidiaries that employ a minimum percentage of inner city residents. Such tax incentives, which are based on the premise of profit, can play a vital role in speeding up private sector investment. Private sector sources of equity will be attracted to inner city investment only when the creation of genuinely profitable businesses is encouraged.

4. Align incentives built into government programs with true economic performance. Aligning incentives with business principles should be the goal of every government program. Most programs today would fail such a test. For example, preference programs in effect guarantee companies a market. Like other forms of protectionism, they dull motivation and retard cost and quality improvement. A 1988 General Accounting Office report found that within six months of graduating from the Small Business Association's purchasing preference program, 30% of the companies had gone out of business. An additional 58% of the remaining companies claimed that the withdrawal of the SBA's support had had a devastating impact on business. To align incentives with economic performance, preference programs should be rewritten to require an increasing amount of non-set-aside business over time.

Direct subsidies to businesses do not work. Instead, government funds should be used for site assembly, extra security, environmental cleanup, and other investments designed to improve the business environment. Companies then will be left to make decisions based on true profit.

The New Role of Community-Based Organizations. Recently, there has been renewed activity among community-based organizations (CBOs) to become directly involved in business development. CBOs can, and must, play an important supporting role in the process. But choosing the proper strategy is critical, and many CBOs will have to change fundamentally the way they operate. While it is difficult to make a general set of recommendations to such a diverse group of organizations, four principles should guide community-based organizations in developing their new role.

1. Identify and build on strengths. Like every other player, CBOs must identify their unique competitive advantages and participate in economic development based on a realistic assessment of their capabilities, resources, and limitations. Community-based organizations have played a much-needed role in developing low-income housing, social programs, and civic infrastructure. However, while there have been a few notable successes, the vast majority of businesses owned or managed by CBOs have been failures. Most CBOs lack the skills, attitudes, and incentives to advise, lend to, or operate substantial businesses. They were able to master

low-income housing development, in which there were major public subsidies and a vacuum of institutional capabilities. But, when it comes to financing and assisting for-profit business development, CBOs simply can't compete with existing private sector institutions.

Moreover, CBOs naturally tend to focus on community entrepreneurship: small retail and service businesses that are often owned by neighborhood residents. The relatively limited resources of CBOs, as well as their focus on relatively small neighborhoods, is not well-suited to developing the more substantial companies that are necessary for economic vitality.

Finally, the competitive imperatives of for-profit business activity will raise inevitable conflicts for CBOs whose mission rests with the community. Turning down local residents in favor of better-qualified outside entrepreneurs, supporting necessary layoffs or the dismissal of poorly performing workers, assigning prime sites for business instead of social uses, and approving large salaries to successful entrepreneurs and managers are only a handful of the necessary choices. Given these organizations' roots in meeting the social needs of neighborhoods, it will be difficult for them to put profit ahead of their traditional mission.

2. Work to change workforce and community attitudes. Community-based organizations have a unique advantage in their intimate knowledge of and influence within inner city communities, and they can use that advantage to help promote business development. CBOs can help create a hospitable environment for business by working to change community and workforce attitudes and acting as a liaison with residents to quell unfounded opposition to new businesses. When BayBank wanted to open a new branch in Dorchester, for example, a local community development corporation was instrumental in smoothing relations with a few vocal critics who could have delayed the project or even driven the bank away.

3. Create work-readiness and job-referral systems. Community-based organizations can play an active role in preparing, screening, and referring employees to local businesses. A pressing need among many inner city residents is work-readiness training, which includes communication, self-development, and workplace practices. CBOs, with their intimate knowledge of the local community, are well equipped to provide this service in close collaboration with industry. The Urban League of Eastern Massachusetts, for example, has taken up the challenge in its new Employment Resource Center. The center provides workers with basic training as well as instruction on specific topics, such as customer-service and interviewing skills and written and oral communication.

CBOs can also help inner city residents by actively developing screening and referral systems. Admittedly, some inner-city-based businesses do not hire many local residents. The reasons are varied and complex but seem to revolve around a few bad experiences that owners have had with individual employees and their work attitudes, absenteeism, false injury claims, or drug use. A study of the impoverished Red Hook neighborhood in Brooklyn points to the importance of social networks – networks that are often lacking in inner cities – as informal job referral systems.[1] The study found that a local development corporation, the South Brooklyn LDC, played an important role in helping local residents get jobs by developing relationships with nearby businesses and screening and referring employees to them.

4. Facilitate commercial site improvement and development. Community-based organizations (especially community development corporations) can also leverage their expertise in real estate and act as a catalyst to facilitate environmental cleanup and the development of commercial and industrial property. For example, the Codman Square Neighborhood Development Corporation in Boston was part of a group including the Boston Public Facilities Department, local merchants, and the local

Businesspeople, entrepreneurs, and investors must lead the economic revival; and community activists, social service providers, and government bureaucrats must support them.

1. See Philip Kasinitz and Jan Rosenberg, "Why Enterprise Zones Will Not Work: Lessons from a Brooklyn Neighborhood," *City Journal*, Autumn 1993, pp.63-9.

health center that encouraged 36 businesses to move into a depressed neighborhood. The group used its considerable community organizing talent to help merchants form an association to identify the neighborhood's needs as well as barriers to meeting them. It negotiated with the police to increase patrols in the area and pushed the mayor's office to board up abandoned buildings and to rid the area of trash and abandoned cars. After bringing together many different constituencies, it led a campaign to encourage businesses to locate in the neighborhood.

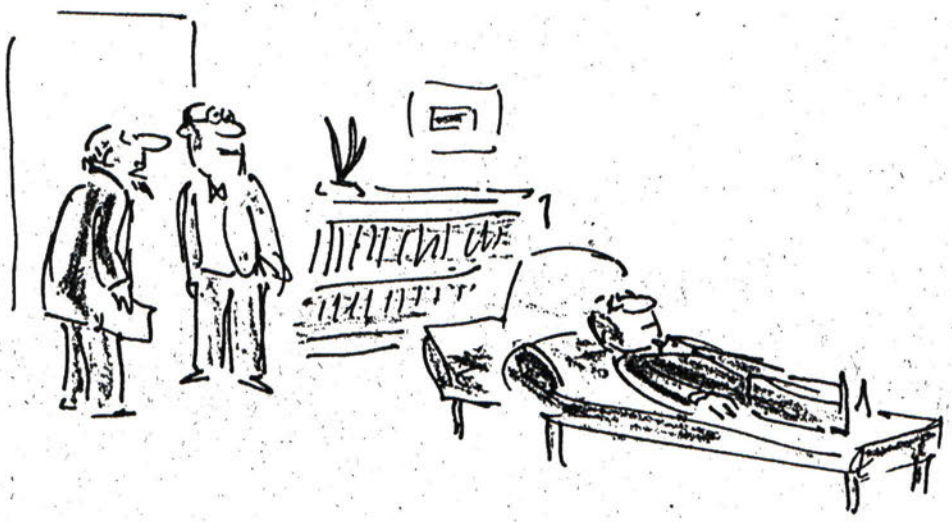
Overcoming Impediments to Progress

This economic model provides a new and comprehensive approach to reviving our nation's distressed urban communities. However, agreeing on and implementing it will not be without its challenges. The private sector, government, inner city residents, and the public at large all hold entrenched attitudes and prejudices about the inner city and its problems. These will be slow to change. Rethinking the inner city in economic rather than social terms will be uncomfortable for many who have devoted years to social causes and who view profit and business in general with suspicion. Activists accustomed to lobbying for more government resources will find it difficult to embrace a strategy for fostering wealth creation. Elected officials used to framing urban problems in social terms will be resistant to changing legislation, redirecting resources, and taking on recalcitrant bureaucracies. Government entities may find it hard to cede power and control accumulated through past programs. Local leaders who have built social service organizations and merchants who have run mom-and-pop stores could feel threatened by the creation of new initiatives and centers of power. Local politicians schooled in old-style community organizing and confrontational politics will have to tread unfamiliar ground in facilitating cooperation between business and residents.

These changes will be difficult ones for both individuals and institutions. Nonetheless, they must be made. The private sector, government, and community-based organizations all have vital new parts to play in revitalizing the economy of the inner city. Businesspeople, entrepreneurs, and investors must assume a lead role; and community activists, social service providers, and government bureaucrats must support them. The time has come to embrace a rational economic strategy and to stem the intolerable costs of outdated approaches.

The research that this article is based on would not have been possible without the generous support of the Harvard Business School and the assistance of many individuals. Whitney Tilson, Michael Marubio, and Barbara Paige were integrally involved in preparing this article. I would also like to thank the many M.B.A. students from both the Harvard Business School and other schools who have been involved in the research effort that made this article possible.

Reprint 95310



"It's a mild case – he thinks he's Napoleon's valet."

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Tobacco Deal in Trouble at White House

Restrictions on Authority to Regulate Nicotine 'Unacceptable'

By Peter Baker and John Schwartz
Washington Post Staff Writers
Wednesday, July 9, 1997; Page A04
The Washington Post

The White House has decided to reject a critical element of the proposed $368.5 billion settlement with the tobacco industry because it would impose broad new restrictions on federal authority to regulate nicotine in cigarettes, senior officials said yesterday.

In their first direct involvement in the effort to craft a settlement, advisers to President Clinton plan to rewrite the proposal themselves after concluding it surrenders too much of the Food and Drug Administration's ability to control the addictiveness of cigarettes. Such limits, they determined, would roll back their arduous campaign to assert jurisdiction over tobacco.

"After taking a serious look at it, they're unacceptable," said an administration official who asked not to be named. "The way it's written, it actually slides back on what we've already won."

That conclusion did not come as a complete surprise, given the public reservations Clinton had expressed about the FDA limits since the plan was unveiled last month. But it reflects a calculated gamble by Clinton that the political momentum is running his way and he can afford to risk reopening the delicately balanced deal because the industry has little room to maneuver. According to aides, Clinton is willing to walk away from the settlement entirely if he cannot amend it to his satisfaction.

The proposed settlement would resolve scores of lawsuits against the tobacco industry by state governments and individual smokers seeking reimbursement for medical expenses caused by smoking.

It was reached after months of difficult negotiations between industry representatives and a group of state

attorneys general and trial lawyers, but any deal ultimately will require the approve of Clinton and Congress, which will have to translate it into legislation.

In addition to reimbursing the states for health costs, tobacco companies agreed to fund anti-smoking campaigns, accept a virtual ban on most cigarette advertising and promise to reduce underage smoking by certain goals.

In exchange, they demanded that the FDA meet certain standards before being allowed to reduce nicotine in cigarettes, including complying with a requirement that it prove such a move would not create a black market in stronger cigarettes.

Whether Clinton can pressure tobacco companies to accept further compromise is unclear. At a White House meeting with a top presidential adviser last week, tobacco lawyers exhibited little appetite for more concessions, but they did not rule them out either.

One of the leading critics of the deal praised the administration's decision last night. "It's a very important step on the part of the White House," said former FDA commissioner David A. Kessler, who led the administration's anti-tobacco fight before leaving his post earlier this year.

Tobacco representatives declined to assess the development, but some of their counterparts on the other side of the bargaining table suggested it was somewhat dicey because it could drive some companies away.

"The attorneys general are all for strengthening that language," said Mississippi Attorney General Michael Moore, who led the states that sued the industry.

But, he said, "we have to be a little bit cautious. Whatever goes into that language has to pass Congress." Too much tinkering, he said, "runs a great chance of running the industry off."

John P. Coale, a Washington attorney who represented trial lawyers in the talks, said he has the impression from industry leaders that "there is room to deal on the FDA" provisions. "But I don't know how much room," he added. "If the industry is pushed too hard, they may go back into the bunkers."

For some companies, allowing any FDA regulation of nicotine was a bitter pill to swallow because they fear it could amount to an outright ban on cigarettes. British-American Tobacco, the parent company of America's third-largest tobacco company, Brown & Williamson Tobacco Co., was especially adamant in demanding FDA limits and some negotiators believe it

might walk without them.

The FDA limits, however, may not be the only section the administration tries to rewrite. Clinton has appointed a series of working groups to review different parts of the agreement and they are at the early stages of their work.

Another provision that has drawn their concern involves the penalties that would be assessed on tobacco companies if they fail to meet the settlement's goals of reducing teenage smoking by certain amounts.

As part of the review, officials are consulting widely this week. Vice President Gore, Health and Human Services Secretary Donna E. Shalala and Bruce Reed, Clinton's domestic policy adviser, plan to meet at the White House today with Kessler and former surgeon general C. Everett Koop.

Moore and Attorney General Christine Gregoire of Washington state have been invited in tomorrow and leaders of public health groups are coming Friday.

Administration officials said they have not decided how they will rewrite the FDA rules, though the one involving black markets is certain to be revised. One option that has been suggested would simply require the FDA to consider the likelihood that it might create such an underground, rather than to definitively prove it would not.

Either way, officials said that after months of waiting they believe it is now up to them to craft legislation to send Congress. "We're not going to send the attorneys generals and the tobacco industry back to the bargaining table," said one official.

Besides meeting at the White House, Koop and Kessler will release the final report of a commission they lead that proposes full FDA regulatory authority and advertising restrictions; an excise tax of up to $2 per pack; and new limits on smoking in workplaces, schools and even outdoor areas such as sports stadiums.

They also suggest the crackdown on tobacco should extend beyond U.S. borders, hitting the industry in the international market that has helped sustain it in recent years. Among other things, the report said tobacco should be removed from the list of export items boosted by U.S. officials in trade talks.

The 70-page document "is neither incremental nor utopian," the report says. "The plans outlined are ambitious, but they can be achieved within a short time.".

Staff writers Ann Devroy and Saundra Torry contributed to this report.

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th Milwaukee, WI 53172
4) 764-7421
e 18, 1997

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Jeny

y James Schwantes

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the reply.

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1725 Lakeview Avenue
South Milwaukee, WI 53172
(414) 764-7421
June 18, 1997

President Clinton
c/o Ms. Betty Curry
1600 Pennsylvania Avenue
Washington, DC 20500

Dear Ms. Curry and President Clinton;

I just wanted to send you some prom pictures of Brianne. I hope you are all well and thank you for all of your hard work! Brianne will be coming out in October for her National Institutes of Health appointments and it looks like she will be having more facial surgery around next January. She is doing well and looking forward to her senior year in high school.

Thank you again.

Sincerely yours,

Terry James Schwantes



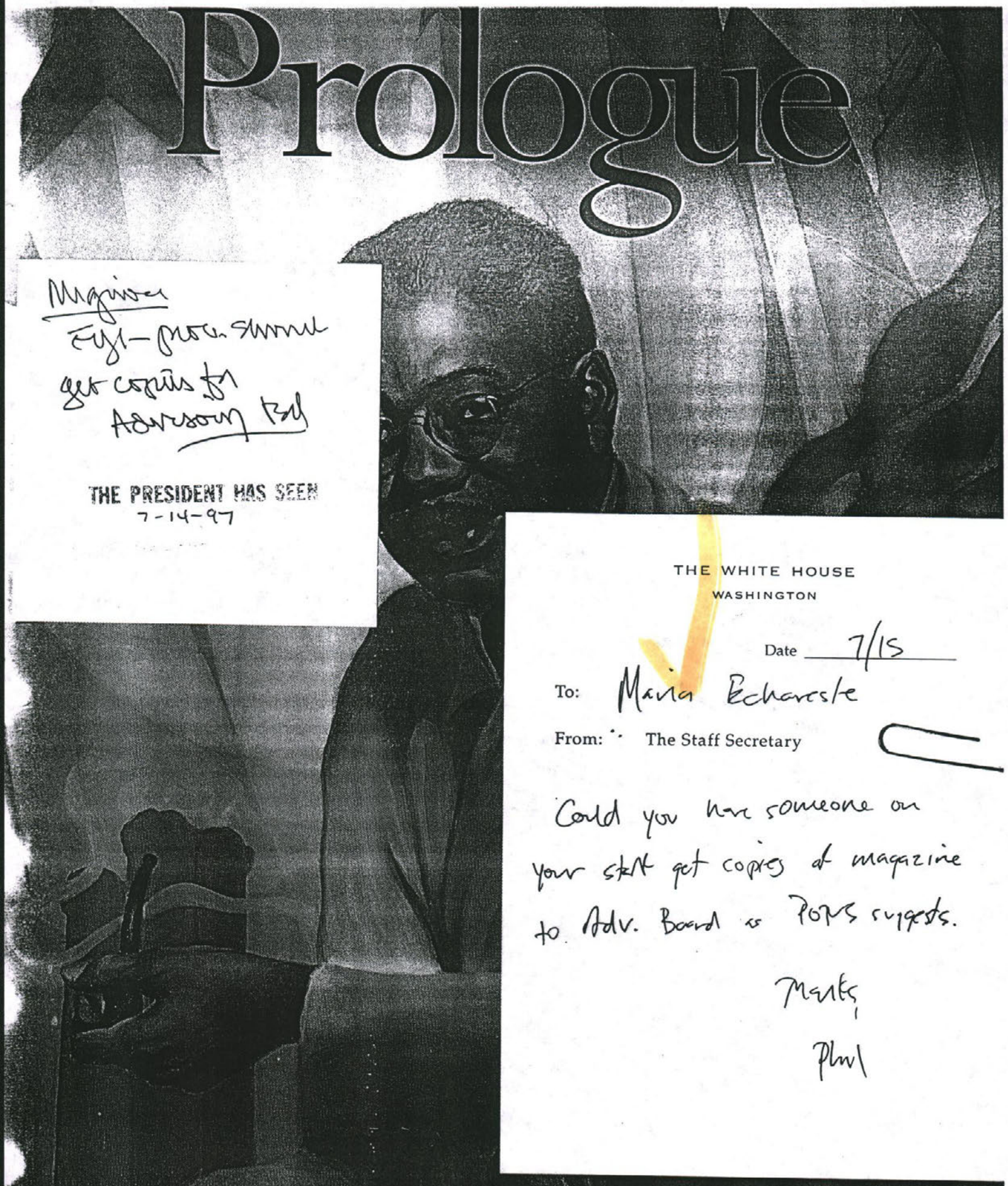


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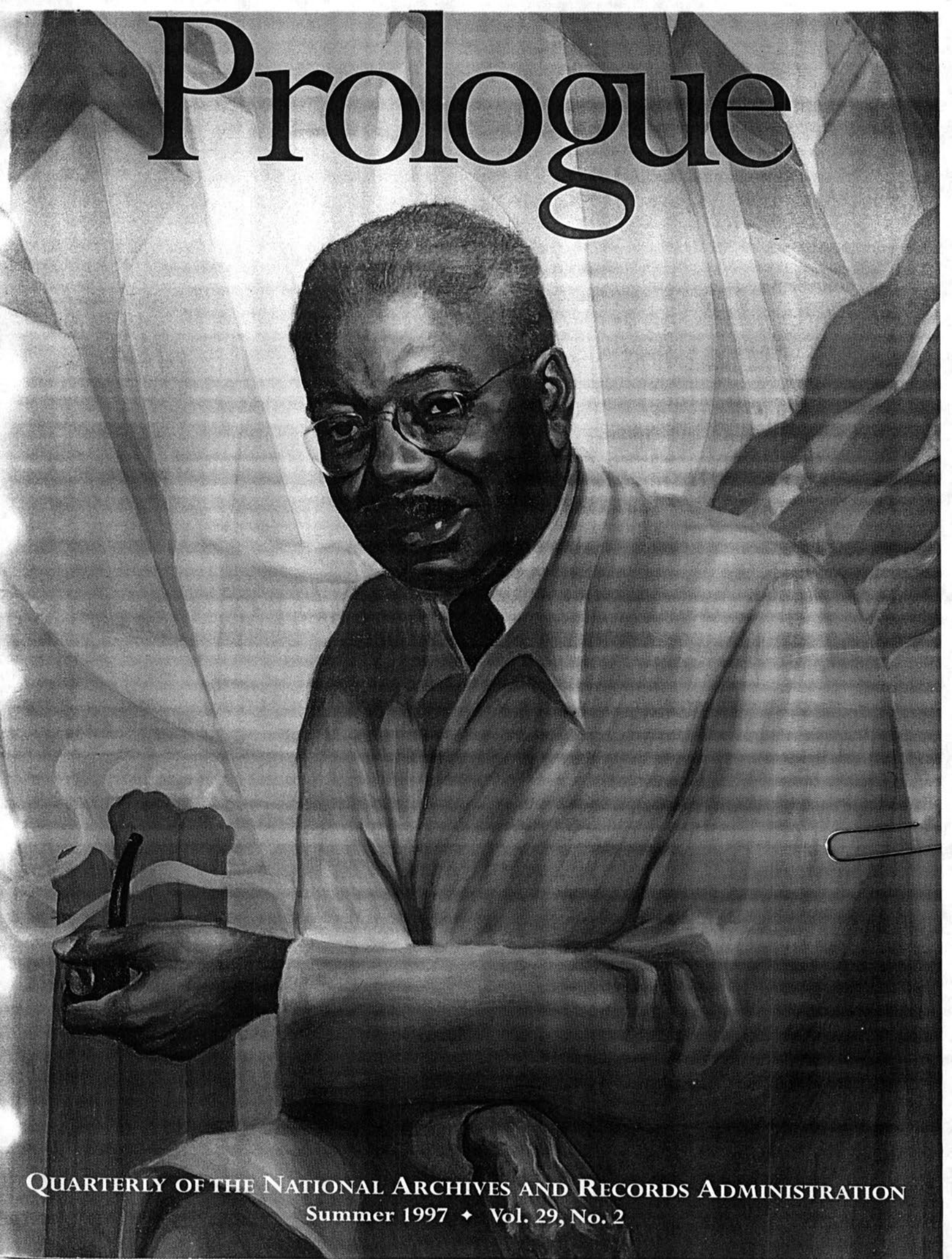
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Could you have someone on your staff get copies of magazine to Adv. Board as POTUS suggests.

Thanks,
Phil

QUARTERLY OF THE NATIONAL ARCHIVES AND RECORDS ADMINISTRATION
Summer 1997 ✦ Vol. 29, No. 2

Prologue



QUARTERLY OF THE NATIONAL ARCHIVES AND RECORDS ADMINISTRATION
Summer 1997 ✦ Vol. 29, No. 2

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