12-15 97

THE WHITE HOUSE

copied
cds
winston

Jim Zogby really wants to be involved in the Race Initiative. He has good, practical, doable ideas. I asked him to prepare this for you. It came as a response to your question during the Hate Crimes Conference (the young Filipino) about self segregation in the schools.

JWinston
- Marcia Scott worked on the Hate Crimes conf. & knows Zogby—
- He's been in to talk to us about meeting with a group of Asian Am. reps.
- Minimum interest in—you're following up on him keeping him involved

BC

Proposals for the President's Initiative on Race

THE PRESIDENT HAS SEEN
12-15-97

Dr. James Zogby
December 2, 1997

Two specific projects for our work with the Initiative:

"From Orientation to Graduation"—becoming One America on Campus.

While American campuses have become more racially and ethnically diverse, they have not become more unified. In fact, to some extent, campuses have become more polarized and breeding grounds for racial and ethnic antagonisms.

We have, in effect, " socially engineered" a mix of students from diverse backgrounds on our campuses, but have done little to ensure that these students actually meet and learn from each other.

With many of these young people unprepared, what occurs, most often, is that they gravitate to other students from their own backgrounds. Left on their own, students self-segregate. In some instances, this situation fosters a defensiveness with the segregated groups appearing as hostile to one another.

To improve this situation, it is imperative that as campuses socially engineer the presence of a diverse mix of students, they complete the engineering process to ensure opportunities for the students to benefit from their diversity.

I would propose a program, "From Orientation to Graduation", designed by a group of administrators, educators, and students and offered for adoption by our nation's universities and colleges.

"From Orientation to Graduation" would include activities beginning with the students' arrival on campus through graduation. The program would address housing, cafeteria, and classroom activity patterns and offer a range of other programs and activities designed to help students develop a "one campus" dynamic. Neither intrusive nor forced, some activities would be voluntary. At the same time, its purpose will be to build awareness and create more opportunities for students from diverse backgrounds to meet and learn from each other.

Ideally, "From Orientation to Graduation" would be endorsed by the Administration as a model for adoption by universities and colleges across the nation.

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"One City"

Our cities remain racially divided. Washington D.C., for example, is a model of one of the most divided cities in the U.S. With Rock Creek Park as the dividing line, one side of D.C. is approximately 90% white, the other side is 90% black.

To make matters more difficult, patterns have been established that ensure that residents from one side of our city never visit or even see the other side of town.

It is amazing to see neighborhoods in Southwest (the 35th –40th blocks of Pennsylvania Ave SW) that look exactly like neighborhoods in the NW (30th to 35th blocks of Nebraska) with the only difference that one is white, the other black and very few residents from one have the occasion to venture to the other!

One result of this state of affairs is that while all of us can imagine in our "mind's eye" the map of Washington, we cannot conjure an image of this city's many parts. When we think of Washington we can see our own neighborhood, downtown, the White House, the Capitol and monuments. But the rest remains vague at best or stereotypical at worst.

It is intriguing to think what this means not only to our children but what impact it has on all of us. How do we develop an identity as citizens or an investment in our future with such an ill-defined sense of our corporate image and identity.

With other cities sharing similar problems, it would be useful and instructive the if the Race Initiative were to design a program and set of activities to bring Washington together, and establish a model wherein we experience our many parts.

I could propose a number of ideas and I am sure that many more could be added, but the purpose must be to go beyond discussion of our diversity to actually moving us to meet each other and experience the many different neighborhoods and lifestyles of our city.

One proposal would involve a "Knowing our Neighborhoods: Becoming One City" week of activities:

1- Churches could pair up-- with one congregation joining another in prayer one Sunday, with an exchange visit on the next.

   Families could be asked to invite a visiting family to dinner after services, with a reciprocal invitation the next Sunday.

2- Local television stations and newspapers could be asked to participate with a week of special programs--- touring the many ethnic neighborhoods and restaurants and religious and cultural institutions of our city.

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3- A week of exchanges and visits among schools.

4- Living-room discussions in homes around the city with a diverse group of people invited to participate.

(It would be best to draw on a number of D.C. residents of various backgrounds to brainstorm and actively develop the entire program. These are but a few ideas.)

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Arab American Institute

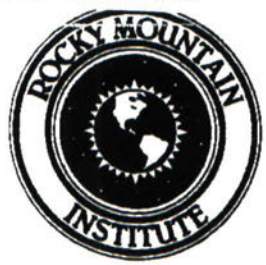
918 16th Street NW, Suite 601
Washington, DC 20006
Voice 202-429-9210
Fax 202-429-9214 or 202-785-2558

Facsimile Transmittal

To:	Marcia Scott	**Fax:**	456-5558
From:	Dr. James Zogby	**Date:**	12/02/97
Fax:	429-9214	**Pages:**	4
Re:	Race Initiative Proposal		

☐ Urgent ☒ For Review ☐ Per Your Request ☐ Please Reply ☐ Please Forward

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McGinty
Stern
Tamillo
Sperling
Steinberg
Cos

THE PRES.
12

The President
The White House
Washington DC 20500
c/o Betty Currie, FAX 202/456-67

Climate Change
Kim
K McGinty
Very
Nervous stuff
is fascinating - BC

20 October 1997

Dear Mr. President:

Thank you for your call just now n so many others.

The final version of our paper is a ummunition you need, but more importantly, suggests a t th substantively and politically.

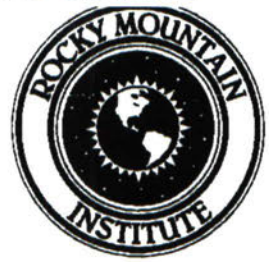
The conventional policy options y es than an approach nobody has presented to you—one olders: ***help the business community to enhance its*** nergy-efficiency measures that incidentally will larg roach puts at the top of the policy agenda a new categor ter, turning obstacles into opportunities.

Your economic advisors are hung up on price. The public is anxious about price. The new slate of policies does an end-run around price by capturing the savings that are highly profitable at *today's* prices, but aren't being captured because of pervasive inattention. Of course, you can always fall back on price instruments later if you need to, but that should be a last resort, and an efficient, effective, informed market in energy savings the first priority.

Modern energy efficiency hasn't yet been widely implemented for the real-world reasons outlined on pp. 9–17 of the enclosed paper: poor information, misallocation of capital, perverse incentives, regulatory failures, and the like. Correcting each of those market failures is good for business. CEOs are welcoming this paper because they see in it their own firms' shortcomings and opportunities: as Bob Campbell, Chairman of Sun Oil, told me, it caused him to have an epiphany, realizing how much more profitable energy-saving his company has yet to do. It therefore defines a political middle ground that responsible CEOs can endorse—between hairshirts and head-in-the-sand, pursuing prosperity in a way that also happens to be climatically responsible. It's really an extension of your success in achieving such a sound economy, and can be presented in that context.

The climate story told so far has been high prices, lost jobs, weakened competitiveness, discomfort, privation, curtailment. In this political context, emission trading is just a tax by another name (not a carrot but a stick painted orange). But just as President Reagan sold Star Wars on a child's image of an umbrella over the earth, so you can sell least-cost climate protection by making the vivid point that saving fuel is cheaper than burning fuel, so carbon emissions can be avoided not at a cost but at a profit. Your compact fluorescent lamp, over its life, will keep nearly a ton of CO_2 out of the air—*and* save tens of dollars more than it costs. There *are* $100 bills all over the ground, and America needs to start picking

1739 SNOWMASS CREEK ROAD SNOWMASS, COLORADO 81654-9199
TEL: (970) 927-3851 FAX: (970) 927-4178



FOR PRESIDENT [illegible]
12-15-97

The President
The White House
Washington DC 20500
c/o Betty Currie, FAX 202/456-6703

20 October 1997

Dear Mr. President:

Thank you for your call just now and for your leadership on the climate issue, as on so many others.

The final version of our paper is attached and will be E-mailed. It provides all the ammunition you need, but more importantly, suggests a fresh, hopeful, and almost-no-losers approach, both substantively and politically.

The conventional policy options you mentioned are all useful, but are lower priorities than an approach nobody has presented to you—one that's effective and attractive to nearly all stakeholders: *help the business community to enhance its competitiveness and profitability* by taking the energy-efficiency measures that incidentally will largely or wholly stabilize the climate. This new approach puts at the top of the policy agenda a new category—barrier-busting, making the market work better, turning obstacles into opportunities.

Your economic advisors are hung up on price. The public is anxious about price. The new slate of policies does an end-run around price by capturing the savings that are highly profitable at *today's* prices, but aren't being captured because of pervasive inattention. Of course, you can always fall back on price instruments later if you need to, but that should be a last resort, and an efficient, effective, informed market in energy savings the first priority.

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them up. Consider the following paragraph from p. 2 of our paper (right after the Southwire and Dow stories) as roadsigns for this national challenge:

> DuPont expects to save the equivalent of 18 million tons of CO_2 by 2000 through simple measures that will also save $31 million each year. Roche Vitamins (Belvedere, NJ) has profitably cut its steam use per unit of production by more than half in five years. A new chiller and related improvements at a Kraft ice-cream plant saved 33% of its electricity and 2,500 tons of CO_2 a year; productivity rose 10% and the plant turned from a money-loser into one of the most competitive. A process innovation at Blandin Paper Company (Grand Rapids, MN) saved each year 37,000 tons of CO_2 and more than $1.8 million. The first two years of billion-dollar carpetmaker Interface Corporation's efficiency efforts, *The Wall Street Journal* reports, have saved "a stunning $25 million..., with another $50 million expected the next two years." Greenville Tube Corporation's demonstration of new drivesystems under DOE's Motor Challenge program boosted productivity 15% and energy efficiency 30%, reduced scrap 15%, and saved $77,000 a year with a five-month payback. And Southern Company's 1984–94 improvements in the thermal efficiency of its fossil-fueled power plants saved 400,000 cumulative tons of SO_2 and 35 million tons of CO_2, plus an annual $108 million.

That is the flavor of the exciting stories you can tell and of the opportunities American business can capture—not only in industry but also in buildings and vehicles.

Americans need to hear that the $100 bill lying on the ground is real and that it can belong to them. We therefore suggest that you tell a hopeful, bottom-line-oriented story: helping the market in saving energy to work properly, so as to capture the rich opportunities for a stronger economy and a better standard of living.

Mr. President, imagine that in Kyoto, or in a major speech earlier, you stand up and say in outline:

> America has an extraordinary opportunity, and this is how we will grasp it.
>
> Some wish climate to be an issue that divides us. They say that protecting the climate will mean costly energy and a weakened economy.
>
> That is wrong and unnecessary. Climate is an issue that can bring us together around what America does best: entrepreneurship, competition, and the profit motive. If we do it right, protecting the climate will yield not costs but profits; not burdens but benefits; not sacrifices but an even more vibrant economy and a higher standard of living.
>
> A huge body of business experience shows that technologies for using energy far more efficiently can deliver better services at lower cost while saving at least half of the energy we now use—about what we'll need in the long run to stabilize the earth's climate. These techniques are entering the market slowly. We're going to bring them in much faster by helping the market work better and clearing the barriers that are getting in the way.
>
> American businesses and citizens use a lot of energy. Much of that energy can be used more efficiently. Doing this will save us all a lot of money—over a thousand dollars per household per year. It will also help protect the climate.

I call on American business to use the same skills to make money by protecting the climate—and we will give businesses the tools they need to get the job done. Wherever an obstacle or a barrier gets in the way of using energy in a way that saves money, we will clear away that barrier. We will turn that obstacle into a business opportunity. We will help the market to work so that people can profit by choosing the best buys first. And nearly always, the best buy will be to use old and new technologies that wring far more work out of our energy, giving better services at lower cost.

[examples, such as Southwire, Dow, and examples quoted in inset paragraph above]

So why didn't we all do this already? Because of real-world obstacles and hassles that we intend to help remove wherever they occur—in Federal and State and local rules and practices, or at the level of the firm, or in our individual lives. Let me give you some examples.

In Seattle, X did Y with result Z. In New York, A did B with result C. [etc. until point made]

In the coming weeks and months, we will be introducing a comprehensive set of initiatives to extend these kinds of success stories to a national scale. And we'll be overhauling how we do business in your government, too.

Many people don't bother saving energy because if you do, they'll just cut your budget. We're going to adopt in the Federal government a Washington State innovation that instead uses the savings to finance more savings, reward those responsible, *and* return money to the Treasury.

Architects and engineers normally get paid based on the cost of what they design, not for what they save. We're going to use Federal purchasing to change that by rewarding success, not expenditure.

Most states reward utilities for selling you more energy, not for cutting your bill. We're going to help change that, so whatever cuts your bill the most will be the most profitable for the utility.

To help make new buildings more efficient, we'll encourage "feebates": when you hook up, you pay a fee or get a rebate depending on how efficient it is, and the fees pay for the rebates.

These kinds of simple policy changes don't cost anything. They won't raise your taxes. But they will lower your energy costs, improve your life, and help protect the climate. They make sense—and they make money.

We've done this before. We can do it again. In the seven years from 1979 to 1986, America's economy grew 19% while her total energy use shrank 6%. That happened because we cared about using energy efficiently. It was a national priority. Everyone pitched in. Now we're going to do it again, but with one important difference. At that time, we were motivated by high and rising energy prices. But this time, we'll use high

and rising *skill and attention* in using energy in a way that saves money, even at *today's* prices. Many examples prove that this works. We're going to take those as models and replicate them nationwide, with private enterprise in the vanguard.

In the 1980s, American business got the lead out of gasoline, at far lower cost than anyone expected. In the past decade, sulfur emissions were cut by 37%, at a price 10–20 times lower than projected. We're steadily wringing CFCs out of the economy, to protect the ozone layer on which all life depends, again at a cost pretty close to zero, because industry came up with substitutes that worked about the same or better and cost about the same or less. We did these things together by harnessing the ingenuity of business in making a profit, and providing the opportunity to make a profit by doing the right thing. Now we're going to do exactly the same with carbon.

I also call for the early introduction of global carbon trading, which the World Bank, the commoditiy exchanges, and other organizations have offered to facilitate. Trading should be phased in by the end of this decade so that businesses can buy the cheapest savings wherever they occur. But this is not an excuse for American business to lag in introducing its own carbon savings at home. Since saving fuel is not costly but profitable, those who do it first, wherever and in whatever way they do it, will reap the biggest and earliest benefits. My own country intends to lead the world in the next American revolution—advanced energy efficiency—and in showing how that can lay a solid foundation for an even stronger economy in the 21st Century.

A few other suggestions:

- We'll shortly be sending to Larry Summers, at his request (over dinner at Strobe's), a menu of Federal Policy options for fixing the market failures. We'll gladly copy it to you. We don't have an analysis showing how much CO_2 each option would save, but we're not sure that matters much, because the collective potential is so enormous and so cheap.

- Talking with Larry made it clear that your economic advisors and your technological advisors (like DOE's Joe Romm, an RMI alumnus, who briefed Cabinet on the Five-Labs study) have trouble communicating because their paradigms and language are so different. Given an interpreter, they could agree about a lot more than either would expect. You might consider having John Holdren lead a small advisory discussion to assess and frame the new barrier-busting policy options.

- We'll be glad to help in any way we can, and will give you a heads-up on the proposed launch of our study in the context of a CEOs' statement around the week of 10 November. Meanwhile, an early draft, still to be edited down, of what we hope those CEOs might say is attached. We'll know GM's decision within days: Harry Pearce loved the paper, and talks last Wednesday were encouraging.

With warmest regards,

Sincerely,

Amory

Amory B. Lovins
Director of Research

L. Hunter Lovins, Esq.
Executive Director

encls: "Climate: Making Sense *and* Making Money," final (19 October) draft for publication 33 pp.
unedited first of the substance of proposed CEOs' statement in releasing that publication in November 1 p.

for the first lady and President.
This is the most timely news you could get right now.
It redefines the politics of climate. In the coming weeks, many CEOs will sign a short version of this. — ABL

Sixth-draft full content *(to be edited to various forms & lengths)* for business audiences, *28 August 1997.* **Strictly confidential.** *For personal review only. Do not cite, copy, forward, or quote.* ***Strictly embargoed*** *until ultimate release at a date to be set.*

Citations to come; kindly ignore square-bracketed placeholders for the full references.

Climate: Making Sense *and* Making Money

12-15 97

AMORY B. LOVINS, DIRECTOR OF RESEARCH, AND L. HUNTER LOVINS, PRESIDENT
ROCKY MOUNTAIN INSTITUTE
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On 19 May 1997, the chief executive of British Petroleum said: "[T]here is now an effective consensus among the world's leading scientists and serious and well informed people outside the scientific community that there is a discernible human influence on the climate, and a link between the concentration of carbon dioxide and the increase in temperature." He continued: "[W]e must now focus on what can and what should be done, not because we can be certain climate change is happening, but because the possibility can't be ignored."

The prospect of having to reduce carbon emissions has aroused dismay, foreboding, and resistance among many in the business community who fear it would hurt profits and growth. That is unfortunate, especially because their reaction stems from one unexamined assumption—which is incorrect.

Predictions of dire consequences from those on all sides—climate-protectors and cost-avoiders, interventionists and laissez-fairers, those concerned about their grandchildren and about their shareholders—freeze stakeholders into seemingly opposed positions. Their preoccupation with defending those positions masks vast opportunities for mutual gain. It might be more productive for all sides to acknowledge the hopes they share. All of us want to be safe, prudent, profitable, productive, and competitive. All want flexibility, entrepreneurship, and markets doing what they do best. All want the poor, at home and abroad, to have a fair chance to live better. And nearly all can get what they want, simultaneously and without compromise—a stable climate *and* a vibrant economy—if practical business experience is allowed to replace theoretical assumptions.

Robert J. Samuelson, in the 14 July 1997 *Newsweek*, concluded: "It would be political suicide to do anything serious about [climate]....So shrewd politicians are learning to dance around the dilemma." Climate policy is in this rut because such influential commentators *assume* that protecting the climate will be costly: in Samuelson's widely held view, saving a ton of carbon emissions would happen only under a roughly $100 tax, a level he thinks might only cut 2010 emissions back to 1990 levels. Thus "Without a breakthrough in alternative energy—nuclear, solar, something—no one knows how to lower emissions adequately without crushing the world economy." Congress "won't impose pain on voters for no obvious gain to solve a hypothetical problem. And if the United States won't, neither will anyone else."

This articulate columnist holds that belief because it's the conclusion reached by many economic computer models. He may not realize, however, that the models find carbon abatement to be costly *because that's what they assume*. This assumption masquerading as a fact has been so widely repeated as the input and hence the output of supposedly authoritative models that it's often deemed infallible.

Yet an enormous body of overlooked empiricism, including government-sponsored studies [*e.g.*, ICF 1990, NAS *Pol Implns of Grnhs Wrmg*, D J Evans ed, 1992, & E S Rubin et al., "Realistic Mitigation Options for Global Warming," *Sci* 257:148ff, 10 July 1992, Okken et al. 1991, Krause, MDLevine&MABrown *Scenarios for U.S. Carbon Reduction* LBNL-40533 9/97] and worldwide business practice, shows that the breakthrough Samuelson seeks has already happened. Protecting the climate can be *not costly but profitable*—just as many industries are al-

THE PRESIDENT HAS SEEN
12-15-97

ready turning the costs of environmental compliance into the profits from pollution prevention.[1] To prove that, this paper will:

- show how firms are starting to capture these profit opportunities, and can greatly broaden and intensify that success even on a national and global scale;
- examine how eight kinds of practical obstacles that have retarded implementation can be turned into lucrative business opportunities;
- explain how climate/economic models ignore those opportunities and wrongly assume that rapid adoption requires high energy prices;
- clarify how least-cost climate solutions can foster vibrant competitiveness and employment; and
- demonstrate that the climate issue represents a largely unexploited and underrecognized business bonanza.

Consider a few examples. Southwire, the top independent U.S. maker of rod, wire, and cable (a very energy-intensive business), cut its electricity use per pound of product by 40%, gas by 60%, during 1981–87—then kept on saving even more energy and money, still within two-year paybacks. The resulting savings created nearly all the company's profits in a tough period when competitors were going under. The two engineers who led the effort may have saved four thousand jobs at ten plants in six states. The lead engineer, Jim Clarkson, says the technologies are all simple and available; their effective use takes only "an act of management will and design mentality, consistently applied." Indeed, Southwire found that such dramatic energy savings both require and facilitate better management and production systems that are vital anyhow for competitiveness, so the energy savings—sufficient "to cut American industrial energy use in half," as Southwire did—tag along almost for free.

In 1981, Dow Chemical's 2,400-worker Louisiana division started prospecting for overlooked savings. Engineer Ken Nelson quietly set up a shop-floor-level contest for energy-saving ideas. Proposals had to offer at least 50% annual return on investment. The first year's 27 projects averaged 173% ROI. Startled at this unexpected bounty, though expecting it to peter out quickly, Nelson persevered. The next year, 32 projects averaged 340% ROI. Twelve years and almost 900 implemented projects later, the workers had averaged (in the 575 projects subjected to *ex post* audit) 202% predicted and 204% audited ROI. In the later years, the returns and the savings were both getting *bigger*, because the engineers were learning faster than they were exhausting the "negawatt" resource. In only one year did returns dip into double digits (97% annual ROI). The whole suite of projects paid Dow's shareholders $110 million every year.

DuPont expects to save the equivalent of 18 million tons of CO_2 by 2000 through simple measures that will also save $31 million each year. Roche Vitamins (Belvedere, NJ) has profitably cut its steam use per unit of production by more than half in five years. A new chiller and related improvements at a Kraft ice-cream plant saved 33% of its electricity and 2,500 tons of CO_2 a year; productivity rose 10% and the plant turned from a money-loser into one of the most competitive. A process innovation at Blandin Paper Company (Grand Rapids, MN) saved each year 37,000 tons of CO_2 and more than $1.8 million.[2] The first two years of billion-dollar carpetmaker Interface Corporation's efficiency efforts, *The Wall Street Journal* reports [11 July 1997 p B1], have saved "a stunning $25 million..., with another $50 million expected the next two years." Greenville Tube Corporation's demonstration of new drivesystems under DOE's Motor Challenge program boosted productivity 15% and energy efficiency 30%, reduced scrap 15%, and saved $77,000 a year with a five-month payback [Romm present'n]. And Southern Company's 1984–94 improvements in the thermal efficiency of its fossil-fueled power plants saved 400,000 tons of SO_2, 35 million tons of CO_2, and an annual $108 million.

Because such examples are the exception, not yet the rule, America is confronted, as Pogo said, by insurmountable opportunities. Those opportunities can create enough practical ways to mitigate climatic concerns *and* save more money than they cost, without ascribing any value to the abatement itself, to turn climate change into an unnecessary artifact of the uneconomically wasteful use of resources. Specifically[3]:

- Over half[4] of the threat to climate disappears if energy is used in a way that saves money. In general, *it's far cheaper to save fuel than to burn it.*
- Another one-fourth or so of the threat can be abated by farming and forestry practices that take carbon out of the air and put it back in the soil and plants where it belongs, in the rich tilth and diverse biota that create lasting value. Soil-conserving and -building practices are generally at least as profitable as soil-mining, chemical-dependent methods [NRC 1989, AREE], so let's call them at least a breakeven.

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- The rest of the threat vanishes when we replace CFCs with the new substitutes which, thanks to industrial innovation, work the same or better and typically cost about the same or less. (They're also required by global treaty to protect the stratospheric ozone layer.)

So if the "cost" of protecting the climate ranges from strongly negative to roughly zero or irrelevant, what are we waiting for?

Assuming the conclusion

Climate policy has been held hostage to a tacit presumption that if saving a lot more energy were possible at an affordable price, it would already have been implemented. That's like not picking up a $100 bill from the sidewalk because if it were real, someone would previously have picked it up; or like an entrepreneur who abandons a good business idea because if it were sound, it would have been done earlier.

All economists know that real markets are far from theoretical perfection. But most climate/economy models assume that almost all profitable energy savings must already have been bought—as if in a perfect market. On this basis, the modelers suppose, buying significantly bigger savings will be worthwhile only at higher energy prices. They then use big computer models to calculate how big an energy tax is needed (based on historic elasticities), how much that will depress the economy, and hence what the "cost" of protecting the climate must be.

Those models have driven policy for the past two decades. They may get the amount of money about right—but flowing in the wrong direction. A model popular in the Reagan-Bush years trumpeted the notion that meeting the Toronto carbon-reduction goals would *cost* the U.S. about $200 billion a year; but the empirical evidence of what energy savings actually cost showed that saving that much fossil fuel would *save* the U.S. about $200 billion a year compared with buying and burning that fuel. Ever more elaborate models, discussed further below, continue to be built on the same fundamental assumption—that saving energy isn't profitable at present prices and hence will require higher prices that will burden firms and the national economy.

Had those theorists ever run an energy-saving business, they'd know better. GE Chairman Jack Welch said of American industry [*Fortune* Cover Conversation, 11Dec95], "Our productivity is at the beginning stages. There's so much waste. There's so much more to get, it's unbelievable. And somehow or other people think all these things are finite." Practitioners often find that the more the waste that pervades industry is corrected, the more new opportunities emerge to save even *more* resources, even faster and cheaper—especially electricity, which is the costliest and most climate-affecting form of energy.[5]

Big, cheap energy savings

Consider a simple example about pumping—the biggest use of electric motors. Leading American carpet-maker Interface was recently building a factory in Shanghai. One of its processes required 14 pumps. The top Western specialist firm sized them to total 95 horsepower. But a fresh look by Interface/Holland's engineer Jan Schilham, applying methods learned from Singapore expert Eng Lock Lee, cut the design's pumping power to only 7 hp—a 92% or 12-fold energy saving. It also *reduced* the system's capital cost, and made it easier to build and maintain and more reliable and controllable.

These astonishing results required two changes in design. First, Schilham chose big pipes and small pumps instead of small pipes and big pumps: friction falls as nearly the fifth power of pipe diameter. Second, he laid out the pipes first, then installed the equipment, not the reverse: the pipes are therefore short and straight, with far less friction, requiring still smaller and cheaper pumps, motors, inverters, and electricals. The straighter pipes also allowed him to add more insulation, saving 70 kilowatts of heat loss with a two-month payback.

Schilham marveled at how he and his colleagues could have overlooked such simple opportunities for decades. His redesign required, as inventor Edwin Land used to say, not so much having a new idea as stopping having an old idea; not rocket science but rather correcting a common error in engineering economics. The original specification used a rule-of-thumb that balanced the extra capital cost of fatter pipe only against the saved *operating* cost of reduced pumping energy. The new design instead optimized for lifecycle savings in pumping energy *plus* capital cost—not just of the pipes but the *whole system*. The extra cost of the slightly bigger pipes was far smaller than the cost reduction for the dramatically smaller pumps and drivesystems. Such whole-system lifecycle costing is widely

12-15-97

used in principle but rarely in practice. Optimizing energy-using components in isolation tends to pessimize the whole system and hence the bottom line.

Such opportunities exist in more than just pumping. Major energy savings are available in valves, ducts, dampers, fans, motors, wires, heat exchangers, insulation, and most other technical design elements, in most technical systems that use energy, in most applications, in all sectors. Virtually all energy uses are designed using rules-of-thumb that are wrong by about three- to tenfold. Substituting economically rational design would therefore save much of the energy used by industry, while *reducing* capital costs. Many of those savings can also be profitably retrofitted into existing plants, either immediately or as part of routine renovations and expansions.

Similar rethinking of building design has lately yielded, among hundreds of examples,

- houses that are comfortable with no heating or cooling equipment in climates ranging from –47°F in the Colorado Rockies [H1] to +115°F in central California [ACT² refs, TM-93-5], yet cost less to build;
- air-conditioning savings ranging from 90% in a new Bangkok house, at no extra cost [Suntoorn], to 97% in a cost-effective California office retrofit design [F4];
- total energy savings from over 50% to nearly 90% in cost-effective U.S. house and small-office retrofits [F4, ACT² Sunset/ENSAR]; and
- a retrofit design to save 75% of the energy in a typical 20-year-old Chicago curtainwall office tower [ASHRAE J], providing far greater comfort and a simple payback of –5 to +9 *months*.[6]

A particularly effective retrofit strategy, illustrated by the last example, is to coordinate energy efficiency with renovations needed anyhow, such as replacing aging glazings and mechanical systems. New superwindows can insulate fourfold better and let in six times as much daylight but a tenth less unwanted heat. That can trigger further savings, notably in lighting, that can cut air-conditioning needs fourfold. Then the mechanical system can be replaced with a redesigned version four times smaller, four times as efficient, and cheaper than renovating the old one. That saves about enough money to pay for the extra costs of the superwindows and other improvements. Every city in America has such buildings ripe for similar treatment—100,000 of them nationwide.

Careful scrutiny of actual market prices for equipment ("In God we trust; all others bring data") reveals that even at the single-component level, many technical devices—motors, valves, pumps, rooftop chillers, etc.—show no correlation whatever between efficiency and price. A 100-hp American motor, for example, can be cheaper at 95.8% efficiency than an otherwise identical 91.7%-efficient model. But if you don't know that—if you assume, as economic theory predicts, that more efficient models always cost more—then you probably won't shop for it. And that can be costly. If the motor runs continuously, then each one-percentage-point gain adds about $50 per horsepower to the bottom line, so not choosing the most efficient 100-hp motor can slash present-valued profits by $20,000.

Again, the key is not so much adopting new technologies, though they're important, as using proper recipes for combining the best available technologies in the optimal manner, sequence, and proportions. Some of the recipes are embarrassingly obvious. In hot cities, heat-reflecting roofs can save nearly 70% of cooling energy. Up to 40%—90% for houses—can be saved by combining light-colored paints and pavement with revegetation to help bounce solar heat away. An urban tree keeps about 10–14 times as much carbon out of the air as the same tree planted in a forest where it can also save air-conditioning energy by keeping people and buildings cooled and shaded. Such effects multiply: traditional passive cooling methods formerly provided summer comfort even in steamy Bangkok, and can do so again if superefficient cars and buildings are gradually introduced so the waste heat from cars' engines and air conditioners stops making the city too hot.[7]

Proven examples abound in every kind of business:

- Properly choosing office equipment and commercial and household appliances has saved over two-thirds of their energy use with the same or better service and comparable or lower cost [Shepard et al. 1990]. (Such choices cut our household electric bill to $5 a month with a 10-month payback using 1983 technology.)
- Skilled retrofits have saved 70–90% of office and retail lighting energy, yet the light quality is more attractive and the occupants can see better. In many cases, the better lighting equipment more than pays for itself by costing less to maintain [Lovins & Sardinsky 1988, Piette et al. 1989].
- Motors use three-fourths of industrial electricity, three-fifths of all electricity, and more primary energy than highway vehicles. This use is highly concentrated: about half of all motor electricity is used in the million larg-

12-15-97

est motors, three-fourths in the three million largest. Since big motors use their own capital cost's worth of electricity every few *weeks*, switching to more efficient motors can pay back quickly. This plus retrofitting the rest of the motor system saves about half its energy and pays back in around 16 months [Lovins et al. 1989, Fickett et al. 1990]. Doing this right requires integrating up to 35 kinds of improvements to the motors, controls, electrical supply, and drivetrains, but the resulting saving is twice as big, yet one-fifth as costly, as conventional retrofits that use only two kinds of improvements.

- The chemical industry saved half its energy per unit of product during 1973–90 by plugging steam leaks, installing insulation, and recovering lost heat. Now it's discovered that better catalysts and matching heat to the required temperature can often save 70% or so of what's left, yet pay back within two years.[8] Next-generation industrial plant design, now moving from the chemical industry into semiconductors, is uncovering 50–75% savings with lower capital cost, faster construction, and better performance. Early adopters will prosper.

Many of these examples illustrate a new design concept: that whole-system engineering can often make it cheaper to save a large than a small fraction of energy use. This "tunneling through the cost barrier" typically comes from integrating the design of an entire package of measures so they do multiple duty (such as saving on both energy *and* equipment costs), or piggyback on renovations being done anyway for other reasons, or both. Good engineers think this is fun. Most economic theorists assume it's impossible.

Moreover, the cornucopia of efficiency opportunities keeps expanding far into the future:

- Just selling "waste" heat to other users could cost-effectively save up to about 30% of U.S. and 45% of Japanese industrial energy. (America's power stations waste more heat than Japan's total energy use.)
- Still largely unexploited are new kinds of heat exchangers and motors, membrane separators and smart materials, sensors and controls, rapid prototyping and ultraprecision fabrication, and radically more frugal processes using enzymes, bacteria, and biological design principles.
- Saving materials also saves the energy needed to produce, process, transport, and dispose of them. Product longevity, minimum-materials design and manufacturing, recovery of any scrap not designed out, repair, reuse, remanufacturing, and recycling together present a formidable menu of business opportunities that also save energy, pollution, mining, and landfilling. Japan cut its materials intensity by 40% just during 1973–84; but far more is yet to come. Americans throw away enough aluminum to rebuild the country's commercial aircraft fleet every three months, even though recycling aluminum takes 95% less energy than making it from scratch. Smart manufacturers now take their products back for profitable remanufacturing, as IBM just did with computers in Japan and Xerox does with photocopiers worldwide. Interface, the world's top carpet-tile maker, reckons to cut its materials flow by about tenfold, ultimately by a hundredfold, by leasing floor-covering services instead of selling carpet, remanufacturing old carpet, and ultimately mining nylon from landfilled carpet.
- Innovative new approaches also seem about to solve the most intractable part of the climate problem—road vehicles.[9] Ultralight, ultralow-drag, hybrid-electric "hypercars" [refs] with 70–90% fuel savings, better performance in all respects[10], and competitive costs have attracted about $2.5 billion of private investment by 25-plus firms worldwide, half of them new market entrants. GM has announced it's developing cars with half the weight, half the drag, and hybrid drive (hypercars in all but name). In autumn 1997, Ford will test a dozen 40%-lighter 6-passenger cars (including two kinds with hybrid drive), meeting essentially the goals of the government's tripled-efficiency car program but 3–6 years early, while Toyota will mass-market in Japan a hybrid Corolla-class car with doubled efficiency, tenfold lower emissions, and only $4,000 higher initial price. Daimler-Benz has pledged to be making 100,000 fuel-cell cars a year by 2005. With such progress being *announced*, imagine what's going on behind closed doors. Ultimately hypercars will save, probably at a handsome profit, as much oil worldwide as OPEC now sells.
- Many energy savings reduce climatic threats from more gases than just CO_2. Advanced refrigerators, using vacuum insulation and helium-engine coolers, can save over 90% of standard refrigerators' energy, thus avoid burning enough coal to fill the refrigerator every year. This also eliminates climate- and ozone-disrupting CFCs from insulation and refrigerant. Landfill and coal-mine gas recovery turns heat-trapping and hazardous methane emissions into a valuable fuel while making electricity that displaces coal-burning. Recycling paper (the average person in a rich country uses as much wood for paper, mostly wasted, as the average person in a poor country uses for fuel) saves it from turning cellulose's carbon into landfill methane, and also saves fossil-fueled manufacturing and transportation. Superefficient cars simultaneously reduce at least eight classes of heat-trapping gases. These and scores more examples represent business opportunities with multiple profit streams.

12-15-97

What do you do when efficiency runs out?

Providing the energy that a severalfold larger global population, many of them desperately poor, will need for a decent life mainly requires much more efficient use. This offers about threefold greater relative scope, and meets an even more urgent developmental need, in the South than in the North. But it will also require energy production. Where will that energy come from if not fossil fuels?

Such firms as British Petroleum and Enron are investing heavily in renewables—for good reason [Romm & Curtis Atl 4/96 "Mideast Oil Forever?"]. London's Delphi Group advised its institutional investors in 1995 that alternative energy industries not only help "offset the risks of climate change," but also offer "greater growth prospects than the carbon fuel industry" [Mansley rpt on Gelbspan 87]. In 1990, five U.S. National Laboratories reported that either fair competition plus restored research priority[11], or proper counting of environmental benefits, could cost-effectively expand renewables to a level equivalent to three-fifths as much energy as the United States uses today; renewable electricity supply could be one-fifth *more* than present usage [SERI 1990]. In 1997, a new five-Labs study [Levine & Brown 97] found that efficiency, renewables, and other low-carbon options could profitably or very cheaply hold 2010 U.S. carbon emissions at about the 1990 level—reducing the carbon intensity of the economy at a 1997–2010 average rate of 2.3–2.5% per year.[12] Just in the buildings sector, reducing the 1990–2010 carbon increase from 26% to 4% would save about $22 billion a year more (1995 $ in 2010) than it would cost [*id.*3.6].

Best of all, sunlight is most abundant where most of the world's poorest people live. In every part of the world between the polar circles, freely distributed and efficiently used renewable energy is adequate to support a good life continuously, indefinitely, and economically using present technologies [Sørensen 1979, Reddy & Goldemberg 1988, Lovins et al. 1981, Johansson et al. 1989,1992]. And this potential, once considered visionary, is starting to be validated in the marketplace. The world's fastest-growing energy source, outpacing even energy savings, is now...windpower, up 26% during 1995–1996, and led by Germany (which just overtook American installed capacity), India, Denmark, and Spain. Double-digit annual growth in solar cell shipments is bringing costs steadily down, and counting some of the dozens of kinds of "distributed benefits" can make those cells cost-effective right now in many uses [Lovins & Lehmann 1997]. (The Sacramento utility even found it's cheaper to hook alley lights to solar cells than to the existing wires.) Adding other advanced renewables can cut utilities' carbon emissions by as much as 97% with unchanged reliability and essentially the same cost [Johansson et al. rens. bk. 1992 pp 23ff].

Meanwhile, doubled-efficiency combined-cycle gas turbines, with only one-fourth the carbon-intensity of coal-fired power plants, have quietly grabbed more than half the market. The new dark horse is low-temperature polymer fuel cells: equally efficient but silent, clean, reliable, scaleable from large to computer-battery-sized, and likely to transform global power markets. Indeed, converting wellhead natural gas to hydrogen for fuel cells could offer a new option. That separation is already cost-justified by the fuel cell's high efficiency, so its free byproduct—CO_2—can be reinjected into a depleted gasfield. This cheaply sequesters all the carbon—up to about twice as much as the field's natural gas originally contained—and is nearly paid for by the extra gas recovered by repressurizing the field [Williams 1996].

In contrast, the products of socialized costs and central planning have not fared well. The world's slowest-growing energy source is nuclear power—under 1% in 1996, with no prospect of improvement. Despite strenuous effort, its global capacity in 2000 will be a tenth, and its ordering rate is now only a hundredth, of the lowest official forecasts made a quarter-century ago. In America, civilian nuclear technology ate $1 trillion, yet delivers less energy than wood. It died of an incurable attack of market forces. The only question is whether, as many analysts believe, a third or more of U.S. nuclear plants will retire early because their operating and repair bills are unaffordable. The writing is on the wall: worldwide, around 90 nuclear plants have already retired after serving fewer than 17 years. Even in France, nuclear expansion was far outpaced by its poor cousin—unheralded, unnoticed, unsupported, but more cost-effective energy efficiency.

The collapse of nuclear power—once the great hope for displacing coal-burning—might at first appear to be bad for climate. But since nuclear power is the costliest way to displace fossil fuels, every dollar spent on it displaces less climatic risk than would have been avoided by spending that same dollar on the best buys first. This opportunity cost is why nuclear power actually makes climatic threats worse rather than better.

12-15-97

Whole countries, especially heavily industrialized ones, can achieve big energy savings, and alternative supplies, just by adding up individual ones. During 1979–86, in the wake of second oil shock, America got nearly five times as much new energy from savings as from all net expansions of supply, and 14% more energy from sun, wind, water, and wood but 10% less from oil, gas, coal, and uranium. By 1986, CO_2 emissions were one-third lower than they would have been at 1973 efficiency levels. The average new car burned half the fuel (4% of that gain came from making cars smaller, 96% from making them smarter) and emitted almost a ton less carbon per year. Annual energy bills fell by ~$150 billion. Annual oil-and-gas savings grew to become three-fifths as large as OPEC's capacity [Rosenfeld et al. 1990a in AREE]. In those seven years, GDP rose 19% but energy use shrank 6%. No problem.

All that effort in the '80s only scratched the surface. In 1989, the Swedish State Power Board (Vattenfall) published—without, by order of its CEO, the usual disclaimer saying it didn't represent official policy—a thorough and conservative technical study of Sweden's further potential to save electricity and heat (which are often made jointly, or "cogenerated")[ref]. The team found that fully using mid-1980s technologies could save half of Sweden's electricity, 78% more cheaply than making more. That plus switching to less carbon-intensive fuels and relying most on the least carbon-intensive power stations could enable Sweden simultaneously to

- achieve the forecast 54% GDP growth during 1987–2010,
- complete the voter-mandated phaseout of the nuclear half of the nation's power supply,
- reduce the utilities' carbon releases by one-third, and
- reduce the private internal cost of electrical services by nearly $1 billion per year.

If this is possible in a country that's full of energy-intensive heavy industry, cold, cloudy, very far north, and among the most energy-efficient in the world to start with, then countries not so handicapped must have important opportunities too. A year later, a study for the Indian state of Karnataka found that even a limited menu—several simple efficiency improvements, small hydro, cogeneration from sugarcane waste, biogas, a small amount of natural gas, and solar water heaters—would achieve far greater and earlier development progress than the fossil-fueled plan of the state utility, with two-fifths less electricity, two-thirds lower cost, and 95% less fossil-fuel CO_2 (Reddy & Goldemberg 1990].[13] These two analyses spanned essentially the full global range of energy intensity and efficiency, technology, climate, wealth, income distribution disparities, and social conditions. Yet they both found that efficiency plus renewables yielded a highly profitable carbon-reducing investment package.

That Karnataka study exposes the twin canards that climate is the North's problem and that reducing the South's carbon emissions would inequitably cripple development. Precisely because energy waste hobbles economic progress, some governments in the South and East have lately been quietly cutting subsidies to energy-intensive industries and even to fossil fuels themselves—the latter more than twice as fast in the South as in the North. Reformers are also opening up the energy sector to greater competition, innovation, and efficiency. Such policies have achieved better overall economic efficiency *and*, as a free byproduct, much lower carbon emissions. Such countries are saving carbon about twice as fast as OECD countries have committed to do, and they're probably saving more carbon in absolute terms than OECD countries actually will do, while boosting their own economic growth. In short, they're saving energy for *economic* reasons and reaping the incidental environmental benefits. Among the strongest economic advantages is that building superwindow and efficient-lamp factories instead of power stations and transmission lines can use a thousandfold less capital [Gadgil] and recover it ten times as fast for reinvestment—thus liberating for other development needs the one-fourth of global development capital now consumed by the power sector [Asian paper].

China has three times the energy intensity of Japan (which itself has surprisingly big efficiency opportunities still untapped). But China is improving rapidly. Spurred by energy shortages that idle an estimated 25–30% of its manufacturing capacity, China now gets a quarter of its total primary energy from renewables and over an eighth of its electricity from cogeneration. It's converting all large industrial boilers to cogeneration. It's cut its coal subsidies from 37% to 29% (1984–95) and its oil subsidies from 55% to 2% (1990–95). These and other policy initiatives reduced the 1980–90 growth in China's carbon emissions by 40%. Now, encouraged by internal rates of return on recent manufacturing energy efficiency projects all exceeding 12% and usually exceeding 20%, China is tackling a further savings potential which the World Bank last year estimated would reach in 2020 a level greater than China's entire 1990 energy consumption [Reid & Goldemberg 1997]: in steelmaking alone, best practice could reduce the typical 1990 energy per ton by 64% promptly and 82% ultimately [UNDP 1997 p 72].

12-15-97

Similar conclusions have been found at scales ranging from New England (Krause et al. 1991a) and California (Calwell et al. 1990) to the five largest western European economies (Krause et al. 1991) to the world (LCE, Goldemberg et al. 1988). Studies for the governments of Canada (DPA Group 1989) and Australia (Greene 1990) confirmed that ~20% CO_2 cuts would be highly profitable. In Australia, for example, a 36% energy and 19% CO_2 reduction from projected 2005 levels would save $6.5 billion (Australian) of private costs per year by 2005, because each $5 invested in efficiency would save $15 worth of fuel purchases *and* 1 ton of CO_2. A new U.S. study [E Innovns 6/97] similarly found that saving 26% of carbon emissions and 15% of primary energy by 2010 would also save 13% of national energy costs—$85 billion a year, or $205 per ton of avoided carbon emissions, or $530 per household per year—and create nearly 800,000 net jobs. Investments in more efficient energy-using devices to 2010 would average $29 billion a year, but direct monetary savings would average $48 billion a year, excluding any value of stabler climate and cleaner air.

Such profitably efficient energy futures are simply a logical extension of past achievements. Energy savings since 1973 have cut this country's energy bill by $150–200 billion a year[14] *and* carbon emissions by one-fourth. We did all that quietly, easily, and profitably—but now we know how to do far better: America, and the world, have barely begun to capture the energy efficiency that's available and worth buying. Modern cars, after a century of devoted engineering refinement, use only 1% of their fuel energy to move the driver. An ordinary light-bulb converts only 3% of the power-plant fuel into light. The entire U.S. economy is only about 2% energy-efficient compared with what the laws of physics permit. National materials efficiency is even worse: only about 1% of all mobilized materials are actually put into and remain in the average product six weeks after its sale. Thus despite impressive achievements so far, America still wastes upwards of $300 billion a year worth of energy: more than the entire military budget, far more than the federal budget deficit, and enough to increase personal wealth by more than $1,000 per American per year. That waste begs to be turned into profits.

Marketplace energy savings: turning obstacles into opportunities

So if such big savings are both feasible and profitable, why haven't they all been done? Because the free market, effective though it is, is burdened by subtle imperfections that inhibit the efficient allocation and use of resources. It is necessary at the outset, writes Professor Stephen DeCanio, Senior Staff Economist for President Reagan's Council of Economic Advisers [sp *sic*][cite JGM],

> ...to discard the baggage carried by most economists (the author confesses membership of that much-maligned group) that immersion in a market environment guarantees efficient behavior by the market participants. Much of modern economic theory practically *defines* efficiency as the outcome of competitive market exchanges. But the bloodless "competition" of mathematical general equilibrium models bears only a partial relationship to the actual experience of real firms.

This is tacitly conceded whenever market economists, as a senior government official recently wrote, "are unpersuaded that just because an act seems to make good economic sense it will happen." That is true—precisely because of real-world obstacles and complexities that aren't reflected in the perfect-market economic models relied upon for the conventional conclusion that saving much energy will require much higher energy prices. In fact, those barriers block economically optimal investment in efficient use of energy in at least eight main ways. The good news is that *each of these obstacles represents a business opportunity* [F4Pt2]. Some examples of how they match up:

Obstacles	*Opportunities*
Capital misallocation Energy is only 1–2% of most industries' costs, and most managers pay little attention to seemingly small line-items, even though small savings can look big on the bottom line. Surprisingly many executives focus on the top line and forget where saved overheads go; and without their attention, nothing happens. In addition, manufacturing firms tend to be biased toward investments that increase output or market share and away from those that cut operating costs [Levine & Brown 1997 p. 2.2].	A few years ago, one of us was able to tell the CEO of a Fortune 100 company that one of his sites had an outstanding energy manager who was saving $3.50 per square foot-year. The CEO said, "That's nice—it's a million-square-foot facility, isn't it? So that guy must be adding $3.5 million a year to our bottom line." He got that right—until he added in his next breath, "I can't really get excited about energy, though—it's only a few percent of my cost of doing business." He had to be

12-15-97

shown the arithmetic to realize that similar results, if hypothetically achieved in his 90-odd million square feet of facilities worldwide, would boost his corporation's net earnings that year by 56%. The energy manager was quickly promoted so he could spread his practices across the company.

About four-fifths of firms don't assess potential energy savings using discounted-cashflow criteria, as sound business practice requires; instead, they require a simple payback whose median is 1.9 years [DeCanio JGM]. At (say) a 36% total marginal tax rate, a 1.9-year payback means a *71%* real aftertax rate of return, or around six times the marginal cost of capital. (For example, before state and then federal standards required them, high-efficiency magnetic ballasts, with a 60% real internal rate of return, won only a 9% market share [Levine et al AREE '95]. Many capital-constrained industries use even more absurd hurdle rates: in some, the energy managers can't buy anything beyond a six-month payback.

Top finance firms have joined the U.S. Department of Energy in an International Performance Measurement and Verification Protocol [IPMVP, DOE/EE-0081(97), 9/97,www.ipmvp.org]. This industry-consensus approach, like FHA mortgage rules, standardizes streams of energy-cost savings so they can be aggregated and securitized. That's creating a booming market in which loans to finance energy and water savings can be originated as fast as they can be sold into the new secondary market. Achieving the savings therefore no longer requires one's own capital, can be affordably financed, and needn't compete with other internal investment needs.

Many supposedly sophisticated firms count lifecycle cost only for big items and make routine "small" purchases based on first cost alone. Thus 90% of the 1.5 million electric distribution transformers bought every year, including the ones on utility poles, are bought for low first cost—passing up an aftertax ROI of at least 14% a year and many operational advantages, and misallocating $1 billion a year.[15]

A new generation of building is overcoming the psychological barrier of supposedly higher capital cost. A hundred case-studies [GDS bk] demonstrate that energy savings of 75% or more can come with superior comfort, amenity, and real-estate market and financial performance—yet *identical or lower* capital cost, because integrated design creates synergies that drastically cut equipment and infrastructure costs. Major developers are starting to move such buildings into mainstream practice.

If you invest to save energy in your business or home, you probably want your money back within a couple of years, whereas utilities are content to recover their power-plant investments in 20–30 years—about ten times as long. Thus both managers and householders typically require about tenfold higher returns for saving energy than for producing it.[16] This is equivalent to a tenfold price distortion. It makes us buy far too much energy and too little efficiency. Not fairly comparing ways to save with ways to supply energy means not choosing the best buys first, hence grossly misallocating capital—lots of capital. Until the late '80s, the U.S. wasted on uneconomic power plants and their subsidies (each roughly $30 billion a year) about as much as it invested in all durable-goods manufacturing industries. This misallocation badly crimped the nation's competitiveness.

Arbitrageurs make fortunes from spreads of a tenth of a percentage point. The spread between the discount rates used in buying energy savings and supply are often hundreds of times bigger than that—surely big enough to overcome the transaction costs of marketing and delivering lots of small savings.[17] (Scores of utilities proved this in well-designed '80s and early '90s programs that delivered efficiency improvements at total costs far cheaper than just *operating* existing thermal power stations [Nadel, ABL/Joskow].) This is the basis of the Energy Service Company concept, where entrepreneurs offer to help cut your energy bills for nothing up front—just a share of the savings. Skilled firms of this type are flourishing worldwide, although the domestic ESCO industry is still in its shakeout phase.

High consumer discount rates are especially tough: folks used to paying fifty cents for an incandescent light-bulb are often unwilling or unable to pay $15–20 for a compact fluorescent lamp which, over its life (about 13 times that of the incandescent lamp), keeps nearly a ton of CO_2 out of the air and saves tens of dollars more in power-plant fuel, replacement lamps, and installation labor than it costs. It's a good deal, but sounds like too much

Southern California Edison Company gave away more than a million compact fluorescent lamps because that cost less than running power stations. SCE then cut the lamps' retail price by about 70% via a temporary subsidy paid not to buyers but to lamp manufacturers, thus leveraging all the markups. Some other utilities *lease* the lamps for, say, $0.20 per lamp per month, with free replacements; customers can thus pay over time, just as

12-15-97

money.

Most international vehicles for investing in national or utility-level electric power systems consider only supply-side, not demand-side, options and have no way to compare them. The resulting misallocation is like the recipe for Elephant and Rabbit Stew—one elephant, one rabbit—and it's the wrong way around.[18]

Organizational failures

Old habits die hard. A famous company that hasn't needed steam for years still runs a big boiler plant, with round-the-clock licensed operators, simply to heat distribution pipes (many uninsulated and leaking) lest they fail from thermal cycling; nobody has gotten around to shutting the system down. Why rock the boat to make someone else look good? Why stick your neck out when the status quo seems to work and nobody's squawking?

Schedules conquer sensible design. One of us once called the chief engineer of a huge firm to introduce opportunities like a cleanroom that uses a small fraction of the energy he was used to, performs better, costs less, and builds faster. His reply: "Sounds great, but I pay a $100,000-an-hour penalty if I don't have the drawings for our next plant done by Wednesday noon, so I can't talk to you. Sorry. Bye." The result is "infectious repetitis"—like the semiconductor plant where a pipe took an inexplicable jog in mid-air as if it were going around some invisible obstacle. The piping design had been copied from another plant that did have a structural pillar in that location. In short, iintense schedule pressures combine with design professionals' poor compensation and prestige, overspecialized training, and utterly disintegrated processes to yield commoditized and pervasively poor technical design.

Few firms carefully measure how their buildings and processes actually work. Their design assumptions are therefore untested and often incorrect. Their design process is linear—require, design, build, repeat—rather than cyclic—require, design, build, measure, analyze, improve, repeat. No measurement, no improvement. And no discoveries—like the plant that for decades had been unwittingly running a 40-kilowatt electric heater year-round under its parking lot to melt snow. Nobody remembered or noticed until measurement found the books didn't balance, and the wiring was traced to track down the discrepancy.

Departments often don't or can't cooperate. A noted firm calculated that its proposed new office building should get all-new, superefficient office equipment, because the they now pay for power stations, but the lamps are cheaper.

Rapidly growing new investment funds, partly funded by the climate-risk-averse insurance industry, are bypassing utilities altogether and investing directly in developing-countries' house-level "leapfrog" efficiency-plus-solar power systems. Those often cost less than villagers typically pay now for lighting kerosene and radio batteries, and represent a new market of two billion people.

Columbia University had entrenched practices too. When a tough new energy manager, Lindsay Audin, was told to cut 10% off its $10-million-a-year energy bill, with uncompromised service and no upfront capital, authorizations were painfully slow—until he showed they were costing $3,000 a day in lost savings, more than the delayers' monthly paychecks. Five years later he was saving $2.8 million a year, 60% of it just in lighting; had won 9 awards and $3 million in grants and rebates; and had brought 16 new efficiency products to market [CS-94-1].

Both such designers and their clients can get away with this, and probably won't notice it, so long as their competitors use the same methods, consultants, and vendors. But once such striking improvements are introduced to a given market segment, the laggards must adopt them or lose market share. Thus competitive forces can do automatically much of the marketing and outreach normally required. Rocky Mountain Institute, having successfully promoted superefficient buildings and cars by this method, is now helping with a new initiative to overhaul the semiconductor industry, which has $100 billion worth of fabrication plants on the drawing boards worldwide, all inefficient. The opportunity for clean-sheet redesign is intriguing industry leaders who now understand that they cannot compete without leapfrogging over old methods.

The late economist Kenneth Boulding said hierarchies are "an ordered arrangement of wastebaskets, designed to prevent information from reaching the executive." But letting viscous information flow freely to those who need it stimulates intelligence, curiosity, and profits. At a large hard-disk factory, the cleanroom operator started saving lots of money once the gauge that showed when to change dirty filters was marked not just in green and red zones but in "cents per drive" and "thousand dollars' profit per year." In another plant, just labeling the light-switches, so everyone could see which switches controlled which lights, saved $30,000 in the first year.

Electric utilities traditionally dis-integrate their operations too. But Canada's giant Ontario Hydro inverted its culture to make end-use efficiency and distribution plan-

12.15-97

extra cost of buying it early (rather than waiting for normal turnover) would be less than the up-front savings from smaller cooling equipment. No deal: the chiller was in one budget, office equipment in another. Similarly, Federal buildings are bought from one budget, then operated by a different organization from another; in some cases, they're prohibited from sharing investments so as to reduce taxpayers' total costs.

If you save, the beancounters simply cut your budget some more. Institutional or personal rewards for cutting energy costs are rare, even in the private sector.

Corporate turmoil spoils continuity. Many firms, assuming they'd already done all the worthwhile energy savings, downsized their energy managers right out of a job, stuffed the task onto other overloaded agendas, and watched it slip to an invisible priority. How many economists does it take to screw in a compact fluorescent lamp? None, goes the joke—the free market will do it. But we all know that somebody actually has to get the lamp from shelf to socket; otherwise the wealth isn't created. In many firms, that somebody doesn't exist.

Companies full of smart, competent, rational, and profit-oriented people often fail to optimize because of even deeper kinds of inherent organizational failures well described in the economic literature.[19]

Regulatory failures

All but a handful of states and nations reward regulated utilities for selling more energy[20] and penalize them for cutting your bill, so shareholders and customers have opposite goals—with predictable results. Many proposed restructuring efforts would enshrine the same perverse incentive in new commodity-based market rules—rewarding the sale of as many kilowatt-hours as possible at the lowest possible price, rather than rewarding better service at lower cost [Negawatts: 12 Transitions].

In some (though increasingly rare) cases, obsolete codes, standards (as for cement composition [Levine & Brown 97 4.41]), specifications (including those for corporate and military procurement), and laws actually prohibit sound and efficient practices. Far more often, standards meant to set a floor—like "meets code" (euphemism for "the worst building you can put up without being put in jail"), or the British expression "CATNAP" (Cheapest Available Technology Narrowly Avoiding Prosecution)—are misinterpreted as a ceiling or as an economic optimum.

ning its primary focus and generation an afterthought. Its first three experiments in meeting customers' needs by the cheapest means—typically demand-side investments plus better wires management—rather than reflexively building transmission and generating capacity cut its investment needs by up to 90%, saving US$600 million. Such achievements can motivate deep structural and cultural reforms.

Washington State routinely shares the savings between their achievers, the General Fund, and an account reserved for reinvestment in more savings.

After Ken Nelson, the sparkplug of the remarkable Dow/Louisiana savings, retired in 1993, a reorganization disbanded his organizing committee, tracking ceased, and it became impossible to evaluate how much progress, if any, continued without him. (Lacking a champion, the neighboring Texas division reportedly never undertook a comparable effort in the first place.) But now Mr. Nelson, like Southwire's Mr. Clarkson, is an independent consultant, sharing his skills with more firms.

Proper measurement and incentives help: a utility that started paying its efficiency marketing staff a dollar for every measured kilowatt they saved quickly found that verified savings got bigger and cheaper—both by an order of magnitude.

Simple accounting innovations in a few states decouple utilities' profits from their sales volumes, and let utilities keep as extra profit part of whatever they save off their customers' bills. The nation's largest investor-owned utility, PG&E, thus added over $40 million of riskless return to its 1992 bottom line while saving customers nine times that much. In California alone, Governor Wilson's PUC found that efficiency investments rewarded and motivated by this incentive system's emulation of efficient market outcomes, just during 1990–93, had saved customers a net present value of nearly $2 billion. Thoughtful utility restructuring can do the same.

To encourage developers to exceed the minimal energy-saving requirements of building codes, Santa Barbara County entitled overcompliers (by 15–45+%) to jump the queue for approvals—a valuable reward at no cost. Elsewhere, some builders of superinsulated homes that leapfrogged far beyond code requirements have won credibility, and dominant market share, by offering to pay any heating bills over, say, $100 a year, or all utility bills for the first five years' ownership.

The transportation sector is the fastest-growing and seemingly most intractable source of carbon emissions precisely because it is the most socialized, subsidized[21], and centrally planned sector of the U.S. economy—at least for favored modes like road transport and aviation. It has the least true competition among modes, and the most untruthful prices, with hidden costs of hundreds of billions of dollars per year per year for U.S. road vehicles alone [refs]. These distortions leverage more billions into otherwise uneconomic infrastructure and locational decisions.

The dispersion of uses that causes so much excessive driving is mandated by obsolete single-use zoning rules meant to segregate noxious industries that scarcely exist today. Congestion is specifically caused by non-pricing or underpricing of the road resource: most roads are supported by taxes, not users, so they look free to drivers who behave much as Soviet customers did in demanding a great deal of energy when it looked free. Congestion is further exacerbated by building more subsidized roads that elicit even more traffic, and by requiring developers to provide as much parking as people use when they pay nothing for it. Future generations will marvel that the incredible social costs of these policies—costs deeply intertwined with many inner-city ills—went so long unremarked and uncorrected.

Thailand loses a sixth of its GDP to Bangkok traffic jams, so it's building Los Angeles-style freeways that will create more traffic.

Informational failures

The extremely high returns implicitly required for buying efficiency often reflect a paucity of accurate and up-to-date information. Do you know where to get everything you would need to optimize your own energy use, how to shop for it, how to get it properly installed, who would stand behind it? If any of the preceding examples of big, cheap savings surprised you, you've just observed a market barrier: if you didn't know something is possible, you can't choose to do it.

Strong evidence is emerging that co-locating where people live, play, shop, and work creates such desirable, friendly, low-crime, walking-and-biking-dominated neighborhoods that they yield exceptional market performance. Such co-location, and land-use policies that integrate housing and jobs with transit, can be further encouraged by "locationally efficient mortgages"—the subject of a $1-billion Fannie Mae experiment—that effectively let homebuyers capitalize the avoided costs of a car they no longer need in order to get to work.

Employers can profit from "cashing out" employee parking spaces—charging fair market value for each space, and paying each employee a "commuting allowance" of equal aftertax value. By monetizing competition between all means of getting to work (or, through telecommuting, of not needing to), this will typically reduce demand for parking spaces, which often cost $10–30,000 apiece, by more than it enriches the Treasury through the newly taxable perk.

Real-estate developers can profit from annuitizing perpetual transit passes rather than providing a $25,000 parking place with each housing unit (which yields less but costlier housing). Allowing residents to rent out their daytime parking spaces can pay their home property tax [Shoup 1997].

Singapore is almost congestion-free because it charges drivers their true social cost and invests the proceeds in effective public transit and coordinated land-use.

Labeling tells buyers how competing models compare. Some voluntary labeling systems (as of a quarter-million San Francisco houses in 1978–80) have swept the market because buyers quickly became suspicious of any house that *wasn't* labeled. EPA's voluntary Energy Star standard for office equipment did the same, now embracing over 2,000 products by more than 400 manufacturers, because the efficient machines worked better, cost the same or less, and were therefore mandated for federal purchasing. They're saving a half-billion dollars a year, and promise a profitable ten-million-ton-a-year carbon saving by 2005. Other voluntary programs that provide informational, technical, and trade-ally support, like EPA's Green Lights [www.epa.gov/appdstar/green/glbhome.html], are succeeding because they create competitive advantage. Involving more than 2,300 organizations, Green Lights' retrofits save over half the lighting energy with 30% ROI and unchanged or improved lighting quality. The national potential for this effort alone is a $16-billion annual saving, plus a 12% reduction in utilities' carbon and other emissions.

"Hassle factor" and transaction costs prevent efficient microdecisions in day-to-day life. For example, how much do you pay at home for a kilowatt-hour of electricity, and how many kilowatt-hours does your refrigerator—typically the biggest single user in the household unless you have electric space or water heating—use each year? If you don't know, because you're too busy living to delve into such minutiae, then you're part of another market barrier. And if you do know, then there's probably another barrier, because for the same price, you could have bought a seemingly identical refrigerator 2–3-fold more efficient, or nearer 20-fold with advanced techniques not yet brought to the mass market.

It's precisely to make such decisions hassle-free—and because most appliances are bought not by billpayers but by landlords, homebuilders, and public housing authorities—that Congress almost unanimously approved mandatory efficiency standards for household appliances. They merit further extension to commercial and industrial devices. Such standards knock the worst equipment off the market and reward manufacturers for continuous improvement. That's largely why careless shopping for a same-priced refrigerator can sacrifice only 2–3-fold efficiency gains in America, *vs.* 6-fold in Europe. Smart utilities also reinforce standards by rewarding customers for beating them.

Risks to manufacturers and distributors

Industry lacks information too—about what customers really want and whether they'll put their money where their mouths are. Manufacturers often hesitate to take the risk of developing and making new energy-saving products, because of limited confidence that they'll sell in the face of all the obstacles listed here.

Swedish official Hans Nilsson pioneered contests for bringing efficient devices into the mass market. A major public-sector purchasing office issues a Request for Proposal guaranteeing to buy a large number of devices, bid from certain prices, if they meet certain technical specifications, including energy savings highly cost-effective to the user. This explicit expression of market demand has already elicited many important innovations giving a strong advantage to Swedish industry in both home and export markets. A "golden carrot" devised by Dr. David Goldstein of the Natural Resources Defense Council followed suit with improved U.S. refrigerators.

Efficient equipment often isn't available when and where it's needed—as anyone knows who's tried to replace a burned-out water-heater, furnace, refrigerator, etc. on short notice. Yet distributors, aware of the slow uptake of efficient devices, don't want to take the risk of carrying inventory that may sell slowly or not at all. Thus British Columbia Hydro found that the huge motors in that Province's mining and pulp-and-paper mills were virtually all inefficient, simply because that's what local vendors customarily stocked; anything else took too long to order, and the mills couldn't afford to wait.

BC Hydro paid a small, temporary subsidy to stock only efficient models, so vendors' extra carrying cost was covered. In three years, premium-efficiency motors' market share soared from 3% to 60%. The subsidy was then phased out, supported by a modest backup standard. Similarly, PG&E found in the '80s that rather than paying customers a rebate for buying efficient refrigerators, it could improve refrigerator efficiencies faster, at less than a third the cost, by paying retailers a small bonus for each efficient model stocked, but nothing for stocking inefficient ones. The inefficient models quickly vanished from the shops, so when you wanted the next unit the dealer could put on the truck, it'd be efficient, because that's all they'd have.

Perverse incentives

Compensation to architects and engineers worldwide is based directly or indirectly on a percentage of the *cost* of the building or equipment specified. Designers who work harder to eliminate costly equipment therefore end up with lower fees, or at best with the same fees for more work. Such backwards incentives have led the U.S. to misallocate about $1 trillion to air-conditioning equipment (and utility systems to power them) that wouldn't have been bought if the same buildings had been optimally designed to produce the same or better comfort at least cost [SOA:SC or ?SCTA or SIP2].

Pilot projects launched by RMI are now testing how much more efficient buildings become if their designers are rewarded for what they save, not what they spend, by letting them keep several years' measured energy savings as extra profit. Early results are highly encouraging. The German and Swiss architectural associations are pursuing similar reforms.

The real-estate value chain is full of incentives so perverse that each of the 25 or so parties in a typical large

Careful case-studies are revealing that in well-designed, highly efficient buildings, the better visual, acoustic, and

deal is systematically rewarded for inefficiency and penalized for efficiency [SIP2]. The 75% energy saving designed for the Chicago office tower mentioned earlier, with instant payback, wasn't bought: the property was controlled by a local leasing office, incentivized on dealflow, that didn't want to delay its commissions a few months by retrofitting before leasing up the building. The building then proved unmarketably costly and disagreeable, so it had to be sold off to a bottom-feeder. Yet the owner wasn't unsophisticated—it was one of the world's largest fiduciaries.

thermal comfort enables people to do about 6–16% more and better work. In a typical office, where people cost 100 times as much as energy, that boost in labor productivity is about 6–16 times as valuable to the bottom line as eliminating the entire energy bill! Analogous benefits, big enough to create decisive competitive advantage, are also being found in retail sales and manufacturing. These results may help to explain why firms participating in EPA's voluntary Green Lights lighting-efficiency programs showed stronger earnings growth than nonparticipants [cite DeCanio in Feldman bk]. Increasingly educated tenants will not long tolerate buildings that don't contribute to their success.

Split incentives—one party selecting the technology, another paying its energy costs—limit ultimate consumers' choices by substituting intermediaries who don't bear the cost of their poor decisions [DOE '96 @ 5L 2.2]. This issue is ubiquitous. Why should you fix up your rented premises if you don't own them? Why should the landlord do it if you pay the energy bills? Alternatively, if you *don't* pay the bills, why use energy thoughtfully (for example, why maintain or efficiently drive a company car whose costs are paid for you)? In the Shanghai pumping example above, the pipefitters don't mind putting in lots of extra bends, because they're paid by the hour and they won't pay the equipment or electricity bills.

Lease riders can fairly share savings between landlords and tenants so both have an incentive to achieve them. Energy utilities could also (as some water/wastewater utilities already do) apply "feebates" to new building hookups: you pay a fee or get a rebate to connect to the system, but which and how big depends on how efficient you are, and each year the fees pay for the rebates. Unlike building codes and appliance standards—which are better than nothing, but become instantly obsolete and offer no incentive to do better—such a revenue-neutral economic instrument drives continuous improvement. It also signals lifecycle costs up front when long-lived investments are being made.

Similar split incentives apply to the makers and users of all kinds of equipment used in buildings and factories. Such equipment is almost always inefficient, optimized on first cost alone, since those who sell it won't pay the operating costs and most buyers won't shop carefully. (Indeed, for most kinds of equipment, efficient equipment simply isn't available—until a big customer demands better, as Wal-Mart successfully did for daylighting and air-conditioning equipment.)

The world's largest maker of air conditioners, Carrier Corporation, is leasing comfort services—much as elevator-maker Schindler leases vertical transportation services and Dow leases solvent services. This improves not only resource efficiency but also incentives: the *more* efficient, durable, and flexible Carrier's air-conditioning systems become, the *greater* its profits, and the better the service it provides at lower cost to more customers. Service leasing aligns the providers' incentive with its customers' objective.

In one respect the market works all too well: wasteful old equipment often gets salvaged for resale in the secondary market—mainly to poor people who can least afford the high running costs that motivated the scrappage in the first place. Such "negative technology transfer" can cripple development efforts [Asian paper].

Some big California utilities buy up inefficient old motors, refrigerators, and other devices in order to scrap them before they enter the second-hand market: they're worth far more dead than alive. Unocal even bought and scrapped polluting old cars in order to gain pollution credits for its refinery near Los Angeles.

False or absent price signals

Energy prices are often badly distorted by subsidies and by uncounted external (larcenous) costs not internalized by the Clean Air Act's laudable trading system. The U.S. still subsidizes energy supply by about $21–36 billion per year [Koplow ASE93 for '89; EIA92 omits many terms], mostly for the least competitive options and essentially all for supply—implying significant costless reductions in carbon emissions just by removing subsidies [Shelby et al. 1995]. And that doesn't count an even

Subsidies are under increasing pressure by a more skeptical Congress and a better-informed public. Utility regulators in about 30 of the United States also take account of some externalities in considering utilities' proposed resource acquisition decisions. Some proposals for industry restructuring would worsen but others would help to correct these longstanding distortions.

bigger item: subsidies to security of supply that make the true cost over $100 per barrel[22] for Persian Gulf oil, all of it unnecessary.[23] (Yes, more was at stake in the Gulf War than just oil, but we'd hardly have sent a half-million troops there if Kuwait just grew broccoli.)

12-15-97

Energy price signals are diluted by other costs. For example, U.S. gasoline, cheaper than bottled water, is only an eighth of the total cost of driving, even though the car is cheaper per pound than a Big Mac. Why buy a 50- instead of a 20-mpg car when both cost about the same per mile to own and run?

Feebates (above) can reward turning over big capital stocks like car fleets more quickly, so we get the worst ones off the road soonest. This offers a huge new market opportunity—especially if the rebate for your efficient new car depends on the *difference* in efficiency between the new one you buy and the old one you scrap.

Few firms track energy costs as a line-item for which profit centers are accountable. Firms in rented space may have energy bills prorated rather than submetered. Most billing systems give no end-use information that lets customers link costs to specific devices. Many firms, especially chains and franchises, never even see their energy bills, which are sent directly to a remote accounting department for payment. Some large firms still assume that utility bills are a fixed cost not worth examining.

New bill-paying and -minimizing service companies are springing up to met exactly this need. Many provide submetering and two-way communications to pinpoint opportunities for improvement. Such simple efforts as ensuring that each meter generating a bill is actually on the customer's premises often generate big savings.

Appraisers rarely credit efficient buildings for their actual energy savings, so efficiency's value isn't capitalized. Most leasing brokers base pro forma financials on average assumed operating costs, not actual ones. Few buildings have efficiency labels. Few renters have access to past energy bills.

Some jurisdictions have right-to-know laws; others get similar results by training renters and buyers to be assertively inquisitive. Smart leasing brokers are distinguishing their services by offering valuable advice on minimizing occupancy costs. Home and commercial-building energy rating systems are rapidly emerging.

Tax asymmetries further distort energy choices. For example, energy purchases are deductible business expenses, but investments to save energy get capitalized.

Some countries do better. When the Japanese government wanted to clean up sulfur emissions from power plants, it allowed them to be expensed the same year.

Market prices don't include many environmental costs and risks: the Clean Air Act, for example, creates a cap-and-trade regime for sulfur but not for carbon emissions.

Natural Resources Defense Council published an index of relative exposure to carbon-tax risks for all U.S. utilities and let capital markets adjust ratings accordingly.

Incomplete markets and property rights

There is no market in saved energy: "negawatts" aren't yet a fungible commodity subject to competitive bidding, arbitrage, secondary markets, derivatives, and all the other mechanisms that make real markets in copper, wheat, and sowbellies. You can't yet go bounty-hunting for wasted energy, trade negawatt futures and options (or bid them in a spot market against megawatts), or even, in general, bid them fairly against expansions of energy supply. You can seldom sell reduced demand or reduced uncertainty of demand; yet both are valuable resources that deserve markets. Property rights in most forms of depletion and pollution are incomplete or absent and hence cannot be traded.

When Morro Bay, California, ran short of water, it simply required any developer wanting a building permit to save, somewhere else in town, twice as much water as the new building would use. Many creative transactions occurred as developers discovered what saved water is worth. Two-fifths of the houses were retrofitted with efficient fixtures in the first four years. A more comprehensive market transformation effort enabled Goleta, California, to cut per-capital residential water use by over 50%, and total water use by over 30%, in one year and with no loss of service quality—thereby deferring indefinitely a multi-million-dollar wastewater-treatment-plant expansion.

12-15-97

So which *models are unreliable?*

Critics of climate protection often cast doubt on the elaborate computer models that simulate the physical processes of the earth's climate. But those models, which now closely fit the climate data, are far more detailed and realistic than the climate-*economics* models used to claim that climate protection is too costly. The pervasive barriers to buying energy efficiency make the economic models' perfect-market assumption as otherworldly as if the physical climate models omitted atmosphere, clouds, and oceans, and relied instead on a theoretical assumption based on a simple historical regression linking CO_2 levels to global average temperatures.

Compare the "actually existing market" in the left column above with the requirements of a *theoretical* free market: perfect information about the future, perfectly accurate and complete price signals, perfect competition, no monopoly or monopsony (sole buyer), no unemployment or underemployment of any resource, no transaction cost, no subsidy, and so forth. It's a different universe. Ignoring those real-world distinctions leaves most of the climate-economics models riddled with flaws: for example,

- The economic models all forget that renewable sources get cheaper as you produce them in higher volumes, as they've done for decades—leading Royal Dutch/Shell Group Planning to consider it plausible that over the next half-century, renewables could grow to supply more than half the world's energy [Sustained Growth scenario, Kassler 1994, from UNDP 1997 p 110].
- The economic models also don't let technologies improve as price incentives increase, even though rising prices are well known to spur innovation [Newell et al 1996, Grubb et al 1995, Goulder & Schneider 1996].
- Most models quietly assume that carbon-tax or -permit-auction revenues are simply rebated (which lowers GDP) instead of being used to displace the distorting taxes that discourage savings, work, or investment (which would raise GDP)[WRI pp 23-26].
- The relatively few models that allow international trading of emissions and reductions assume that all countries have essentially perfect market economies—even those, like the former USSR and China, that don't have economies at all, but only giant machines for eating resources (and hence the biggest opportunities for improvement).
- Most economic models are very sensitive to how fast, if at all, energy efficiency is assumed to improve by itself at present prices: one model, for instance, found that as this rate was increased from 0.5 to 1.5% per year (it actually averaged *1.54%* per year during 1973–95[24]), the calculated cost of cutting carbon emissions to 20% below 1990 levels fell from $1 trillion nearly to zero [Manne & Richels 1990s; see WRI p 19].
- Very few of the models take any explicit account of efficiency technologies, and those that do (like the government studies that show ways to save 20–25% of the carbon at negative cost, with much further potential at low cost [IPCC 1996b, NAS 1991, OTA 1991, Levine & Brown 1997,...]) are ultraconservative: they use outmoded, costly, incremental, component-based technologies rather than reflecting the modern whole-system approach.

A lucid guide to 162 predictions by the 16 top climate/economy models [WRI] found that seven underlying assumptions explained 80% of the differences in their results. Does a model assume there's any "backstop" energy source, such as renewables or nuclear, that can be widely adopted if fossil-fuel prices get high enough? Does it assume the economy responds efficiently to price signals and can make significant substitutions between fuels and between products? Can different countries trade their savings opportunities? Are revenues recycled efficiently? Does the model count the value of avoiding climate change (perhaps a relatively minor term, but enough, with efficient revenue recycling, to improve economic welfare [Nordhaus & Young 1996, Jorgensen et al 1995, Nordhaus 1994, 1993])? Does it count the benefit of abating associated forms of conventional air pollution as a free byproduct of burning less fossil fuel—benefits large enough to offset 30–100% [IPPC 1996b] or more [Ekins 1995, Jorgenson et al 1995, Boyd Krutilla & Viscusi 1995] of the assumed cost of carbon abatement?[25] For (say) a 60% carbon reduction in 2020, *these seven assumptions can predetermine whether the model shows by then a 7% reduction or a 5% increase in GDP* [WRI 1997].[26] That noted economists should find such wildly divergent results underscores not only their lack of unanimity on whether climate protection is disastrous or beneficial for the economy, but also that the difference arises from divergent model structures and assumptions.

In sum, most economic models—especially the extreme ones publicized by fossil-fuel companies' $30-million ad campaign—calculate large costs because they assume rigid, constrained, and unintelligent responses to economic signals. The few models that show economic *benefit* from protecting climate, even if they assume outmoded energy-

12-15-97

efficiency techniques and impute no value to reducing carbon or other pollution, merely assume that people and firms behave with the ordinary sagacity and flexibility that market mechanisms offer.

Even cheap energy can be saved quickly

Energy efficiency can be implemented very rapidly, by either or both of two quite different methods. One method, demonstrated in the 1970s and '80s, is to have high or rising energy prices and a sense of urgency:

- During roughly 1975–85, most new U.S. energy-using devices—cars, buildings, refrigerators, lighting systems, etc.—*doubled* their efficiency, improving at an annual rate averaging around 7%.
- If all Americans saved electricity as quickly and cheaply as ten million people served by Southern California Edison Company did during 1983–85, then each year they'd decrease the forecast need for power supplies a decade hence by about 7%, at a cost to the utility around one-tenth that of today's cheapest new power stations [Lovins 1985 pp 180–83, Fickett et al. 1990].
- In the 1980s, skillful utilities captured ~70–90+% of particular efficiency micromarkets, mainly difficult ones like retrofitting house shells, in just one or two years.
- Speed can extend to renewables as well as efficiency. Maine used auctions and other competitive processes to raise its private share of power generation from 2% in 1984 to 20% in 1989 to 36% in 1995—and more than two-thirds of that new production was renewable.

Of course, a lot has changed since the '80s. At first, U.S. primary energy consumption "froze at about 74 quads" (quadrillion BTU per year) during 1973–86 "while the GNP grew by 35%" [Levine & Brown 1997 p x]. Those huge energy savings largely caused the mid-1980s crash in energy prices. This in turn retarded further savings: "Starting in 1986, [real] energy prices began their descent...that has continued to the present. As a result, energy demand grew from 74 quads in 1986 to 91 quads in 1995"—a 22% increase, while GDP grew 23%. With more fuel being burned, "carbon emissions have been increasing at a similar pace" [Levine & Brown 1997 p x].

This history makes it natural for economists to suppose that resuming rapid energy savings will require a return to the costlier energy that propelled rapid savings before. But lower and still-declining fuel prices don't bar us from regaining that decade-old momentum. Today's better technologies and smarter delivery methods can far outweigh the lower energy prices and the used-up initial opportunities, achieving quick savings even *without* the spur of high prices:

- During 1990–96, utility facilitation enabled electric customers in Seattle—with the cheapest electricity of any major U.S. city—to save electric load nearly 12 times as fast as those in Chicago, and electric energy more than 3,600 times as fast, even though Seattle electricity prices are about half of Chicago's.[27] This conclusively shows that making an informed, effective, and efficient market in energy-saving devices and practices—as Seattle City Light's efforts helped to do—can fully substitute for a bare price signal, and indeed can influence energy-saving choices even more than can price alone. That is, *people can save energy faster if they have extensive ability to respond to a weak price signal than if they have little ability to respond to a strong one.*[28]
- Investor-owned utilities, when rewarded for cutting bills, sold efficiency ever faster and more skillfully despite falling electricity prices. In 1990, New England Electric System captured 90% of a small-commercial pilot retrofit market in two months. Pacific Gas and Electric Company captured 25% of its entire new-commercial-construction market—150% of the year's target—in three months, so it raised its 1991 target...and captured all of it in the first nine days of January.

Higher energy prices do not automatically yield substantial energy savings, as can be seen simply by comparing the virtually identical electricity-using devices found in U.S. cities that pay severalfold different electric rates. Nor, as the Seattle/Chicago comparison shows, do low energy prices preclude rapid energy savings where policy encourages and support them. Thus higher energy prices do help spur savings and reflect true social costs. But high energy prices are neither a necessary nor a sufficient condition for economically and technically efficient use of energy: not necessary because vast savings are already worthwhile at present prices but blocked by the barriers described earlier, and not sufficient because the same obstacles, if not deliberately removed, would persist even at higher prices.

Honest energy prices do increase economic efficiency: if we don't know what energy really costs, we won't know how much is enough. Combining desubsidized and internalized energy prices with policy "trimtabs" that reduce the barriers would yield the fastest possible savings. The most balanced approach to price, however, is not to focus spe-

12-15 47

cifically on *energy* prices, but to shift taxation from jobs and income to *all* forms of resource depletion and pollution—just as the British, Danes, Dutch, Finns, and Swedes are starting to use revenues from environmental taxes to cut taxes on labor. Today's outmoded U.S. tax system penalizes work and employment while often subsidizing depletion and pollution. The present system rewards, and therefore gets, just the opposite of what we want. In a 21st-century world of more abundant people and scarcer natural capital, it makes good theoretical and practical business sense to rebalance factor inputs by correctly signaling their relative scarcities.[29]

Energy prices and national competitiveness

If for whatever reason the price of emitting CO_2 into the atmosphere were raised above its current value of zero, Americans need not fear damage to national competitiveness. After all, the nations that have traditionally been the toughest competitors, like Japan and Germany, have long had energy prices two to three times those of the U.S. This simply made them use the energy about twice as efficiently. Learning how to do this drove their industrial innovation on a broad front, further widening the competitive gap against a cheap-fuel America. Similar flexibility, and more, exists in our own economy—as Americans have already proved by invisibly cutting the nation's annual energy bill by some $150–200 billion compared with 1973 levels of inefficiency. And there's a hidden bonus: just as energy efficiency created the conditions that crashed world oil prices in 1986 and have made them decline ever since, triggering a durable boom [Schwartz 1997], so repeating and accelerating that success can continue to suppress OPEC's cartel power and dampen oil prices. This would cut America's oil trade deficit ($61 billion in 1996 alone) while not causing material adverse trade shifts of other kinds [WRI p 9].

Nor need we fear that costlier energy in industrial countries would make American jobs (and carbon emissions) flee to an untaxed South—akin to the "pollution haven" notion which analysts have searched for in the data but not yet found [DeCanio new MS cite]. Electricity prices would be the most sensitive to any carbon tax or emissions trading; yet 1994 electricity bills averaged only 1.3% of the value shipped by average U.S. manufacturing firms, 3.4% for the most electricity-intensive sector (pulp and paper) [EEI Stat Yrbk 1995, p. 82].[30] If electricity is too small a factor cost to worry about saving, it's hardly big enough to justify moving one's factory overseas. Conversely, if its price rises enough to motivate moving abroad, it's certainly a strong enough reason to save most of that electricity, at a profit, and stay at home.

After all, a small saving in such a tiny factor cost is far less important to industrial competitiveness than the many-fold saving that's *already* available in the biggest factor cost—labor. Yet most American jobs have remained here: firms that haven't already exported jobs in search of cheap labor have generally concluded that other countries don't have the infrastructure, skills, local markets, laws, tax rules, or other conditions they need. Differences in energy price would be a much weaker incentive to migrate—as we can infer from American firms' failure to move to the few countries, like Venezuela and Saudi Arabia, that have long had even cheaper energy than we do. Another thought-experiment reveals the absurdity of this notion that energy prices are the sole or main determinant of industrial location. If this were true, then Japan and Europe would long ago have transplanted all their factories to America to take advantage of our severalfold lower energy prices. They didn't.

Those who prefer pricing to obstacle-busting policy instruments for climatic protection contemplate price increases far smaller than the differences that already exist: for example, a 1–2¢/kWh rise in electricity price—less than the differences that already exist between different parts of the United States, or even between some adjacent utilities, without triggering industrial mass migrations. Japanese industry pays about *10¢*/kWh more than its American counterparts, but as Japan long ago discovered, even such a threefold difference in energy price can be offset by more productive energy use. That's the durable source of competitive advantage; and it's far easier to sustain amidst the rich infrastructure and skill base of the North than of the South, so migrating Southwards would generally lose advantage, not gain it.

Almost everyone wins

Using energy far more efficiently does mean that less fossil fuel would be sold than if we continued to waste it so profligately. Lower physical volumes may not mean lower profits, but vendors fear that they would make less profit than expected if demand grew more slowly, or stabilized, or even declined—as it would have done eventually from depletion. (For example, a standard model of stabilizing emissions at 1990 levels through a carbon tax [Jorgenson et al. 1992] shows U.S. coal output 25% below the rapid growth in its baseline projection—but output would still grow.) Where is it written, however, that coal companies or OPEC countries have an inalienable right to sell ever

12-15-97

more of their product—or, as their mouthpieces[31] now urge, to be compensated for lost profits if their hoped-for demand growth slackens or reverses?

This nation has never been good at helping workers or industries in transition, and now would be a good time to get better at it. Much of the Rust Belt is now recovering, but little thanks to outside help. In today's climate-induced shifts, a similar failure to help coal miners, depressed communities, and even disappointed shareholders will encourage them to oppose measures that benefit society. But those measures are also profitable enough that society can afford to ease their difficulties. The total payroll of all U.S. coal-miners is about $5 billion, or 1% of the nation's energy bills—less than spontaneous gains in energy efficiency save in any typical year. Climate policies threaten miners' jobs much less than do the coal companies, which since 1980 have eliminated more than half of the miners' jobs for which they profess such concern.

As for the shareholders, hard-nosed free-marketeers might say they should have foreseen that climate would become an issue, so they should have invested in natural gas, efficiency, or renewables instead of coal, or in gas pipelines instead of coal-hauling railways. If efficient energy use costs less than coal, then coal will lose in fair competition, and no friend of a thriving economy should wish otherwise. But the best outcome, especially for the workers, would be to structure the incentives so that the companies at risk in the transition will start selling a more profitable mixture of less fuel *and* more efficiency in using it—as a few oil companies and hundreds of electric and gas utilities are already successfully doing to improve both customer service and their own profits. That's the same logic that has already led the likes of BP, DuPont, Ford, Tokyo Electric, Norsk Hydro, and ABB to fund both internal and consortium research to protect the climate while advancing their own business interests [ChrSciMon editorial "21st Century Weather,"6Aug97p20].

Time to dump the myths

With this understanding of how modern technologies and creatively used markets can profitably protect the climate *and* the economy, we can see the aridity and irrelevance of the myths underlying the conventional climate debate:

- *It's about climate science.* No; it doesn't matter what the climate science says, or even whether it's right, because we ought to be purchasing energy efficiency anyway just to save money.
- *It's about decision-making under uncertainty.* The uncertainty doesn't matter, because the robust economic benefits depend only on private internal costs and benefits, not on any imputed environmental values or risks.
- *It's about carbon taxes.* No; they may be helpful and appropriate, especially as part of a general tax shift from people to resource depletion and from production to consumption, but present prices are ample to elicit all the energy savings we need—if we just get serious about vaulting the barriers that inhibit people from buying energy efficiency.
- *It's about command-and-control.* Wrong; it's about helping markets to work properly—and then letting them do their job.
- *It's about who should bear the costs.* What costs? The interesting question is who should get the *profits*. That's a good thing to compete about in the marketplace, but it shouldn't require difficult negotiations.[32] The "polluter pays principle"—OECD doctrine since 1974—remains valid, but this time the polluter can profit.
- *It's about sharing sacrifices for the common good.* On the contrary, it's about helping individuals, firms, and nations behave in their economic self-interest.
- *It's about changing to a lifestyle of privation and discomfort*—as the Chairman of Chrysler Corporation recently put it, "dimming the lights, turning off the air conditioning, sacrificing some of our industrial competiiveness and curtailing economic growth" [WPost 7/17/97 p A19]. No; it's about living even better with less, by using smarter technologies that yield the same or better service. The showers will be as hot and tingly as now, the beer as cold, the rooms as well-lit, the homes as cozy in winter and as cool in summer, the cars as peppy, safe, and comfortable; but we'll have substituted brains for therms and design for dollars.
- *It's about keeping the poor down.* Quite the opposite; if equitably provided as the cornerstone of the development process [Asian paper], energy efficiency could be a boost for those most burdened with the least efficient buildings and equipment, and least able to afford such waste. Even if the price of fossil fuels did rise, that's not very regressive, because poor people spend more of their income directly on energy but less indirectly (embodied in goods and services). Any disproportionate harm to the poor could be corrected by straightforward adjustments elsewhere in the tax or welfare systems [WRI, p 8, pp 32–33]. Equity issues merit careful attention, but are no reason to keep on subsidizing energy for the rich.

12-15-97

- *It's about consuming too much in the North and not enough in the South.* That's a real issue, and we in the North have to start thinking hard about what we want, how much is enough, how to meet nonmaterial needs by nonmaterial means, what will make us better human beings, and the difference between a good life and what scripture calls "vanity." But the resource-efficiency revolution described in two new books[33] can buy much time by simultaneously sustaining or enhancing Northern *and* greatly improving Southern living standards while dramatically reducing the use of energy and materials.

Protecting the climate for fun and profit

A proper grasp of the practical engineering economics of energy efficiency (and of other climate-stabilizing opportunities) can thus give nearly all the parties to the climate debate what they want. Those who worry about climate can see it stabilized. Those who don't will still make more money. Those who worry about costs and burdens will see them replaced by profits. Those who want improved jobs, productivity, competitiveness, quality of life, public and environmental health, and individual choice and liberty will get those things too. Two emphases—energy efficiency, and climate-protecting farming and forestry practices that treat nature as model and mentor—can deal profitably not only with climate but with about 90% of EPA's pollution concerns. These actions are therefore are not inimical but vital to a vigorous economy, a healthful environment, sustainable development, social justice, and a livable world. As an eminent group of economists supported by more than 2,000 of their colleagues recently concluded, in short, "policy options exist that would slow climate change without harming American living standards, nd these measures may in fact improve U.S. productivity in the longer run" [Arrow et al. 1997].

The true pragmatists in this debate are those who suggest that we have at hand—and should elevate to the central role in climate policy—the tools we need to turn climate into a business opportunity, at home and worldwide. This can, but need not, involve changing energy prices. Innovative, market-oriented public policies, especially at a state and local level, can focus chiefly on barrier-busting to help markets work properly and reward the economically efficient use of fuel and money. This requires much *less* intervention in the market than we now have with regulatory rules and standards: it properly assumes that the role of government is to steer, not row, and that market actors guided by clear and simple rules can best figure out what will make sense and make money. But we need to steer in the right direction—the line of least resistance and least cost—guided by a detailed and exact understanding of the barriers that now block energy efficiency, and thereby damage global development and national security [Nitze W Post A22 2 July 1997].

A bizarre irony lurks beneath the climate debate. Why do the same people who favor competitive markets in other contexts seem to have the least faith in their efficacy for saving fossil fuels? Let's recall what happened the last time this gloom-and-doom attitude overcame these people's better instincts. Just before Congress approved in 1990 the cap-and-trade system for reducing sulfur dioxide emissions, environmentalists predicted that reductions would cost about $350 a ton, or ultimately (said the optimists) perhaps $250. Government economic models predicted $500–750; the higher figure was the most widely cited. Industry models upped the ante to about $1,000–1,500. In fact, the sulfur-allowance market opened in 1992 at about $250 a ton; in 1995, it cleared at $130 a ton; in 1996, at $66.[34] Moreover, national sulfur emissions have fallen 37% in just the past decade—and 38% faster than the Clean Air Act envisaged, because of simple incentives to reward early achievers. Much the same thing is happening with CFCs.

The genius of private enterprise and advanced technologies found a way billions of dollars cheaper than command-and-control regulation. It would do so again if we competed to save the most carbon in the cheapest ways. In fact, a double bonus would emerge: we'd automatically and profitably meet most of the stringent new ozone and fine-particle standards too, via the same reduced combustion that helps the climate and cuts our energy bills; and we could easily use similar incentives for doing so early.

In the past half-century, global carbon emissions have quadrupled. But in the next half-century, the climate problem could become as faded a memory as the energy crises of the '70s are now[35]—because it's not an inevitable result of normal economic activity, but an artifact of energizing that activity in extraordinarily inefficient ways.

Let's vault the barriers, use energy in a way that saves money, and put enterprise where it belongs: in the vanguard of sound solutions. Climatic change is a problem we can't afford, don't need—and can avoid at a resounding profit.

* * *

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Notes [references to be added]

[1] That switch saves $8 billion in the pulp and paper industry alone [*Agenda* 2020, Am. Forest & Paper Assn., 11/94, ref'd by Romm present'n]; similar findings of a DOE/industry process include 20% energy savings in glass, 50% in aluminum, and 15% in chemicals.

[2] These case-studies are from the USDOE ClimateWise Case Study Compendium, Report 1, DOE/GO-10096-217.

[3] For detailed documentation on each of these matters, omitting only the newest developments such as hypercars, please see our survey paper "Least-Cost Climatic Stabilization," *Ann. Rev. En. Envt.* 16:433–531 (1991).

[4] The exact percentages don't matter because such big and profitable savings are available in each gas, source, and sector [*id.*].

[5] Average U.S. industrial electricity in 1996 cost the heat-equivalent of oil at about $79 per barrel, over three times the world crude-oil price. Commercial and residential electricity prices averaged respectively 75% and 83% higher yet. Electricity is therefore the most lucrative form of energy to save. It is also the form whose savings yield the greatest climatic leverage: each unit saved saves 3–4 units—in developing and socialist economies, more like 5–6 units—of power-plant fuel, and that fuel is mainly the most carbon-intensive kind—coal. (U.S. electricity is 52% coal-fired, and 88% of U.S. coal makes electricity.) For these reasons, our case-studies focus on new ways to save electricity, although similarly large savings are profitable for most directly used fuels too [AREE].

[6] The negative figure means the building would have saved a capital investment equivalent to five months' worth of operating cost before you even turn it on.

[7] The engines are especially inefficient when running air conditioners in cars stuck in traffic (*i.e.*, most cars most of the time), and all of the 5–6 GW of electricity brought into the city ends up as heat. Dr. Suntoorn [ref] notes that together, these heat sources add nearly as much artificial heat per square meter as is delivered by all the sunlight striking the city. In the nearby countryside, ingenious ventilative and radiative passive designs still work fine.

[8] Just the temperature optimization typically saves 50% in new plants, and pays back in six months in retrofits [Levine & Brown 97 4.20].

[9] Hypercar-like heavy road vehicles look attractive too, and new uses of information technology to smooth or displace the flow of goods can make much freight traffic unnecessary. Major savings are also available in other transport modes. Ships and passenger aircraft doubled their efficiency in the 1970s and '80s and can do it again: the National Research Council has caled for 40% less fuel per seat by 2010–15 [Levine & Brown 97 5.31]. As one hint of what's possible, a 1996 Lockheed-Martin Skunkworks fighter-plane design, made of 95% carbon-fiber and the like, cut weight 35% and cost 65%. Other new vehicles are starting to enter the market, from tenfold lighter and cheaper trains to convertible road-rail vehicles (like GM's Roadrailer) and Lufthansa's freight dirigible to hybrid-electric bikes.

[10] A sophisticated model perhaps a decade or two from now could combine Lexus comfort and refinement, Mercedes solidity and stiffness, Volvo safety, Porsche acceleration, roughly Taurus price, 100–200 miles per gallon-equivalent (the upper range using hydrogen fuel cells), and zero or equivalent-zero emissions. All the technologies needed to do this exist today.

[11] Costing only one reactor's worth ($3 billion) spread over 20 years. Federal renewable-energy R&D was slashed 89% in real terms during 1979–89, and remains under continual attack. In consequence, American industry must already import many renewable energy technologies that were invented here, then left to wither on the vine. Effi-

ciency R&D has a similar history, with drastic cuts, slow rebuilding interrupted by continual sniping, and little attention to the $28 billion energy saving achieved through 1996 from just five of the numerous technologies developed or demonstrated with DOE's $28-billion efficiency RD&D budget during 1975–95 [Levine & Brown 97 p 2.5].

[12] This potential is economically consistent with the National Academy of Sciences' 1992 findings (*Policy Implications of Greenhouse Warming*) but about one-fourth to one-third as large, because the Academy examined long-term potential without regard to timing, while the five-Labs study explicitly counted retrofit and replacement dynamics.

[13] This is possible because efficiency is abysmal to start with—so low that when an Indian village switched from kerosene to fluorescent lamps, illumination rose 19-fold, energy input decreased ninefold, and household lighting expenditure fell by half [Reddy 1994 cited at UNDP 1997 p 70].

[14] This range [Levine & Brown 1997, p x] depends on what fraction of the 1973–96 reduction in primary-energy/GDP ratio is due to improved technical efficiency; with most authorities, we estimate upwards of two-thirds, the DOE estimate for 1973–86 [*id.*, p. 2.1]. The rest is due to shifts in composition of economic output and to minor behavioral changes.

[15] Bill Howe, "Distribution Transformers: A Growing Energy Savings Opportunity," E SOURCE TU-93-10, 12/93; dominant models are ~96–98.5% efficient, the best amorphous-iron model 99.33%, but it costs $680 instead of $320, so its market share is only 10%. Compared with the best standard model, it yields a 14%/y aftertax ROI, a 20-year saving more than twice its marginal cost, a longer life, and far greater service flexibility. This analysis assumes 25-kVA oil-filled units, 0.50 load factor, 0.95 power factor, 6¢/kWh, 5%/y real discount rate, 36% marginal tax rate. The misallocation is assessed as the present value, over a 20-y minimum life, of avoided generation at 2¢/kWh and generation-plus-transmission at $700/kW (busbar) with 3% transmission loss; each 10,000 transformers sold at 98.44% instead of 99.33% waste 2.5 peak MW and ~22 GWh/y (*id.*). One-third are bought by nonutilities; 35 million units are U.S. service; and virtually all electricity flows through similar transformers.

[16] Implicit real discount rates for buying efficiency typically range upwards from 60% a year [refs], while big energy supply firms have traditionally been content with 5–6%.

[17] Some theorists argue that "transaction costs"—the supposedly prohibitive cost and hassle of searching out every little source of energy inefficiency and negotiating with its owner to correct it—will eat up any profits and make further energy savings impractical. Nonsense. Transaction costs in some poorly designed early utility programs were up to tens of percent of total costs—which were still severalfold smaller than the savings they achieved. But more mature programs cut those transaction costs by tenfold, to just a few percent overhead, making the net profits even juicier [AREE p 3n/SCE pri ref].

[18] Most of the misallocation is driven also by the enormous personal profits for dealmakers. Those transactional rewards drive many investments with unsound fundamentals (like most recent Asian project-financed power plants), just as they propelled the '80s real-estate bubble and S&L fiasco. Those tens of billions of dollars per year get tied up for a decade or more and can't be invested instead in cheaper efficiency. But efficiency doesn't offer fat commissions.

[19] Firms are not individuals and are not of a single mind—hence often experience [DeCanio Epol p 907...] the "divergence between goals and actions" familiar in all bureaucracies. Indeed, economic theory correctly states that in general, "rational, self-interested individuals will not act to achieve their common or group interests." Corporate inefficiency may be invisible if profits are positive and competitors use similarly inefficient practices. As Nobel economist Herbert Simon convincingly describes, firms do not in fact fully maximize profits but rather resort to "satisficing" because of the inherent complexities of their environment and the limits of their processes for making and executing decisions. Shareholders hold diversified asset portfolios, but managers whose careers ride on the success of specific projects are far more risk-averse, so they go only for extremely high-return investments—and so on down the hierarchical chain of control, where subordinates bear the personal risks of failure while superiors see the results and know which projects were chosen but not why. This leads to systematic suboptimization—to second-best solutions perceived as less risky individually, but less profitable overall than they should be. In summary, the reasons for corporate (or for that matter government) underinvestment in energy efficiency are described by economists as bounded rationality, principal-agent problems, and "moral hazard" (an old insurance term for situations where behavior can take advantage of and thereby change actuarial odds or prices, as where people are more likely to abuse a rental car than one they own, forcing the rental firm to raise its price). Overlaid on these is widespread myopia—hurdle rates for capital budgeting generally (not just to save energy) well above investors' required returns. The complex reasons for this relate mainly to takeover and investment-analyst pressures.

[20] When regulators convert revenue requirements for a fair return on and of capital into a schedule of tariffs (cents charged per kWh used by various customers), they must assume how much energy will be sold. If the utility then sells more energy than assumed, its profits go up; if less, its profits go down. The solution is to decouple profits

from sales volumes via a simple balancing account, so the utility is no longer rewarded for selling more energy nor penalized for selling less. This also eliminates the incentive to game the forecast (lowball forecast sells so you can sell more), and does not make utilities' profits depend on things they cannot control such as weather [EPol].

[21] Developing countries subsidize their energy by an estimated $111 billion per year, but America subsidizes just its car drivers by more than that (the gap between their public direct costs and their fee and tax payments) [Worldwatch ref: Vital Signs '97?]. We pay to create the problem and we pay to deal with it. It would be cheaper and smarter to pay no subsidy and thus avoid the problem.

[22] The military costs of forces whose primary mission is intervention in the Persian Gulf totaled at least $73 billion in 1994—plausibly 3+ times that [Cavallo 1996]. Allocating that cost generously to all, not just Gulf, oil use is equivalent to a hidden shift of about $2–7 per million BTU, or $13–37 per barrel, from energy bills to tax bills.

[23] The U.S. wouldn't have needed a drop of oil from the Gulf if it had kept on saving oil as fast after 1986 as it dud for the previous nine years. During 1975–87, the U.S. had boosted its oil productivity four-fifths faster than it had to in order to match both economic growth and declining domestic oil output. By 1986, the annual energy savings, chiefly in oil and gas, were providing two-fifths more energy than the entire domestic oil industry, which had taken a century to build; by 1995 the savings had surpassed *all* oil use. But after doubling, new-car efficiency stagnated for a decade and is now declining again under the weight of inefficient light trucks, vans, and sport-utilities.

[24] But with localized spurts, like New England's 6%/y gains during 1978–80 (the period of the second oil shock). To be sure, national improvements were much faster before the 1986 price crash than since, but if a lower-than-historic rate is to be assumed because greater energy efficiency will continue to lower energy prices, then the stimulative effect of that cheaper energy must also be considered.

[25] EPA's 1994 *Emission Trends Report* states that conventional energy use causes 95% of U.S. CO_2 and NO_x emissions, 73% of volatile organic compounds, and 70% of CO, so as *The Economist* remarked in June 1990, "Using energy in today's ways leads to more environmental damage than any other peaceful human activity."

[26] Such a long-term change is quite small in annual terms: a review of nearly 100 modeling studies showed that holding long-term CO_2 emissions at about current levels (much more stringent than current proposals for stabilizing emissions) "may if carried out in an efficient manner be expected to reduce...average GNP growth rates over the period [to the mid-21st century] by less than 0.02–0.03% per year" [M. Grubb *et al.* , "The Costs of Limiting Fossil Fuel CO_2 Emissions: A Survey and Analysis," *Ann. Rev. En. Envt.* **18**:397–478 (1993) at 472].

[27] Seattle City Light's measured savings achieved through 1990–96 investments in demand-side management, emphasizing energy rather than peak-load savings, were 313 GWh/y or 38 average MW—3.2% of 1996 energy sales and average load (J. Todd, personal communication, 7 August 1997, documented in annual *EMSD Accomplishment Reports*). By 1996, but nearly all during 1995–96, the nearly tenfold larger Chicago utility Commonwealth Edison saved 51 peak MW (0.27% of its 19-GW peak load), or an 11.8-fold smaller fraction of load. ComEd made essentially no effort to save electrical *energy*, yielding savings of only 800 MWh/y, or 0.00088% of its sales [M. Brandt, personal communications, 13 and 21 August 1997]—a 3,640-fold smaller fraction than in Seattle. The ComEd figures are not corrected for any offsetting sales increases resulting from promotional tariffs and practices. Big customers in Seattle in 1996 paid 1.9 times less and small customers paid 2.3–2.4 times less per kilowatt-hour than in Chicago.

[28] This is not surprising, since "nonprice measures have an important role in improving economic efficiency....All markets in open societies and in all sectors of economic activity...function within a framework of laws,...standards and public and private information services designed to improve the clarity and integrity of economic transactions and in so doing improve economic efficiency....[P]ure market transactions, in which prices, along with other economic variables such as income and wealth are the sole variables, are rare" [D. Anderson, World Bank, AREE '95, pp 563–4].

[29] Environmental taxes certainly work: as *The Economist* [28 June 1997] summarizes, "the OECD says that in Sweden, where dirtier automotive diesel has been taxed relatively heavily since 1991, almost all diesel is now of the cleanest type and sulfur emissions from diesel vehicles have fallen by 75%. In Norway, the carbon-dioxide tax has prompted a switch away from fossil fuels, cutting emissions from power stations and factories by one-fifth since 1991." Making "labor taxes less damaging...is worthwhile anyway." Tax-shifting simply combines both benefits. Phased-in, revenue-neutral tax shifts [Jeff Hammond, Peggy Duxbury, Alan Sanstad, & Stephen DeCanio, *Tax Waste, Not Work*, Redefining Progress, SFO, 1997] offer rich potential for strengthening the public and private economy and for avoiding many social costs whose remediation now increases the total burden of taxation. Tax-shifting would signal managers to fire the unproductive tons, gallons, and kilowatt-hours, and thereby help them to keep the people, who'd then have more and better work to do. There is an intimate link between the waste of people, resources, and money—and the solutions to all three problems are also intertwined [NatCap/MJ].

[30] Moreover, less than half the price of electricity is fuel, and under a mere $20–40/ton carbon tax, coal-fired electricity would be quickly displaced by modern gas-fired plants that emit only one-fourth as much CO_2 per kWh and are hence only one-fourth as sensitive to the tax—or even by competitive renewable sources.

[31] Including some leading non-oil-exporting Southern diplomats whom OPEC has coöpted for this purpose.

[32] As chief U.S. negotiator Tim Wirth put it [Intl Envtl Reporter 2 Oct 1996], "probably the most complicated scientific, environmental, economic and political challenge in history."

[33] *Factor Four: Doubling Wealth, Halving Resource Use* [cite] and the forthcoming book *Natural Capitalism: The Worthy Employment of People and Resources* [cite]. The European Union, German, and Dutch Environment Ministers have endorsed the Factor Four approach as a new basis for sustainable development—the only dissent coming from Sweden which, farsighted as ever, prefers a Factor Ten goal, as do the OECD Environment Ministers. Fair enough: the latest technical findings described in *Natural Capitalism* do make that a realistic goal. But four is on the way to ten and is much better than zero.

[34] See Bohi & Burtraw, El J Aug/Sept 97 pp 67–75. The price subsequently spiked up to $115 in spring 1997 as Enron and other traders bought the cheap allowances. By mid-1997 it had fallen back to $90. One could well conclude [Ackerman & Moomaw, ElJ Aug/Sept 97 pp 61–66] that "If pollution reduction is so cheap, perhaps society should buy more of it."

[35] In the 1970s, experts were nearly unanimous that energy use and GDP must forever march in lockstep. The Chairman of Chrysler Corporation still holds this view and more: although his 17 July 1997 *Washington Post* op-ed "Global Warming: Industry's Reponse" [p A19] acknowledges that "new technology will allow us to continue to grow our economy while managing the level of CO_2 output," he also states that curtailing fossil-fuel use "in the next dozen years by more than 20 percent" by obliging ourselves to "heavily tax or somehow rigidly ration our own energy use" would have the "certain consequence" of "a decline in the country's economic growth by a similar amount," so without sustaining historically high levels of energy use, the U.S. is "not likely to remain" a developed country. Of course, GDP and energy have long since parted ways—we now produce 44% more GDP per unit of energy than we did in 1970—and that's only the beginning. Even those who wonder how much further such progress can persist should be happy to try the experiment; both economically and politically, they have nothing to lose but their waste.

THE PRESIDENT HAS SEEN
12-15-97

Global Warming

October 20, 1997

A. General Views and Attitudes on Global Warming

The public view of global warming is best summed up as follows: there probably is global warming, it probably will results in some serious consequences, but it is not so serious as to warrant gasoline or other tax increases; it is serious enough to warrant much larger efforts at finding new technologies.

Our proposals must be convincing to the 76% who say that we should confine our efforts to researching new technologies at this point.

1. 34% consider global warming a serious problem; the issue has its greatest resonance with young people and Democrats.

"How serious a problem is global warming?"	October 19													9/30	7/16
		Gender		Party			Age					Education			
	All	M	F	D	R	I	18 - 24	25 - 34	35 - 49	50 - 64	65+	No Deg	Coll Deg		
Very serious	34	30	38	**48**	12	38	**50**	31	35	35	31	39	30	32	32
Somewhat serious	38	32	45	43	42	33	44	41	36	37	33	41	32	36	35
Not Very Serious	13	19	7	5	24	12	4	10	14	14	22	10	18	12	17
Not Serious at all	10	15	5	1	21	11	0	17	15	5	4	6	16	19	13

2. The public understands the connection between global warming and the use of cars and electricity.

53% say that greenhouse gases caused primarily from cars and electric plants are keeping in the heat of the atmosphere and making the planet gradually warmer; **36**% say that there is no credible scientific evidence that these gases are having any effect on the warmth of the earth.

But by 43/45 they reject the idea that it will be serious enough to melt polar ice caps and put parts of the country underwater.

Attitudes towards the problem are most revealed by these two questions:

70% say that this problem is serious enough for us to devote significant resources to finding alternative fuels that don't emit as much greenhouse gas; 26% say that we should not spend money on such research.

19% say that this problem is serious enough that we should agree to limit our emissions of greenhouse gases even if that means taxes on gasoline and electricity;
76% say we should confine our efforts to finding new technologies.

3. **Overall acceptability of an approach**

The public will reject an approach to global warming if the opposition can make a credible argument that it will raise gasoline prices 30-50 cents. This opposition is at 70% even if the action is delayed until 2005.

They may accept an approach that has much more limited costs, provided that it does not trigger immediate increases and has an initial heavy emphasis on research and technology.

17% would **favor** (**76% oppose)** a plan to curb global warming put forward by President Clinton that would involve a 30 to 50 cent per gallon increase in gasoline and oil prices.

19% would **favor** (**75% oppose)** a plan to curb global warming put forward by President Clinton that would involve a 30 to 50 cent per gallon increase in gasoline and oil prices, but guaranteed that prices would not be raised until at least 2005.

50% would **favor** (**41% oppose)** a plan to curb global warming put forward by President Clinton that would involve a 6 cent per gallon increase in gasoline and oil prices.

57% would **favor** (**35% oppose)** a plan to curb global warming put forward by President Clinton that would involve a 6 cent per gallon increase in gasoline and oil prices, but guaranteed that prices would not be raised until at least 2005.

This polling shows the political peril of an approach that would satisfy the environmentalists – it simply has close to zero public support, the support it does have is among non-voters, and 76% will oppose it.

But this does not mean that the public is unsympathetic to all approaches; it simply means that they are not ready to set a course today that would have those kinds of costs to the U.S.

B. Policy Issues

Policy Issue 1 - Extending the deadline from 2010 to 2020

The public favors a 2010 deadline with an element of flexibility.
It rejects a rigid 2010 deadline and while initially willing to wait to 2020, is easily convinced that we should take up the challenge of 2010 as long as the costs are contained.

Initially, 40% say that we should commit to rolling back our greenhouse gas emissions to 1990 levels by 2010 to make a real dent in this problem;
50% say that this is a long-term problem and that committing to rolling back our emissions by 2020 makes more sense.

But when put in context, they switch:

"The goal established in previous international summits is for the U.S. to reduce its greenhouse gas emissions to 1990 levels by 2000. We are not going to be able to meet this goal. Do you think we should now propose meeting this goal by 2010 or should we propose meeting this goal by 2020?"

52% 2010; **40%** 2020

" Environmentalists and some other countries will say that anything that doesn't meet the goals by 2010 is a reneging of our past commitments, abdication of our leadership on the issue and not a serious effort to combat the problem even meeting the goals by 2010 is a copout, as we originally said we would meet them by 2000. Many economists say 2010 will cause too much economic harm and that 10 more years in such a long-term problem is not a significant delay. Given this, do you think we should propose meeting this goal by 2010 or should we propose meeting this goal by 2020?"

53% 2010; **40%** 2020

"Some people say that we should keep 2010 as a goal but have a way to slow down the process if it creates too much economic harm. Given this, do you prefer a fixed 2010 deadline regardless of the cost, a 2020 deadline, or a 2010 goal with a way to slow it down if the costs are too great?"

17% fixed 2010 deadline regardless of cost
22% 2020 deadline
53% 2010 goal with a way to slow it down if the costs are too great

Policy Issue 2 – Taxes

The public does not support raising energy taxes and compensating them with a give back. They do not believe that they will get the money back, no matter how attractive the offer seems. And everyone believes that they will be losers.

" Another way to meet emissions standards is to increase gasoline and energy taxes directly. By making energy more expensive through taxes we can discourage use. And we can use the new tax revenue to, for example, lower taxes in other areas – such as payroll taxes."

42% approve of this system (**12**% strongly + **30**% somewhat)
51% disapprove of this system (**28**% strongly + **23**% somewhat)

54% say that raising energy taxes directly will set off a firestorm politically and that the money will be spent by Congress and never make it back to the people; **38**% say that raising energy taxes while lowering other taxes is the best way to make high energy users pay more and to reward those who don't, and that the taxes will make the people use less energy.

But more telling is this question: Do you think that you personally will pay more or benefit more from the rebates --

- **74**% think that under this system they would end up paying more in taxes
  17% receive more in tax rebates

"Once we have an emissions goal, we can meet it in several ways. We can increase gasoline and energy taxes and then give back those increased taxes in tax cuts in other areas, such as payroll taxes; we can create a system of emissions trading permits that will allow the marketplace to allocate our greenhouse gas emissions; and we can create specific standards for gas mileage on cars and for energy production and hold companies to those goals. Which of these three methods do you think is the best one to meet new emissions standards?"

		Party			Age					Income				
	All	**D**	**R**	**I**	**18-24**	**25-34**	**35-49**	**50-64**	**65+**	**<20**	**20-35**	**35-60**	**60-100**	**100+**
Taxes	20	24	20	17	26	20	23	15	19	27	10	21	25	31
Permits	16	15	23	11	15	17	22	10	9	13	12	12	21	22
Standards	50	48	48	56	56	51	48	56	50	43	69	57	41	40

Policy Issue 3 – Emissions Trading Permits

Introducing the emissions trading scheme will not be seen as a benefit; it will not be seen as a market driven reform. It can be attacked as enormously complex when implemented on this level. If it is the preferred policy option, it can be sold as a market-driven device either with a grand father clause or with an auction. The public has a preference for the grandfathering of existing companies.

We explained that we can create a system of emissions trading permits that will allow the marketplace to allocate our greenhouse gas emissions.
36% say that this permit system is a market driven way to efficiently implement emissions controls that has worked when tried on other chemicals
48% say that this is so complex and requires so much enforcement that it is an unworkable intrusion into our economy.

"With the permit system, companies, institutions and governments can emit gases only up to the level that they have permits for. Trading permits can work in two ways. One way is for the government to set up an auction and companies can bid on emissions permits totaling the full level of emissions permitted. The costs for the permits would increase the cost of electricity and the use of cars. But the revenue for the permits would go to the government and could be used to cut taxes or for new programs"

51% approve of this permit system (**14**% strongly + **37**% somewhat)
44% disapprove of this permit system (**23**% strongly + **21**% somewhat)

"Another way to meet emissions standards would be to give permits now to any company that creates greenhouse gas emissions and they could then trade those permits to others when they did not need them. This would establish a marketplace in greenhouse gas emissions and these companies would trade them as necessary, with these permits becoming valuable. This would reduce the impact on existing companies since they would get the permits related to their current use."

51% approve of this permit system (**15**% strongly + **36**% somewhat)
44% disapprove of this permit system (**20**% strongly + **24**% somewhat)

44% say the better way to allocate the permits is to give them to the existing companies; **36**% hold a government auction for them.

Policy Issue 4 – Standards

The public generally has faith in specific pollution standards. We saw this in the new clean air standards. They are used to industry griping about such standards and discounting their arguments. They do not see standards as a tax increase or unwarranted intrusion into the economy. Standards proposals generally put us in the strong position of fighting for something that is of clear consumer benefit (higher mileage cars, lower cost refrigerators) and leave industry on the defensive. It also emphasizes technology (the solution to meeting standards) over reaching the goals by raising taxes or creating a new government permit system.

"Another way to meet emissions standards is to set emissions goals in key areas of the economy and to enforce them. This would mean setting increased gas mileage goals for cars; setting higher emissions standards for electrical plants; setting higher standards for appliances, lighting, heating and air conditioning. Costs of energy would still increase as industry invested in the efforts to meet these goals."

67% approve of this system (**21**% strongly + **46**% somewhat)
26% disapprove of this system (**11**% strongly + **15**% somewhat)

30% say that these controls represent too much command and control in our economy so they should be avoided, and that the task is so big that they might not accomplish the goal; **60**% say that setting standards has been the most effective way so far of controlling pollution and should be used again.

Policy Issue 5 – Including Developing Countries

The public feels strongly that any agreement must include the developing countries. They support the position of negotiating an agreement but holding off ratification until the developing nations have also made a similar agreement.

35% say that we should enter into an agreement with the industrial developed nations on global warming at Kyoto and submit it to Congress; **56**% say that we should enter into an agreement in Kyoto with the developed nations, but hold off on submitting anything to Congress until the developing nations, such as China and Brazil, have a similar agreement.

Policy Issue 6 – Having An Escape Hatch

All of the polling shows that the device of an escape hatch and limiting costs to 6 cents in the distant future is a critical element of a position that can win sufficient public support. Adding that even that impact would be delayed at least until 2005 also adds to the ability to garner support.

- **51**% would want the Senate to ratify (**44**% **not ratify)** an agreement on global warming that would obligate the U.S. to meet emissions goals *that would raise energy prices by about 6 cents a gallon.*

- **38**% would want the Senate to ratify (**57**% **not ratify)** an agreement on global warming that would obligate the U.S. to meet emissions goals *that would raise energy prices by 30-50 cents a gallon.*

- **58**% would want the Senate to ratify (**35**% **not ratify)** an agreement on global warming that, if ratified by the Senate, would obligate the U.S. to meet emissions goals that would eventually raise energy prices, but President Clinton said we will focus on research and development of new technology and incentives for renewable energies to lower our emissions and guarantees that any energy tax increases would not occur until at least 2005.

The importance of the escape hatch:

This is critical to diffusing the 76% opposition we saw at the beginning of the poll analysis:

"Another important element is whether the U.S. should make an irrevocable commitment to meeting the 2010 goals regardless of the cost or should have a way to spread out the efforts if the costs turn out too much. Should the U.S. commit itself to a fixed goal or commit itself to a goal with an escape clause?"

28% fixed goal; **60**% with escape clause

32% **agree that:** if the agreements harm the economy too much, the United States would of course withdraw from the treaty, so some people say an escape clause is not necessary and just weakens the treaty.
57% say an escape clause is a necessary provision to enable us to back out of standards that are too rigid.

51% say that the 6 cents and $400 per year is a reasonable upper limit of costs we should devote to stopping global warming
37% say that this is still to high, will cost us jobs and we should not make this big a commitment to something so far off.

THE PRESIDENT
12-15-97

C. Messages to talk about global warming.

Important to avoid this message:

23% say that the U.S. has only 4% of the world's population yet drives so many cars and waste so much energy in factories and buildings that we create 26% of the world's greenhouse gases so we must give up some of our economic growth and development so that other countries will have room to grow and develop;

67% say that we should not penalize the U.S. for its exceptional growth and the U.S. should not agree to any standards that will not be met by developing countries as well.

But we tested a number of successful messages that should be incorporated into your speech:

1. **We have proved that a strong economy and a strong environment can go together and we can prove it again (strongest message with independents).**
2. **Reducing global warming means doing something we know we should do anyway – curb our use of fossil fuels.**
3. **Developing nations must also be part of any effort**
4. **The messages on the science of the existence of global warming and its immediacy also work reasonably well, but they should be put in the context of a measured, American response to this issue that we can and should do our part to combat the problem.**
5. **The argument that this is one of the great challenges of the 21st century works for the long-term and can be the wrap up of the discussion on the issue.**

Statements On Global Warming

Ranked by Impact on Independents

% saying believable/more favorable to President Clinton	Total Believable				More Favorable			
	All	D	R	I	All	D	R	I
In the last three decades we have proved how a better environment and stronger economy can go together. While our economy has expanded we have raised, not lowered our clear air and water standards. While our factories have been expanding, we have required them to clean up their toxic waste. While we have a record number of cars, they get better mileage and burn cleaner than ever before. And while we have record number of new homes, our refrigerators save more energy, no longer use ozone eating chemicals so they do not disrupt the environment. And we can prove it again. We can be a leader in new technologies created to combat global warming; we can meet this public health and environmental challenge and keep our economy strong. I have faith in America to do that. That is why I am proposing a plan to come to an agreement on global warming.	**81**	**92**	**65**	**80**	**63**	**79**	**35**	**66**
The world must act together on global warming. Even if we turned off every car in America it would not solve the problem unless both the developing and the developed nations all agreed to a plan to limit their emissions of these greenhouse gases. That is why I will submit to no plan that does not have the rest of the world behind it. And any agreements made by the developed nations will not go to Congress until developing nations have also agreed to them.	**76**	**86**	**61**	**78**	**68**	**80**	**58**	**65**
Preventing global warming means that we have to curb our use of fossil fuels, such as coal, oil and gas, but not only should we do this as part of an international agreement to reduce global warming, but we should do it because its good for America. America needs to protect the environment by curbing its use of fossil fuels, and protect the economy by reducing its dependence on foreign oil. That is why I am proposing a plan to come to an agreement on global warming.	**75**	**79**	**61**	**80**	**62**	**71**	**44**	**64**
America must be a world leader in preserving and protecting our environment. We are only 4% of the world's population and yet we emit 26% of the world's greenhouse gases. We need to support bold action now to curtail our use of these fuels and prevent the severe consequences that will occur if we don't take these steps. We must pay the price of leadership – and that means a tough plan by us and other industrial developed nations to curtail our use of these fossil fuels. That is why I am proposing a plan to come to an agreement on global warming.	**80**	**94**	**62**	**77**	**59**	**79**	**34**	**60**
Global Warming represents one of the greatest public health and environmental challenges of the 21st Century for all of the nations to come together and agree on a plan to keep our planet safe from the forces we are unleashing. As we have made strides in controlling nuclear weapons, so we must make strides in limiting the damage we are all doing to our environment or the consequences will be severe. That is why I am proposing a plan to come to an agreement on global warming.	**77**	**84**	**65**	**80**	**63**	**86**	**44**	**58**
The science of global warming is real. Temperatures are rising. Nobel prize winners support it. We know it. And we know that we must take strong action even if it means sacrifice on our part. Otherwise, we could, over time, face severe flooding of our coastlines and lose coastal communities in Florida and California, lose our climate, face increased storm patterns like El Nino, and face an increase in infectious diseases. We have to act now to preserve and protect our future. That is why I am proposing a plan to come to an agreement on global warming.	**74**	**88**	**59**	**75**	**65**	**83**	**54**	**57**

There is a belief that we can create jobs through the effort:

35% believe that controlling global warming will create new jobs, **25**% cost jobs
32% not have any effect on jobs.

55% say that controlling global warming could create new jobs because the U.S. would be a leader in a new $400 billion industry to create new energy saving technologies; **35**% say that this is just wishful thinking and that controlling global warming will only cost and not create new jobs.

12-15-97

Draft, to be edited and condensed--ABLovins 20.X.97

A message from corporate leaders about climate and business.

Some say that protecting the earth's climate will require much higher energy prices, limiting lifestyles and depressing the economy. But we believe such a future of cost, burden, and sacrifice is unnecessary.

Instead, we respectfully suggest, climate protection offers profit, higher living standards, and competitive advantage. Our own companies have found the key: *saving fuel generally costs less than buying fuel.*

Last February, eight Nobel Prizewinners led more than 2,400 fellow-economists in declaring that "policy options exist that would slow climate change without harming American living standards, and these measures may in fact improve U.S. productivity in the longer run." Our practical experience supports an even stronger conclusion: if America focuses on vaulting the barriers that now inhibit adopting technologies that use energy in a way that saves money, then together we can largely or wholly solve the climate problem, *not at a cost but at a profit.*

If you saw a $20 bill on the street, would you leave it lying there on the presumption that if it were real, someone would have picked it up already? Surely not; but doing so would be just like the often-heard theoretical presumption that if energy efficiency were cost-effective, it would already have been bought. Markets aren't that perfect. Our own companies have already found many millions of dollars' worth of previously neglected energy savings. Like any other cost-cutting effort, such successes continue to expand as we learn more, look closer, and try harder.

Already, America's strong economy is saving $150-200 billion worth of energy every year compared with 1973 levels of efficiency. But the economy can grow still stronger with powerful new efficiency techniques that now offer even greater potential. We can get less fuel use, less cost, less pollution, less climatic risk, more growth, more jobs, and more profits--by substituting smarter technologies and by turning obstacles into business opportunities.

The core of our nation's climate agenda should be enabling the private sector to benefit from energy efficiency by helping dynamic and flexible markets to work better. Today, regulatory failures reward the opposite of what we want. Informational failures keep us from choosing the best buys. Organizational failures divert attention from profit opportunities. Systematically overcoming these obstacles can be an even more powerful, and far more painless, instrument than high energy prices--and may well make them unnecessary.

In 1990, many companies, including some of ours, predicted that the Clean Air Act's trading system would reduce emissions of sulfur only at prohibitively high prices. But market competition yielded an actual cost ten to twenty times lower. Trading led similarly successful switches away from leaded gasoline in the 1980s and CFCs in the 1990s. Advanced energy efficiency now offers the same opportunity at modest or even negative costs. If revenues from raising the cost of emitting carbon dioxide above its present value (zero) were also used to cut distorting taxes on jobs and income, then energy efficiency's boost to the economy would become even greater.

As business executives, we often face the challenge of making decisions under uncertainty. Yet if protecting the climate is not a burden but a boon, then the many uncertainties about climate science don't matter, because we should do the same things anyway to save money, raise profits, create jobs, and enhance American competitiveness.

We're equally unconcerned about which countries step up first--but we want ours to, because being first in energy efficiency reaps the biggest and earliest benefits. Of course, energy efficiency has different costs in different places, so we support global trading that would let investors buy the cheapest savings first. But wherever it's practiced, economically efficient use of energy is good for the economy, good for jobs, and good for America.

Our shareholders are already benefiting from early efforts to apply these sound business principles and new technologies in our own companies. We pledge to redouble those efforts. And we invite others to join us--in the belief that if we all pull together, the business community can make today's climate concerns become as distant a memory over the next few decades as the energy crises of the 1970s are today.

As chief executives, as parents and grandparents, and as citizens, we consider this goal the essence of corporate responsibility, of public morality, and of prudent and profitable business practice.

THE PRESIDENT HAS SEEN
12-15-97

DRAFT

Federal Government Energy Management

Aggressive energy management can substantially reduce carbon emissions from the activities of the Federal government, which has the nation's largest energy bill at almost $8 billion per year. Significant strides have already been made -- energy consumption per square foot in Federal buildings is down 15 percent and energy use in civilian and military vehicles is down about 27 percent from 1985 levels. However, we can do much more.

Reductions in government energy use from the strategies discussed below in combination with expected decreases under existing Federal energy management goals can reduce carbon emissions by more than four million tons annually by 2010. The initiatives will reduce Federal emissions of greenhouse gases through enhanced focus on energy efficiency and renewable energy. They address areas which can deliver the greatest energy savings, best leverage private sector funding and improve the Federal procurement system.

Expand Energy Savings Performance Contracting

- *Expand use of Energy Savings Performance Contracts*. ESPC uses private investment capital and expertise to accomplish energy and cost saving projects in Federal facilities. When a private sector firm which has invested in federal energy efficiency improvements is fully repaid from its share of the delivered savings, all additional savings accrue to the government. Streamlined ESPC contracts put in place by DOD and DOE are beginning to speed large investments in energy projects at Federal facilities. However, use of ESPC's is still limited in the Federal government. The Office of Management and Budget will lead an effort to increase their use. It will include new policy and budget guidance for agencies. ESPC authority can also be extended to other areas including:

    - *Leased Federal buildings.* These include buildings where the Government either pays for the energy use directly or in other building where ESPC can provide a better lease for the Government.

    - *Federal mobility.* There is great potential for energy savings from more efficient energy use in aircraft, ships and vehicles.

    - *Water conservation.* Water conservation projects save energy because each gallon contains energy from pumping, heating, chilling or treatment.

    - *Non-federal facilities where the Government makes indirect payment of energy expenses.* These include, for example, National Guard facilities which the state owns but where the Federal Government covers utility expenses and public housing facilities which are Federally supported but owned by public housing authorities.

    - *State and local government facilities.* Federal energy experts can help transfer ESPC techniques to state and local governments so they can access this important approach to energy efficiency.

Improve Federal Procurement of Energy Efficient Technology

- *Accelerate the development of Product Energy Efficiency Recommendations.* These cover products that are in the top 25% of their class for energy efficiency or have Energy Star ratings, for example electric motors and air conditioning chillers. They provide a guide to Federal purchasers of the energy efficiency level to request in a specification or procurement.

- *Establish as standard practice, the purchase of energy efficient products for Government use.* Traditionally, federal purchases have been based on lowest price, ignoring the substantial savings many energy efficient products can achieve over their life. The Executive Office of the President will lead an interagency team to streamline and update Executive Orders and procurement practices to encourage the acquisition of these products. Use of alternative contracting vehicles to acquire energy-efficient products

will be encouraged, and purchase of products in the top 25 percent of class for energy efficiency or conforming to Energy Star standards will become standard practice, subject to necessary exceptions. The initiative will be augmented by publication of a "best practices" buying guide and expanded training of purchasing decision-makers.

- *Use consolidated purchasing to stimulate markets and lower prices.* Consolidated Federal purchasing can stimulate commercial markets for new and emerging products which offer greater energy efficiency, lower operating costs, and sales opportunities for small businesses that produce these products.

- *Increase Federal procurement of renewable energy.* In states that have implemented retail competition in their electricity industry, Federal facilities will work with their suppliers to ensure that the facilities purchase competitively supplied non-hydro renewable energy at levels equivalent to the percentage specified in that state's retail competition legislation.

- *Report Federal Agencies' Contributions to Reduction of Carbon Emissions.* This initiative will develop an appropriate measurement methodology to convert currently available data on Federal energy use to carbon emissions to aid national carbon reduction efforts.

Building for the 21st Century

- *Establish a new level of excellence for Federal building construction and renovation that incorporates energy efficiency, quality, affordability, and sustainability.* By using the latest construction techniques and tapping the knowledge of the building community and local partners, agencies will work to ensure that new Federal buildings achieve energy efficiency increases of 30-50% by 2000 as compared to existing facilities. This will be accomplished through a "whole building" approach that treats buildings as integrated systems rather than a series of independent component selections.

- *Deploy solar technologies in Federal buildings.* Show Federal leadership by installing solar photovoltaic and solar thermal systems on 20,000 Federal roofs by 2010 in support of the President's 'Million Solar Roof Initiative'. Utilize alternative financing methods to provide the rapid infusion of investment necessary to support the cost-effective installation of these systems.

- *Expand the use of combined heat and power generation at Federal facilities.* Combined heat and power makes greater use of the waste heat produced in the generation of electricity.

- *Use biomass fuels in Federal boilers.* Biomass would come from agricultural and wood waste and methane from landfill and treatment plant operations.

- *Expand public awareness of energy efficient technologies.* By showcasing energy efficient and renewable energy technologies at National Parks, Federal offices, embassies, military bases, and other facilities the public will be more aware of their potential to reduce pollution and lower costs.

- *Seek increased resources for civilian agency staffing to expand energy management activities and complete energy efficiency projects.* In recent years, budgets for energy management in several key agencies have been cut by more than 80%. These Federal appropriations often provide the most cost-effective funding for Federal energy efficiency projects.

Improve Aircraft, Ship, and Heavy Vehicle Fuel Efficiency

- *Public-Private partnerships to improve the energy efficiency of Federal aircraft, ships and vehicles.* Energy use in Federal aircraft, ships and vehicles, predominantly in the military services, is responsible for 43% of the $8 billion Federal energy bill. This initiative would improve the energy efficiency of main propulsion systems, with particular emphasis on medium and heavy diesel engines and high performance turbine technology. The initiative -- designed along the lines of the Partnership for a New Generation of

Vehicles -- would involve a partnership between Federal agencies and the private sector. Advances under this initiative will have significant application in commercial markets. In addition, the initiative will focus on near-term energy efficiency opportunities such as lighting retrofits on ships.

- *Increase the use of alternative fueled vehicles (AFVs) in the Federal fleet.* Federal agencies are increasing the use of alternative fuel vehicles which, among other things, helps reduce emissions of greenhouse gases. This initiative would enhance the focus of the current program on AFVs such as electrics, hybrid-electrics, natural gas and renewable-fueled vehicles.

BET HOLDINGS, INC.

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[illegible] PRESIDENT [illegible]
12-15-97

Sheila C. Johnson
Executive Vice President
Corporate Affairs

November 26, 1997

Copied
COS
Emanuel

First Lady
Hillary Rodham Clinton
The White House
The Old Executive Office Building
Office of the First Lady
Room 100
Washington, D.C. 20502

Dear Bill and Hillary,

Bob and I are proud to share with you the positive feedback that we have received concerning BET's recent broadcast of the Teen Summit Town Meeting: The Ugly Side of Sex program. This nationally televised teen talk show which aired on November 15th, continues our "Don't Kid Yourself, Teen Pregnancy is No Joke" series on teen pregnancy and related issues with the National Campaign to Prevent Teen Pregnancy.

Hillary, you and Bill began this effort and we have ardently supported your commitment to educate and inform young people on this critical issue.

The Teen Summit Town Meeting: The Ugly Side of Sex was seen by over one-half million young people with critical life saving information about the health risks associated with unsafe sex, sexually transmitted diseases (STDs) , and AIDS. We agree that the only chance to insure the safety of teenagers is through programs which educate, inform and confront these issues in a positive and realistic way. If the Ugly Side of Sex effected just one teenager, we have accomplished our goal.

BET has committed to airing two more teen pregnancy prevention specials in February and May of 1998. Our next special, Teen Summit Town Meeting: Promiscuity...Laying It On The Line, will be a frank discussion between teens, celebrities and experts about the implications of promiscuity. The show will air on February 28, 1997 and will air " live" from Austin, Texas. We hope you will get the opportunity to view the next program and possibly join us during the live broadcast!

Thank you for your vision, support and leadership.

Sincerely,

Sheila Johnson
Executive Vice President,
Corporate Affairs

'97 NOV 21 08:05

THE WHITE HOUSE

WASHINGTON

November 21, 1997

MEMORANDUM FOR THE PRESIDENT

FROM: SIDNEY BLUMENTHAL

SUBJECT: Notes on National Interest

In your interview with Michael Oreskes of the Times this evening your responses to his questions were conceptually well formulated, even as you discussed the detail. You talked about the unique security challenges of the 21st century, transnational threats and economic containment in maintaining the coalition. You also spoke of the misinterpretation of a Times analysis of the fast track defeat. The new situation, as you pointed out, demands new ways of thinking. However, such ideas, especially now, should be framed within a more settled foreign policy framework, elements of which, as it happens, the Administration has already defined.

In the immediate wake of the Iraq stand-off, the rightward leaning pundits and foreign policy experts clustered within the Washington-based think tanks and institutes are forming a critical line on the Administration's success. It is that the Administration suffered a failure of nerve to carry through on removing Saddam and, consequently, created an opening for the Russians, allowing them to seize diplomatic room that they had not been permitted during the Gulf War. Perverse as these arguments may be, grandiose goals that were never intended in our policy to justify their chest-thumping postures, they are starting to filter through the op-ed pages and television.

The moment presents the apparent interseciton of disparate events: a qualified Iraq success; a potentially undermining right-leaning critique if not met; the APEC conference; and the beginning of the launch of a new domestic agenda. Yet this confluence represents an opportunity to link foreign policy to the national interest, the national interest to economic security, and foreign to domestic policy.

In brief: The security challenges of the 21st century are unique. For more than 50 years, in the Cold War, the US guarded against dangers from weapons of mass destruction. Now, this threat has taken a new form--chemical and biological weapons, as possessed by Saddam, for example. The threat is an unconventional military threat. It also poses an economic threat, not only to the

region, but to the West. Our national interest demanded, in this crisis, a military and diplomatic response; and we understood that by projecting force we were protecting economic security. In the latest Iraq crisis, moreover, the US approach demonstrated our position as the indispensable nation. Only the US could have acted as we did. By acting as the indispensable nation in the crisis, we made it possible for other nations to play useful roles in achieving the tenative resolution. Our force opened the window of diplomacy. If we had not acted as the indispensable nation, the others would not have been provided with the room to operate toward these ends. Our means and ends, therefore, were measured; our military stance leveraged our diplomacy.

Iraq and APEC are new arenas in which our national interest is related. The shifts in the Asian economic markets have made it clear that our national interest is dependent on maintaining economic security. But rather than speaking here about abstract and abstruse concepts of global integration, emphasizing the national interest conveys a hardheaded, pragmatic attitude that tends to neutralize the right, at the same time that equating the national interest with economic security appeals to broad public opinion. In this way, foreign policy can seem to flow logically into the new domestic agenda. We must stabilize markets and open markets precisely in order to gain economic security. If we do not, our national interest will be adversely affected. Threats to national security no longer come from a great power. They come from the new threats of weapons of mass destruction in the hands of rogue tyrants like Saddam and from economic upheavals elsewhere. They are likely to come from countries who may prevent us from exporting our goods, block our resources and thwart the expansion of our growth. We can't mortgage our future on narrow parochialism because the threats elsewhere can destabilize our national interest. The national interest also requires that we act in concert with others. If we act unilaterally, we will bear alone all the risks. We will needlessly expose, rather than strengthen and protect, our national interest. Here, the relevant issues are UN debts and IMF funding. (National interest and economic security can be conflated sometimes so that they are almost interchangeable phrases.) Maintaining our economic security in the world, then, can be grasped as necessarily connected to a program for economic security at home.

So long as you hold on to the string of the national interest, referring to it as the basis of our foreign policy, you can tie the whole logic together: indispensable nation; economic security; the seamless web of foreign and domestic policies.

SECRETARY CUOMO'S INITIATIVES

12-15-97

Proposal	*Cost*	*Status*
Community Empowerment Fund: Commuity Empowerment fund -- This public/private ("Eddie Mac") fund will invest in inner-city businesses and create a secondary market for economic development loans (like Fannie Mae).	**FY99:** $1 billion (Cuomo request)	Included in the budget at $400 million.
Housing Mobility: Expand Regional Opportunity Counseling program -- This proposal helps low-income families find housing in lower poverty areas.	**FY99:** $20 million	Included in the budget
Housing Mobility: Eliminate Obstacles to and Provide Incentives for Portability -- This proposal would (1) establish "portability clearinghouse;" (2) PHAs would receive bonus based on the number of Section 8 participants moving to lower-poverty areas; and (3) PHAs would be encouraged to request "exception rents" (above the fair market rent).	**FY99:** Within existing funds.	Included in the budget
Housing/Welfare: Welfare- to-Work Housing Vouchers -- A proposal for 50,000 new housing vouchers to assist welfare recipients who must relocate in order to find employment, as well as to help address the shortage of affordable housing.	**FY 1999:** $100 to $300 million **Five-Year:** $1.3 billion	Memo submitted to the President on December 5, 1997. OMB has included this on discretionary side, but would rather is be on mandatory side to complement W-T-W Jobs Challenge.
Homeownership: Homeownership Voucher Initiative -- This proposal would allow families to use Section 8 vouchers for homeownership.	**FY99:** Within existing funds.	Included in Public Housing Reform bill and in the budget.
Homeownership: Raise FHA Loan Limits -- This proposal would raise the FHA loan limits to help more middle-income Americans get home mortgages with low downpayments.	**FY99:** *Raises* $150-$200 million **Five-Year:** *Raises* $750-$1,000 million	OMB and HUD are trying to work out precise proposal. The first $150 million will be used as offset for Round II of EZ.
Homeownership: Homeownership Opportunity Fund -- HUD could develop a loan guarantee program to allow state and local governments to leverage current HOME funds with private-sector investments to fund large scale, affordable housing developments in distressed communities.	**FY99:** $11 million	Funded within budget. But OMB has concerns about ability of HUD to manage this new program.

Fair Housing: Double Fair Housing Enforcement Actions -- To ensure that HUD meets the President's pledge to double Fair Housing Enforcement actions, more funds are going to be requested for enforcement.	**FY99:** $8 million	Included in the budget.
Fair Housing: Metropolitan Area Testing -- A new system of Metropolitan Area Testing to root out the vestiges of housing discrimination.	**FY99:** $10 million	Included in the budget.
Fair Housing: One America Broker program -- HUD partnered with the National Association of Realtors would develop a training and certification of real estate agents and brokers committed to serving the rapidly growing minority and immigrant homebuyer markets.	**FY99:** Within existing funds.	Included in the budget.
Empowerment Zones: Round II of Empowerment Zones -- Provide funding for second round of EZs.	**FY99:** $150 million **Five-Year:** $750 million	Included in the budget. Paid for by raising the FHA loan limits (see above).
Education Opportunity Centers: Expanded Neighborhood Network -- HUD's pilot Neighborhood Network program currently places computer learning centers in privately-owned assisted housing developments.	**FY99:** Cuomo did not request any number.	
One Strike and You're Out: Additional funding is needed to expand and strengthen this proposal to rid public housing developments of crime and violence.	**FY99:** Cuomo did not request any number.	An increase in HUD's enforcement budget is included in the budget.
The Officer Next Door: Double Officer Next Door Program -- this program provides incentives to police officers to move into distressed communities.	**FY99:** Within existing funds.	Included in the budget.

Thanks for your support for our efforts -- BA

[illegible] HAS BEEN
12-15-97

Copied to Clinton gift sent to Clinton Dec 98

IITE HOUSE
HINGTON

December 12, 1997

Reverend and Mrs. Jesse L. Jackson
6845 South Constance Street
Chicago, Illinois 60649

Dear Jesse and Jackie:

Congratulations on becoming grandparents! Hillary and I are so delighted for you, and we know how proud you must be.

May the joy you feel now be everlasting.

Sincerely,

Bill

corrected

THE WHITE HOUSE

WASHINGTON

December 12, 1997

Jonathan and Marilyn Jackson
6828 South Constance Street
Chicago, Illinois 60649

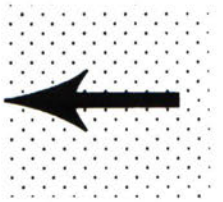
Dear Jonathan and Marilyn;

Congratulations on Jonathan Jr.'s birth! What a truly special reason to give thanks on Thanksgiving. Hillary and I are so excited for you and know how delighted you must be.

Best wishes for a wonderful holiday season.

Sincerely,

Bill Clinton



WHITE HOUSE

WASHINGTON

December 12, 1997

Jonathan Jackson, Jr.
6828 South Constance Street
Chicago, Illinois 60649

Dear Jonathan:

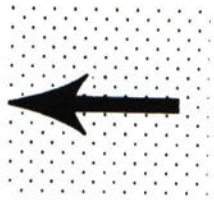
I am delighted to congratulate you on the wonderful occasion of your birth on November 27th. Your arrival is a cause for great celebration to all those who love you.

You are blessed to be born in this exciting time. The twenty-first century holds bright promise for your generation. I wish you a long and happy life, filled with growing wisdom and great success.

Welcome, and happy birthday!

Sincerely,

Bill Clinton



Minyon Moore
12/09/97 12:50:37 PM

Record Type: Record

To: Eugenie Bisulco/WHO/EOP

cc:
Subject: per your request...

Rev. and Mrs. Jesse L. Jackson
6845 South Constance Street
Chicago, IL 60649
(773) 955-1927 Spouse: Jackie

Jonathan and Marilyn Jackson
6828 South Constance Street
Chicago, IL 60649
(773) 955-1166

Jonathan Jackson, Jr.
Born Thanksgiving day November 27th
---------- Forwarded by Minyon Moore/WHO/EOP on 12/09/97 12:44 PM ----------

Eugenie Bisulco

12/09/97 12:03:56 PM

Record Type: Record

To: Minyon Moore/WHO/EOP

cc:
Subject:

I am doing a letter to the Jackson family for the new grandbaby -- do you have information on the baby's name and exact birthdate? Also Jonthan and Marilyn's home address? Thanks.

11-29-97

cc: Evelyn
J. Tribble

Mr. President:

You have a one-hour briefing on Monday on both your interview with Jodi Enda of Knight-Ridder (Akron Beacon Journal) and your upcoming town meeting.

Therefore, we have organized briefing material for both events into this notebook.

On another note, Sylvia & I wanted to let you know that Rev. & Mrs. Jackson became the proud grandparents of a baby boy on Thanksgiving day. Jonthan (the second oldest of the Jackson children) and his wife Marilyn became parents of a baby boy -- Jonthan Jackson, Jr. Everyone is doing fine. This is the first of the grands.

Sincerely,

Maryon Moore
& Sylvia Mathews

Would send gift and letter to parents & grandparents

BC

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

THE DIRECTOR

12-15-97
Copied Sperling COS

December 12, 1997

MEMORANDUM FOR THE PRESIDENT

FROM: Frank Raines and Jack Lew

SUBJECT: Savings Options to Fund Initiatives in the FY 1999 Budget

This memo reviews our proposals to create room for domestic initiatives in the FY 1999 budget. Since last Monday's budget meeting to discuss these issues had to be rescheduled, we will present here the options in writing as background for subsequent decisions on savings and spending options.

Domestic Discretionary

Earlier this year we described a plan for OMB to propose funding levels to agencies, reserving $5 billion within the FY 1999 domestic discretionary cap for you to allocate to fund either new initiatives or agency appeals. Our passback funding levels, which you reviewed over the Thanksgiving weekend, reserved $5 billion in **budget authority** under the caps. However, this level of budget authority consumed all of the room under the FY 1999 **outlay** cap in the budget agreement. (As you know, budget authority is the total funding level appropriated in a year, while outlays reflect the funds that will actually be spent in that year -- a total of outlays from current appropriations and outlays from prior appropriations.) As a result, we can only use the remaining $5 billion theoretically available under the FY 1999 budget authority cap if we are able to free up outlays to accommodate it. Since only a portion of the outlays for this $5 billion will actually occur in FY 1999, we will need to free up roughly $3 billion in FY 1999 outlays in order to use the budget authority available under the cap.

If there is no room for additional spending, agency funding levels will have to remain at the passback level to stay within the discretionary outlay cap. Under this scenario, there are no additional funds for discretionary programs, such as the various education initiatives, child care, and climate change; nor will there be additional money for base restorations to programs, such as Low Income Home Energy Assistance Program (LIHEAP), the National Science Foundation (NSF), or the State Department.

Possible Funding Mechanisms

Our goal is still to provide you with $5 billion to allocate among competing proposals for new initiatives and to resolve some of the remaining base appeals. In early December, we described to you a procedural proposal that would allow additional spending under the

discretionary caps by dedicating receipts through a new budget process, which we called CAPGO. Your concern at that meeting was that while the mechanism would free up $5 billion, it would increase the deficit compared to the baseline, and might weaken our ability to block efforts to "spend the surplus." We have been working on a deficit-neutral alternative very much like the current "PAYGO" approach, which we have used in reconciliation to offset new mandatory initiatives and also in the 1996 and 1997 Omnibus appropriations bills to provide additional resources within the discretionary caps for your priorities.

In addition to providing sufficient outlays to utilize the budget authority remaining under the caps, the CAPGO approach provided a means of accommodating additional funding concerns, such as infrastructure spending (particularly highways and airports) and NIH funding, over and above the $5 billion. In order to restore the resource level to where we would have been with CAPGO, we will need to generate outlay room to use the remaining $5 billion within the caps plus make room for an additional $3 billion so that we will have a total of $8 billion in budget authority and $4 billion in outlays to allocate above the passback levels.

($ billions)	Budget Authority	Outlays
Passback	557.7	561.7
Caps	562.7	561.7
Amounts Available	5.0	0.0
Amounts Needed	8.0	4.0
Remaining Need	3.0	4.0

Thus, our total problem is to find $3 billion in budget authority and $4 billion in outlays in FY 1999. We can accomplish this in two ways: (1) we can create room under the caps by moving discretionary programs to the mandatory side of the budget or into altogether new categories; or (2) we can use mandatory offsets to finance discretionary spending (as we used spectrum auction receipts and the privatization of the U.S. Enrichment Corporation to finance FY 1997 appropriations).

We propose using a combination of these two approaches, by creating investment funds for several high priority policy areas -- a 21st Century Research Fund (including NIH), a Fund for the Environment, and an Infrastructure Investment Fund. The money for the programs included in these new funds would be moved out of the discretionary caps, but still be subject to appropriation.

None of these new funds would increase the deficit. We propose using all or part of the following revenue/mandatory proposals to pay for the spending in these investment funds:

- *Tobacco Tax* -- We are exploring options to use some of the revenues from the tobacco tax to pay for a 21st Century Research for America Initiative, incorporating the base and proposed expansions of existing R&D program, creating additional headroom under the caps (discussed more fully below).

- *VA Tobacco* -- We are looking at options that recognize that the VA General Counsel's ruling requiring additional compensation stands until legislation is passed, that veterans will apply, and that some will be processed despite limited administrative resources. If this new benefit is repealed, these savings could be used to fund the various high priority policy issues (discussed more fully below).

- *Extension of the Superfund Tax* (mandatory -- $1.7 billion in 1999; $7.6 billion over 5 years) -- We are looking at options to use the extension of the Superfund tax to either move the funds from discretionary to mandatory or as a mandatory source to finance additional Superfund clean-up, an environmental initiative, or research programs.

- *FAA User Fees* -- We are looking at options to use new FAA user fees coupled with existing excise taxes to create headroom to fund an infrastructure initiative.

In general, the use of revenues to offset spending initiatives runs the risk of appearing like an increase in taxes to pay for additional spending. However, in the case of research, the spending and tobacco taxes are popular policies. In the case of Superfund, the Bipartisan Budget Agreement anticipated that the revenue would not be used as an offset for a tax cut but instead would be reserved to pay for new spending. We will send you a more detailed memo on the proposal to create these three new Funds next week.

Mandatory Offsets

We will also need other mandatory/revenue offsets to pay for new mandatory initiatives. As illustrated in the memos you have seen over the past few days, this could require a small or a very large amount of resources, depending on the specific initiatives you choose to pursue. We are relying on savings in several areas, including the following:

- *Cost Allocation* ($0.5 billion in 1999; $2.9 billion over 5 years) -- Restricts States' ability to shift State Administrative costs from TANF to Federally-funded administrative sources such as Food Stamps and Medicaid;

- *Education Loan Reforms* ($0.9 billion in 1999; $4.0 billion over 5 years) -- Provides a direct guarantee for student loans not in the direct loan program -- rather than relying on intermediaries -- and recalls all loan guarantee reserves, plus other student loan reforms and benefits for students; and,

State Bank Exam Fees ($0.1 billion in 1999; $0.5 billion over 5 years)-- Requires the Federal Reserve to assess fees for examinations of state-chartered banks and bank holding companies (current law permits, but does not require, fees).

There are a number of other more controversial savings proposals:

- *Child Support Enforcement* -- Savings for child support enforcement (CSE) are highly controversial, because, even if the policy is legitimate, it suggests that the Administration is cutting CSE funding. The following options are cumulative, and build on one another.

  -- Option 1 ($.06 billion in 1999; and $0.3 billion over 5 years) requires States to charge a $25 user fee (with a waiver option) for non-TANF child support enforcement cases and adjusts Federal funding to reflect the increased State fees. All TANF collections would be redirected to the States and Federal grants for State administration would be reduced by an equivalent amount;

  -- Option 2 ($0.3 billion in 1999; $1.5 billion over 5 years) also reduces Federal funding to reflect increased TANF collections to States as a result of increased incentives; and

  -- Option 3 ($0.3 billion in 1999; $3.0 billion over 5 years), the most aggressive option, also reduces Federal funding by the amount of Federal payments in excess of current State child support administrative costs.

- *Two Agriculture Savings Proposals* ($0.3 billion in 1999; $1.6 billion over 5 years) -- Reduces the Export Enhancement Program (EEP) further than requested in FY 2001 through FY 2003. This makes sense because market conditions (high world commodity prices projected for the foreseeable future) do not warrant the use of EEP. USDA wants to make this change in appropriations, rather than in authorization, and use the savings for additional agricultural spending rather than as a general offset. A second proposal would close the Agricultural Market Transition Payment (AMTA) loophole, created in the 1996 Farm Bill, by making all payments to the landowner, rather than to the tenant, since income-support payments are based on land holdings. This is controversial, not because of the policy, but because it amends the 1996 Farm Bill.

Some of these savings options may lead to additional spending. For example, in order to achieve some of the student loan savings from guaranty agencies, some funds must be spent to cover the 100 percent direct guarantee and improve terms for borrowers. In addition, since the cost allocation savings come in large part from Food Stamps, there will be pressure to use some of the savings to restore Food Stamp benefits to legal immigrants. We might also want to use some of the agricultural savings to pay for selected discretionary initiatives, such as Water Quality.

VA Tobacco

The Veterans Affairs General Counsel recently ruled that the VA must pay monthly service-connected disability compensation benefits to veterans for tobacco-related illnesses that occur after separation from the military, if a veteran became addicted to nicotine while serving in the military. OMB estimates that 542,000 veterans are potentially eligible to claim benefits under this ruling, and an additional 6,600 will become eligible annually.

The Administration has already proposed legislation to eliminate these new benefits that will, if enacted, create a PAYGO offset to new mandatory spending. However, VA tobacco benefit costs have not yet been included in either the OMB or CBO baselines. After we raise the baselines to reflect payment of these benefits, a PAYGO credit will become available for eliminating these benefits. After both steps are taken, this proposal is deficit-neutral.

We plan to raise the mandatory baseline by $2.5 billion over 5 years, which assumes that we do not provide new administrative funds to VA to process tobacco-related claims. (This $2.5 billion will become available as a PAYGO offset when we again propose to repeal these benefits.) We could raise the baseline by much more -- as much as $26 billion total -- if we decided to add significant new administrative resources to process claims. However, we thought this option would both be inconsistent with our policy to repeal the benefit and increase the deficit by too much (i.e., if we raised the baseline, then used the savings created by the repeal to spend an additional $26 billion).

While we could raise the baseline by any number between $2.5 billion and $26 billion, and use that as an offset for mandatory initiatives, the most credible figure is between $2 billion and $8.8 billion. We have preliminarily chosen the $2.5 billion option.

Tobacco Revenues

We have discussed how potential tobacco revenues could pay for a research initiative and perhaps also create some additional room under the discretionary caps to fund other initiatives.

We believe it is important to limit our assumed revenues to a level that is seen as realistic and consistent with the principles you announced last summer. This means that, although we might assume that the per-pack equivalent could rise to $1.50 (in constant dollars) over ten years, some of those revenues will go to States and other claimants. Furthermore, in your statement last August, you did not specify what portion of the payment would be fixed and what portion tied to youth smoking targets. An announcement that the Administration wanted to use the full $1.50 might be seen as foreclosing a substantial youth incentive. For this reason, we have focused on a package that assumes revenues initially equal to 50¢ per pack, rising to $1.00 per pack by 2003 ($1.16 in current dollars), and have not specified what happens after 2003. Based on preliminary estimates, this would provide the following revenues (in billions of current dollars):

FY 1999	FY 2000	FY 2001	FY 2002	FY 2003	5 years
$8.1	$10.0	$12.2	$13.4	$15.0	$58.7

However, there are two alternate views of how much of the tobacco settlement we should try to apply to Federal programs:

(1) If State claims and the uses specified in the agreement are given first priority, this produces a Federal share of about $20 billion over the first five years (and an additional $15 billion if we can direct the States to spend their share on your new initiatives, such as child care); and

(2) If Federal and State claims and the private litigation reserve are funded first, but not the other settlement/constituency uses, this leaves the Federal share at about $30 billion.

Bruce Lindsey and Bruce Reed support the first option, and we prefer the second option. A possible compromise between the two options might assert funding levels for Federal initiatives without discussing the balance of the settlement. This leaves open the total that Congress may be willing to agree to fund.

Medicare

Medicare savings associated with error reductions -- acceptable to OMB, Chris Jennings, and HHS -- are roughly $2 billion over five years. We could also find additional savings:

Further Provider Savings -- We do not recommend substantial new provider savings. Many changes in the Balanced Budget Act have not yet been implemented, and the newly-appointed Medicare Commission should be given time to do its work.

Income-Related Premiums -- Depending upon the income level and phase-in schedule, early estimates are near $10-12 billion over five years, perhaps considerably more. The options are along the lines of the changes discussed last year.

Clearly, using Medicare savings to fund non-Medicare spending could complicate the task of achieving Medicare solvency and be criticized.

Revenues

We are discussing a number of new revenue-based initiatives, including changes to the child tax credit, climate change tax incentives, and a revised school construction proposal. We propose financing these initiatives with revenue proposals we made last year that were not adopted, or not fully adopted, in legislation. Depending on how aggressive you want to be, these

proposals would produce revenues of up to $20 billion over 5 years. Last year's package included the following:

- *Modify Foreign Tax Credit Carryover Rules* ($1.2 billion over 5 years) -- We proposed to reduce the complexity and burdens associated with carrybacks by limiting foreign tax credit carrybacks to 1 year (down from 2 years) and extend foreign tax credit carryforwards for 7 years (up from 5 years).

- *Repeal Lower-of-Cost-or-Market Inventory Method* ($1.6 billion over 5 years) -- We proposed to repeal the lower of cost or market (LCM) method, because the allowance of write-downs under the LCM and subnormal goods methods is essentially a one-way mark-to-market method that understates taxable income.

- *Deny the Dividends-Received Deduction for Certain Preferred Stock* ($0.2 billion over 5 years) -- We proposed to eliminate the deduction of 70 to 100 percent for corporations owning certain limited-term preferred stock of a U.S. corporation because such stock is more like debt than an ownership interest in the issuing corporation.

More controversial proposals not included in last year's budget include:

- *Extend 2.5 Cent General Fund Tax on Gasohol* ($0.6 billion in 1999; $1.3 billion over 5 years) -- The 2.5 cents per gallon tax on gasohol that goes to Treasury's General Fund expires after September 30, 1999. The tax originated in 1990, as part of the nickel per gallon tax hike, of which half went to the General Fund and half to the Highway Trust Fund. In 1993, when an additional 4.3 cent tax was placed on fuels, most fuels subject to the 2.5 cent General Fund tax had this portion moved to the transportation trust funds, but ethanol did not.

- *Use One-Half Cent of the Gas Tax* ($.5 billion in 1999; $2.6 billion over 5 years) -- On an annual basis, current motor fuels taxes generate approximately $32 billion for the Highway Trust Fund (HTF). This includes the 4.3 cents originally earmarked for deficit reduction that was redirected from the General Fund to the HTF by the Taxpayer Relief Act of 1997. Any proposal to increase the motor fuels tax will likely generate criticism from transportation interests complaining that the HTF cash balances continue to mask the deficit while transportation needs go unmet. (The character of this criticism may change if highway spending is liberalized.) At the Bipartisan Budget Agreement spending levels, HTF cash balances rise from $26 billion in 1998 to $93 billion in 2003.

THE PRESIDENT HAS SEEN
12-15-97

- **Operation Meta:** On December 5, the Attorney General held a press conference to announce the results of Operation Meta which shutdown three methamphetamin cocaine trafficking rings. This action is part of the Administration's effort to cra on illegal drug trafficking.

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- **COPS Program:** On December 11, the COPS office will award $47 million in hire 800 new police officers in 138 law enforcement agencies across the country of the Administration's effort to fight crime

DEPARTMENT OF INTERIOR

- **Bison:** The National Park Service (NPS) expects MT to react strongly to a December 1 letter sent by the Yellowstone Park Superintendent to the MT Department of Fish, Wildlife and Parks, describing NPS's adjustments to the interim bison management plan. The adjustments, to be carried out this winter, provide for a generally stable bison population, preserve MT's brucellosis-free status, and do not require additional analysis under NEPA. The federal agencies have recommended that low-risk bison evading capture remain on public lands until 60 days before cattle are released on federal grazing allotments.

San Diego Aqueduct: Pursuant to the Bureau of Reclamation's (BOR) commitment to the National Performance Review initiative, BOR transferred its title to the San Diego Aqueduct to the San Diego County Water Authority. This will enable BOR to focus attention on its mission, rather than operating a facility that benefits only the local community. The transfer was signed at an event sponsored by the Authority and the Metropolitan Water District to celebrate 50 years of water deliveries to the San Diego area.

- **WI Gaming Compact:** Tension is mounting between the WI Governors and eleven WI Indian tribes. The tribes argue that Governor Thompson is negotiating in bad faith because he wants to include hunting and fishing rights issues in the negotiations and reduce tribal jurisdiction in environmental regulation. The Governor could begin issuing notices of non-renewal of the existing compacts beginning on February 15, 1998. He has threatened to do so if the tribes do not make concessions on non-gaming issues and increase payments to WI.

- **Atlantic Salmon:** On December 15, Secretary Babbitt will participate with Governor King in the Atlantic Salmon Conservation Plan signing ceremony.

- **Quaker Neck Dam:** On December 17, Secretary Babbitt will participate in demolition of the Quaker Neck Dam on the Neuse River.

THE PRESIDENT HAS S
12-15-97

- **TWA 800:** On December 8, the NTSB hearing began and is expected to end on December 11. Chairman Hall praised the FAA for its willingness to take a dual track approach on finding safety improvements. The dual track emphasizes elimination ignition sources and solutions to reducing fuel flammability in engine tanks. Chai Hall did express disappointment that the FAA did not recognize the value of the B short-term solutions.

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- **Aviation Disaster Plans:** On December 3, General Counsel McFadden sent a lett the 166 certified U.S. air carriers informing them that DOT has accepted all the pl filed by these carriers pursuant to the Aviation Disaster Family Assistance Act of

DEPARTMENT OF ENERGY

- **DOE Employee Killed in Auto Accident in the Ukraine:** On December 6, while on official travel, George Kuzmycz, a career service employee with DOE, Office of Arms Control and Nonproliferation, Russia/NIS Nuclear Materials Security Task Force, was killed in an auto accident, on the Mykolayiv Highway, Mykolayiv Region, Ukraine. Senior officials in DOE's Office of Arms Control and Nonproliferation have credited Kuzmycz with singlehandedly building the U.S. program in the Ukraine to protect and track nuclear weapons materials at risk of being diverted to terrorists or rogue nations.

- **Large Hadron Collider Signing:** On December 8, U.S. and European Officials signed an agreement for U.S. participation in the Large Hadron Collider, a particle accelerator under construction near Geneva, Switzerland. When completed in 2006, the 16-mile circumference accelerator will be the world's largest and will allow scientists to penetrate still further into the structure of matter.

- **National Petroleum Council (NPC) General Conference:** On December 11, Secretary Peña was the featured speaker at the NPC General Conference. The NPC is comprised of about 175 members, including many of the U.S.'s most prominent oil and gas companies.

DEPARTMENT OF EDUCATION

- **Grant Application Controversy:** On December 10, Secretary Riley responded to an inquiry from Senator Wyden regarding a blind applicant for a grant from DOEd's Office of Special Education and Rehabilitive Services whose application was rejected due to formatting errors. The Secretary assured the Senator that DOEd will no longer rigidly apply formatting requirements when reviewing grant applications and that DOEd will contact the applicant in this case to encourage him to reapply for funding in this fiscal year. The matter received substantial press attention when the application was rejected in November.

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

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December 12, 1997

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MEMORANDUM FOR THE PRESIDENT

FROM: JOHN H. GIBBONS

CC: ERSKINE BOWLES

SUBJECT: OSTP WEEKLY REPORT

BIG STEP TAKEN TOWARD INTERNATIONAL S&T COOPERATION

On December 8, I hosted the signing ceremony for the international agreement on the Large Hadron Collider (LHC), which represents a breakthrough in international science cooperation. Individuals from over twenty countries and three continents attended the event, which also drew close to 120 guests from U.S. universities, technical agencies, federal labs, Congress and the Executive Branch. The agreement got front-page Washington *Post* coverage the following day.

As you know, the costs, complexity, and challenges we face in fundamental research increasingly preclude the possibility of one country going it alone. This agreement is a key milestone for international partnerships in science and technology — one which we expect will become a standard for our domestic science programs in the future. The LHC, to be built at CERN in Europe, will involve more than 4,000 scientists and engineers in 45 countries in six continents and will cost nearly $6 billion when it is complete.

good

This is the first time the U.S. government has agreed to contribute significantly to the construction, through domestically produced hardware and technical resources, of an accelerator outside of our borders. The U.S. contribution of $531 million, which will be divided between the accelerator and a massive detector, is also a good deal for the United States — for about 10 percent of the total cost, the United States will have 20 percent of the users of the European facility.

SUPPORT FOR R&D BUDGET GROWTH STRONG IN HOUSE AND SENATE

This week I met separately with Senator Bill Frist and Congressman Vern Ehlers to take the pulse of congressional support for increasing research and development spending even in the face of the discretionary spending caps. My sense is that S. 1305, the Gramm-Lieberman bill that calls for doubling federal R&D spending over the next 10 years, has

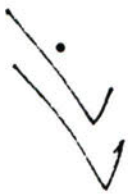
THE PRESIDENT HAS SEEN
12-15-97

genuine and growing bipartisan support in the Senate and may well move forward early in the 1998. Action in the House may not occur until Spring, when Ehlers's science policy task force is further along in its work, but there does seem to be strong support for increasing spending on at least some elements of the federal R&D portfolio. I recommend you use your remarks to the recipients of the 1997 Medals of Science and Technology (December 16) to reassert your long-standing, strong support for R&D and your intention to sustain investments for the future, including science and technology, even while balancing the budget.

COMMITMENT TO R&D REMAINS IMPORTANT POST-KYOTO

Research on the science of climate change and development of technological options to address climate change remain high on my agenda in followup to the Kyoto conference.

- Your National Science and Technology Council has initiated a national assessment of the impacts of climate change. The assessment will examine the impacts on the various regions of the United States as well as several important economic and environmental sectors. It will be conducted as a public-private partnership in cooperation with State and local experts and stakeholders to ensure widespread agreement on the results.



- Adoption of PCAST's recommendations for energy R&D to address climate change remains a matter of considerable negotiations in developing the budget. I still recommend you meet with John Holdren to get a first-hand sense of the authority of the PCAST plan — both technically (experts from all disciplines participated) and politically (stakeholders, including representatives of industrial and environmental interests, participated fully as well). The report is receiving very positive, widespread support.

- Science and technology cooperation represents our strongest tie with developing countries, e.g., China, that are critical to success in reducing carbon emissions. Given the difficult of the discussions at Kyoto on emissions reductions for the developing countries, I recommend we use our S&T base to shift the focus from emissions reductions to assistance in increasing the energy efficiency of their economies — a win-win situation for all of us. Thus a properly differentiated emissions commitment can be absolute carbon reduction for industrial countries and carbon per GDP reduction for LDCs.

- Bob Eaton (CEO, Chrysler) reported to me today his enthusiasm for PNGV and stated that at the January auto show Chrysler will announce a new, 4-stroke, direct injection diesel hybrid car that gets more than 60 mpg and "beats Toyota."

FACT CAN BE STRANGER THAN FICTION

Physicists in Austria "teleport" information, demonstrating a prediction Albert Einstein and colleagues made in 1935, but dismissed as "spooky action at a distance." In the experiment, a particle of light with specific quantum properties vanishes at precisely the same instant those properties appear in a second particle of light a couple of yards away.

The "teleportation" is made possible by two bizarre realities of the quantum world: particles do not have distinct properties until they are measured, and particle pairs created in special ways are required to have complementary properties. By measuring one particle in a so-called "entangled pair," the properties of the other particle become suddenly determined--no matter how far from each other those particles have traveled since they were made.

Visionaries speculate this achievement may help lead to a quantum computer, and it could have applications for encryption schemes, in addition to allowing new types of investigations of quantum mechanics. The Washington *Post* announced this discovery Thursday under the headline, "On a Table, 'Beam Me Up Scotty'-Like Experiment." The research was supported by the Austrian Science Foundation, the Austrian Academy of Sciences, the European Union, and the U.S. National Science Foundation, and underscores the importance of robust public investment in basic physical sciences, which has been declining in real terms in the United States since 1991.

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

THE PRESIDENT HAS SEEN
12-15-97

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December 12, 1997

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MEMORANDUM FOR THE PRESIDENT

FROM: JOHN H. GIBBONS

CC: ERSKINE BOWLES

SUBJECT: OSTP WEEKLY REPORT

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

December 12, 1997

THE PRESIDENT HAS SEEN
12-15-97

MEMORANDUM FOR THE PRESIDENT

CC: ERSKINE BOWLES

FROM: KATHLEEN A. McGINTY

SUBJECT: CEQ WEEKLY REPORT

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RESOURCE STEWARDSHIP

American Heritage Rivers

We have received more than 115 nominations for American Heritage River designation despite an organized effort by extreme private property rights groups. These nominations have come from all over the country, have significant bipartisan support, and show the extraordinary attachment Americans have to their rivers. Many have written to say that just the process of applying for the designation has brought communities together to work on behalf of their river and foster community revitalization. In many cases, it has compelled advocates for river conservation, historic preservation and economic development to work together toward a common goal.

However, pockets of dissent remain, including those who claim that this is a federal land grab and will trample private property rights. Yesterday, Representative Helen Chenoweth and several of her colleagues (Representatives Don Young, Richard Pombo, and Bob Schaffer) filed a lawsuit in U.S. District Court seeking a ruling that the President has no authority to implement the program and that it violates the Constitution. The Mountain States Legal Foundation represents the Members of Congress who filed the lawsuit. Representative Chenoweth had previously introduced a bill to kill the initiative.

A good example of the submissions we have received, is the nomination for the French Broad River in Tennessee and North Carolina. Supporters sent in letters and petitions representing more than 5000 people, including the Governors of both states. Similarly, the Hudson River nomination was submitted by Governor Pataki and is supported by approximately 1500 letters.

National Low Emission Vehicle (NLEV) Rule

The Northeastern states have been working with the automakers and the Environmental Protection Agency (EPA) on a voluntary strategy to reduce regional emissions from new cars. EPA's NLEV rule, which is likely to be cleared by OMB and issued next week, is a necessary but not sufficient step toward production of a cleaner "49-state car." This car, which would be produced for sale in

all states other than California, would have significantly lower emissions than required by current federal rules. California has its own standards that are more stringent than either federal or NLEV rules. EPA cannot mandate production of these vehicles, nor can it prohibit other states from adopting California's standards.

The automakers' incentive to consider producing these vehicles is the avoidance of a patchwork of states that require cars produced to California standards. The states' incentive to adopt the NLEV vehicle is that it provides significant emissions reduction almost immediately. Following issuance of the rule, the states will have 45 days to decide whether to opt in to acceptance of the 49-state car emissions requirements. The automakers will then have 15 days to decide whether to produce these vehicles. It is not yet clear whether enough states will opt in to persuade the automakers to produce these vehicles. Since these issues will be actively discussed by the various stakeholders during the next 60 days, the Chief of Staff's office has scheduled a briefing for White House offices on this issue early next week.

INTERNATIONAL LEADERSHIP

Kyoto

...A truly historic moment. You should be terrifically proud. In the chaos of 160 extremely antagonistic nations was infused the force, vigor and integrity of the ideas that are the pillars of your climate plan. The integrity of those ideas unmasked the hypocracy of the European Union and began to calm the fears and suspicions of the developing world.

The agreement we have is a good one. We have further secured the support of the major businesses who have been leaning our way; the environmental groups have given you and the Vice President tremendous praise; and even Senator Byrd issued a glowingly positive statement. Many battles ahead, but we could not have asked for a better place to start.

ONE AMERICA IN THE 21ST CENTURY

The President's Initiative on Race

The New Executive Office Building
Washington, DC 20503
202/395-1010

FOR PRESIDENT
12-15-97

MEMORANDUM FOR THE PRESIDENT

FROM: JUDITH A. WINSTON

THROUGH: ERSKINE BOWLES
SYLVIA MATHEWS

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SUBJECT: PRESIDENT'S INITIATIVE ON RACE WEEKLY REPORT -- DECEMBER 7 - DECEMBER 12

ADVISORY BOARD ACTIVITIES

K-12 School Visits. This week, five Advisory Board Member visited an elementary or secondary school in their community that implements programs or policies to encourage diversity and that face issues related to a diverse student body. These visits were arranged to give Advisory Board members some preparation for the December 17 Advisory Board meeting at Annandale High School in Fairfax County, Virginia.

Advisory Board Recommendations. As follow up to the November 19 Advisory Board meeting at which members discussed the continuing problem of discrimination, Dr. Franklin sent you a letter recommending the enhancement of enforcing civil rights laws, collection of additional data on discrimination, and implementation of initiatives to address and prevent hate crimes. (A copy of the letter is attached.)

Council of Negro Women. On December 9, Dr. John Hope Franklin participated in a Town Hall meeting sponsored by the Council of Negro Women. Dr. Franklin spoke to an audience of approximately 600 people. He spoke about the importance of the organization's efforts to address institutional racism and how the Initiative can assist those efforts.

Congress of National Black Churches. Dr. Franklin, on December 10, was the keynote speaker at the Annual Leadership Award Dinner in Shreveport, Louisiana. He addressed 500 of the nation's leading clergy and public officials about the role of churches in

strengthening communities and the need for them to take strong leadership roles in improving race relations.

Minority Business Opportunity Steering Committee. On December 10, Angela Oh met with the Los Angeles Minority Business Opportunity Steering Committee. She discussed issues of race with them and urged them to consider how they could be involved in the Initiative.

Organization of Chinese Americans. On December 10, Angela Oh spoke to the San Francisco chapter of the Organization of Chinese Americans. She reassured the audience that the Initiative will be inclusive of all races and encouraged them to become leaders in bridging racial divides.

Rockefeller Institute of Government. On December 11, Governor William Winter spoke at a brown bag forum at the Nelson A. Rockefeller Institute of Government at Rockefeller College in Albany, New York. Governor Winter urged the faculty and students to promote the goals of the Initiative and to share their research on the finances and management of state government and the conditions of urban neighborhoods.

OFFICE OF THE EXECUTIVE DIRECTOR

Team Harmony. I accompanied the First Lady to the Team Harmony event where 10,000 young people pledged to try to stop prejudice and to speak out against anyone who seeks to mock or hurt someone of a different race, religion, ethnic group or sexual orientation. The Team Harmony program is one of the original Promising Practices identified on our Website. It is also referenced in the First Lady's book, It Takes a Village. (Attached is an article from the Washington Post on the event.)

OUTREACH

Urban League of Greater Chattanooga. On December 10, I participated in several events coordinated by the Urban League of Greater Chattanooga: a breakfast meeting with business leaders hosted by Chattanooga Mayor Jon Kinsey; a luncheon meeting with members of the Chattanooga Race Relations Committee; a "One America Conversations that Bring Us Together" meeting at which I facilitated a conversation among 16 people, including pastors, students, business people, and educators representing a number of races who expressed their experiences with people of other races and ideas for you and the Initiative; and, finally, the day culminated with the Equal Opportunity Day Dinner at which I gave the keynote address to approximately 1,000 people. I encouraged the participants to think of themselves as part of the Initiative, work toward achieving the goals of the Initiative, and recognize that America's diversity is its strength.

At each event, I urged business and community leaders to take active part in the Initiative

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12-15-97

and find solutions to issues related to race. Chattanooga leaders were extremely supportive of the Initiative and offered to host an event in their city.

YWCA. I met with 30 women leaders of national organizations, including the League of Women Voters, Coalition of Labor Union Women, National Council of Jewish Women, and National Organization for Women, that are working with the YWCA to encourage women to be leaders in promoting the goals of the Initiative.

Corporate Leaders. Working with the Office of Public Liaison, we have scheduled the next two corporate executives forums, entitled One America: The Business Community Responds. We will hold the next forum on January 13 in Phoenix, prior to the Advisory Board meeting there on January 14. The January 13 forum will encompass corporations located in the South West region of the country. For corporations located in the Far West region, we plan to hold a forum on January 30 in Los Angeles. We also will hold a forum in New York and one in Chicago or Cincinnati during the late winter.

Religious Leaders. On December 11, we held a conference call with the religious leaders who met with Reverend Johnson Cook last month in conjunction with your Prayer Breakfast. We will schedule four or five forums for religious leaders in different regions of the country. The first one is scheduled to take place on February 10 in Northern California in conjunction with an Advisory Board meeting that will be held in San Francisco or Oakland.

Leaders in Education. In partnership with the Association of American Colleges and Universities and the National Urban League, we will hold a national week of campus/community dialogue in April.

Public Officials. We are working with the Office of Intergovernmental Affairs to organize "One America Conversations that Bring Us Together" with city and county officials on the day following our Advisory Board meetings in Phoenix, San Francisco/Oakland, and Denver.

RESEARCH AND POLICY PLANNING

Data. We are producing a binder of data for the Advisory Board Members to use in informing the American people about the facts surrounding race. We will include K-12, higher education and labor data for the Board members as background for the December 17 and January 13 Advisory Board meetings.

Fairfax County Schools. The case study on Bailey's Elementary School in Fairfax County identifies some of the challenges, successes and lessons learned in a magnet school that serves an increasingly diverse student body. Linda Chavez-Thompson will release the study on December 15.

THE PRESIDENT HAS SEEN
12-15-97

COMMUNICATION

Press Coverage. This week there were eleven articles that covered the Initiative in major newspapers. (Attached is a column from the Wall Street Journal, "The Race Initiative: Tough but Worth the Effort.")

WORK TEAMS

ADVISORY BOARD

Advisory Board Meetings. The December 17 Advisory Board meeting will focus on issues of race in public primary and secondary education. The participants will include William Bennett, Professor James Comer, author Jonathan Kozol, and Principal Deborah Meier. We are working with DPC and NEC on potential policy action items such as school construction, the Hispanic Education Action Plan and 21st Century Scholars programs.

The January 14 Advisory Board meeting will focus on employment issues and will be held in Phoenix.

TOWN HALL MEETINGS

Presidential Town Hall Meeting. The team met to discuss possible dates and formats for the next Presidential Town Hall Meeting. We will try to schedule a meeting with you next week to propose some dates and a format for your approval.

Advisory Board Town Hall Meeting. We are working on an Advisory Board Town Hall meeting in Atlanta in late January.

YOUTH

Call to Action Letter. We have been receiving approximately 100 letters a day in response to your "call to action" letter to youth. The response has been overwhelming and very positive. The majority of the letters are coming from white youth. Even though many of them are in the middle of final exams, they have taken the time to respond quickly and enthusiastically to your call to action. We are in the process of setting up a call-to-action column on the website and will post a letter each week. We plan to respond to each student by thanking them for their support and offering them further guidance on steps to take to further the goals of the Initiative. We also plan to inform them about upcoming events in their area.

FEDERAL AGENCY ACTIVITIES

One America Conversations that Bring Us Together. Twenty-nine One America Conversations have been held around the country. There are 62 more conversations scheduled to be held by the end of the year and this number continues to grow.

Department of Justice (DOJ)

New Jersey Housing Discrimination Case. On December 8, DOJ filed suits against the owners and managers of two apartment complexes in Clark, NJ, for race discrimination in their rental practices. The evidence was developed under DOJ's fair housing testing program. African Americans inquiring about apartments at the complexes were told that no apartments were available when, in fact, apartments were available.

United States Department of Agriculture (USDA)

Minority Farmers. On December 17, Secretary Glickman will participate in a meeting with you and small and minority farmers at the White House.

Puerto Rican Farmers. On December 2, in a ceremony in Puerto Rico, USDA's Farm Service Agency made a multi-year commitment to increasing the participation of Puerto Rico's socially disadvantaged rural residents in agriculture and in USDA programs, committing $320,000 as the first installment of a multi-year outreach project directed at small farmers on the island. USDA will work with the University of Puerto Rico to create programs to lessen some of the financial problems and obstacles to credit which hinder limited-resource farmers. The goal is to ensure that small, disadvantaged, beginning, and youth farmers participate in USDA credit programs, obtain training in farm operations and management, and receive program and technical information.

Native American Outreach. The American Indian Program Group, comprised of outreach program specialists from six USDA agencies, is developing program training for the four Native American outreach specialists who will be hired by the Intertribal Agriculture Council using funds provided by USDA by January 15.

National Scholars Program. On December 5, Secretary Glickman announced that USDA is accepting applications for its 1890 National Scholars Program for the 1998 school year. The program is aimed at undergraduate students studying agriculture or related subjects at the 17 historically black 1890 land-grant universities.

Native American Food Distribution. The National Association of Food Distribution Programs on Indian Reservations has nominated 25 Native American tribal organizations for expansion of a pilot project which provides fresh produce as an

THE PRESIDENT HAS SEEN
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alternative to canned fruits and vegetables under the Food Distribution Program on Indian Reservations. The new sites will be added throughout the fiscal year, and will potentially more than double the number of participating tribes.

One America Conversation at Tuskegee. On December 8, following his speech on civil rights at Tuskegee University, Secretary Glickman served as the host for a conversation on race with community leaders. The *ABC*, *CBS*, and *NBC* affiliates in Montgomery, AL, *Alabama Public Television*, *AP* (both print and photo), *Montgomery Advertiser* (both print and photo), the *NBC* affiliate in Birmingham, *Birmingham News Print*, and the *ABC* affiliate in Columbus covered the Secretary's speech and conversation on race; print reporters included *AP* and the Birmingham and Montgomery daily newspapers.

Department of Labor (DOL)

Diversity Task Force. This week DOL's Diversity Task Force began a series of visits to each DOL region to meet with REC members, union officials, special interest groups, special emphasis program managers, representatives of the Federal Labor Managers Association, supervisors, managers, and employees to learn first-hand the ideas and concerns of DOL field employees in achieving a model workplace that promotes inclusiveness, fairness and full participation of all employees. Over the next two weeks, Task Force members will visit regional offices in Atlanta, Boston, Chicago, Dallas, Kansas City, New York City, Philadelphia, San Francisco and Seattle.

National Council of Negro Women (NCNW). On December 9, Secretary Herman addressed the NCNW. She discussed details of her National Welfare-to-Work fact finding mission, amplified your One America in the 21st Century message, and made reference to the 50th anniversary of Human Rights Day. Media present at the luncheon included: *UPI, BNA, WHUR, Alabama National Radio* (70+ stations), *Washington Informer, Final Call,* and a photographer from *Jet, Vibe, and Sister-to-Sister* magazines.

Dr. Dorothy Height. On December 10, the Secretary represented the Administration in the nation's farewell to President and CEO Dr. Dorothy Height and served as the Mistress of Ceremonies at the NCNW's Gala in Washington, DC.

National Council of Black State Legislators. On December 11, Secretary Herman will travel to Milwaukee, Wisconsin, where she will address the National Council of Black State Legislators on themes of both welfare-to-work and racial reconciliation.

Department of Housing and Urban Development (HUD)

Housing Discrimination. On December 5, HUD filed housing discrimination charges against a Lake Charles, LA landlord. The landlord is accused of telling an African

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12-16-97

American man: "I don't like to rent to you people...brown, black, colored, whatever you call yourselves." This filing of federal civil charges against the landlord is part of a nationwide crackdown on housing discrimination that you ordered.

Department of Transportation (DOT)

Race Relations Roundtable. On December 12, RSPA will hold a Race Relations Initiative Roundtable discussion among RSPA senior managers The roundtable will facilitate discussion on race issues within RSPA and be instrumental in developing internal race initiative program components. The discussion will center on favorable interaction between races and examine the reasons behind the instances when interaction is not favorable. This discussion will be part of an ongoing dialogue regarding race issues.

National Alliance of Black School Educators (NABSE) Conference. On November 18-23, a diverse team of Coast Guard military personnel attended the 25th Annual NABSE Conference in Reno, Nevada. The team distributed Coast Guard literature and promotional material to conference attendees, and arranged to visit numerous schools and NABSE affiliates throughout the U.S. to talk with students and NABSE members about Coast Guard job and career opportunities. The team also laid the initial ground work for collaboration between NABSE and Coast Guard Recruiting to create a more diverse officer and enlisted workforce. NABSE has 140 affiliates, and is one of the premier African-American educator organizations dedicated to the qualitative improvement of education for African-American students.

One America Conversation. Assistant Secretary Charles A. Hunnicutt will conduct a conversation with the members of the Anti-racism Task Force of the National Capital Presbytery, Presbyterian Church (USA) in early January.

Department of Energy (DOE)

One America Conversation. On December 5, Secretary Peña held a "One America Conversation" with college students at San Diego State University's Aztec Center to amplify your message on the importance of bridging racial divides. The discussion was observed by approximately 100 college and high school students.

Department of Education (DOEd)

Florida Higher Education. For the past year and a half, DOEd's Office for Civil Rights (OCR) has been working in partnership with Florida to resolve higher education desegregation concerns. Although there has been significant progress, critical issues remain unresolved, including agreement on the applicable legal standards and the need for affirmative action programs to satisfy "strict scrutiny." On November 19, OCR sent a

letter to the governor's office indicating that if OCR and the state are unable to resolve these issues within the next few weeks, OCR will initiate a more traditional civil rights investigation of statewide higher education issues.

Florida Discrimination Complaint. On December 1, DOEd's OCR received Title VI complaints from nine white families alleging that the Palm Beach County School District, in order to achieve racial balance, is discriminating against their children, on the basis of race, by forcing them to attend a school that has an enrollment of approximately 69 percent black students, instead of allowing them to attend one of two high schools closer to their neighborhood. OCR is currently evaluating the complaint, which has received some media attention.

Ohio Higher Education. DOEd's OCR recently wrote to the Ohio Governor's office regarding the long-standing civil rights case involving Ohio's only historically black school, Central State University. Last July, the state legislature passed a bill that addresses many of OCR's concerns, which involve funding disparities between Central State and Ohio's other public universities; OCR's letter indicates that, in light of the legislation and the state's plans to continue addressing OCR's concerns, OCR will not resume investigation until Spring 1998.

One America Conversations. On December 11, Secretary Riley hosted a "One America: Conversations that Bring Us Together" event with fifth grade students in Laurel, MD. On December 12, Assistant Secretary for Elementary and Secondary Education Tirozzi is scheduled to host an event at T.C. Williams High School in Alexandria, VA. On December 18, Secretary Riley will host his second "One America Conversation" in a Baltimore elementary school.

Small Business Administration (SBA)

One America Conversations. Several SBA appointees convened One America Conversation events during the Thanksgiving holiday. The Administrator, Deputy Administrator and Chief Advocate are planning to hold roundtable discussions. The Chief of Staff has encouraged all agency appointees to participate in this effort.

Office of Personnel Management

Pittsburgh. On December 14, Director Lachance will host a "One America: Conversations that Bring Us Together" in Pittsburgh, PA at the St. Benedict of the Moor Catholic Church.

ONE AMERICA IN THE 21ST CENTURY

The President's Initiative on Race

The New Executive Office Building
Washington, DC 20503
202/395-1010

November 30, 1997

President William J. Clinton
The White House
Washington, DC 20503

Dear Mr. President:

Since our appointments, your Advisory Board members have received many reports containing information about discrimination and racial disparities in several key areas including education, housing, employment, health and in the administration of justice. You may recall that on September 30, 1997, the Advisory Board discussed and reviewed research about the nature, extent and manifestation of contemporary racism. On November 10th, a number of Advisory Board members participated in the White House Hate Crimes Conference and discussed major shortcomings in hate crimes data collection and enforcement of civil rights laws related to hate crimes prosecution.

More recently, the Initiative staff provided, at my request, a summary of key racial discrimination and civil rights enforcement research material. This material formed part of the Advisory Board meeting held on November 19, 1997 at the University of Maryland. While there is much more that we need to know and discuss about race and national origin discrimination, there are several areas upon which the Board would like to provide recommendations to you.

The data we have received and reviewed indicate that actionable illegal discrimination on the basis of race and national origin is still active and the source of harmful consequences to men, women, and children who are the targets of this discrimination. Such discrimination in education, housing, and employment contribute to growing isolation and feelings of alienation. They further impede our ability to live, work, and grow together as One America, free from prejudicial, stereotypical thinking and discriminatory behavior.

Information we have received also make clear that for the last two decades, civil rights enforcement agencies have had their budgets and staffing reduced while many of their responsibilities have been increased. While there have been some increases in funding in recent years, often the funding level has not kept pace with the increasing volume of cases or the need for careful compliance investigations.

The increasing demands on civil rights enforcement agencies make it particularly difficult, in the view of the Advisory Board, for these agencies to devote sufficient time and attention to training staff and providing technical assistance to recipients of Federal funds to recognize and act to prevent discrimination. This is especially true for the increasingly subtle and complex forms of contemporary discrimination which have largely supplanted more blatant forms of discrimination typically found in earlier decades.

On behalf of the entire Board, I recommend the following actions to you for further attention:

- Strengthening civil rights enforcement throughout the United States: in the FY 1999 budgets, help create partnerships with States and localities that enforce comparable laws to those that operate at the Federal level, with the goal of strengthening all of the agencies' capacity to effectively enforce the civil rights laws they administer;

- Expanding and strengthening the Federal government's ability to collect, analyze, and disseminate reliable data on the nature and extent of discrimination based upon race and national origin, not of course to the exclusion of data collection on other protected classes. A well-designed and coordinated process of generating relevant indicators would then become part of an annual report covering such areas as education, health, employment, housing, and the administration of justice. Such a report would not only assist policy makers but help to increase cooperation among the various Federal agencies involved in civil rights enforcement and education. The information will also aid the public by identifying trends, and these reports and indicators can be replicated with data for local areas. Central to our concerns is the need to significantly improve the level of information about *all* minority groups.

- Implementing fully the series of bold new initiatives announced at the White House Hate Crimes Conference aimed at better data collection, enforcement, and prevention. Improved hate crimes prosecutions along with HUD's initiative to assist victims of hate crimes obtain money damages from their attackers are necessary complements to an improved capacity at the FBI to identify and track trends in hate violence.

I expect that the Board will address these issues again in subsequent meetings, and I look forward to reporting back to you on our findings and further recommendations. I would, of course, be pleased to discuss these recommendations with you.

My best wishes.

Yours truly,

John Hope Franklin

John Hope Franklin

Wash. Post
12/10/97 A4

First Lady Recalls Early Taste of Ethnic Tension

New England Group on Racial Harmony Hosts Discussion With Youth in Arena's Upbeat Setting

By Peter Baker
Washington Post Staff Writer



BY VICTORIA AROCHO -ASSOCIATED PRESS

First lady Hillary Rodham Clinton listens to high school senior Claudy Paul relate his first experience with racism.

BOSTON, Dec. 9—The chill in the air prompted her to say something to a stranger, but the chill in the response would stay with her for a lifetime.

During a junior high school soccer game, a teenage Hillary Rodham turned to a goalie and remarked, "Boy, it's really cold." The other girl snapped, "I wish people like you would freeze." Stunned, the future first lady asked how she could feel that way when she did not even know her. "I don't have to know you," the goalie shot back, "to know I hate you."

More than 35 years later, Hillary Clinton recalled the pain of that childhood encounter today as she discussed the combustible issue of race in a sports arena filled with 11,000 teenagers from throughout New England. The first lady used the tale as an object lesson about the need for understanding during her appearance at the FleetCenter here, the latest chapter in President Clinton's year-long campaign to start a national conversation on race relations in America.

Only later in an interview did she say that the goalie was white, but Clinton said that the girl was of Eastern European descent and resented what she apparently considered "some sort of uppity, wealthy, white-bread" girl.

The forum was a very different scene from her husband's inaugural town hall meeting on race in Akron, Ohio, last week. Where his was C-SPAN, hers was MTV. With the lights turned down and music from U-2 blaring from the speakers, today's meeting had the atmospherics of a rock concert. The discussion, too, seemed livelier and less structured than the Akron town hall—although, like that dialogue, it was dominated by a chorus of people who agreed with each other.

Wearing matching white and blue T-shirts, mobs of excited middle and high schoolers filled most of the home of the Boston Celtics for the fourth annual such gathering organized by a group calling itself the Team Harmony Foundation.

One of the foundation's co-founders, former Celtics assistant coach Jon Jennings, began working this fall as a White House fellow. The first lady was invited as part of a day of activities at the gathering, which featured sports figures such as basketball star Sheryl Swoopes and Red Sox player Mo Vaughn, several musical groups and the stars of MTV's "Real World."

Hillary Clinton sat on stage with 32 teenagers and talked about their experiences. Claudy Paul, an African American high school senior, recalled an encounter at a bus stop when he interrupted another student who angrily dismissed him by saying, "You listen, nigger, this ain't no Dorchester," referring to a predominantly black area in Boston.

"I felt so stunned, I started in tears," Paul said. "From that moment, I felt like my dreams were all shattered."

Amy Coran, a Jewish high school student, remembered the time some boys told antisemitic jokes. The most hurtful, she said, asked the difference between a Jew and a pizza: "A pizza doesn't scream in the oven."

Other students told of swastikas in bathrooms, self-segregation on buses and racially inspired fights. And several said they took their problems to school authorities only to see nothing done.

Yet much as in Akron, these youngsters were the converted. No one who spoke up today expressed any prejudices of their own. Instead, they recited in unison the "Team Harmony Pledge," which started, "I pledge from this day onward to do my best to interrupt prejudice and to stop those who, because of hate, would hurt, harass or violate the civil rights of anyone."

Clinton said the gathering will help make bias unacceptable among the next generation. "If we stick with it, we will change minds," she told the youngsters. "Not everybody's. There are still going to be people who are so unhappy inside, so resentful of anybody else's success that they just won't be able to accept other people." But those people should be countered "with our own respect and love so they are rendered as harmless as possible."

During a question-and-answer phase, the first lady said she was of two minds on the effect of affirmative action in the United States. "Affirmative action has helped on the one hand because it has given opportunities to many people to prove themselves, which they have done," she said. "But I think it has hurt because I believe it has been misconstrued and misunderstood and used in a negative way."

Asked by a student if she had experienced discrimination, she mentioned the soccer incident and later elaborated during her plane ride home. Although she grew up in an all-white neighborhood, she said, her school was riven by divisions among Poles, Slavs, Italians and other ethnic groups. "There was a lot of tension because of that," she said. "Some corridors you couldn't walk down without feeling unsafe, uncomfortable."

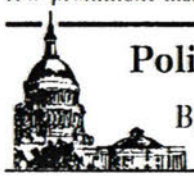
That experience, she said, demonstrates that the race initiative should recognize all sorts of animosities among people, although she added that "the black-white issue has to be the focus because it's the unfinished business of America."

As it attempts to energize its race initiative, the White House has dispatched a variety of prominent administration figures throughout the country to hold group discussions, including one today in Petersburg, Va., led by Secretary of the Cabinet Thurgood Marshall Jr. and another scheduled for Thursday in Baltimore with Education Secretary Richard W. Riley.

One such session backfired last week when Transportation Secretary Rodney E. Slater met with only other black leaders behind closed doors in Dallas, a move that was repudiated by the White House as a mistake.

The first lady said she "can understand" critics who believe the race campaign has been unfocused, but said conversations are a "good end in and of themselves." She was impressed by someone who told her today that her husband should urge Americans to do little things to reach out, such as going to lunch with a co-worker of another color. "I'm going to tell Bill that was a really good suggestion," she said. "You can't take for granted these really small steps that people can do on their own."

The Race Initiative: Tough but Worth the Effort



Politics & People

By Albert R. Hunt

President Clinton's initiative on race is off to a rocky start.

John Hope Franklin, who heads the National Advisory Committee on Race, is an eminent historian but a poor politician in a post that requires political skills. Transportation Secretary Rodney Slater's political skills abandoned him recently when he participated in a racial dialogue that pointedly excluded whites.

The president's town meeting in Akron last week was fumbling and lacking focus. Mr. Clinton was snappish with one of the few prominent dissident voices and overstated the case when he declared that Colin Powell got to his exalted rank in the Army because of affirmative action.

But this still is a very worthwhile effort. America has fumbled, and worse, on race for 250 years. Thus it's hardly surprising that a reasonably ambitious effort for addressing this festering American malady would encounter early trouble.

Moreover, this is a departure for President Clinton, who too often has focused on the small-bore, politically easy agenda items that his former political strategist, the infamous Dick Morris, so cheaply champions. But race is not small bore or easy. There's not only a risk that this won't succeed, but given the history, the odds are that it won't.

Sometimes it's easy to forget that a little over 30 years ago, there were precious few blacks in the executive suites, newsrooms or political corridors; it was commonplace for African-Americans to be excluded from public accommodations and even the vote, and that throughout much of the South, drinking fountains were marked "colored" or "white."

Yet for all the extraordinary progress over these past three decades, race remains an excruciating American dilemma. That's why the multifaceted Clinton initiative is as commendable as it is complex.

Michael K. Frisby reported in this newspaper last week that the White House is bringing the advisory committee on race back firmly under its control. New proposals, with a focus on youth, are being hatched in time for the January State of the Union address.

And there is far more sensitivity to the rap that this has been a one-sided dialogue excluding many conservatives or critics of controversial ideas like affirmative action. Next Wednesday, the advisory committee will meet with prominent conservative Bill Bennett. Two days later, President Clinton will meet with Jack Kemp and, probably, Ward Connerly, who led California's successful antiaffirmative action ballot initiative last year.

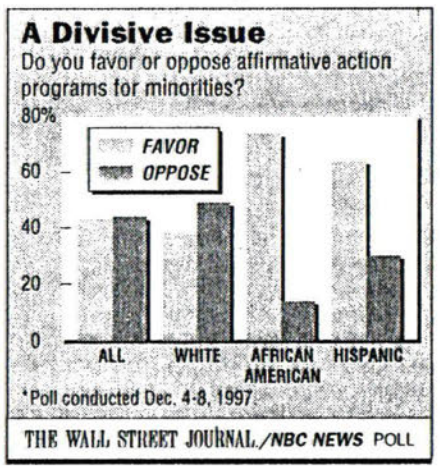
Like it or not, the specter of affirmative action hangs over this discussion. Americans are sharply divided over granting selective preferences to minorities.

If affirmative action is seen as quotas or rigid preferences, particularly in school admissions or hiring and promotion, Americans are overwhelmingly opposed. If it is seen as opening up, assuring and even fostering equal opportunities, the public is solidly for it. The problem is that affirmative action has been all of the above.

In two of the most publicized votes, Californians by 54% to 46% voted down affirmative action on the state level a year ago. By the same margin, voters in Houston last month voted to continue that city's affirmative action program. In both cases, the opposing side argued the decision was stacked or the wording of the referendum was flawed; in fact, both votes are very indicative of where America is.

This was evident in the highly publicized incident at the president's town meeting in Akron, Ohio, last week. He asked author and affirmative action critic Abigail Thernstrom if she wanted to end the type of affirmative action programs that promoted Colin Powell in the Army. This issue and exchange has been seized upon by both sides with considerably more heat than light.

In fact, according to Clifford Alexander, who was Secretary of the Army when Gen. Powell became a general, the promotion board came back with a paucity of minority candidates. He simply sent them back to see if other candidates could be found; Colin Powell was in the next group. "This was not an affirmative action program," Mr. Alexander says.



But it's absurd to suggest that the army—or almost any other institution that has successfully integrated in recent years—has followed the laissez-faire approach that abandons all remnants of affirmative action, which is now espoused by many conservatives.

One good example is the U.S. Military Academy. West Point now sets a "class composition goal" of 7% to 9% African-American cadets every year. The last two incoming classes have been about 7.5% black. These goals are achieved by sending promising young African-Americans to the U.S. Military Academy Preparatory School for a year to get them up to West Point standards. Overall, 14% of West Point's cadets attended this military prep school, but 37% of its African-Americans did. That is affirmative action, recognizing that there isn't a level playing field.

The bill Republicans are pushing in Congress would outlaw nonbinding affirmative action goals, which would do away with much of what the Army and West Point are now achieving. That's why even some conservative African-Americans, like Rep. J.C. Watts (R., Okla.), urge caution before dismantling existing programs.

No one has navigated this tightrope better than Gen. Powell. In his autobiography, he wrote that "preferential" treatment "demeans" achievement, but where discrimination has existed "it is only fair to provide temporary means" to catch up.

This week in an interview, Mr. Powell says the issue has nothing do with him but rather with where we are as a society and what works. "Some of my friends take only the first part of what I wrote and conclude, 'see, he's against preferences.' But that was very difficult to write and I nuanced it very carefully. We had a preference system for over 200 years that did not include black people."

What is essential now, he says, "is to get away from the inflammatory stuff that shuts down dialogue. Let's stop saying that everyone on one side is a racist. Let's stop saying that all preferences are bad when we live in a system of preferences. We go to court over preferences if someone is black but not if they get a preference because their parents went to that school."

If President Clinton's initiative can help tame such inflammatory rhetoric, that alone will be a useful exercise.

THE WHITE HOUSE

WASHINGTON

THE PRESIDENT HAS SEEN
12-15-97

December 12, 1997

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MEMORANDUM FOR THE PRESIDENT AND THE VICE PRESIDENT

FROM: MARIA ECHAVESTE

SUBJECT: OPL WEEKLY REPORT - December 6 to December 12

ACTIONS SUPPORTING PRESIDENTIAL INITIATIVES

RACE INITIATIVE

- To keep the momentum going on corporate outreach we are planning a meeting with CEOs in conjunction with the Race Advisory Board meeting in Phoenix on January 13. We have asked Secretary Herman to lead the discussion as she will be attending the Board meeting, which will focus on employment. We will then have another meeting with CEOs on January 30 in Los Angeles.

- We began preparations and outreach for the next meeting of the Race Advisory Board in Fairfax County. We have notified Asian Pacific American, education, and children constituencies.

- We coordinated a conference call with those religious leaders who met following the November Prayer breakfast to discuss racial reconciliation in the faith community. Plans are underway for regional forums, modeled after those in the business community, to discuss "best practices" and to plan ongoing efforts for reaching into religious sectors.

FAST TRACK

- We are hosting the business community next week to discuss next steps on Fast Track. We will first meet with representatives from high-tech business, including IBM, Novell, Oracle, Motorola, Compaq and Microsoft. IBM is taking the lead in coordinating a high-tech working group on Fast Track to work closely with us as we proceed.

BILL LANN LEE

- Civil rights and ethnic community organizations held press events and rallies in Washington, New York, Los Angeles, San Francisco, Cleveland, Detroit, Memphis and Salt Lake City in recognition of the fortieth anniversary of the Civil Rights Division of the Department of Justice. The events created forums to discuss the importance of

qualified leadership at the Division and the importance of the nomination of Bill Lee. The events received substantial local and national attention; we are compiling information and press clippings.

THE PRESIDENT HAS SEEN
12-15-97

CONSTITUENT OUTREACH AND OTHER ISSUES

JEWISH OUTREACH

- In what some are calling an "unusual move," Jewish organizations, under the umbrella of the Conference of Presidents of Major American Jewish Organizations, sent you a lengthy letter outlining policy positions on the U.S. - Israel relationship and the Middle East peace process. One of the most notable points discussed that "differences between the two governments should be dealt with directly and not in the public arena." Perhaps even more unusual is that these groups have scheduled a conference call with Prime Minister Netanyahu for next Monday afternoon. NSC is drafting a response to the letter.

- The Israeli Knesset passed a motion calling for the release of convicted spy Jonathan Pollard. The former U.S. Navy intelligence analyst is serving a life sentence for spying for Israel.

HEALTH CARE

- OPL coordinated a photo opportunity with you for the Board of Trustees of the American Podiatric Medical Association. The November issue of their publication contains your photo on the cover and an article discussing the Board's wonderful meeting with you.

RURAL AMERICA

- The dairy farmers continue to express concerns about their future. They hope to receive some words of encouragement.

WOMEN'S OUTREACH

- OPL represented the Administration at the New York Women's Agenda 1997 Sixth Annual Star Breakfast, attended by over thirty-five hundred women representing seventy-five organizations. The First Lady gave the keynote address and presented the Agenda's founder, Elinor Guggenheimer, with a Presidential Citizenship Award. We stimulated discussion among advocates on establishing dialogue on race.

- We updated representatives of women's groups on the April Women's Economic Leadership Summit. We discussed possible strategies, next steps and future events.

- Child care advocates met with our staff, Gene Sperling and Elena Kagan to discuss their

concerns and recommendations for the Child Care Initiative. Their primary concern is the need to increase funding to the Child Care Development Block Grant to ensure affordability, safety and quality for infant, toddler and school-age children, which would enable states to serve low-income families.

SENIORS AND DISABILITY

- We are following up on a letter sent to you last month from Franklin Roosevelt's grandchildren. We are working with the Interior Department and the family to arrange for the National Park Service to be able to accept the gift of FDR's Top Cottage. The Top Cottage, which was personally designed by FDR in 1939 for accessible living, given his disability, is being restored by the family through $1.5 million in private funding. Secretary Babbit designated the cottage a National Historic Landmark on December 9. We are now working to secure an additional $160,000 in the FY99 Interior budget so that the National Park Service may operate the facility.

- Your call to Justin Dart on Wednesday lifted his spirits a great deal; his situation is improving rapidly. On Thursday, the doctors at Georgetown Hospital successfully installed a pacemaker to alleviate his heart arrhythmia, and he may be home next week.

AFRICAN AMERICAN OUTREACH

- African-American environmentalists are requesting that the White House host a meeting in February on the anniversary of your signing the Environmental Justice Executive Order. Brad Campbell, of CEQ, spoke Wednesday at a meeting of the National Environmental Justice Advisory Committee, which expressed a strong interest in the proposed event.

- With USDA, we are preparing for your upcoming meeting with small farmers. We have held a series of preparatory meetings with African-American farmers to identify specific concerns they wish to be raised. Aside from noting the backlog for investigating complaints, the major issues center on access to credit and foreclosures.

RELIGIOUS OUTREACH

- In a meeting with OMB and DPC staff, representatives from the religious and immigrant communities made strong arguments for expanded food stamp coverage for immigrants, particularly for the working poor. They are concerned that states have responded with only limited help and would withdraw that help should the economy take a turn for the worse. In separate meetings, the religious community indicated concern that DOA efforts for child nutrition and gleaning should be a lower priority, that such issues do not address the fundamental problems of hunger as food stamps do.

- We have assembled an internal working group with our religious, Jewish and ethnic outreach staff to expand our base in the growing Muslim community.

VETERANS OUTREACH

- We are working with the State Department to ensure that NATO expansion is included in the agenda of the Veterans service organizations Annual Washington Conference. We have prepared talking points for the estimated twenty-five hundred veterans delegates who will visit their Congressional representatives in March.

- We continue to work with senior White House staff, with OMB and with staff from the Veterans Administration to identify options for your consideration on the Filipino Veterans issue.

- We are monitoring the aftermath of the exhumation of Ambassador Lawrence. Veterans service organizations are relatively quiet, expressing the view that the Administration acted correctly and that the current issue is to tighten up the process.

- We are working with White House personnel to determine candidates for the Department of Defense oversight commission on the Persian Gulf.

ETHNIC OUTREACH

- We met with ethnic leaders to discuss your accomplishments over the year and current initiatives, and to solicit ideas from them regarding Administration priorities in the coming year. The group reaffirmed its support for Bill Lee, and has released several statements this week reiterating their sentiments. They believe that an extensive grassroots is required to gain support for NATO, and that the Administration has been ineffective in promoting this with base ethnic groups. They were concerned with what they perceive is too great a focus on 'intellectuals' and editorial boards, rather than constituents who can voce their support to Senators when ratification comes for a vote. Many suggested that the Administration consider an 'Americanization' initiative for new immigrants.

- With NSC and the State Department, OPL hosted a briefing for the leadership of the Hungarian American Coalition, in town for its Annual Mikluas dinner. The community is enthused by the recent referendum in Hungary in support of NATO expansion; they want to focus their efforts on promoting NATO enlargement within their communities in the U.S. In anticipation of the Senate vote, they plan to increase their efforts within the communities in the coming months.

ASIAN PACIFIC AMERICANS

- OPL continues to discuss possible options with DPC regarding the issue of the Hmong community. The Asian Pacific American community, which will have some data to share

with us in the coming week, raised the issue of the importance of food stamps to this community.

cc:

First Lady	Mrs. Gore
Erskine Bowles	Rahm Emanuel
Michael McCurry	Sylvia Mathews
John Hilley	Thurgood Marshall, Jr
Craig Smith	Doug Sosnik
Gene Sperling	Sid Blumenthal
John Podesta	Bruce Reed
Mickey Ibarra	Ron Klain
Ann Lewis	Susan Liss

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THE WHITE HOUSE

WASHINGTON

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THE PRESIDENT HAS SEEN
12-15-97

December 12, 1997

MEMORANDUM FOR THE PRESIDENT

FROM: Mickey Ibarra

SUBJECT: Office of Intergovernmental Affairs Weekly Report -- December 8 - 12, 1997

CC: The Vice President

I. PRESIDENTIAL PRIORITIES

Race Initiative

- We met with staff from the U.S. Conference of Mayors (USCM) and the National Association of Counties (NACo) to discuss increasing their engagement in our Race Initiative. They agreed to take to their elected leadership our proposals for 1) conducting "Conversations that Bring Us Together" with county and city officials, and 2) aggressively promoting use of the Multicultural Diversity award-winning programs of NACo and others as models for communities across the nation. Provided we get the expected approval to proceed from the organizations' leadership this week, we will convene a meeting with NACo and USCM staff contacts, PIR and IGA staff to move these efforts forward.

II. INTERGOVERNMENTAL CONSTITUENCIES

Governors

- We are organizing a meeting this week to respond to a letter you received which was signed by all the members of the National Governors' Association (NGA) Transportation Committee regarding transportation issues and the FY99 budget. We will invite NGA leadership to attend a meeting with COS Bowles, Secretary Slater, OMB Director Raines, Gene Sperling, and others that will provide them a forum to advocate their priorities.

- We worked with Governor Mel Carnahan (D-MO) and the State Department to facilitate the application of the Boeing Company-McDonnell Aircraft and Missile Systems Group for a marketing license to begin negotiations with the Greek government on the sale of 60

THE PRESIDENT HAS SEEN
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F-15 fighter planes. This was extremely important to the Governor because McDonnell employs more than 25,000 people in Missouri.

- Governor Lawton Chiles (D-FL) testified on the Hill regarding the distribution of recoveries from tobacco lawsuits filed by the states. He then met with IGA and John Hilley to further discuss the issue. As you know, Governor Chiles and the National Governors' Association (NGA) have expressed their opposition to HCFA's intention to seek the federal share of Medicaid from these recoveries. Governor Chiles was very pleased with the tone of your letter on this subject, and the willingness of the White House to work with him and other governors on a legislative solution.

- Former Kentucky Governor Brereton Jones (D) has called and written to urge you to consider the creation of a tobacco trust fund that would be used to transition tobacco farmers to alternate crops. We will work with him to assure his idea gets considered by the tobacco working group.

- The following letters were among those recently sent to you from governors. We are coordinating with the Correspondence Office to complete appropriate replies.

  - Governor Zell Miller (D-GA) wrote to request that you exert your influence over the Federal offices in metro Atlanta to ensure that the Voluntary Ozone Action Program is a success.

  - Governor Fob James (R-AL) wrote you to voice his strong support of Federal legislation to make sure convicted sex offenders are covered by the Jacob's Wetterling Act, Pam Lychner Act, and by Megan's Law.

  - Governor John Kitzhaber (D-OR) wrote to ask you to stop any further reductions and changes in the National Guard.

  - Governor Arne Carlson (R-MN) wrote to inform you that the State of Minnesota fully endorses the National Sex Offender Registry. He also urged you to help dairy farmers by supporting reform of the Federal Milk Marketing Orders System.

  - Governor Paul Patton (D-KY) wrote to you regarding the need to provide quality child care to the many working families with young and school aged children.

County Officials

- We hosted a meeting for King County Executive Ron Sims (D-WA) this week that included DCOS Mathews and others. In January of 1997, Executive Sims was appointed to fill the vacated seat of prior County Executive Gary Locke (D) who now serves as Governor of Washington. Executive Sims is a positive and innovative local official with

whom we plan to build a strong working relationship. The Vice President called him on Thursday, December 11, in preparation for the next Tobacco Town Hall meeting he will conduct in Seattle on Tuesday, December 16.

THE PRESIDENT HAS SEEN
12-15-97

Mayors/Municipal Officials

- USCM Homelessness Survey: Mayor Joe Riley (D-Charleston, SC) and Secretary Cuomo will hold a press conference on Monday, December 15, to release the U. S. Conference of Mayors' (USCM) 13th Annual Survey on Hunger and Homelessness in U.S. Cities. The survey reports information taken from 29 major cities. It indicates that over the past year, requests for emergency food and shelter have increased and that a significant amount of cities' emergency food assistance centers and emergency shelters turn people away.

- We conducted a Roosevelt Room meeting on December 8 with Rebuild America -- a coalition of 60 national public and private organizations committed to increasing Federal infrastructure spending. Mayor Ed Rendell (D-Philadelphia, PA) chairs Rebuild America. In addition to Secretary Slater, OMB and NEC officials participated in this session. The Mayor was very pleased to learn of the OMB Capital Budget Commission work and will engage with them. Under the leadership of the Mayor, I expect we will see a much more vigorous effort to promote an infrastructure agenda in Washington.

- On December 8, I met with the Board of Directors of the National Association of Towns and Townships. This bipartisan organization represents approximately 11,000 local governments and more than 60,000 local elected officials. They are seeking a closer relationship with the White House. We reached agreement for regular communications and participation in their upcoming annual meeting, which will be held in Washington, DC in March 1998.

- Mayor Clarence Harmon (D-St. Louis, MO) is seeking final resolution between FAA and the Historical Preservation Council so they can announce a major airport expansion in St. Louis on December 22. We hope to facilitate resolution in time for the Mayor's announcement.

- We have contacted Mayor Ron Kirk (D-Dallas, TX) to reassure him of your positive view of Dallas and the Mayor's efforts to move this diverse city forward. This was in response to a *Dallas Morning News* story regarding your Initiative on Race. The Mayor is a strong supporter of your effort.

Indian Country

- White House and interagency meetings on proposed regulations impacting Indian Country were conducted. They include the proposed rulemaking for the Interior Secretary on Indian gaming, and proposed regulations from the Historical Preservation

Council on sacred sites. On the latter issue, we met with tribal leaders and are following up on their concerns.

Insular Affairs

- We are working to support the budget needs of the insular areas, and to this end, are holding meetings with OMB and others to request support for the most critical needs of their four million unrepresented citizens in the insular areas.

- Puerto Rico Governor Pedro Rossello (D/NP) became President of the Council of State Governments on December 9, 1997, and began assuming the chairmanship of the Democratic Governors' Association. Additionally, Puerto Rico Senator Kenneth McClintock, head of the pro-statehood minority of the islands' 1996 Democratic Convention delegation, became Chairman-Elect of the Council of State Governments.

- In coordination with Legislative Affairs, we continued work with agencies in follow-up to Virgin Islands Delegate Donna Christian-Green's (D) request to you for aid for the territory. We are also exploring aid requests from Governor Roy Schneider (I) and are working with other offices on issues related to your upcoming trip to the islands.

- At Puerto Rico Resident Commissioner Carlos Romero-Barcelo's (D) request, we are working with USTR on litigation in Belgium challenging the labeling of Puerto Rico products as "Made in the USA." Support of the use of the label is being communicated to Belgium.

III. OTHER ISSUES AND ACTIVITIES

Intergovernmental Outreach

- We distributed 3,000 Holiday Tour tickets to state and local elected officials; state, city, and county Washington representatives; the staff of the "Big Seven" intergovernmental affairs organizations; and the IGA representatives from the Federal agencies and departments. The White House IGA staff greeted and interacted with guests for a very positive IGA outreach effort on December 9.

Asian-Pacific American Outreach Meeting

- We assisted our colleagues in OPL and Political Affairs with the Asian-Pacific American Outreach meeting. We were pleased that three state and local elected officials participated in this December 12 meeting with you. In addition to the outreach meeting, I met privately with the elected officials to review the many efforts our IGA office is making to provide effective support to them in Washington.

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Mayors/Municipal Officials

- USCM Homelessness Survey: Mayor Joe Riley (D-Charleston, SC) and Secretary Cuomo will hold a press conference on Monday, December 15, to release the U. S. Conference of Mayors' (USCM) 13th Annual Survey on Hunger and Homelessness in U.S. Cities. The survey reports information taken from 29 major cities. It indicates that over the past year, requests for emergency food and shelter have increased and that a significant amount of cities' emergency food assistance centers and emergency shelters turn people away.

- We conducted a Roosevelt Room meeting on December 8 with Rebuild America -- a coalition of 60 national public and private organizations committed to increasing Federal infrastructure spending. Mayor Ed Rendell (D-Philadelphia, PA) chairs Rebuild America. In addition to Secretary Slater, OMB and NEC officials participated in this session. The Mayor was very pleased to learn of the OMB Capital Budget Commission work and will engage with them. Under the leadership of the Mayor, I expect we will see a much more vigorous effort to promote an infrastructure agenda in Washington.

- On December 8, I met with the Board of Directors of the National Association of Towns and Townships. This bipartisan organization represents approximately 11,000 local governments and more than 60,000 local elected officials. They are seeking a closer relationship with the White House. We reached agreement for regular communications and participation in their upcoming annual meeting, which will be held in Washington, DC in March 1998.

- Mayor Clarence Harmon (D-St. Louis, MO) is seeking final resolution between FAA and the Historical Preservation Council so they can announce a major airport expansion in St. Louis on December 22. We hope to facilitate resolution in time for the Mayor's announcement.

- We have contacted Mayor Ron Kirk (D-Dallas, TX) to reassure him of your positive view of Dallas and the Mayor's efforts to move this diverse city forward. This was in response to a *Dallas Morning News* story regarding your Initiative on Race. The Mayor is a strong supporter of your effort.

Indian Country

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White House and interagency meetings on proposed regulations impacting Indian Country were conducted. They include the proposed rulemaking for the Interior Secretary on Indian gaming, and proposed regulations from the Historical Preservation

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F-15 fighter planes. This was extremely important to the Governor because McDonnell employs more than 25,000 people in Missouri.

Governor Lawton Chiles (D-FL) testified on the Hill regarding the distribution of recoveries from tobacco lawsuits filed by the states. He then met with IGA and John Hilley to further discuss the issue. As you know, Governor Chiles and the National Governors' Association (NGA) have expressed their opposition to HCFA's intention to seek the federal share of Medicaid from these recoveries. Governor Chiles was very pleased with the tone of your letter on this subject, and the willingness of the White House to work with him and other governors on a legislative solution.

- Former Kentucky Governor Brereton Jones (D) has called and written to urge you to consider the creation of a tobacco trust fund that would be used to transition tobacco farmers to alternate crops. We will work with him to assure his idea gets considered by the tobacco working group.

- The following letters were among those recently sent to you from governors. We are coordinating with the Correspondence Office to complete appropriate replies.

- Governor Zell Miller (D-GA) wrote to request that you exert your influence over the Federal offices in metro Atlanta to ensure that the Voluntary Ozone Action Program is a success.

- Governor Fob James (R-AL) wrote you to voice his strong support of Federal legislation to make sure convicted sex offenders are covered by the Jacob's Wetterling Act, Pam Lychner Act, and by Megan's Law.

- Governor John Kitzhaber (D-OR) wrote to ask you to stop any further reductions and changes in the National Guard.

- Governor Arne Carlson (R-MN) wrote to inform you that the State of Minnesota fully endorses the National Sex Offender Registry. He also urged you to help dairy farmers by supporting reform of the Federal Milk Marketing Orders System.

- Governor Paul Patton (D-KY) wrote to you regarding the need to provide quality child care to the many working families with young and school aged children.

County Officials

- We hosted a meeting for King County Executive Ron Sims (D-WA) this week that included DCOS Mathews and others. In January of 1997, Executive Sims was appointed to fill the vacated seat of prior County Executive Gary Locke (D) who now serves as Governor of Washington. Executive Sims is a positive and innovative local official with

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THE WHITE HOUSE

WASHINGTON

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December 12, 1997

THE PRESIDENT

MEMORANDUM FOR THE PRESIDENT

FROM: Bruce Reed
Elena Kagan

SUBJECT: DPC Weekly Report

1. Health -- Mental Health Parity Regulation: The Wall Street Journal is expected to run a story Monday on how the Administration will implement the provision in last year's mental health parity legislation that exempts businesses from complying with the parity requirement if they can show that doing so would increase their costs by more than one percent. The story will report (accurately) that the Administration has decided to require businesses to comply with the parity requirement for at least six months prior to claiming an exemption. (As you recall, the other option under consideration would have allowed businesses to claim an exemption even before complying with the requirement, based solely on projections from current cost data.) The Administration is not issuing the regulation until the end of next week, but HHS sources leaked it to the Journal. The Journal will portray the regulation as a victory for mental health advocates over business.

2. Crime -- Homicide Study: The National Institute of Justice issued a study of homicide in eight U.S. cities last week. Some of the key findings of the ten-year study (1985-94) are: (1) the proportion of homicides committed with firearms increased throughout the ten-year period, to approximately 80 percent; (2) homicide rates were strongly linked to crack cocaine use throughout the period; (3) black men between the ages of 18 and 24 represented a disproportionately high -- and steadily increasing -- percentage of homicide victims in all cities (in Baltimore, these men were 24 times more likely than the average person to be the victim of homicide); (4) homicides where the victim and offender were related or intimate made up only 20 percent of all homicides, but over 50 percent of female-victim homicides; and (5) homicide rates were somewhat related to poverty and employment levels. The eight cities studied were: Atlanta, Washington DC, Detroit, Tampa, New Orleans, Richmond, Indianapolis, and Miami.

3. Crime -- Death Penalty Study: The Justice Department will release new data on Sunday showing an increase in prisoner executions. During the first 11 months of this year, 70 prisoners were executed in 16 states -- 25 more prisoners than in all of last year. Texas alone accounted for 36 of these executions, the highest number in a single state since 1930. In 1996, the length of time a prisoner sat on death row before execution was 10 years and 5 months -- 9 months shorter than in 1995. Among the 358 individuals executed between 1977 and 1996, 56 percent were white, 37 percent were black, 21 percent were Hispanic, and 3 percent were members of other racial groups.

4. Crime -- Boston Juvenile Homicide: A Boston youth was shot to death last week, for the first time in two and one-half years. The 16 year-old Dorchester youth was unarmed and had no known criminal history.

5. Welfare Reform -- Reports Released by Union-Sponsored Group: On Wednesday, Jobs With Justice, a group funded primarily by AFSCME, SEIU, and the AFL-CIO, released two reports critical of welfare reform. The first, called Welfare Reform *as we know it*, is highly critical of workfare programs. Welfare recipients quoted in the report, which is largely anecdotal in nature, complain that workfare assignments are not paid as well as comparable work, do not lead to real jobs, and do not meet all required health and safety standards. We find some of the specific charges worrisome, but do not agree with the overall message of the report, which is that welfare recipients should not be required to work unless they are trained and placed in skilled, well-paid, and unionized jobs.

The second report, Welfare Reform: The Jobs Aren't There argues that there are about twice as many welfare recipients seeking work as there are low wage jobs. The report arrives at this conclusion by estimating that (1) 430,000 low-skilled jobs were created in 1997 and 270,000 will be created in 1998, and (2) one-third of all adults on welfare, or 1.2 million persons, will need to enter the labor force next year as a result of the 30 percent participation rate established by the welfare law.

Our own economists and welfare experts dispute the report's conclusion, along with the estimates that underlie it. CEA notes generally that the U.S. economy historically has shown a tremendous capacity to absorb new workers -- e.g., the millions of women and baby boomers who joined the workforce during the last 30 years -- and should be able to do so again. More specifically, CEA believes that this study greatly underestimates the number of available low-skilled jobs because it counts only jobs in occupational categories with average incomes in the lowest 20 percent, omitting all low-skilled jobs in occupational categories with higher average incomes. At the same time, HHS staff believe that this study greatly overestimates the number of welfare recipients needing jobs because it fails to recognize (1) that some welfare recipients are already working and thus will not need "new" jobs, and (2) that states can (and almost all will) lower the required work participation rates through caseload reduction. HHS staff estimate that the work rates will require between 440,000 and 880,000 people to begin "work activities" in 1998, depending on the extent of caseload reduction. And even these people may not need "jobs" as defined by economic statistics because the law allows states to count community service, workfare, vocational education, high school (for teen parents), and some job search as work activities.

6. Welfare -- Food Stamps for Legal Immigrants: You asked about an article in this week's New York Times that describes the impact of food stamp cutoffs on legal immigrants in New York. The welfare law cut off food stamps to over 700,000 legal immigrants. Most of these cutoffs occurred in September. Under legislation we supported earlier this year, states have the option of using their own funds to continue food stamp benefits. Three states -- Washington, Nebraska, and Rhode Island -- have restored all benefits. Nine other states (including New York, New Jersey, and

California) have offered partial restorations. New York, for example, has made it a county option to restore benefits to the elderly and disabled.

We are currently considering whether to recommend that you include some restoration of food stamp benefits in your FY 99 budget. A full restoration of these benefits would cost about $3.2 billion over five years. We also could propose a partial restoration that provides benefits to some subset of the legal immigrant population, such as children, families with children, or the elderly and disabled. We have doubts that Congress will entertain any proposal to restore benefits, but a more limited proposal might stand a greater chance of succeeding.



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INTERNATIONAL ROUNDUP

U.S. Current Account Balance Nears Record High. The U.S. current account deficit widened in the third quarter to $42.2 billion, up from the second quarter's deficit of $37.9 billion, according to preliminary estimates released this week by the Department of Commerce. A $51.5 billion deficit in goods was (as usual) only partially offset by a $21.9 billion surplus in services trade. The balance also reflects a $3.3 billion deficit in investment income and a $9.2 billion deficit in unilateral transfers. The quarterly deficit is once again nearing the record high of $43.2 billion, set in the fourth quarter of 1987. When a country runs a current account deficit, it must necessarily attract a capital inflow to finance it. (It is as correct to say that the capital inflow causes the current account deficit as the other way around.) Indeed, foreign purchases of U.S. stocks and bonds (excluding Treasury securities) both reached record levels in the third quarter.

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Globalization Requires Talking Turkey on Macroeconomic Reform. Turkey embraced "globalization" almost two decades ago, beginning a series of outward-oriented reforms in 1980. Since then, total trade has increased sharply in relation to GDP (from 17 percent to 45 percent), and net private capital flows have grown from $600 million to $2 billion per year. However, Turkey has not enjoyed performance comparable to many other countries that underwent similar reforms. On average, between 1985 and 1995, GNP per capita grew only 2.2 percent annually, compared with rates of 6.1 percent in Chile, 5.7 percent in Malaysia, and 8.4 percent in Thailand—all countries roughly at Turkey's level of development. An obvious difference is that the Turkish economy suffers from large budget deficits, burdensome debt obligations, and deeply entrenched inflation that has averaged 75 percent since 1988. Chile and the East Asian Tigers combined their outward-orientation with conservative fiscal policies. Opening the Turkish economy may not be enough. Populist macroeconomic policies remain, suggesting Turkey's revolution in policymaking remains unfinished.

Britain Considers Reform of Tax-Free Savings Accounts. In an effort to encourage saving among those with low incomes and variable consumption needs, the British government has proposed a new instant-access, tax-free savings account. These accounts would replace two current vehicles for tax-free savings that are used mainly by middle- and high-income taxpayers. The new Individual Savings Accounts (ISAs) would allow individuals to invest as much as £5,000 per year up to a lifetime contribution limit of £50,000. Investment returns would not be subject to income or capital gains taxes; there would be no minimum contribution level and no minimum holding period. Money that is currently in the accounts being replaced by ISAs can be transferred into ISAs, up to the £50,000 maximum, but funds in excess of this maximum will lose the tax advantage.

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BUSINESS, CONSUMER, AND REGIONAL ROUNDUP

Study Concludes Smoking Cessation Guideline is Cost-Effective. In 1996, the Department of Health and Human Services' Agency for Health Care Policy and Research published a guideline for smoking cessation that recommended screening all patients for tobacco use and providing assistance to achieve cessation for all willing patients. A recent study in the *Journal of the American Medical Association* finds that full implementation of this guideline would cost $6.3 billion in the first year and would achieve approximately 1.7 million new quitters over and above a baseline quit rate. The authors estimate that these results translate into an average cost of $2,587 per life-year saved, or $1,915 per "quality-adjusted life-year" saved (based on an index that gives greater weight to years of healthy life). These results compare very favorably with the costs of other preventive interventions such as mammography screening ($50,000 per life-year saved) and the treatment of high cholesterol (more than $100,000 per life-year saved). The smoking cessation guideline contains a number of different interventions, and the study finds that the more intensive interventions are also the more cost-effective. Group-intensive cessation counseling, for example, was among the most cost-effective—but only about 5 percent of smokers appear willing to undertake this type of intervention.

Higher Air Fares Discourage Business Travel. Rising business air fares are prompting corporations to reduce air travel and pursue alternatives to offset fare increases, according to a recent industry survey of corporate travel managers. Business fares have increased an average of 20 percent this year, and nearly 40 percent of the 400 corporations surveyed reduced their level of corporate air travel; 35 percent have increased their use of low-fare carriers. The survey revealed that many corporations plan to increase the use of alternatives to traditional business trips. Nearly half of those surveyed indicated that they will increase their reliance on videoconferencing, while about 40 percent intend to increase the use of teleconferencing.

Sub-$1,000 PCs May Generate More Sales But Not More Profits. PC manufacturers are offering consumers a full-featured PC priced under $1,000 this holiday season. While lower computer prices will entice more buyers, it is unlikely that they will attract enough new customers to compensate for the reduced profit margin of PC manufacturers, according to a recent national survey of over 1,000 households. The survey suggests that a maximum of 1.5 million more PCs will be sold as a result of getting the price below $1,000. Moreover, respondents indicated that they would prefer to pay more for a PC with the latest technology than spend less on a PC that might not perform as fast or become obsolete sooner. More than two-thirds of those surveyed would rather pay extra for options not included in the sub-$1,000 models (such as more memory and better multimedia capabilities), while only a fifth favored the lower-cost option.

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The evidence. Research indicates that child support enforcement decreases the formation of single parent families, but has ambiguous effects on remarriage.

- Out-of-wedlock births. Two recent studies have found that increased child support enforcement is associated with a reduction in out-of-wedlock births. One finds that states in the top quartile with respect to paternity establishment rates have 9 percent fewer out-of-wedlock births than otherwise comparable states in the bottom two quartiles. The other finds a much larger reduction.

- Divorces and separations. A recent study using sophisticated statistical techniques finds that state child support enforcement policies reduce divorce or separation among married couples with children (and have no impact on marital dissolution among childless couples). The effect of child support enforcement is larger for couples where the wife is more likely to receive welfare if divorced.

- Remarriage rates. A recent study finds that stronger child support enforcement reduces the remarriage rate of men—specifically, a 10 percent increase in enforcement is associated with a 10 percent reduction in remarriage rates for low-income fathers. Research on remarriage rates among women is cruder and inconclusive.

Conclusion. Strengthening child support enforcement—by increasing paternity establishment, streamlining the establishment of child support orders, and expanding automatic wage withholding of child support awards—may not only increase the income available to single parents but also reduce the formation of single parent families.

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WEEKLY ECONOMIC BRIEFING OF THE PRESIDENT OF THE UNITED STATES

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

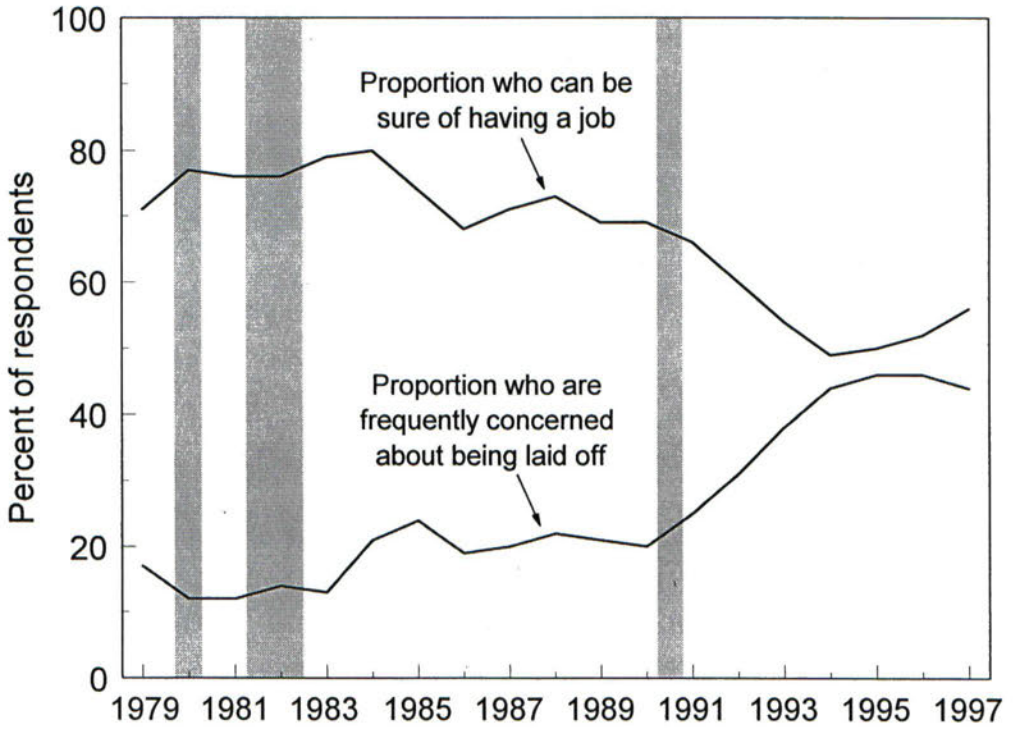
December 12, 1997

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CHART OF THE WEEK

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Survey Results Suggest a Turnaround in Job Insecurity



Worker concerns about layoffs and job security may have abated in the past few years. In one private survey, the proportion of respondents who answered that they are frequently concerned about being laid off has leveled off, after shooting up in the wake of the 1990-91 recession. The proportion of respondents who answered that they can be sure of having a job with their present company as long as they perform well has started to rise again, after falling from 77 percent in 1980 to 49 percent in 1994.

CONTENTS

CURRENT DEVELOPMENTS

Does the Narrowing Term Spread Signal a Slowdown? 1

New Data Show Faster Growth in Industrial Capacity 2

Japan's Problem Banks 3

SPECIAL ANALYSIS

The Luck of the Irish—or Sound Economics? 4

ARTICLE

Child Support Enforcement and Family Formation 6

DEPARTMENTS

Business, Consumer, and Regional Roundup 8

International Roundup 9

Releases 10

U.S. Economic Statistics 11

Financial and International Statistics 12

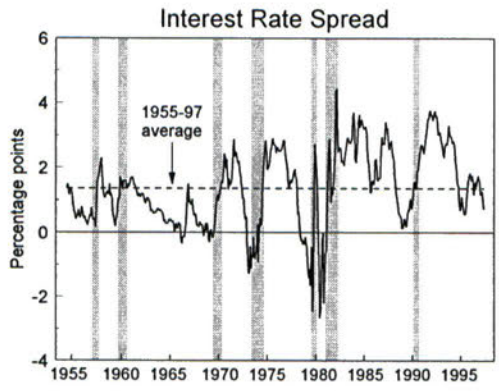


"Is it too late to become a cowboy?"

CURRENT DEVELOPMENT

Does the Narrowing Term Spread Signal a Slowdown?





Long-term interest rates have come down substantially since the spring (see upper chart). As a result, the spread between yields on 10-year and 3-month Treasury securities has fallen by almost a full percentage point and is now below its historical average of 135 basis points (see lower chart). Although a narrowing of interest rate term spreads can be a harbinger of recession, that is probably not true now.

It's not the Fed... The interest rate spread often narrows before a recession. (In fact, the index of leading indicators includes a measure of the spread.) But such instances usually reflect a rise in short-term interest rates associated with a tightening of monetary policy. For example, the sharp decline in the spread that took place before and during the 1980-82 recessions was largely the result of a deliberate attempt by the Federal Reserve to slow the economy and reduce inflation. Although the real Federal funds rate has crept up as inflation has declined, the Fed has not raised its nominal rate target since March.

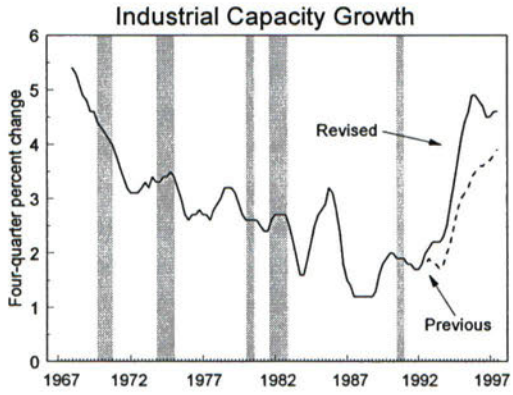
...it's the market. Several factors may account for the recent decline in long-term rates. First, expectations of future inflation have come down this year. Second, progress in deficit reduction—as evidenced by low current deficits and the budget agreement—has probably tended to reduce expected future real interest rates. Third, turmoil in Asian financial markets may have induced a "flight to quality" that has raised demand for U.S. securities, putting further downward pressure on long-term interest rates.

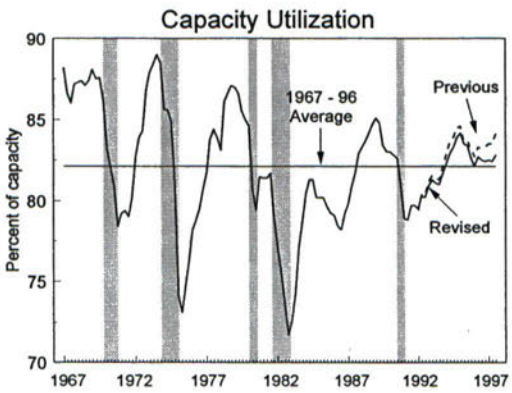
CURRENT DEVELOPMENT

New Data Show Faster Growth in Industrial Capacity

New data show that industrial capacity has been growing faster than previously estimated and that capacity utilization is less tight.

New information. For some time now, the Federal Reserve's estimates of industrial capacity and utilization have been educated guesses based on the recent history of investment. (The last major revision incorporating direct measures of capacity utilization occurred 2 years ago.) This week's revisions incorporate new data on utilization and put the published series on more solid footing.





Faster growth in capacity. The revised data show that over the past 4 years, capacity has been growing about 1 percentage point faster than had been estimated earlier (see upper chart). The average annual growth rate of 4¾ percent during the past 3 years is faster than the growth in any year since 1968.

A lower utilization rate. The utilization rate (production as a percent of capacity) also was revised down to 82.7 percent in the third quarter. This is 1.3 percentage points below the previous estimate and puts the capacity utilization rate only slightly higher than its long-term average (see lower chart). At this rate, industrial capacity does not appear to be as much of a constraint on growth as it appeared to be in the earlier data. The new figures are also more consistent with the recent stability of core producer price inflation.

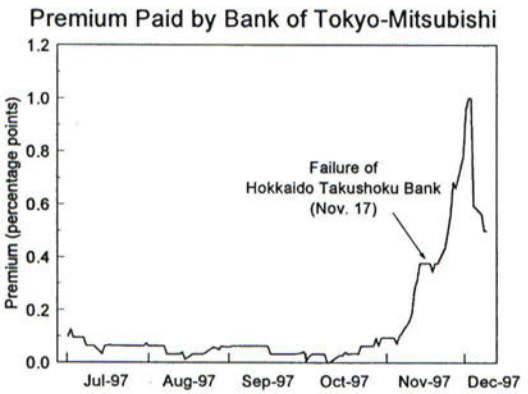
Implications. The revised figures—together with other economic data—suggest an economy in which a tight labor market is being partially offset by expanding physical capacity—the legacy of more than 4 years of strong growth in business investment.

Japan's Problem Banks

The Japanese government reportedly is considering measures to bolster the country's banking industry, which is reeling from bad loans made during the "bubble economy" era of the 1980s. Publicly disclosed data show only $170 billion of problem loans, but press reports put the figure at $600 billion.

A step in the right direction. Until recently, the Japanese government had forestalled bank closures in the hope that the industry would grow out of its enormous problems. Last month, the government finally changed course and allowed several large financial institutions to fail, including one of the country's major national banks, Hokkaido Takushoku.

But just a step. Allowing some insolvent institutions to fail was a painful but necessary start. But lax reporting and disclosure standards make it difficult for outsiders to tell which banks are solvent. Because international investors now must weigh the odds that even large banks might fold, the recent failures contributed to a spectacular recent rise in the premium Japanese banks must pay to borrow abroad (the chart shows the premium for a bank thought to be one of the strongest). The fall in the Japanese stock market has also boosted the premium, because Japanese banks have large equity holdings.

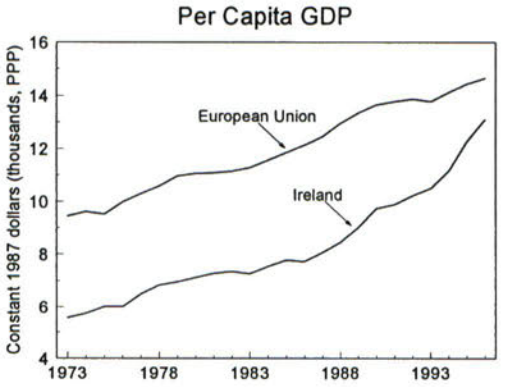


A plan. Protection for depositors should be part of any rescue package; otherwise, catastrophic bank runs are a real danger. Additional necessary steps include tightening the lax reporting and disclosure standards; a firm policy to force weak banks to close, merge, or raise new capital; and measures to ensure that managers and shareholders of banks that make bad lending decisions will suffer negative consequences. Until such steps are taken, a resolution of the banking sector's problems will likely remain difficult, if not impossible.

SPECIAL ANALYSIS

The Luck of the Irish—or Sound Economics?

Long considered a poor economic performer, Ireland during the 1990s ranked as the fastest growing economy in the European Union. Since 1993, economic activity has increased by almost 25 percent and more jobs have been created than in the previous 30 years.



Convergence with the rest of Europe? Empirical evidence supports the notion that by opening their borders to international interactions with richer countries, poorer countries can achieve faster growth. If openness were the only important factor, however, Ireland's per capita income should have begun converging to that of other European Union countries following its accession to the EU in 1973. That such convergence did not begin until much more recently (see chart) suggests that other factors may also be operating.

Why Irish eyes are smiling. The Irish seem to have benefitted recently from a coming together of sound economic policies.

- Macroeconomic policy. Since 1993, Ireland has maintained a budget deficit equal to 1.4 percent of GDP. This is second smallest among EU countries and well under the Maastricht target of 3 percent.

- Worker training. As a percent of GDP, Irish expenditures on labor market policies currently rank third among OECD countries (behind only Denmark and Sweden). Most of these substantial expenditures are for worker training.

- Investment. A generally favorable tax regime, including a corporate tax rate of only 10 percent, has placed Ireland at the top of the list in the 1997 World Competitiveness Yearbook ranking of countries according to their incentives for investment.

Foreign direct investment. With an abundant supply of skilled and educated labor and duty-free access to the rest of the EU, Ireland is an attractive host for foreign direct investment (FDI). Indeed, the number of foreign firms in Ireland has risen more than 50 percent in the last decade, with much of this growth taking place in the last 4 years. Almost half of Ireland's FDI is from the United States; the rest from other EU members. It ranks fourth as a destination for U.S. FDI in Europe. With

lower labor costs than those of the United Kingdom (which ranks first), Ireland represents an attractive English-speaking alternative.

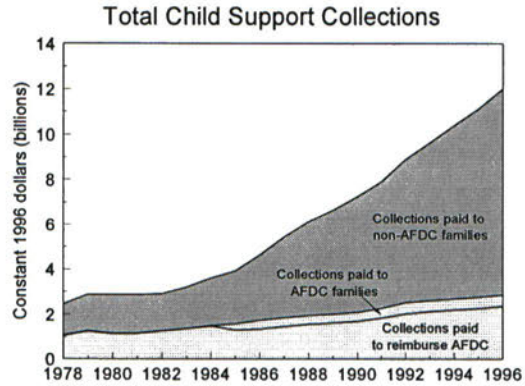
The remarkable thing about Ireland. Although most of this foreign direct investment has been in high-tech, high-growth areas of manufacturing such as computers, semiconductors, and pharmaceuticals, Ireland's capital stock has not increased dramatically. Nevertheless, labor productivity grew 10 percent per year in 1994 and 1995. FDI, it seems, has increased Irish labor productivity by bringing in new technology and management skills rather than by bringing in traditional capital.

ARTICLE

Child Support Enforcement and Family Formation

Strengthening child support enforcement is likely to affect the number of children living in single parent families, because it alters the incentive to form and maintain such families.

The program. The child support program is a Federal and state system that establishes and enforces child support orders for single-parent families. Divorced or separated parents represent 54 percent of individuals receiving child support payments and account for 61 percent of all dollars collected. Remarried parents represent about a third of recipients and collections, while never-married parents represent 12 percent of recipients and 6 percent of dollars collected.



In 1996, 30 percent of all individuals receiving child support collections were on AFDC, and total AFDC collections represented almost a quarter of all collections (see chart). Over 80 percent of all child support payments collected on behalf of AFDC recipients was retained by government and used to reimburse the AFDC system; the remainder was passed on to families. (The new regulations under TANF give states much more leeway in determining how much child support they retain.)

Effects of stronger enforcement: the theory. Strengthening child support enforcement can be expected to decrease the incentive for men to have a child out of wedlock or to divorce. For women, stronger enforcement might increase the incentive to have a child out of wedlock or to divorce, because stronger enforcement increases payments to the custodial parent. These effects on women are reduced in the case where a portion of child support payments go to reimburse the welfare system rather than to custodial parents. This suggests effects for men may be the more important.

The effect of child support enforcement on the rate of remarriage of single parents is more ambiguous. The greater availability of child support payments could make the single parent a more attractive marriage partner, but greater child support payments could make her less reliant on marriage as a source of financial support. Finally, child support enforcement could also deter some noncustodial fathers from remarrying, and thus reduce the supply of potential marriage partners.

THE PRESIDENT HAS SEEN
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BUSINESS, CONSUMER, AND REGIONAL ROUNDUP

Study Concludes Smoking Cessation Guideline is Cost-Effective. In 1996, the Department of Health and Human Services' Agency for Health Care Policy and Research published a guideline for smoking cessation that recommended screening all patients for tobacco use and providing assistance to achieve cessation for all willing patients. A recent study in the *Journal of the American Medical Association* finds that full implementation of this guideline would cost $6.3 billion in the first year and would achieve approximately 1.7 million new quitters over and above a baseline quit rate. The authors estimate that these results translate into an average cost of $2,587 per life-year saved, or $1,915 per "quality-adjusted life-year" saved (based on an index that gives greater weight to years of healthy life). These results compare very favorably with the costs of other preventive interventions such as mammography screening ($50,000 per life-year saved) and the treatment of high cholesterol (more than $100,000 per life-year saved). The smoking cessation guideline contains a number of different interventions, and the study finds that the more intensive interventions are also the more cost-effective. Group-intensive cessation counseling, for example, was among the most cost-effective—but only about 5 percent of smokers appear willing to undertake this type of intervention.

Higher Air Fares Discourage Business Travel. Rising business air fares are prompting corporations to reduce air travel and pursue alternatives to offset fare increases, according to a recent industry survey of corporate travel managers. Business fares have increased an average of 20 percent this year, and nearly 40 percent of the 400 corporations surveyed reduced their level of corporate air travel; 35 percent have increased their use of low-fare carriers. The survey revealed that many corporations plan to increase the use of alternatives to traditional business trips. Nearly half of those surveyed indicated that they will increase their reliance on videoconferencing, while about 40 percent intend to increase the use of teleconferencing.

Sub-$1,000 PCs May Generate More Sales But Not More Profits. PC manufacturers are offering consumers a full-featured PC priced under $1,000 this holiday season. While lower computer prices will entice more buyers, it is unlikely that they will attract enough new customers to compensate for the reduced profit margin of PC manufacturers, according to a recent national survey of over 1,000 households. The survey suggests that a maximum of 1.5 million more PCs will be sold as a result of getting the price below $1,000. Moreover, respondents indicated that they would prefer to pay more for a PC with the latest technology than spend less on a PC that might not perform as fast or become obsolete sooner. More than two-thirds of those surveyed would rather pay extra for options not included in the sub-$1,000 models (such as more memory and better multimedia capabilities), while only a fifth favored the lower-cost option.

THE PRESIDENT HAS SEEN
12-15-97

INTERNATIONAL ROUNDUP

U.S. Current Account Balance Nears Record High. The U.S. current account deficit widened in the third quarter to $42.2 billion, up from the second quarter's deficit of $37.9 billion, according to preliminary estimates released this week by the Department of Commerce. A $51.5 billion deficit in goods was (as usual) only partially offset by a $21.9 billion surplus in services trade. The balance also reflects a $3.3 billion deficit in investment income and a $9.2 billion deficit in unilateral transfers. The quarterly deficit is once again nearing the record high of $43.2 billion, set in the fourth quarter of 1987. When a country runs a current account deficit, it must necessarily attract a capital inflow to finance it. (It is as correct to say that the capital inflow causes the current account deficit as the other way around.) Indeed, foreign purchases of U.S. stocks and bonds (excluding Treasury securities) both reached record levels in the third quarter.

Globalization Requires Talking Turkey on Macroeconomic Reform. Turkey embraced "globalization" almost two decades ago, beginning a series of outward-oriented reforms in 1980. Since then, total trade has increased sharply in relation to GDP (from 17 percent to 45 percent), and net private capital flows have grown from $600 million to $2 billion per year. However, Turkey has not enjoyed performance comparable to many other countries that underwent similar reforms. On average, between 1985 and 1995, GNP per capita grew only 2.2 percent annually, compared with rates of 6.1 percent in Chile, 5.7 percent in Malaysia, and 8.4 percent in Thailand—all countries roughly at Turkey's level of development. An obvious difference is that the Turkish economy suffers from large budget deficits, burdensome debt obligations, and deeply entrenched inflation that has averaged 75 percent since 1988. Chile and the East Asian Tigers combined their outward-orientation with conservative fiscal policies. Opening the Turkish economy may not be enough. Populist macroeconomic policies remain, suggesting Turkey's revolution in policymaking remains unfinished.

Britain Considers Reform of Tax-Free Savings Accounts. In an effort to encourage saving among those with low incomes and variable consumption needs, the British government has proposed a new instant-access, tax-free savings account. These accounts would replace two current vehicles for tax-free savings that are used mainly by middle- and high-income taxpayers. The new Individual Savings Accounts (ISAs) would allow individuals to invest as much as £5,000 per year up to a lifetime contribution limit of £50,000. Investment returns would not be subject to income or capital gains taxes; there would be no minimum contribution level and no minimum holding period. Money that is currently in the accounts being replaced by ISAs can be transferred into ISAs, up to the £50,000 maximum, but funds in excess of this maximum will lose the tax advantage.

RELEASES THIS WEEK

Producer Price Index

****Embargoed until 8:30 a.m., Friday, December 12, 1997****

The producer price index for finished goods fell 0.2 percent in November. Excluding food and energy, producer prices fell 0.1 percent.

Retail Sales

Advance estimates show that retail sales increased 0.2 percent in November following a decrease of 0.2 percent in October. Excluding sales in the automotive group, retail sales also increased 0.2 percent in November.

MAJOR RELEASES NEXT WEEK

Industrial Production and Capacity Utilization (Monday)
Consumer Prices (Tuesday)
Housing Starts (Tuesday)
U.S. International Trade in Goods and Services (Thursday)

U.S. ECONOMIC STATISTICS

	1970-1993	1996	1997:1	1997:2	1997:3
Percent growth (annual rate)					
Real GDP (chain-type)	2.7	3.2	4.9	3.3	3.3
GDP chain-type price index	5.4	2.3	2.4	1.8	1.5
Nonfarm business (NFB) sector:					
Productivity (chain-type)	1.5	1.2	1.4	2.4	4.1
Real compensation per hour:					
Using CPI	0.6	0.2	2.1	2.2	1.9
Using NFB deflator	1.3	1.4	2.4	1.6	2.8
Shares of Nominal GDP (percent)					
Business fixed investment	10.9	10.2	10.2	10.4	10.7
Residential investment	4.5	4.0	4.0	4.0	4.1
Exports	8.2	11.4	11.6	12.0	11.9
Imports	9.2	12.6	12.9	13.1	13.2
Personal saving	5.3	3.1	2.7	3.1	2.6
Federal surplus	-2.7	-1.4	-0.7	-0.5	-0.2

	1970-1993	1996	September 1997	October 1997	November 1997
Unemployment Rate	6.7**	5.4**	4.9	4.7	4.6
Payroll employment (thousands)					
increase per month			300	287	404
increase since Jan. 1993					13967
Inflation (percent per period)					
CPI	5.8	3.3	0.2	0.2	N.A.
PPI-Finished goods	5.0	2.8	0.5	0.1	**-0.2**

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

New or revised data in **boldface**.
PPI data **embargoed until 8:30 a.m., Friday, December 12, 1997**.

FINANCIAL STATISTICS

	1995	1996	October 1997	November 1997	Dec. 11, 1997
Dow-Jones Industrial Average	4494	5743	7876	7677	7849
Interest Rates					
3-month T-bill	5.49	5.01	4.97	5.14	5.06
10-year T-bond	6.57	6.44	6.03	5.88	5.82
Mortgage rate, 30-year fixed	7.95	7.80	7.29	7.21	7.17
Prime rate	8.83	8.27	8.50	8.50	8.50

INTERNATIONAL STATISTICS

Exchange Rates	**Current level December 11, 1997**	**Percent Change from Week ago**	**Year ago**
Deutschemark-Dollar	1.770	-0.0	14.3
Yen-Dollar	129.9	0.4	15.1
Multilateral $ (Mar. 1973=100)	98.54	0.2	11.6

International Comparisons	**Real GDP growth (last 4 quarters)**	**Unemployment rate**	**CPI inflation (last 12 months)**
United States	3.9 (Q3)	4.6 (Nov)	2.1 (Oct)
Canada	3.7 (Q2)	9.1 (Oct)	1.5 (Oct)
Japan	1.0 (Q3)	3.5 (Oct)	2.4 (Oct)
France	2.6 (Q3)	12.7 (Sept)	1.0 (Oct)
Germany	2.3 (Q3)	7.8 (Sept)	1.7 (Oct)
Italy	1.9 (Q2)	11.9 (Jul)	1.6 (Oct)
United Kingdom	3.8 (Q3)	6.8 (Oct)	3.7 (Oct)

THE WHITE HOUSE

WASHINGTON

THE PRESIDENT HAS SEEN
12-15-97

December 12, 1997

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MEMORANDUM FOR THE PRESIDENT

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

SUBJECT: **Summary of Cabinet Weekly Reports**
December 5 - 12, 1997

DEPARTMENT OF TREASURY

- **Korea:** While the Korean stock market got an early boost following the announcement of the IMF program, Korea's financial markets fell as investors digested details of Korea's dire situation. On December 10, the Korean currency depreciated to a record low and trading was suspended for the rest of the day. Newly-released data on Korea's short-term foreign currency debt have made investors even more wary of the Korean marketplace. Recent corporate bankruptcies, along with fears of additional failures under rising interest rates, the approaching Presidential election, and speculation over the commitment of candidates to the Fund program all continue to weigh on investor sentiment.

- **Asia:** On December 4-5, Deputy Secretary Summers and other Treasury officials traveled to Paris to meet with their G-7, G-10 and OECD counterparts to discuss developments in Asia and ways to improve the IMF's ability to respond to financial crises. There was solid support for a new short-term IMF lending facility which would offer emerging market countries, in exceptional financial crises, large loans with higher than usual interest rates. The G-7 deputies also agreed to form a working group to come up with recommendations on ways to ensure that private investors bear a fair share of the losses in financial crises.

- **IRS:** On December 10, Senator Roth and IRS Commissioner Rossotti participated in a Problem Solving Day in Wilmington, DE. The IRS continues its second round of Problem Solving Days through the month of December, with sessions in 33 locations across the country. In January, the Vice President's National Performance Review will issue its report on customer service at the IRS, which contains customer service recommendations as well as the results of the customer satisfaction survey. In

conjunction with the release of this report, Treasury will conduct briefings for staff to the House Ways and Means and Senate Finance Committees, as well as our House and Senate Appropriators.

- **CDFI/BEA Awards:** On December 11, Secretary Rubin will address the Community Development Financial Institutions (CDFI) Fund ceremony to honor the recent awardees of both the CDFI and Bank Enterprise Awards (BEA) Programs and to announce the new Director of the CDFI Fund. On September 30, the CDFI Fund announced the second round of CDFI and BEA awards totaling over $54 million in community development funds. Forty-eight community-based financial institutions received $38.3 million in financial and technical assistance through the CDFI Fund, and 55 insured depository institutions received $16.9 million in incentive grants through the BEA Program.

- **National Performance Review (NPR):** Treasury and DOJ are working with NPR on the Government Owned Real Estate initiative, which works to coordinate real property sales for federal agencies, reducing interagency overhead. Treasury is lending the support of its seized property management contractor to help agencies market and sell seized properties. On December 16, Treasury contractor will auction several properties seized by DOJ in the Chicago area. Treasury will work with NPR to broaden the initiative to include other types of property as well.

- **Frank Sinatra:** On November 28, Secretary Rubin approved the design for the Congressional Medal to be awarded to Frank Sinatra. The Mint expects to complete production of this medal by the end of December.

DEPARTMENT OF JUSTICE

- **Kidsafe Internet Summit:** On December 1-3, the Internet Online Summit on Children convened in Washington, D.C. This meeting brought together computer industry representatives, government officials, and others interested in protecting children online, following last June's U.S. Supreme Court decision declaring portions of the Communications Decency Act unconstitutional. The Child Exploitation and Obscenity Section (CEOS) and the Computer Crimes and Intellectual Property Section (CCIPS) worked closely with the Office of the Attorney General in formulating proposals for computer industry self-regulation.

- **Drug Trafficking:** The DEA-Bridgeport Jamaican Gang Task Force arrested and charged 17 members of the "Rats," a narcotics trafficking gang with contacts across the U.S., Jamaica, and overseas. The drug, conspiracy, and firearms charges relate to the group's drug trafficking activities in CT, NY, CA, and Miami, FL.

- **"Open Primary" System in Louisiana:** In Love v. Foster, the Supreme Court unanimously affirmed a Fifth Circuit ruling striking down LA's "open primary" system as

conflicting with federal law specifying the date of federal elections. All federal congressional elections must be held on the Tuesday after the first Monday in November in an even numbered year. The LA "open primary" statute provided that all voters vote in October for all candidates for congressional office, without regard to party affiliation. If no candidate received a majority, LA would hold a run-off between the two top vote-getters the following month on federal election day. If, however, one candidate received a majority in October, as happened in 80 percent of the contested congressional elections since the system was adopted in 1978, that candidate would be declared the winner. The Court held that a system, such as LA's, that concludes a contested selection of candidates for congressional office as a matter of law before election day, with no act in law or in fact taking place on the date chosen by Congress, violates federal election law.

- **HIV:** On November 26, the Supreme Court agreed to hear a case involving a dentist's refusal to treat a person with HIV. The First Circuit concluded that asymptomatic HIV infection is a "disability" under the ADA because it substantially limits the major life activity of reproduction. The First Circuit also concluded that treatment of a patient with HIV in a private dental office would not constitute a direct threat to the health or safety of others. At the time the dentist refused to provide treatment both the Centers for Disease Control and the American Dental Association had stated that it is safe to treat people with HIV in private dental offices where universal precautions are employed. This was the first HIV "refusal to treat" case to be decided by a federal appellate court.

- **Smuggling Aliens and Involuntary Servitude:** On December 1, defendant Joe Remedios Mendez-Martinez pled guilty to smuggling aliens and involuntary servitude. Codefendants Carmen Maria Mendez and Maria Erika Mendez remain charged with similar crimes. The three brought a group of approximately 14 undocumented aliens, including the victims, from Mexico into the U.S. across the Rio Grande River. The defendants then brought the aliens to their residence in Kerrville, TX, where the victims were told they could not leave until they paid smuggling fees. Other aliens at the defendants' residence upon the victims' arrival told the victims that they had been beaten and threatened with a gun when they tried to escape.

- **Housing Discrimination:** On December 8, DOJ filed suits against the owners and managers of two apartment complexes in Clark, NJ, for race discrimination in their rental practices. The evidence was developed under DOJ's fair housing testing program. African Americans inquiring about apartments at the complexes were told that no apartments were available when, in fact, apartments were available.

- **40th Anniversary of the Civil Rights Division:** On December 8, DOJ held an event commemorating the 40th Anniversary of the Civil Rights Division. Attorney General Reno spoke about the success of the Division and the need for an Assistant Attorney General.

THE PRESIDENT HAS SEEN
12-15-97

- **Operation Meta:** On December 5, the Attorney General held a press conference to announce the results of Operation Meta which shutdown three methamphetamine and cocaine trafficking rings. This action is part of the Administration's effort to crack down on illegal drug trafficking.

- **COPS Program:** On December 11, the COPS office will award $47 million in grants to hire 800 new police officers in 138 law enforcement agencies across the country, as part of the Administration's effort to fight crime

DEPARTMENT OF INTERIOR

- **Bison:** The National Park Service (NPS) expects MT to react strongly to a December 1 letter sent by the Yellowstone Park Superintendent to the MT Department of Fish, Wildlife and Parks, describing NPS's adjustments to the interim bison management plan. The adjustments, to be carried out this winter, provide for a generally stable bison population, preserve MT's brucellosis-free status, and do not require additional analysis under NEPA. The federal agencies have recommended that low-risk bison evading capture remain on public lands until 60 days before cattle are released on federal grazing allotments.

San Diego Aqueduct: Pursuant to the Bureau of Reclamation's (BOR) commitment to the National Performance Review initiative, BOR transferred its title to the San Diego Aqueduct to the San Diego County Water Authority. This will enable BOR to focus attention on its mission, rather than operating a facility that benefits only the local community. The transfer was signed at an event sponsored by the Authority and the Metropolitan Water District to celebrate 50 years of water deliveries to the San Diego area.

- **WI Gaming Compact:** Tension is mounting between the WI Governors and eleven WI Indian tribes. The tribes argue that Governor Thompson is negotiating in bad faith because he wants to include hunting and fishing rights issues in the negotiations and reduce tribal jurisdiction in environmental regulation. The Governor could begin issuing notices of non-renewal of the existing compacts beginning on February 15, 1998. He has threatened to do so if the tribes do not make concessions on non-gaming issues and increase payments to WI.

- **Atlantic Salmon:** On December 15, Secretary Babbitt will participate with Governor King in the Atlantic Salmon Conservation Plan signing ceremony.

- **Quaker Neck Dam:** On December 17, Secretary Babbitt will participate in demolition of the Quaker Neck Dam on the Neuse River.

THAT PRESIDENT HAS SEEN
12-15-97

UNITED STATES DEPARTMENT OF AGRICULTURE

- **Organic Standards:** On December 15, Secretary Glickman will release proposed regulations on organic food standards.

- **Canal Corridor Initiative:** On December 12, Secretaries Glickman and Cuomo will sign an agreement between USDA and HUD in Johnstown, NY, supporting HUD's NY Canal Corridor Initiative.

- **Farm Loans:** Since the beginning of the fiscal year through December 1, USDA has made 1,582 direct loans, worth $68.9 million, and 1,043 guaranteed loans, worth $143 million, to family farmers. In FY97, USDA provided loans and loan guarantees to 27,000 family farmers, worth over $2.3 billion, of which over 2,600, worth $163 million, were made to minorities and women. Beginning family size farmers received 6,200 loans and loan guarantees worth $449 million.

- **Indonesia Fires:** Forest Service fire fighting support to Indonesia, which began in early October, was completed December 2.

- **Low-Income Household Food Costs:** On December 17, USDA's Economic Research Service will release a report showing that low-income households may face higher food prices for three reasons: 1) they may spend less in supermarkets, which typically offer the lowest prices and greatest range of products; 2) they are less likely to be in suburban locations where food prices are typically lower; and 3) supermarkets in low-income neighborhoods may charge higher prices than those in nearby higher income neighborhoods.

- **AR Brucellosis:** On December 4, in Little Rock, AR, USDA presented a Brucellosis-Free Status Certificate to the AR Livestock and Poultry Commission.

- **Dairy Update:** On December 5, Judge Doty of the District Court for MN stayed the enforcement of his decision until February 15. The earlier decision effectively struck down the system of establishing premiums milk used for fluid purposes earns. Senator Specter initiated a letter signed by 86 Senators and Representatives to Judge Doty urging him to stay the Court's order, which would immediately eliminate the premiums milk used for fluid use earns in 18 of the 31 milk marketing orders. The stay is being requested pending the government's appeal of the order.

- **Food Stamp Fraud:** On December 18, Secretary Glickman will join the Vice President for a food stamp fraud press conference in Washington, DC.

DEPARTMENT OF COMMERCE

- **India Trade Mission:** From December 5-13, Secretary Daley is leading a trade mission to India. The Secretary is emphasizing that India must continue to be committed to liberalizing its economy and opening its market in order to maximize growth opportunities. The official delegation includes Senator Sarbanes and senior representatives from ExIm Bank, OPIC, and the EPA. Representatives of 34 U.S. companies are traveling with the Secretary.

- **Baldrige Awards:** On December 19, you and Secretary Daley will take part in the 1997 Malcolm Baldrige National Quality Award ceremony. The awardees are: 3M Dental Products Division of St. Paul, MN (manufacturing); Solectron Corp. of Milpitas, CA (manufacturing); Merrill Lynch Credit Corp. of Jacksonville, FL (service); and Xerox Business Services of Rochester, NY (service).

- **Nobel Prize:** On December 10, Dr. William Phillips of the National Institute of Standards and Technology received the Nobel Prize for Physics.

- **EUV Lithography Commercialization:** On December 11, Deputy Secretary Mallett will take part in a DOC-sponsored meeting to discuss the creation of a consortium of U.S. companies to manufacture the next generation of stepper semiconductor manufacturing equipment. DOE, DoD, and NEC will also participate. The idea of a domestic consortium has been raised by domestic lithography companies as a result of the recent controversy surrounding foreign company involvement in commercialization plans for DOE-developed extreme ultraviolet lithography equipment.

- **China Telecommunications:** The Bureau of Export Administration has approved a leading aerospace and telecommunications equipment manufacturer's license application to export technical data to China. The company will provide systems engineering, network design, and implementation services for a telecommunication network modernization program. The total value of this program is $600 million. It should provide an increase in marketing potential in China for other U.S. manufacturers of telecommunications equipment.

- **INSAT MOU:** On December 16, the Indian Secretaries of Space and of Science and Technology, NASA Administrator Goldin and DOC Under Secretary for Oceans and Atmosphere Baker will sign a U.S.-India MOU for Scientific Cooperation in the Areas of Earth and Atmospheric Sciences. The agreement caps a 15-year negotiating process and will allow access to data from the Indian geostationary satellite INSAT, currently our best source of data over the Indian Ocean.

- **NOAA Home Page:** The National Oceanic and Atmospheric Administration (NOAA) has brought on line a new Internet Home Page. Key features include NOAA's

environmental information, El Niño updates, employment, and business opportunities, press releases, and points of contact for additional information.

- **ESA economic indicators for the upcoming month:**
  - December 15 - Quarterly Financial Report for Manufacturing, Mining, and Wholesale Trade: Third Quarter.
  - December 16 - Housing Starts and Building Permits: November.
  - December 18 - U.S. International Trade in Goods and Services: October.
  - December 23 - Advance Report on Durable Goods Manufacturers' Shipments and Orders: November.

- **Africa Initiative:** From December 6-17, DOC officials will join Representative Rangel on his Presidential Mission of Economic Cooperation to five Sub-Saharan African countries: Cote d'Ivoire, Uganda, Botswana, Mauritius, and Ethopia. Mission participants also include five other members of Congress, twenty private sector representatives, and fourteen U.S. Government officials.

DEPARTMENT OF LABOR

- **Child Labor Report:** DOL received notice that OMB has cleared for release DOL's fourth Congressionally-mandated report on international child labor. The report, "By the Sweat and Toil of Children, volume iv: Consumer Labels and Child Labor," examines nine consumer labeling programs addressing child labor in the hand-knotted carpet, leather footwear, soccer ball and tea industries. The report describes other efforts voluntarily initiated by businesses to develop and implement policies prohibiting child labor in these sectors, including codes of conduct and alternative methods of production.

- **CA Department of Corrections (CDC):** DOL's case with the CA CDC settled for $13.5 million in back wages for employees. DOL's district office in Sacramento, CA, supervised a self-audit of the CDC to identify and correct any minimum wage and overtime violations involving cadets attending the CDC training academy.

- **Caterpillar v. United Automobile Workers:** On December 15, DOL expects the Solicitor General to file an *amicus* brief in the Supreme Court in this case. At issue is whether it is a crime for an employer, under a collective bargaining agreement, to pay the wages of full-time labor union officials who represent employees in a grievance-and-arbitration procedure. In the court of appeals, DOL and DOJ successfully argued that these payments are lawful under the Taft-Hartley Act. The Government's position is not expected to change.

- **JETT*CON '97:** On December 16-18, DOL's Employment and Training Administration (ETA) will host the Joint Employment and Training Technology Conference (JETT*CON) in Chicago, IL. JETT*CON is an annual event that focuses on

incorporating technology and the workforce. Participants will join leaders from employment and training, education, welfare reform, vocational rehabilitation, business and labor to learn about changes and challenges of creating workforce transitions.

- **Respirator Regulation:** On December 18, OSHA plans to announced new respirator regulation. This is a final rule that updates and clarifies an existing 25-year old rule and also includes important provisions for firefighters.

- **Tuberculosis Extension:** At the request of interested parties, OSHA has extended the deadline for submitting comments to the proposed standard on Tuberculosis from December 17 to February 3. The Tuberculosis public hearings will be held in April instead of February to allow for the extended comment period. Hearings will be held in Washington, DC, New York, and Los Angeles, CA.

- **Pilot Negotiations:** Mediator-assisted contract talks are continuing between the Independent Association of Continental Pilots and the carrier. During the second week of December, negotiators were expected to focus on scope and labor protective provisions. Although the parties report progress, the union has been conducting "self-help" workshops in the event some form of economic pressure becomes necessary.

- **Uniroyal Goodrich Steelworker Strike:** Management and Union representatives for employees at the Uniroyal Goodrich plant in Woodburn, IN, held their first meeting in nearly a month. Since the December 4 session adjourned with no progress reported and without a date for another meeting, company officials are now advising the strikers by mail that the plant will close in the absence of an "acceptable agreement." A dispute over work rules and working conditions led to the walkout which began on October 24.

- **OR Steel Mills Strike:** On December 5, management and steelworker representatives in the strike at the CF&I Division of Oregon Steel Mills met for their first talks since November 14. No progress was reported during the six-hour session with an FMCS mediator, and no date was set for another meeting. On October 3, 1,000 workers at the company's Pueblo, CO, facility went on strike after rejecting an offer to replace a contract that expired September 30. Key issues in dispute include mandatory overtime and a union demand for pension credit for service at CF&I under previous ownership. The company is operating with supervisory personnel, returning strikers, and replacement workers.

- **UPS Negotiations:** On December 5, officials of the United Parcel Service met for informal discussions in Louisville, KY, with the Independent Pilots Association which represents the company's 2,000 pilots. Formal negotiations are scheduled to resume January 12 under the auspices of the National Mediation Board.

THE PRESIDENT HAS SEEN
12-15-97

- **Welfare-to-Work:** On December 11-12, Secretary Herman will travel to WI, where she will speak at the National Black Caucus of State Legislator's Conference. She will also visit Welfare-to-Work programs and host roundtables with welfare participants.

DEPARTMENT OF HEALTH AND HUMAN SERVICES

- **NY Child Welfare Waiver:** During the week of December 15, HHS will announce approval of a demonstration project to improve child welfare services in NY. This will be the ninth waiver granted by the Administration for states to undertake child welfare program innovations. The focus of the NY demonstration is on a "managed care" approach to the delivery of child welfare services, in an effort to identify better ways to serve families and children, and where possible prevent the removal of children from their homes or minimize the time they must spend in foster care.

- **Avian Influenza:** On December 6, two more cases of avian influenza were reported in Hong Kong: one in a 13-year-old girl and another in a 54-year-old man. A team of five CDC epidemiologists have traveled to Hong Kong to investigate. Avian influenza is known to be highly lethal in poultry, but these are the first cases to be recognized in humans. There still appears to be no evidence of person-to-person transmission.

- **TANF Report:** In the next two weeks, ACF will release the report to Congress on TANF. This report responds to a requirement in the Personal Responsibility and Work Opportunity Reconciliation Act of 1996 that Secretary Shalala submit a report to the Congress on the status of state automated systems, which support programs under Title IV-A, and what would be required to build an automated system capable of tracking time-limited assistance and the receipt of benefits in two or more states. An estimate of the time and cost of establishing a system is also required.

- **TX Debt:** On December 4, TX was informed that the time to pay back their $22.6 million debt for two audit disallowances issued by the HHS Program Support Center's (PSC) Division of Cost Allocation had expired. On December 8, as advised by DOJ, the PSC, which is responsible for dealing with the debt under the Debt Collection Improvement Act, offset the debt out of the State's request for Medicaid cash assistance. The debt is a result of the TX State Retirement Pension Plan not meeting its funding obligations for the Uniform Group Insurance Plan.

- **Seafood Safety:** On December 18, FDA's seafood Hazard Analysis Critical Control Points (HACCP) regulations will go into effect. HACCP is an internationally recognized system of preventive controls, designed and operated by industry, to keep safety hazards from occurring in foods. All domestic seafood processors and all foreign processors that ship fish products to the U.S. will now have to operate state-of-the-art food safety systems.

- **Florida Title XXI Proposal:** On December 4, FL submitted a Title XXI State Plan proposal to provide health coverage to uninsured children through a combination of a Medicaid expansion and an expansion of the FL Healthy Kids Program, which uses school districts as groups for the purpose of making affordable health insurance available to low-income children. On the Medicaid side, FL would expand Medicaid coverage for children ages 15 - 19 from the current family income level of 28 percent of the Federal Poverty Level up to 100 percent. This will require approval by the State legislature. In addition, the current FL Healthy Kids program will be extended to additional counties throughout the State with modifications designed to meet the requirements of Title XXI. There are no income limitations for participation, but Title XXI will provide subsidized premiums for individuals at or below 185 percent of the Federal Poverty Level. Children must be in school to be eligible for the program. Eight new counties have been selected for implementing Healthy Kids during FY 1997-98. Additional counties that may be considered are currently engaged in planning activities. A maximum of 118,725 children will be enrolled during each year.

- **Organ Donations:** During the week of December 15, an HHS Fact Sheet will be released explaining the new Proposed Rule for Conditions of Participation in the Medicare program with regard to organ donations. Current regulations merely require hospitals that participate in Medicare to have protocols for notifying local organ procurement organizations of potential donors and for telling families their right to decide whether to donate organs. The Proposed Rule aims to reform regulations by making Medicare Conditions of Participation in this area more explicit and enforceable. HHS will work with hospitals on producing final rules in the spring.

DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

- **Welfare-to-Work:** On December 10, HUD awarded $36 million to housing authorities, cities and non-profit groups around the nation, primarily to help public housing residents move from welfare to work. Approximately 120,000 people are expected to benefit from the HUD assistance.

- **Homeless Information Line:** On December 8, Secretary Cuomo announced a National Homeless Information Line and an intensified drive to recruit more people to help homeless Americans, in a satellite TV conference involving over 5,000 homeless assistance providers and others. The effort is designed to help homeless people survive the harsh winter weather and find permanent jobs and housing to become self-sufficient.

DEPARTMENT OF TRANSPORTATION

- **DC:** On December 15, the Secretary will participate in an event along Georgia Avenue to highlight the productive transportation partnership between the federal government and the District of Columbia.

THE PRESIDENT HAS S
12-15-97

- **TWA 800:** On December 8, the NTSB hearing began and is expected to end on December 11. Chairman Hall praised the FAA for its willingness to take a dual track approach on finding safety improvements. The dual track emphasizes elimination of ignition sources and solutions to reducing fuel flammability in engine tanks. Chairman Hall did express disappointment that the FAA did not recognize the value of the Board's short-term solutions.

- **Aviation Disaster Plans:** On December 3, General Counsel McFadden sent a letter to the 166 certified U.S. air carriers informing them that DOT has accepted all the plans filed by these carriers pursuant to the Aviation Disaster Family Assistance Act of 1996.

DEPARTMENT OF ENERGY

- **DOE Employee Killed in Auto Accident in the Ukraine:** On December 6, while on official travel, George Kuzmycz, a career service employee with DOE, Office of Arms Control and Nonproliferation, Russia/NIS Nuclear Materials Security Task Force, was killed in an auto accident, on the Mykolayiv Highway, Mykolayiv Region, Ukraine. Senior officials in DOE's Office of Arms Control and Nonproliferation have credited Kuzmycz with singlehandedly building the U.S. program in the Ukraine to protect and track nuclear weapons materials at risk of being diverted to terrorists or rogue nations.

Large Hadron Collider Signing: On December 8, U.S. and European Officials signed an agreement for U.S. participation in the Large Hadron Collider, a particle accelerator under construction near Geneva, Switzerland. When completed in 2006, the 16-mile circumference accelerator will be the world's largest and will allow scientists to penetrate still further into the structure of matter.

- **National Petroleum Council (NPC) General Conference:** On December 11, Secretary Peña was the featured speaker at the NPC General Conference. The NPC is comprised of about 175 members, including many of the U.S.'s most prominent oil and gas companies.

DEPARTMENT OF EDUCATION

- **Grant Application Controversy:** On December 10, Secretary Riley responded to an inquiry from Senator Wyden regarding a blind applicant for a grant from DOEd's Office of Special Education and Rehabilitive Services whose application was rejected due to formatting errors. The Secretary assured the Senator that DOEd will no longer rigidly apply formatting requirements when reviewing grant applications and that DOEd will contact the applicant in this case to encourage him to reapply for funding in this fiscal year. The matter received substantial press attention when the application was rejected in November.

- **Remedial Education in Parochial Schools:** On December 3, DOJ filed a brief on behalf of Secretary Riley in the Eighth Circuit. Secretary Riley is appealing a district court's refusal to vacate a 1985 injunction prohibiting Title I educational services from being provided in religious schools in MO. DOEd's position is that the district court abused its discretion in refusing to vacate the injunction because of the change in the law resulting from the Supreme Court's decision in Agostini v. Felton, which allowed delivery of Title I services on parochial schools' campuses.

- **One America:** Secretary Riley hosted a "One America: Conversations That Bring Us Together" Race Initiative event with fifth grade students in Laurel, MD.

VETERANS AFFAIRS

- **Sexual Trauma among Vietnam Nurses:** *CBS's "Public Eye with Bryant Gumbel"* program is pursuing a story on sexual trauma among nurses who were Vietnam veterans. On December 11, Joan Furey, Director of VA's Center for Women Veterans, will be interviewed. CBS will also conduct interviews with a Vietnam Veteran at the St. Louis, MO, Veteran Center as well as with a VA therapist at the Palo Alto, CA VA Medical Center.

ENVIRONMENTAL PROTECTION AGENCY

- **Champion Paper Mill:** An agreement in principle has been reached to protect public health and the water quality of the Pigeon River while keeping open the Champion pulp and paper mill in NC. On December 11, the agreement was signed by EPA, Champion, NC, TN, Cocke County, TN, Newport City, TN, the Tennessee Environmental Council, and the American Canoe Association. The Champion mill discharges into the Pigeon River which flows through both NC and TN. Residents downstream, particularly those in TN, have voiced strong concerns for many years over the color of the mill's discharge, as well as dioxin discharges that have resulted in the contamination of fish and sediment.

UNITED STATES TRADE REPRESENTATIVE

- **WTO Financial Services:** The deadline for conclusion of the WTO financial services negotiations is December 12.

- **Global Electronic Commerce (GEC):** On December 9, Ambassador Barshefsky announced that U.S. and European officials reached an agreement at the U.S.-EU Summit on guidelines for future work on GEC trade that includes a commitment to "duty free cyberspace." This initiative is consistent with the priorities outlined in your GEC.

- **Africa Initiative:** USTR has coordinated the preparation of your third report to the Congress on the Administration's trade and development policy for African countries and

THE PRESIDENT WAS SEEN
12-15-97

will transmit the report to relevant House and Senate trade committees this week. This year's report focuses on implementation of your "Partnership for Economic Growth and Opportunity in Africa."

SMALL BUSINESS ADMINISTRATION

- **Contract Execution:** SBA is in the process of clearing six MOU's with other federal agencies, including DOJ, to delegate 8(a) contract execution functions.

- **Welfare-to-Work:** On December 15, Administrator Alvarez will keynote for Eli Siegel's Welfare to Work Partnership's Statewide Conference in Indianapolis, IN. Also attending will be the Governor, Lt. Governor, Mayor and Members of Congress.

FEDERAL EMERGENCY MANAGEMENT AGENCY

- **Eastern Mitigation Conference:** On December 9, Director Witt participated in FEMA's Eastern Mitigation Conference. Two hundred emergency management officials and private business people attended the conference to talk about mitigation techniques and strategies to reduce the risk and cost of disasters.

UNITED STATES INFORMATION AGENCY

- **Democratic Republic of Congo Broadcast Ban:** Congo-Kinshasa canceled an earlier order that barred local radio stations from broadcasting programs from international broadcasters, including the Voice of America on December 4. President Kabila reversed the decision to suspend the broadcasts after Western embassies and broadcasters protested the action. VOA Director Lieberman informed President Kabila that such policies seriously undermine free access to information, a basic right enshrined in the Universal Declaration of Human Rights. The reversal came as a donors' conference in Brussels released $50-million for health care programs, but donors warned President Kabila that he must stamp out human rights abuses if he wants to see more substantial aid

- **British Income Tax Credit:** The recent announcement by the U.K. Chancellor of the Exchequer of a proposal to introduce an income tax credit has been widely reported in the British press as another instance of the new Labour Government's taking inspiration from the U.S. The announcement was not a surprise to the USIS LONDON's Information Resource Center (IRC), which had supplied Chancellor Brown with a full background package on the U.S. program last year. The IRC has subsequently fielded further enquiries on the subject from various U.K. government departments.

- **Tibet VOA:** Tenzin Nyima, a monk who escaped from Tibet and arrived in Dharmsala last month, was a regular listener to the VOA Tibetan Service. On March

THE PRESIDENT HAS SEEN
12-15-97

22, he learned about the Dalai Lama's visit to Taiwan and marked the occasion by raising a Tibetan flag on a monastery roof. The Chinese authorities took down the flag and began an investigation that eventually led them to Nyima. They searched his room and confiscated a copy of the Dalai Lama's autobiography and a collection of speeches by the Dalai Lama taped from VOA Tibetan Service programs. Authorities detained Nyima, but while being transferred to a prison. He escaped and made his way to India.

GENERAL SERVICES ADMINISTRATION

- **Year 2000:** On December 1, GSA opened the Federal Year 2000 Commercial Off-the-Shelf Products Database. The database makes available information about commercial products for solving the Year 2000 problem.

- **Governors Island:** On December 1, GSA announced the issuance of the Executive Summary for the Governors Island Land Use Study. The Summary offers a brief synopsis of six options that will provide a basis for analysis in the Environmental Impact Study (EIS). The Balanced Budget Amendment of 1997 has stipulated that GSA cannot sell Governors Island before FY2002.

SOCIAL SECURITY ADMINISTRATION

- **Computers for Schools:** On December 16, SSA will donate the first of an estimated 10,000 computers nationwide as part of its "Computers for Kids" program. The kickoff ceremony will be conducted at the Stanton Elementary School in Washington, DC. Commissioner Apfel will be joined at the ceremony by Mayor Marion Barry, Jr., General J.W. Becton, Jr., Chief Executive Officer, DC Public Schools, Norma Cantu, Secretary for Civil Rights, DOEd, and W. Wilson Goode, Deputy Assistant Secretary for Regional and Community Services, DOEd.

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

DEPARTMENT OF DEFENSE

Establishment of Integrated Army Divisions: The Secretary of the Army has approved a plan to establish two Active Component/Army National Guard (AC/ARNG) integrated divisions. Each division will consist of an active component division headquarters company and three ARBG enhanced separate brigades. The initiative, culminating over two years of planning, is fully supported by the Adjutants General for all fifteen affected States. The Army leadership considers this a positive example of AC/ARNG integration that will result in the improved combat readiness of the total force.

Applying Commercial Practices to Military Ships: Last month, fiber optic transmission capability was installed in the aircraft carrier HARRY S. TRUMAN (CVN 75), currently under construction at Newport News Shipbuilding, using commercial off the shelf technology. The product, Air Blown Fiber (ABF), consists of a tubing system installed throughout the ship through which strands of fiber are blown. The first 2,400 feet of fiber required only four minutes to install and required no splices.

Computer Assets Redistributed: To date, in FY98 DoD has redistributed 1,500 excess DoD computers within DoD and other Federal agencies. This redistribution has resulted in a cost avoidance of approximately $2.3 million based on the cost savings realized by the recipient organizations. In addition, 5,000 items with an original acquisition value of $4.1 million have been distributed to Historically Black Colleges and Universities and minority institutions, Enterprise Community and Empowerment Zones schools, and other educational institutions.

Secretary's Schedule: Secretary Cohen has postponed his mid-December trip to Egypt, Jordan, and Israel. On December 10-12, DoD and DOJ will jointly host approximately 60 family members of victims of the Khobar Towers attack at the FBI Academy at Quantico. The FBI will brief the status of its on-going investigation and the Air Force will host a panel discussion with the families.

UNITED NATIONS

UN Mission in Bosnia and Herzegovina (UNMIBH): The Secretary General is expected to release his report on UNMIBH by the end of this week. In it, he will recommend extending the UNMIBH mandate, which expires December 21, for another twelve months. We are seeking a six month renewal and will table a draft resolution either December 12 or 15 with the goal of voting by December 19.

CENTRAL INTELLIGENCE AGENCY

Director's Schedule: On December 12, Director Tenet will meet with China's General Xiong Guangkai, Deputy Chief of the General Staff, People's Revolutionary Army. This meeting is part of a consultation on defense issues that was agreed to by the you and President Jiang at the recent summit.

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

THE PRESIDENT HAS SEEN
12-15-97

THE DIRECTOR

December 12, 1997

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MEMORANDUM FOR THE PRESIDENT

FROM: Frank Raines and Jack Lew

SUBJECT: Savings Options to Fund Initiatives in the FY 1999 Budget

This memo reviews our proposals to create room for domestic initiatives in the FY 1999 budget. Since last Monday's budget meeting to discuss these issues had to be rescheduled, we will present here the options in writing as background for subsequent decisions on savings and spending options.

Domestic Discretionary

Earlier this year we described a plan for OMB to propose funding levels to agencies, reserving $5 billion within the FY 1999 domestic discretionary cap for you to allocate to fund either new initiatives or agency appeals. Our passback funding levels, which you reviewed over the Thanksgiving weekend, reserved $5 billion in **budget authority** under the caps. However, this level of budget authority consumed all of the room under the FY 1999 **outlay** cap in the budget agreement. (As you know, budget authority is the total funding level appropriated in a year, while outlays reflect the funds that will actually be spent in that year -- a total of outlays from current appropriations and outlays from prior appropriations.) As a result, we can only use the remaining $5 billion theoretically available under the FY 1999 budget authority cap if we are able to free up outlays to accommodate it. Since only a portion of the outlays for this $5 billion will actually occur in FY 1999, we will need to free up roughly $3 billion in FY 1999 outlays in order to use the budget authority available under the cap.

If there is no room for additional spending, agency funding levels will have to remain at the passback level to stay within the discretionary outlay cap. Under this scenario, there are no additional funds for discretionary programs, such as the various education initiatives, child care, and climate change; nor will there be additional money for base restorations to programs, such as Low Income Home Energy Assistance Program (LIHEAP), the National Science Foundation (NSF), or the State Department.

Possible Funding Mechanisms

Our goal is still to provide you with $5 billion to allocate among competing proposals for new initiatives and to resolve some of the remaining base appeals. In early December, we described to you a procedural proposal that would allow additional spending under the

THE PRESIDENT HAS SEEN
12/15/97

discretionary caps by dedicating receipts through a new budget process, which we called CAPGO. Your concern at that meeting was that while the mechanism would free up $5 billion, it would increase the deficit compared to the baseline, and might weaken our ability to block efforts to "spend the surplus." We have been working on a deficit-neutral alternative very much like the current "PAYGO" approach, which we have used in reconciliation to offset new mandatory initiatives and also in the 1996 and 1997 Omnibus appropriations bills to provide additional resources within the discretionary caps for your priorities.

In addition to providing sufficient outlays to utilize the budget authority remaining under the caps, the CAPGO approach provided a means of accommodating additional funding concerns, such as infrastructure spending (particularly highways and airports) and NIH funding, over and above the $5 billion. In order to restore the resource level to where we would have been with CAPGO, we will need to generate outlay room to use the remaining $5 billion within the caps plus make room for an additional $3 billion so that we will have a total of $8 billion in budget authority and $4 billion in outlays to allocate above the passback levels.

($ billions)	Budget Authority	Outlays
Passback	557.7	561.7
Caps	562.7	561.7
Amounts Available	5.0	0.0
Amounts Needed	8.0	4.0
Remaining Need	3.0	4.0

Thus, our total problem is to find $3 billion in budget authority and $4 billion in outlays in FY 1999. We can accomplish this in two ways: (1) we can create room under the caps by moving discretionary programs to the mandatory side of the budget or into altogether new categories; or (2) we can use mandatory offsets to finance discretionary spending (as we used spectrum auction receipts and the privatization of the U.S. Enrichment Corporation to finance FY 1997 appropriations).

We propose using a combination of these two approaches, by creating investment funds for several high priority policy areas -- a 21st Century Research Fund (including NIH), a Fund for the Environment, and an Infrastructure Investment Fund. The money for the programs included in these new funds would be moved out of the discretionary caps, but still be subject to appropriation.

None of these new funds would increase the deficit. We propose using all or part of the following revenue/mandatory proposals to pay for the spending in these investment funds:

THE PRESIDENT HAS SEEN
12-15-97

- *Tobacco Tax* -- We are exploring options to use some of the revenues from the tobacco tax to pay for a 21st Century Research for America Initiative, incorporating the base and proposed expansions of existing R&D program, creating additional headroom under the caps (discussed more fully below).

- *VA Tobacco* -- We are looking at options that recognize that the VA General Counsel's ruling requiring additional compensation stands until legislation is passed, that veterans will apply, and that some will be processed despite limited administrative resources. If this new benefit is repealed, these savings could be used to fund the various high priority policy issues (discussed more fully below).

- *Extension of the Superfund Tax* (mandatory -- $1.7 billion in 1999; $7.6 billion over 5 years) -- We are looking at options to use the extension of the Superfund tax to either move the funds from discretionary to mandatory or as a mandatory source to finance additional Superfund clean-up, an environmental initiative, or research programs.

- *FAA User Fees* -- We are looking at options to use new FAA user fees coupled with existing excise taxes to create headroom to fund an infrastructure initiative.

In general, the use of revenues to offset spending initiatives runs the risk of appearing like an increase in taxes to pay for additional spending. However, in the case of research, the spending and tobacco taxes are popular policies. In the case of Superfund, the Bipartisan Budget Agreement anticipated that the revenue would not be used as an offset for a tax cut but instead would be reserved to pay for new spending. We will send you a more detailed memo on the proposal to create these three new Funds next week.

Mandatory Offsets

We will also need other mandatory/revenue offsets to pay for new mandatory initiatives. As illustrated in the memos you have seen over the past few days, this could require a small or a very large amount of resources, depending on the specific initiatives you choose to pursue. We are relying on savings in several areas, including the following:

- *Cost Allocation* ($0.5 billion in 1999; $2.9 billion over 5 years) -- Restricts States' ability to shift State Administrative costs from TANF to Federally-funded administrative sources such as Food Stamps and Medicaid;

- *Education Loan Reforms* ($0.9 billion in 1999; $4.0 billion over 5 years) -- Provides a direct guarantee for student loans not in the direct loan program -- rather than relying on intermediaries -- and recalls all loan guarantee reserves, plus other student loan reforms and benefits for students; and,

THE PRESIDENT HAS SEEN
12-15-97

State Bank Exam Fees ($0.1 billion in 1999; $0.5 billion over 5 years)-- Requires the Federal Reserve to assess fees for examinations of state-chartered banks and bank holding companies (current law permits, but does not require, fees).

There are a number of other more controversial savings proposals:

- *Child Support Enforcement* -- Savings for child support enforcement (CSE) are highly controversial, because, even if the policy is legitimate, it suggests that the Administration is cutting CSE funding. The following options are cumulative, and build on one another.

  -- Option 1 ($.06 billion in 1999; and $0.3 billion over 5 years) requires States to charge a $25 user fee (with a waiver option) for non-TANF child support enforcement cases and adjusts Federal funding to reflect the increased State fees. All TANF collections would be redirected to the States and Federal grants for State administration would be reduced by an equivalent amount;

  -- Option 2 ($0.3 billion in 1999; $1.5 billion over 5 years) also reduces Federal funding to reflect increased TANF collections to States as a result of increased incentives; and

  -- Option 3 ($0.3 billion in 1999; $3.0 billion over 5 years), the most aggressive option, also reduces Federal funding by the amount of Federal payments in excess of current State child support administrative costs.

- *Two Agriculture Savings Proposals* ($0.3 billion in 1999; $1.6 billion over 5 years) -- Reduces the Export Enhancement Program (EEP) further than requested in FY 2001 through FY 2003. This makes sense because market conditions (high world commodity prices projected for the foreseeable future) do not warrant the use of EEP. USDA wants to make this change in appropriations, rather than in authorization, and use the savings for additional agricultural spending rather than as a general offset. A second proposal would close the Agricultural Market Transition Payment (AMTA) loophole, created in the 1996 Farm Bill, by making all payments to the landowner, rather than to the tenant, since income-support payments are based on land holdings. This is controversial, not because of the policy, but because it amends the 1996 Farm Bill.

Some of these savings options may lead to additional spending. For example, in order to achieve some of the student loan savings from guaranty agencies, some funds must be spent to cover the 100 percent direct guarantee and improve terms for borrowers. In addition, since the cost allocation savings come in large part from Food Stamps, there will be pressure to use some of the savings to restore Food Stamp benefits to legal immigrants. We might also want to use some of the agricultural savings to pay for selected discretionary initiatives, such as Water Quality.

THE PRESIDENT HAS SEEN
12-15-97

VA Tobacco

The Veterans Affairs General Counsel recently ruled that the VA must pay monthly service-connected disability compensation benefits to veterans for tobacco-related illnesses that occur after separation from the military, if a veteran became addicted to nicotine while serving in the military. OMB estimates that 542,000 veterans are potentially eligible to claim benefits under this ruling, and an additional 6,600 will become eligible annually.

The Administration has already proposed legislation to eliminate these new benefits that will, if enacted, create a PAYGO offset to new mandatory spending. However, VA tobacco benefit costs have not yet been included in either the OMB or CBO baselines. After we raise the baselines to reflect payment of these benefits, a PAYGO credit will become available for eliminating these benefits. After both steps are taken, this proposal is deficit-neutral.

We plan to raise the mandatory baseline by $2.5 billion over 5 years, which assumes that we do not provide new administrative funds to VA to process tobacco-related claims. (This $2.5 billion will become available as a PAYGO offset when we again propose to repeal these benefits.) We could raise the baseline by much more -- as much as $26 billion total -- if we decided to add significant new administrative resources to process claims. However, we thought this option would both be inconsistent with our policy to repeal the benefit and increase the deficit by too much (i.e., if we raised the baseline, then used the savings created by the repeal to spend an additional $26 billion).

While we could raise the baseline by any number between $2.5 billion and $26 billion, and use that as an offset for mandatory initiatives, the most credible figure is between $2 billion and $8.8 billion. We have preliminarily chosen the $2.5 billion option.

Tobacco Revenues

We have discussed how potential tobacco revenues could pay for a research initiative and perhaps also create some additional room under the discretionary caps to fund other initiatives.

We believe it is important to limit our assumed revenues to a level that is seen as realistic and consistent with the principles you announced last summer. This means that, although we might assume that the per-pack equivalent could rise to $1.50 (in constant dollars) over ten years, some of those revenues will go to States and other claimants. Furthermore, in your statement last August, you did not specify what portion of the payment would be fixed and what portion tied to youth smoking targets. An announcement that the Administration wanted to use the full $1.50 might be seen as foreclosing a substantial youth incentive. For this reason, we have focused on a package that assumes revenues initially equal to 50¢ per pack, rising to $1.00 per pack by 2003 ($1.16 in current dollars), and have not specified what happens after 2003. Based on preliminary estimates, this would provide the following revenues (in billions of current dollars):

THE PRESIDENT HAS SEEN
12-15-97

FY 1999	FY 2000	FY 2001	FY 2002	FY 2003	5 years
$8.1	$10.0	$12.2	$13.4	$15.0	$58.7

However, there are two alternate views of how much of the tobacco settlement we should try to apply to Federal programs:

(1) If State claims and the uses specified in the agreement are given first priority, this produces a Federal share of about $20 billion over the first five years (and an additional $15 billion if we can direct the States to spend their share on your new initiatives, such as child care); and

(2) If Federal and State claims and the private litigation reserve are funded first, but not the other settlement/constituency uses, this leaves the Federal share at about $30 billion.

Bruce Lindsey and Bruce Reed support the first option, and we prefer the second option. A possible compromise between the two options might assert funding levels for Federal initiatives without discussing the balance of the settlement. This leaves open the total that Congress may be willing to agree to fund.

Medicare

Medicare savings associated with error reductions -- acceptable to OMB, Chris Jennings, and HHS -- are roughly $2 billion over five years. We could also find additional savings:

- *Further Provider Savings* -- We do not recommend substantial new provider savings. Many changes in the Balanced Budget Act have not yet been implemented, and the newly-appointed Medicare Commission should be given time to do its work.

- *Income-Related Premiums* -- Depending upon the income level and phase-in schedule, early estimates are near $10-12 billion over five years, perhaps considerably more. The options are along the lines of the changes discussed last year.

Clearly, using Medicare savings to fund non-Medicare spending could complicate the task of achieving Medicare solvency and be criticized.

Revenues

We are discussing a number of new revenue-based initiatives, including changes to the child tax credit, climate change tax incentives, and a revised school construction proposal. We propose financing these initiatives with revenue proposals we made last year that were not adopted, or not fully adopted, in legislation. Depending on how aggressive you want to be, these

THE PRESIDENT HAS SEEN
12-15-97

proposals would produce revenues of up to $20 billion over 5 years. Last year's package included the following:

- *Modify Foreign Tax Credit Carryover Rules* ($1.2 billion over 5 years) -- We proposed to reduce the complexity and burdens associated with carrybacks by limiting foreign tax credit carrybacks to 1 year (down from 2 years) and extend foreign tax credit carryforwards for 7 years (up from 5 years).

- *Repeal Lower-of-Cost-or-Market Inventory Method* ($1.6 billion over 5 years) -- We proposed to repeal the lower of cost or market (LCM) method, because the allowance of write-downs under the LCM and subnormal goods methods is essentially a one-way mark-to-market method that understates taxable income.

- *Deny the Dividends-Received Deduction for Certain Preferred Stock* ($0.2 billion over 5 years) -- We proposed to eliminate the deduction of 70 to 100 percent for corporations owning certain limited-term preferred stock of a U.S. corporation because such stock is more like debt than an ownership interest in the issuing corporation.

More controversial proposals not included in last year's budget include:

- *Extend 2.5 Cent General Fund Tax on Gasohol* ($0.6 billion in 1999; $1.3 billion over 5 years) -- The 2.5 cents per gallon tax on gasohol that goes to Treasury's General Fund expires after September 30, 1999. The tax originated in 1990, as part of the nickel per gallon tax hike, of which half went to the General Fund and half to the Highway Trust Fund. In 1993, when an additional 4.3 cent tax was placed on fuels, most fuels subject to the 2.5 cent General Fund tax had this portion moved to the transportation trust funds, but ethanol did not.

- *Use One-Half Cent of the Gas Tax* ($.5 billion in 1999; $2.6 billion over 5 years) -- On an annual basis, current motor fuels taxes generate approximately $32 billion for the Highway Trust Fund (HTF). This includes the 4.3 cents originally earmarked for deficit reduction that was redirected from the General Fund to the HTF by the Taxpayer Relief Act of 1997. Any proposal to increase the motor fuels tax will likely generate criticism from transportation interests complaining that the HTF cash balances continue to mask the deficit while transportation needs go unmet. (The character of this criticism may change if highway spending is liberalized.) At the Bipartisan Budget Agreement spending levels, HTF cash balances rise from $26 billion in 1998 to $93 billion in 2003.