

Chron

—

1995, a rising share price has been a protection against takeovers. It is also a way to motivate managers. Unlike most German firms, the company offers stock options to top executives. This has given the firm the pick of recruits from Germany's pool of management talent. And lastly, SGL Carbon's highly rated shares have helped it buy subsidiaries abroad as part of its plan to build an international business.

Yet so good has the firm been in charming the markets that there is now a risk of it disappointing. It paid heavy restructuring costs in 1997 to put right some American businesses it had bought earlier; and it is under a cloud because of a price-fixing investigation by the European Union's competition authorities. Mr Koehler says that the two dozen headquarters employees

might move to Britain to escape German taxes and the irritating restrictions of German company law. But such a move would be damaging. As almost the only medium-sized German-based company which tirelessly seeks foreign business, it became just a company among companies.

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again? Scott McNealy, the boss of Sun Microsystems (which invented Java), has often joked that America's antitrust law is so toothless that his old foe is in danger only of "being gummed to death". In fact, Microsoft's position is more delicate. Mr Gates's firm has become something of a test case for a new breed of regulators who want to redefine antitrust policy. This means that Microsoft's fate is now wrapped up in politics as much as law or economics. In politics, Microsoft is often its own worst enemy.

Sherman tanks

American competition law resembles an inverted pyramid. The little bit at the base is the Sherman Act of 1890, a motherhood-and-apple-pie affair that outlaws monopolies and attracted only one dissenting vote in its passage through Congress. The great mass teetering above is the interpreting case law, most of it built up by interventionist regulators whose main concern was to follow the law to the letter.

In the 1970s, the economics profession rebelled against this legalistic approach. Many antitrust actions, it was shown, had harmed American competitiveness and

consumers' interests, by damaging the efficiency of companies and markets. A signal of this change of heart came in 1982, when William Baxter, Ronald Reagan's antitrust chief, dropped the government's long and fruitless investigation into IBM. In case anyone missed the point, he required his lawyers to attend economics seminars.

Now the pendulum has swung back. Today's trustbusters are better economists, less prone to take a swipe against big and successful companies just because they are big and successful. Nobody at the Justice Department believes that Microsoft should be broken up. Nevertheless, there is a feeling that antitrust policy may have become too lax in fast-consolidating industries such as accounting, consumer credit and computing.

This belief is partly a gut reaction to the tight grip of Microsoft and Intel, the world's top chip maker, on the personal-computer market. Intel is being investigated by the Federal Trade Commission. But two modish economic ideas, which imply that high-tech industries create special antitrust worries, have also attracted the interest of antitrust people. The first is the idea that such industries are subject to "ever-increasing returns". Thanks to the emergence of technical standards, the winner of a race is likely not only to take all the spoils, but also to start new technological contests with an advantage. The second theory looks at "network externalities". Purely by being so

Beleaguered Microsoft

Why Bill Gates should worry

A ruling forcing Microsoft to unbundle its web browser is only one battle in a bigger war about antitrust policy and high-tech firms

HAS America turned against its sexiest company? Until recently Bill Gates was seen as bespectacled proof that not every great fortune had to be based on a great crime. Yet over the past few months, Microsoft's alleged sins have been trumpeted at a special Senate hearing, at a conference convened by Ralph Nader, a famous consumer activist, and of course by the many Silicon Valley firms that want to replace Microsoft's ubiquitous Windows with a new operating system based around the Java Internet language and Netscape's Navigator browser.

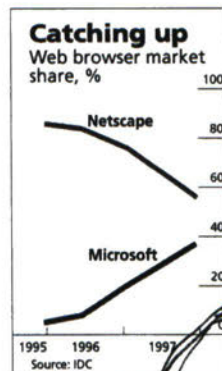
To add to Mr Gates's woes, up to nine American states are conspiring to mount a co-ordinated attack on his company's business practices, and the Department of Justice seems now to have made a formal antitrust charge stick. On December 11th Thomas Jackson, a federal judge, barred Microsoft from forcing computer makers to install its Explorer web browser with Windows 95. This preliminary injunction awaits a fuller report due in May by Lawrence Lessig, a Harvard law professor, but it will affect the next edition of Microsoft's operating system, Windows 98, which is due to be released in the spring.

Judge Jackson's decision will do little immediate harm to Mr Gates. Most computer makers will continue of their own accord to install the Explorer-bundled version of Windows 95, because Explorer is given away and

Microsoft has petulantly decided that the Explorer-free version of Windows 95 it must supply will be a two-year-old one (something that has enraged the Justice Department, which says the firm is violating the judge's order). Microsoft also intends to sell two versions of Windows 98. In one the browser will be even more closely integrated with the desktop. Again, most computer makers will probably take the integrated version. And, as it is not difficult for Microsoft to rewrite its software to comply, Windows 98 will probably ship on time.

Legally, the battle is also far from lost. The Justice Department's original complaint against Microsoft was a narrow one. It alleged that, by tying its browser to its operating system, the firm had violated a consent decree it signed with the government in 1995. Judge Jackson's wide-ranging ruling surprised even the Justice Department by referring to Windows 98. The judge is not as yet convinced that the firm has broken the consent decree: his injunction thus draws partly on his own reading of general antitrust law. Microsoft has promptly appealed on the not unreasonable basis that it has been convicted on a charge that it never had a chance to defend.

So will Mr Gates escape



Woeful Gates

widely used, products such as Windows, with its customer base of 100m people, present a high barrier against competitors' entry. Any customer who wants to change to another product would need to spend a fortune retraining staff, replacing software and so on.

Both Joel Klein, the head of the Justice Department's antitrust division, and Robert Pitofsky, who is the head of the FTC, now argue that, in technology industries, innovation matters as much as price. Even if products are getting cheaper and consumers are happy, a trustbuster needs to make sure that industries which currently exist only in laboratories and geeks' heads can break into the market. Thus the FTC in December 1996 forced two merging drug firms, Ciba-Geigy and Sandoz, to sell off part of their gene-therapy technology—even though, as Mr Pitofsky admits, "there would be no price consequences for five years." In 1995 the Justice Department relied partly on similar reasoning to stop Microsoft buying Intuit, a personal-finance software firm.

One way to depict this new approach to technology is to characterise the industry as a series of 100-yard sprints. Any firm that wins one race—be it Intel (in microprocessors) or America Online (with its on-line networks)—should be allowed to keep all the prizes. But it should not be allowed to start the next race a few seconds before its competitors, or to tie their legs together. This essentially is the reasoning behind Judge Jackson's ruling: that Windows should not be the means by which Microsoft establishes a corresponding monopoly in browsers which, in turn, enables it to limit the potential competitive threat to Windows from the new Java programming language.

In one way, Microsoft is on weak ground. Despite the howls of fury from its headquarters in Redmond, Washington, the current injunction about the browser is hardly crippling the firm. But there are also parts of both Judge Jackson's ruling and the regulators' approach that should worry more technology firms than just Microsoft. Others, such as Intel, Cisco Systems and IBM, would do well to take notice. They and small firms that dominate a niche could one day be affected by similar cases. Innovation often entails integrating previously separate products. Few consumers regret that Windows has absorbed what once were stand-alone applications such as fax programs, or that Intel now makes faster processors. On this view, the government may now merely be repeating the mistake it made when it once tried to stop Chrysler installing radios in its cars.

Certainly, all the talk about innovation mattering more than price puts a premium on guesswork in a notoriously unpredictable industry. At present, Netscape's Navi-

gator has about 55% of the browser market. True, Explorer is catching up fast (see chart on previous page), but that is partly because nobody disputes that it is a good product. By contrast, the last bundled Microsoft product to provoke a similar storm, its on-line Microsoft Network, albeit without the price advantage enjoyed by Explorer, has done poorly.

Java, the leading threat to Windows, has already attracted some 500,000 programmers (only 300 of them at Microsoft). It is entirely conceivable that "pure" Java will beat Windows; or that the market will split into two, with Microsoft keeping the office market and Java the consumer and entertainment markets; or it may be the other way round. Who knows? After all, nobody, not even Mr Gates, predicted the rise of the Internet in the first place.

Niceness counts

All this means that Mr Gates's lawyers have a strong case to present. But antitrust policy is not, at bottom, merely about economics and law: it is also about politics and symbolism. The overwhelming impression from the pages of testimony gathered by the Justice Department in its pursuit of Microsoft is of a firm that still thinks of itself as a start-up, which therefore needs to fight for every inch of territory. If a customer betrays Microsoft by switching to another supplier, then (on this view) it is quite right for a company official to ring up the customer and call him "an enemy". Intel (motto: "only the paranoid survive") takes an attitude only slightly less aggressive.

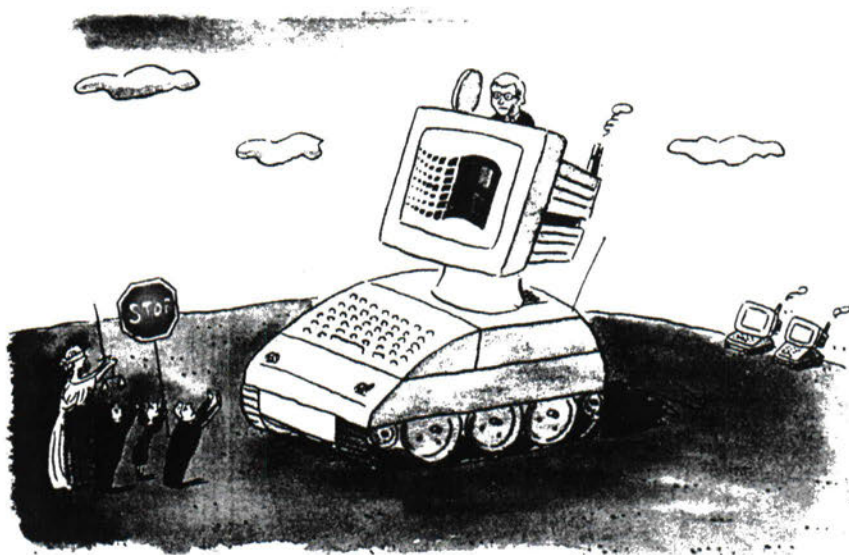
Yet, from an antitrust perspective, paranoia is looking increasingly perilous. A paranoid firm is more likely to violate antitrust law, which says plainly that dominant companies have to follow stricter standards than do small companies. "It's funny to talk about killing your competitors when

you have only 5% of your market," Thomas Kerr, an antitrust professor at Carnegie Mellon University, points out. "When you have 80%, you are asking for trouble."

Besides, antitrust policy has always been strongly influenced by politics. Just having economic logic on its side does not mean that Microsoft can safely become unpopular. Looking back, many people now think it was unfair to break up Standard Oil, a firm that brought down the price of kerosene from 30 cents a gallon in 1869 to just six cents in 1887. But Rockefeller was portrayed as a bully—and lost.

Gary Reback, a Silicon-Valley lawyer at Wilson Sonsini Goodrich & Rosati who has masterminded attacks on Microsoft, understands what reputations are worth in business: "The greatest significance of what we are doing now is changing the perception of Microsoft in the business community," he says. As Microsoft expands, it has already frightened companies in the cable-television industry and banking. An even more sensitive issue, as it pushes further into what it calls "content", will be the media's attitude.

At Mr Nader's conference, packed with journalists, the loudest applause came when Mr Reback read out two entries about Mr Gates in the same encyclopedia. The original print version, published by Funk & Wagnall in 1993, ends a fairly complimentary description of the software mogul with the aside that "he has been known as a tough competitor who seems to value winning in a competitive environment over money." The on-line version in Microsoft's Encarta encyclopedia is identical, except the final phrase has been changed to "he is known for his personal and corporate contributions to charity and educational institutions." Such heavy-handed mistakes by Microsofters could yet cost Mr Gates dear.



THE WHITE HOUSE
WASHINGTON

December 20, 1997

MEMORANDUM FOR THE PRESIDENT

FROM: PHIL CAPLAN *PC*
SEAN MALONEY

THE PRESIDENT'S OFFICE
12-29-97

SUBJECT: Recent Information Items

We are forwarding the following recent information items:

(1) **Articles Forwarded by Rahm -- 1)** Ron Brownstein articles from the past year and a half on: community-based Empowerment Zone funding, education reform and Medicare; Rahm notes that Brownstein is leaving the *LA Times* to be a national reporter at *US News and World Report* and adds, "I think he will do an excellent job;" **2)** recent article from *LA Times* on ATF's handling of the assault weapons ban; **3)** Linda Feldman piece from *Christian Science Monitor* on White House ethics.

(2) **Sen. Moynihan's Cartwright Lecture at Columbia Forwarded by McCurry --** the Senator spoke "On the Commodification of Medicine" to Columbia's College of Physicians and Surgeons -- the changing face of the economics of physician education and health care delivery; Mike says, "He is, as usual, provocative, insightful and somewhat indiscernible, but perhaps there's a kernel of something to look at."

(3) **Thank you from David Lieberth Forwarded by Ann Lewis --** Lieberth, the Akron Town Meeting moderator, expresses his thanks for "the opportunity to participate in an important event for the community of Akron -- and, I hope, the larger community that wants to establish a dialogue on race. The people have not stopped talking about [your] appearance. They have also not stopped talking about racial issues The WH Staff could not have been kinder to work with and more generous in their support."

(4) **Hong Kong "Bird Flu"** this influenza have been 2 have died, 1 is critical; had a common source, to-person transmission threat; but it's cause for the U.S. and 20 million the "Bird Flu" is an av potentially more lethal

TAB B - copied 1st page of cover note and memo to Jennings, HRC & Bowles

TAB C - copied 1st page of cover note & original to Burkhardt for reply
copied 1st page of cover note & memo to Lewis, Bowles

TAB E - copied page 2 of cover note & memo to Emanuel, Gibbons, Blumenthal & Bowles

THE WHITE HOUSE
WASHINGTON

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SEAN MALONEY

THE PRESIDENT'S PERSONAL
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3/3/98*

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Hong Kong "Bird Flu" Update from Jack Gibbons -- since May, 10 human cases of this influenza have been confirmed in Hong Kong; half the patients are children under 13, 2 have died, 1 is critically ill; 3 of the children are from the same family; they could have had a common source of exposure, but their relationship raises the possibility of person-to-person transmission; at present the virus does not present a significant global health threat; but it's cause for concern, given that the 1918 Spanish influenza killed 500,000 in the U.S. and 20 million worldwide; the 1957 Asian flu killed 70,000 in the U.S.; because the "Bird Flu" is an avian virus, humans have no pre-existing immunity to it, making it potentially more lethal.

12-29-97

(E)

Emerging infectious diseases progress report from Jack Gibbons. You issued a directive last June to the National Science and Technology Council (NSTC) calling for actions in four areas: developing a global surveillance network; enhancing research and training; engaging our international partners; and improving public outreach. David Satcher and an OSTP Director chaired the effort. The NSTC report details the "significant advances" made toward these objectives: increased CDC funding; strengthened NIH research and training; and increased international development assistance through USAID. "Our end goal is to be able to protect ourselves and the global community from emerging pathogens."

Handwritten note:
[Box] The future is now.
F. D. [unclear]
C. [unclear]

THE WHITE HOUSE
WASHINGTON

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December 16, 1997

MEMORANDUM FOR THE PRESIDENT

FROM: MIKE McCURRY *MMC*
SUBJECT: CARTWRIGHT LECTURE

St. Paul, Dec 16, 1997
12-29-97

Attached is a copy of Senator Moynihan's Cartwright Lecture at Columbia's College of Physicians and Surgeons. He is, as usual, provocative, insightful and somewhat indiscernible, but perhaps there's a kernel of something to look at.

cc: Erskine Bowles
John Hilley
Rahm Emanuel
Sidney Blumenthal
Paul Begala
Bruce Reed
Elena Kagan
Chris Jennings

On the Commodification of Medicine

Daniel Patrick Moynihan

The Cartwright Lecture

College of Physicians and Surgeons

Columbia University

December 10, 1997

I must begin by expressing great gratitude to the Dean's Advisory Committee on Honors and Awards for inviting me to be the recipient of the 1997 Cartwright Prize. And to Dean Pardes for conveying this invitation. I will not, however, dissemble my anxiety at being, evidently, the first lay person to receive this prize in its 116-year history. I take comfort in one respect only, which is that I propose to address the same subject, the condition of our medical schools, which Abraham Flexner addressed in 1910, and whilst an historic figure of the first order, Flexner, too, was a layman!

He was, of course, concerned with quality. Yet the text of his celebrated *Report to the Carnegie Foundation for the Advancement of Teaching* is filled with financial details and economic terms:

...[I]n the entire United States there is already on the average one doctor for every 568 persons ... in our large cities there is frequently one doctor for every 400 or less ...

Over-production is stamped on the face of these facts....

A century of reckless over-production of cheap doctors has resulted in general overcrowding... ¹

Flexner's view was that there were then too many inadequate medical schools producing too many inadequate doctors. He would raise quality by reducing the number of institutions and increasing the quality of the graduates. He had his way.

In 1910, the year of his Report, there were 155 medical schools in the United States.² By 1932, there were 76, with but a single addition by 1950. In 1910, there were 4,400 medical graduates in a population of 92.2 million, or 4.8 graduates for every 100,000 people.³ In 1996, there were 15,907 medical graduates in a population of 268.6 million, or 5.9 graduates for every 100,000 people.⁴

I risk speaking beyond my knowledge, but it appears to me that we can see in all this a combination of disinterested behavior not without a trace of self-protection. At the time, all manner of folk were becoming "professional." Lawyers and accountants and engineers, and heaven forbid, professors of government. Gate keepers were put in place and

access was restricted. The public got the benefits of quality; the professions of, well, oligopoly.

It is striking how echoes of this early debate could be heard in the course of the debate over President Clinton's 1993 health care proposal, an exchange which, of course, continues.

The new administration had announced its intention to send Congress a bill that would establish universal health care. The work of drafting the legislation was assigned to a group of some 500 persons. By the time the first session of the 103rd Congress was coming to a close, we still had not received a bill. On November 23, the day before we "went out," as our phrase has it, I finally was able as Chairman of the Senate Finance Committee to introduce, "on request," a 1,362 page bill.⁵ I suspected it was not quite complete -- it was not -- but it saved the honor of the task force to have got its work done in one year.

Not incidentally, introducing the bill finally focused my mind. It was time surely that I got some rudimentary education on this subject. Accordingly, I asked Paul A. Marks of Memorial Sloan-Kettering if he would put on a seminar for me. Just basics. We met in their lovely Laurance S. Rockefeller Board Room at 10:00 a.m. on the morning of Wednesday, January 19, 1994. At about 10:20 a.m. my education commenced. One of my tutors -- a dean of great distinction -- remarked that the University of Minnesota might have to close its medical school.

Hold it! Minnesota is where all the Scandinavians went. They don't close medical schools in Minnesota; they open medical schools in Minnesota. This is true, surely, of our whole northern tier of states. It happens I take some pride in having demonstrated in 1992 that while the correlation between per pupil expenditure on education and average score on the national eighth grade math exam was a derisory .203, the strongest correlation, a negative .522, was the distance of a state capital from the Canadian border. In the place of all the nostrums being bandied about concerning national education policy, I proposed a simple one-step program: move states closer to Canada. I would tend to assume that some

similar relationship obtains as regards health care, and so was the more shocked at the idea of a medical school being closed in Minnesota.*

On further enquiry, one learned that, being progressive folk, Minnesotans had been joining health maintenance organizations. HMOs, as we would learn to call them. Paul Ellwood had been trying to tell us this. Being cost conscious, HMOs do not readily send patients to teaching hospitals; lacking patients, teaching hospitals falter; lacking teaching hospitals, medical schools close.

Clearly, we were in a new age of medicine that had come upon us suddenly. In a wonderful brief essay written in 1984, Lewis Thomas described "Medicine's Second Revolution."⁶ The first revolution began with 2nd century A.D. Galen, a Greek physician practicing in Rome who introduced bleeding and blistering, mercury and the like. Also anatomy. This first revolution persisted -- witness the passing of our first President⁷ -- into the early 19th century when "serious questions were raised about this kind of therapy."⁸ Slowly, but successfully, doctors learned Hippocrates' injunction, *primum non nocere*. Thomas describes a celebrated Victorian painting, *The Doctor*:

The picture ... illustrates what used to be the popular conception of medicine and is, to this day, a romantic version of the way the profession likes to view itself. The scene is a Victorian living room where a young child, stricken by an unspecified mortal illness, lies in a makeshift bed; at her side sits the elderly doctor in an attitude combining, all at once, concern, compassion, intelligence, understanding, and command. He is the painting's centerpiece. The child's parents are in the background, the father looking at the doctor with an expression of total trust.

The doctor in the painting is engaged in what was, for that period in medicine, the only course available at this stage

*Cultures persist. Robert Putnam of Harvard, with Robert Leonardi and Raffaella Nanetti, have shown that the best regional predictor for the quality of public services in late 20th century Italy is the performance of that region in the 12th century. Robert D. Putnam, Robert Leonardi, and Raffaella Y. Nanetti, *Making Democracy Work: Civic Traditions in Modern Italy* (Princeton: Princeton University Press, 1993): 121, 162.

of serious illness: He is monitoring the patient. He has already, presumably, arrived at the diagnosis. He knows the name of the child's illness, he has a solid working knowledge of the pathology, and from his lifetime of professional experience he is able to predict how the disease will run its course and what will happen at the end. He has explained all this to the parents in language that they can understand, and now, at the moment of the picture, he is engaged in the ancient art of medicine. This means, at its essence, that he is there contributing his presence, providing whatever he can in the way of hope and understanding.

The illusion of the scene is that he is in control of the situation. He is not, of course. Beyond taking the pulse, examining the tongue, listening to the chest, palpating the abdomen, and making sure that what was then regarded as good nursing care is available, there is nothing whatever that he can do to alter the course of the illness or affect its outcome.⁹

Thomas records that "this was the kind of medicine I was taught in Boston 50 years ago,"¹⁰ which would have been 1934. (When, come to think, we were treating our President for poliomyelitis by seating him in a hot sulphur bath. No harm.) He recalls that the terms *medical science* and *medical research* were not much used and the term *biomedical*, implying that "medicine and biology were all of a piece,"¹¹ was not yet invented. Then this:

As I recall, 50 years ago we believed that
medicine had just about come its full distance.¹²

Before that decade of the 1930s wound out, antibiotics would make their appearance in medical practice and everything changed. Changed utterly. To cite Thomas a last time, "The news that infectious bacteria could be killed off without harm to the cells of the host came as an astonishment to physicians everywhere."¹³ American medicine took off.

This transformation of medical science brought profound changes in the economics of medicine. We would associate this with Say's Law, the work of the early 19th century French economist which holds that supply creates demand.¹⁴ This is somewhat counterintuitive, but amply documented. Say's Law began to take hold in medicine. As supply of efficacious treatment grew, demand grew. In 1929, real per capita national health expenditures (1996 dollars) were below \$300. By 1989, they exceeded \$3,000 -- a tenfold increase. In 1940, 4.0 percent of the Gross Domestic Product went to the health care sector.¹⁵ In 1960, 5.1 percent. But now the trend took hold. The proportion had more than doubled by 1991 when Richard Darman, Director of the Office of Management and Budget, presented this testimony before the Senate Committee on Finance:

Total public and private health spending is on a growth path that would take over the Gross National Product¹⁶ -- if that were not a *practical impossibility*. Total health spending has grown from less than 6 percent of GNP three decades ago to about 12 percent today. It is currently projected to reach 17 percent by the year 2000 and 37 percent of GNP by 2030.¹⁷ (Emphasis in original.)

In Washington, where health care costs were now assuming an ever larger portion of the Federal budget, owing to programs such as Medicare and Medicaid begun in 1965, the issue was increasingly seen in budgetary terms. This was a profound shift. I was a witness to, something of a participant in, the development of the Medicare and Medicaid legislation. Money was the least of our concerns. We had the money. Health care was what we cared about. The venerable Robert J. Myers, who was Actuary to the House Committee on Ways and Means at that time, has recently reviewed our subsequent experience. In 1965, it was estimated that the outgo for the Hospital Insurance (HI) portion of Medicare by 1990 would be \$9 billion. As it turned out, the actual figure was \$66.9 billion. Thus, he writes, "the actual HI experience was 639 percent above the estimate."¹⁸ Myers notes that in the interval the program was continually expanded in one way or another such that the comparison is

not entirely valid. No matter, the issue succumbed to a fair amount of alarm given what, in Myers' words, "At first glance ... seems to be a horrendous variation."¹⁹ Political attention turned to the issue of demand.

This was a central theme of President Clinton's 1993 health care proposal. One issue identified was what economist Alain Enthoven had earlier called the question of "physician oversupply." Writing in the *Journal of the American Medical Association* in 1994, Richard A. Cooper of the Medical College of Wisconsin would state that a "consensus" had developed that there needed to be a "better balance" in the proportion of primary care physicians to specialists.²⁰ He was careful, however, to note that where the one was determined by demography, "The driving force behind much of specialty medicine was science...." ²¹

This was not a matter of concern to the Clinton task force. Working in secret, an abomination where science is concerned and no less an offense to democratic governance, the task force came up with this formulation:

Problem: An increasingly overabundant number of medical graduates are entering specialty fields instead of primary care fields (family practice, general pediatrics, general internal medicine).

*Provide [by Federal law] that at least 50 percent of residency graduates enter primary care practice.

**Limit Federal funding for first-year residency positions to no more than 110 percent of the size of the graduating class of U.S. medical schools. This would further support the action to limit specialty residency positions. (Emphasis in original.)*²²

As I have described elsewhere,²³ a dissenting paper dated April 26, 1993, by "Workgroup 12" of "TOLLGATE 5," (*sic*) written by a physician in the Veterans' Administration, began:

FOR OFFICIAL USE ONLY

SUBJECT: Proposal to cap the total number of graduate physician (resident) entry (PGY-1) training positions in the USA to 110 percent of the annual number of graduates of US medical schools.

ISSUE: Although this proposal has been presented in tollgate documents as the position of Group 12, it is not supported by the majority of the members of Group 12 (listed below).

REASONS NOT TO CAP THE TOTAL NUMBER OF US RESIDENCY TRAINING POSITIONS FOR PHYSICIAN GRADUATES.

1. This proposal has been advanced by several Commissions within the last two years as a measure to control the costs of health care. While ostensibly advanced as a manpower policy, its rationale lies in economic policy. Its advocates believe that each physician in America represents a cost center. He not only receives a high personal salary, but is able to generate health care costs by ordering tests, admitting patients to hospitals and performing technical procedures. This thesis may be summarized as: TO CONTROL COSTS, CONTROL THE NUMBER OF PHYSICIANS.²⁴

It went on to state that the proposal would require “a vast regulatory apparatus.” Then this:

13. To end on a philosophic note, when the proposal to cap training slots was presented to the presidents of the major US universities last weekend, they were incredulous that the US government would advance as sound social policy a proposal to limit access to one of the three learned professions with its millennial history of achieving social good. They further recognized that in America open access to careers in these professions has been a traditional path for immigrant social mobility.²⁵

Leaving aside the politically correct last sentence -- No white Protestants Need Apply! -- this was surely an honorable response. The university presidents were right to have been incredulous at this proposal. It was, in the words of Walter Reich, a proposal for the "deliberate dumbing down of medicine."²⁶ And yet, it was all kept too much in the family. The administration hardly drew attention. A 136-page White House publication on the health care plan had 11 lines on the subject of "Doctors in the United States: An Unhealthy Mix."²⁷ The press scarcely mentioned the matter, even here in New York where the 110 percent limit on residencies would have near to eliminated foreign medical graduates in our hospitals, with the real possibility of many having to close. (The number of residency slots has for some years now been at about 135 percent of the number of graduates of American medical schools. Imposing a 110 percent cap would have resulted in a reduction of almost a fifth in the number of residencies nationwide. In that almost half the medical residents in New York City are graduates of foreign medical schools, it would have been very difficult to staff the City's hospitals if such a supply constraint had become law.)

Nor did the workforce issue emerge in the House and Senate hearings on the health care legislation. However, early on the Finance Committee began to sense that the notion of uncontrollable costs was open to question. Indeed, the interval between 1993, when the administration health care plan was proposed, and 1994, when it failed in the Congress, was something of a break point. Average health insurance costs for large employers, including government, declined from \$4,117 in 1993 to \$4,040 in 1994.²⁸ (They have since more or less stabilized.) Something was going on, and in the Finance Committee, at least, we began to sense what could only be described as market forces. This sense, at least for this Senator, was of a sudden brought into focus on April 26, 1994, when Monsignor Charles J. Fahey of Fordham University, testifying on behalf of the Catholic Health Association of the United States, said that what we were seeing was the "commodification of health care."²⁹ Which is to say that health care was beginning to be bought and sold in a market, where prices would determine outcomes. This was not a development Fahey found altogether congenial.

...[W]e want to alert the committee that the not-for-profit mission in health care is being seriously threatened by the increasing commercial environment in which we find ourselves operating; a real commodification of health care, if you will.³⁰

Still, as we pursued the matter, it became ever more clear that something such was happening.

Again, Paul Ellwood did his best to tell us this. At a March 1, 1994 hearing in the Finance Committee, he was asked about projections that health care spending would reach 20 percent of GDP by the year 2000.

Dr. ELLWOOD. The problem with building these models that project costs is, if you are going to go with a model, the more compulsory, the more intrusive the system of determining what the numbers are in there, supposedly the more accurate they are.

What we are having to do here is speculate about how consumers will behave if they are faced with lower cost health plans versus how providers will behave if there is a ceiling on it.

My feeling is - I may come to regret saying things like this - we are never going to hit 20 percent.

Senator PACKWOOD. That we are going to get what?

Dr. ELLWOOD. We are never going to hit 20 percent of the GDP.

The CHAIRMAN. Write that down. Everybody take notes.³¹

What Mr. Darman had described -- 37 percent of GNP by the year 2030 -- was an unsustainable trend. It is years now since Herbert Stein,

Chairman of the Council of Economic Advisers under President Nixon, had offered the epiphanic observation that “an unsustainable trend cannot be sustained.” We should have known, and began to sense.

Here are the numbers. In 1993, health care absorbed 13.6 percent of GDP.³² The administration projected that without reform, the proportion would rise to 18.9 percent by the year 2000.³³ (Pretty much along the Darman trend line.) With reform -- 1362 pages of it -- we could hope for 17.3 percent of GDP by said year 2000.³⁴ For what it is worth, the Congressional Budget Office now projects that by the year 2000 health care costs will be 14.3 percent.³⁵ As they would say in the age of Thomist medicine, the crisis has passed.

But another crisis awaited. That of medical schools and teaching hospitals. Slowly, beginning with Fahey’s testimony, the connection emerged. And it has been all over the press ever since, if one reads the headlines with this in mind. Here is a sample from the superb reporting of Milt Freudenheim in *The New York Times*:

Hospitals Are Tempted But Wary As For-Profit Chains Woo Them

Richard Scott has made deals to take over 137 hospitals in the last year, and he wants more. Now, his Columbia-HCA Healthcare Corporation has its eye on some Catholic hospitals in Chicago.

Stay away, says Joseph Cardinal Bernardin of Chicago, one of the most powerful clerics in the nation. The Roman Catholic Church has an obligation to poor people and to the Catholic way of health care, the Cardinal recently warned the 20 hospitals in his archdiocese, and selling to a for-profit chain would be a betrayal. He reminded them that the archdiocese could withdraw its recognition of any hospital defying him.³⁶

For Catholics, of course, read Jewish, Presbyterian, Methodist, what you will. Hospitals once were charities.

Big Hospital Chain Makes a Bid to Buy Blue Cross of Ohio

The nation's largest for-profit hospital chain agreed yesterday to buy the main business of Blue Cross and Blue Shield of Ohio, raising concerns among consumers, employers and providers of health care about the enormous influence that such a combination could exert.

The \$229.5 million purchase by the Columbia-HCA Healthcare Corporation would be the first acquisition of a Blue Cross company by a for-profit hospital chain. If approved by state regulators and the national Blue Cross and Blue Shield association, the takeover could open the door for similar deals by a number of nonprofit Blue Cross plans that are struggling to stay in business.³⁷

Recall that Blue Cross began as a not-for-profit cooperative, an idea much associated with resisting market forces.

A recent lead story of the Business Day section of *The Times* by David J. Morrow began:

Warner-Lambert Shares Plunge on Glaxo Move

Shares of the Warner-Lambert Company plunged 18.5 percent yesterday after Glaxo Wellcome P.L.C. halted British sales of Warner-Lambert's diabetes drug, troglitazone [trade name Rezulin].

By day's end, Warner-Lambert's shares had dropped \$25.875 each, to \$114, with 9.9 million shares traded, the second most active of the day on the New York Stock Exchange. The setback shaved \$7 billion off the Morris

Plains, N.J., company's market value, prompting analysts at Bear, Stearns & Company to adjust their earnings estimates and Morgan Stanley to lower its rating of Warner-Lambert before noon. At one point, Warner-Lambert's stock tumbled to \$112, its lowest point since June 20.

Developed by the Sankyo Company Ltd. in Japan, Rezulin was initially heralded as a wonder drug for type-2 diabetes, a chronic disease that affects about 135 million people worldwide. According to Warner-Lambert data, Rezulin reduces or eliminates the daily use of insulin, which has been the predominant treatment for diabetes. Unlike insulin, administered by injection, Rezulin is taken in tablets.³⁸

There was a time, surely, when the advent of a new "wonder drug" would have been approached in terms of health care. Now it becomes an affair of share prices.

But now to our main story. This, once again, by Mr. Freudenheim of *The Times*, on May 20 of this year:

Teaching Hospitals Under the Knife; Longtime Missions Pressed by H.M.O.'s

It began as a charity supported by Paul Revere that sent out doctors to the poor. It evolved into the New England Medical Center at Tufts University, a research powerhouse that ranks among the leaders in New England in liver transplants, breast-cancer research and complex heart procedures.

But now, the biggest health maintenance organization in Boston threatens to starve New England Medical by refusing to pay for its patients to go there, even though the costs are as low or lower than at other Boston teaching hospitals.

The squeeze on academic medical centers like New England Medical is particularly brutal in Boston, which has seven prestigious teaching and research hospitals and far too many hospital beds, and where costs per patient are among the nation's highest. But dozens of teaching hospitals across the country face similar challenges, and they are responding by reaching out for business partners.

Some, like the George Washington University Hospital in Washington, D.C., and state university hospitals in California, Oklahoma and South Carolina, are being sold to for-profit chains; others, like New England Medical, Columbia University's Presbyterian Hospital and the University of Minnesota Academic Medical Center, have merged with stronger, nonprofit local institutions; still others, like Beth Israel and St. Luke's/Roosevelt in New York, are merging into holding companies that will run their finances.³⁹

In April, 1994, the Senate Committee on Finance held hearings on the subject of "Academic Health Centers Under Health Care Reform." It would appear that these were the first ever on that subject. The testimony was powerful and dispositive. In response to a question from Senator Bob Packwood, our ranking member, Paul Marks described the situation at Sloan-Kettering:

I think that a price driven environment is one in which we will have unintended consequences in terms of rationing and quality. You cannot get something for nothing out of the system. And while we can reduce costs substantially, and I think all of us have tremendous pressures to reduce costs, even in high-cost centers, such as the cancer centers, we know right now from our experience because we are being approached by insurance companies, health plans, managed care, and they say how much does a bone marrow transplant

cost. And we will say it is \$100,000. Well, we will give you all our bone marrow transplants for \$60,000.

There are two things. Number one, we cannot survive as a quality provider of care doing bone marrow transplantations alone. Even if we got \$100,000, we would not want to do it. And at \$60,000 we cannot really provide a quality care program in bone marrow transplantation.

So I would say that at least in our environment there has to be some kind of legislation which takes into account that a price driven system today will compromise the quality of health care and will be associated with rationing. I do not think there is any question in my mind about that because they cannot compete in any other way if you are going to drive down just price.⁴⁰

It would be fair, I believe, to state that the theme of our hearings was, and here I quote, that "Health Insurance is important, but health is more important. It comes out of discovery, and we are in a great age of discovery."⁴¹ We were up against the problem of how to provide for what economists call public goods. These are readily described. For most goods and services, if the consumer chooses not to pay, he does not receive the benefit. If he does not buy a ticket, he is excluded from the ballpark. By contrast, consumers are not easily excluded from the benefits of a public good, say national defense or cancer research, because everyone benefits whether or not they pay. As Richard A. Musgrave noted in his classic 1959 text, *The Theory of Public Finance*,⁴² the existence of public goods provides a rationale for the government to intervene in markets and either directly provide the public good -- as it does with national defense -- or to support the provision of the public good through indirect payments.

The Finance Committee resolved to do just this for medical schools and teaching hospitals. The chairman's mark, as is our term, of June 29, 1994 provided for a Graduate Medical Education and Academic Health

Center Trust Fund to be financed by a 1.5 percent tax on all private health care premiums. An additional .25 percent levy, proposed to us by Senator Mark Hatfield, provided for medical research. In all, this made for an average annual revenue to the Trust Fund of \$17 billion over five years. To my knowledge, this was the first such proposal of its kind. It did not go unnoticed in our Committee; a motion to strike the 1.75 percent premium tax failed by 13 votes to 7.

It would be pleasing to report that there was at least some response to the bipartisan approval by the Senate's tax writing committee of a trust fund for this purpose. But there was none. The Committee finished its work on Saturday and there was a long front-page report in *The Times*.⁴³ The tone was cool. Our assignment had been to provide universal health care; we had only provided for 95 percent coverage by 2002. That a bipartisan majority had approved a very considerable measure meant nothing to those who had vowed never to compromise. These included a fair number of journalists, whose disappointment, even distaste, was made plain. In the end, of course, no bill was brought to a vote in either chamber. The Congressional elections that followed were widely understood to mark a repudiation of the whole enterprise, and indeed, the subject has receded, in Congress at least, while health maintenance organizations continue their seeming predestined course.

The one exception is this matter of medical schools and teaching hospitals. In the next, 104th, Congress, four bills were introduced. This time the Senate Finance Committee rejected the trust fund on a tie vote, 10 to 10. (Tie votes fail.) By contrast, on the House side, in the Committee on Ways and Means, the new Chairman, Representative Bill Archer of Texas, proposed and carried a Teaching Hospital and Graduate Medical Education fund that would receive, among other revenues, \$13.5 billion in appropriated general funds over a six-year period. This measure became part of the Balanced Budget Act of 1995. It passed both House and Senate, but was vetoed by President Clinton over other matters. In the current, 105th Congress, I have reintroduced S. 21, the "Medical Education Trust Fund Act of 1997." This was a "first day" bill, and accorded some prestige, as the first twenty numbers are reserved for the Majority and Minority leaders.⁴⁴ For all that, at the end of the year there are no cosponsors and few prospects. The subject has not made its way onto the national political agenda as a singular public good that has been

placed in jeopardy by what Columbia's great seer, Robert K. Merton,⁴⁵ described back in 1936 as the "unintended consequences" of actions arising in other contexts.

Expect matters to grow more difficult in the near future. There will be all manner of proposals to regulate managed care; this is instinctual in the administrative state, and can do a deal of harm. James F. Blumstein of the Health Policy Center at Vanderbilt University suggests that the current Federal investigation into various health care providers "is taking its cues from past task forces on the mafia."⁴⁶ Or desert warfare, for that matter, given the formal title, "Operation Restore Trust."⁴⁷ Again, expect more. But be of good cheer. Some things take a long time, as Lewis Thomas attested. Most importantly, may a layman urge that you be importunate. You are too precious to let your collective well-being be taken for granted. I close with the words with which Dominick P. Purpura, dean of the Albert Einstein College of Medicine here in New York, on October 5th opened the new Jerome and Dawn Greene Medical Arts Pavilion at Montefiore Hospital in the Bronx:

We are gathered here for several reasons. Most importantly to bear witness to the felicitous marriage of high-spirited philanthropy and good works, now consummated in this ... Medical Arts Pavilion. We are here for another purpose as well. To dispel the septic rumor oozing from some health policy think tanks to the effect that academic medical centers such as ours are dinosaurs doomed to extinction by the impact of the asteroid of managed care. Look skyward! On this day of noble purpose the sun shines brightly. No ashen clouds obscure the values that have made American medicine a crowning achievement of Western Civilization. And what are these core values? Simply stated: Faith in evidence-based medicine and trust that our superbly trained physicians will translate the basic science of medicine into the art and science of patient care.⁴⁸

NOTES

1. Abraham Flexner, *Medical Education in the United States and Canada: A Report to the Carnegie Foundation for the Advancement of Teaching* (New York: Carnegie Foundation for the Advancement of Teaching, 1910), 14-17.
2. Ibid., 6.
3. Editorial, "Medical Education in the United States," *Journal of the American Medical Association* 55, no. 8 (20 August 1910): 694.
4. Association of American Medical Colleges, *Government Relations Resource Guide for Medical Education and Research* (1997): 350.
5. Health Security Act, S. 1775, 103rd Cong., 1st Sess. (1993).
6. Lewis Thomas, "Medicine's Second Revolution," *Science* 84, November 1984, 94.
7. President Washington died in 1799 after being blistered and bled four times in an attempt by his physicians to treat what was probably diphtheria or a streptococcus infection. James Thomas Flexner, *George Washington: Anguish and Farewell* (Boston: Little, Brown and Co., 1972), 456-462.
8. Thomas, 94.
9. Ibid., 93-95.
10. Ibid., 94.
11. Ibid.
12. Ibid.
13. Ibid.
14. Jean-Baptiste Say, *Traite D'Economie Politique (A Treatise on Political Economy)* (Paris, 1803), trans. C.R. Prinsep (Philadelphia: J.B. Lippincott & Co, 1867): 133.
15. Unpublished data supplied by Office of the Actuary, Health Care Financing Administration, Baltimore, MD.
16. Because most projections now use estimates based on Gross Domestic Product (GDP) rather than Gross National Product (GNP), all references elsewhere in this paper are to GDP. However, the difference between the two measures is small (generally less than two tenths of one percentage point). Although Director Darman's 1991 testimony used GNP, his estimates were rounded to the nearest whole number, making his estimates comparable to references to GDP elsewhere in this paper.
17. *Health Care Costs and Lack of Access to Health Insurance*, Hearing before the Senate Committee on Finance (16 April 1991) (testimony of Richard Darman, Director, Office of Management and Budget), 63.
18. Robert J. Myers, "How bad were the original actuarial estimates for Medicare's hospital insurance program?" *The Actuary*, February 1994, 6.

19.Ibid.

20.Richard A. Cooper, "Seeking a Balanced Physician Workforce for the 21st Century," *Journal of the American Medical Association* 272, no. 9 (September 7, 1994): 680.

21.Ibid.

22.In settlement of a suit brought by the American Association of Physicians and Surgeons, the papers of the task force were later deposited with the National Archives. More or less by chance, we came across the paper of Working Group 12. President Clinton's Task Force on National Health Reform, Workgroup 12, Tollgate 5, "Professional Workforce Development," (March 3, 1993), 2 (available through National Archives and Records Administration, College Park, MD).

23.See Daniel Patrick Moynihan, "The Professionalization of Reform II," *The Public Interest* 121 (Fall 1995): 23-41.

24.President Clinton's Task Force on National Health Reform, Workgroup 12 dissent (April 26, 1993) (available through National Archives and Records Administration, College Park, MD).

25.Ibid.

26.Walter Reich, M.D., Washington, DC, to Daniel Patrick Moynihan, letter of 29 August 1994, 2.

27.*Health Security: The President's Report to the American People* (Washington: White House Domestic Policy Council, October 1993), published commercially as *The President's Health Security Plan* (New York: Times Books, 1993), 68.

28.Employee Benefit Research Institute, *EBRI Databook on Employee Benefits* (4th ed., 1997), 295.

29.*Tax Treatment of Organizations Providing Health Care Services and Excise Taxes on Tobacco, Guns and Ammunition*, Hearing before the Senate Committee on Finance, 103rd Congress, 2d Session (26 April 1994) (testimony of Msgr. Charles J. Fahey, Fordham University, New York, NY, on behalf of Catholic Health Association of the United States), 3.

30.Ibid.

31.*Health Care Delivery Systems*, Hearing before the Senate Committee on Finance, 103rd Congress, 2d Session (1 March 1994), 29-30.

32.Health Care Financing Administration, *Health Care Financing Review*, Fall 1996, 199.

33.*Health Security: The President's Report to the American People* (Washington: White House Domestic Policy Council, October 1993), published commercially as *The President's Health Security Plan* (New York: Times Books, 1993), 284.

34.Ibid.

35.Congressional Budget Office, *Economic and Budget Outlook: Fiscal Years 1998-2007* (January 1997), 126.

36.Milt Freudenheim, "Hospitals are Tempted but Wary as For-Profit Chains Woo Them," *New York Times*, 4 January 1995, A1.

- 37.Milt Freudenheim, "Big Hospital Chain Makes a Bid to Buy Blue Cross of Ohio," *New York Times*, 30 March 1996, 1.
- 38.David J. Morrow, "Warner-Lambert Shares Plunge on Glaxo Move," *New York Times*, 20 May 1997, D1.
- 39.Milt Freudenheim, "Teaching Hospitals Under the Knife: Longtime Missions Pressed by HMOs," *The New York Times*, 20 May 1997, D1.
- 40.*Academic Health Centers Under Health Care Reform*, Hearing before the Senate Committee on Finance, 103rd Congress, 2d Session (14 April 1994) (testimony of Paul A. Marks, M.D., President and Chief Executive Officer, Memorial Sloan-Kettering Cancer Center, New York, NY), 31.
- 41.Ibid. (opening statement of Sen. Daniel Patrick Moynihan, Chairman), 2.
- 42.Richard A. Musgrave, *The Theory of Public Finance: A Study in Public Economy* (New York: McGraw-Hill, 1959), 9-12.
- 43.Robin Toner, "Last Panel Sends its Health Plan to Party Leaders," *New York Times*, 3 July 1994, 1.
- 44.An identical bill was introduced in the House of Representatives by Rep. Nita M. Lowey of New York. H.R. 881, 105th Congress, 1st Session (February 27, 1997).
- 45.Robert K. Merton, "The Unanticipated Consequences of Purposive Social Action" (1936 paper reprinted in Robert K. Merton, *Sociological Ambivalence* (Free Press, 1976)).
- 46.James F. Blumstein, "What Precisely is "Fraud" in the Health Care Industry?" *Wall Street Journal*, 8 December 1997, A25.
- 47.Ibid.
- 48.Dominick P. Purpura, Dean, Albert Einstein College of Medicine (remarks at opening of Jerome and Dawn Greene Medical Arts Pavilion at Montefiore Hospital, Bronx, NY) (October 5, 1997).

THE WHITE HOUSE
WASHINGTON

THE PRESIDENT'S OFFICE

12-29-97

December 17, 1997

MEMORANDUM TO THE PRESIDENT

FROM: ANN LEWIS *AL*

'97 DEC 17 PM 7:5

SUBJECT: DAVID LIEBERTH

Enclosed is a very nice thank you note from David Lieberth, the moderator from the Town Hall.

*original to
Buckhardt*

David A. Lieberth

Telephone 330/762-3933
Telecopier 330/762-3911

611 West Market Street
Akron, Ohio 44303

E-mail: DALCOLPA@aol.com

December 10, 1997

Ms. Ann F. Lewis
Director of Communications
The White House
Washington, D.C.

Dear Ann:

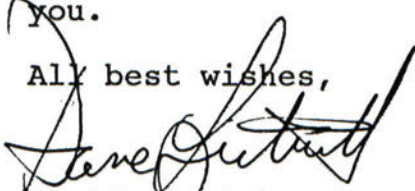
The week has flown by. Thank you for giving me the opportunity to participate in an important event for the community of Akron -- and I hope, the larger community that wants to establish a dialogue on race.

The people here have not stopped talking about the President's appearance. They also have not stopped talking about racial issues.

Despite the negative spin put on the story by the national media, I loved George Will's observation that the Akron Town Meeting was what civil discourse looks like.

The White House Staff could not have been kinder to work with and more generous in their support. It was a pleasure working with you.

Ally best wishes,



David A. Lieberth

llh

THE WHITE HOUSE
WASHINGTON

'97 DEC 19 PM4:57

12-29-97

December 19, 1997

MEMORANDUM FOR THE PRESIDENT

FROM: JOHN H. GIBBONS 
SUBJECT: Emerging Infectious Diseases: Progress Report

I am pleased to present you with the first annual progress report on the implementation of your June 12, 1996, directive on emerging infectious diseases. Emerging infectious diseases, such as Ebola, drug-resistant tuberculosis, and HIV/AIDS, are now responsible for one third of all deaths globally and represent an increasing threat to the health of U.S. citizens and the global community. The recent outbreak of the 'bird flu' in Hong Kong demonstrates the potential danger of these new disease threats. And, unfortunately, it is obvious that biological agents are appealing military and terrorist weapons.

To combat these threats, your directive, PDD/NSTC-7, called for action in four key areas: developing a global surveillance network; enhancing research and training; engaging our international partners; and improving public outreach. To meet these challenges, I asked David Satcher, Director of the Centers for Disease Control and Prevention, and Kerri-Ann Jones, my Associate Director for National Security and International Affairs, to co-chair a Task Force on emerging infectious diseases, and charged them with implementing your policy.

In the past year, we have made significant advances toward achieving these objectives. Domestically, we increased CDC's funding for emerging infections activities within the National Center for Infectious Diseases, which includes grants to state and local health departments. This increase enabled CDC and the Colorado state health department to catch the recent outbreak of the deadly *E. coli* O157:H7 bacteria in ground beef. We have strengthened research and training through the National Institutes of Health, including the establishment of four new Hepatitis C Cooperative Research Centers and three new Emerging Virus Groups to study hantaviruses and other emerging viral threats. We have strengthened our development assistance efforts through a new program at USAID. Finally, we have engaged our international partners through the G-8, APEC, and key bilateral fora.

I am proud of the interagency work that has moved this policy. However, the challenges ahead demand our continued vigilance -- both in terms of our investments and our scientific capacity. Our end goal is to ensure that we are able to protect ourselves and the global community from these emerging pathogens, regardless of their origin.

NATIONAL SCIENCE AND TECHNOLOGY COUNCIL

**COMMITTEE ON INTERNATIONAL SCIENCE,
ENGINEERING AND TECHNOLOGY**

**EMERGING INFECTIOUS DISEASE TASK
FORCE**

PDD/NSTC-7 ANNUAL REPORT

DECEMBER 19, 1997

**CISSET EMERGING INFECTIOUS DISEASE TASK FORCE
PDD/NSTC-7 ANNUAL REPORT
DECEMBER 19, 1997**

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Executive Summary

In June 1996, President Clinton directed the Federal agencies to begin a coordinated national response to the growing threat of infectious diseases, both at home and abroad, through policy directive, PDD/NSTC-7. This Directive calls for action in four key areas: developing a global surveillance and response network; enhancing research and training; engaging our international partners; and strengthening public outreach. To implement this policy, the National Science and Technology Council's Committee on International Science, Engineering and Technology (CISET) formed a Task Force on Emerging Infectious Diseases, which is co-chaired by the Centers for Disease Control and Prevention and the White House Office of Science and Technology Policy. The EID Task Force is composed of nearly two dozen agencies and has become an effective model of interagency coordination. This report summarizes the accomplishments of the Task Force during its first year.

The Task Force members have made significant advances toward achieving the objectives of the President's policy directive. Domestically, we have bolstered disease surveillance at the national, state, and local levels -- our major line of defense against emerging infectious diseases. CDC's recent accomplishments include the establishment of agreements with twenty-two states and localities to strengthen national disease surveillance and outbreak response; the creation of three provider-based electronic networks to study disease syndromes; and the strengthening of cooperative programs with state and local health departments to create real-time, on-line capacity to compare strains of the food-borne pathogens, *Salmonella* and *Escherichia coli* O157:H7 bacteria. This system, which includes Colorado, was responsible for catching the recent outbreak of *E. coli* O157:H7 in ground beef.

We have also strengthened research and training through the National Institutes of Health, including the establishment of four new Hepatitis C Cooperative Research Centers and three new Emerging Virus Groups to study hantaviruses and other emerging viral threats. In addition, NIH's National Institute of Allergy and Infectious Diseases (NIAID) has committed \$3 million for a new extramural research program on emerging diseases; and NIH's Fogarty International Center (FIC), in close cooperation with NIAID, has launched a \$1.8 million program to provide training for scientists in developing countries in the field of emerging infectious disease research. Furthermore, NIH has launched a Multilateral Initiative on Malaria and has committed over \$1 million for a program to be established through WHO to strengthen research capacity within Africa for improved malaria control.

Another key accomplishment of the EID Task Force has been the expansion of U.S. agency missions and mandates to more effectively address these challenges. The actions being taken include the creation of a Department of Defense (DoD) Surveillance and Response System for Infectious Diseases; the establishment of a DoD Internet-based Central Communications Hub; and the expansion of DoD's overseas laboratory capabilities and epidemiology training.

Internationally, the Task Force members have engaged our partners through APEC, the G-8, the

U.S.-Japan Common Agenda, the U.S.-E.U. New Transatlantic Agenda, the U.S.-Russia Commission on Economic and Technological Cooperation, the U.S.-South Africa Binational Commission, and other bilateral and multilateral fora. At the recent Denver Summit of the Eight, the U.S. presented a major infectious disease initiative, which included a commitment from the Heads of State to develop a global surveillance system; strengthen capacity in developing countries; and coordinate international response to outbreaks.

Our development assistance program has also played a key role in the EID Task Force. USAID continues to take important steps to strengthen basic public health infrastructures and in-country capacity to combat infectious diseases, especially those related to child survival, reproductive health, and HIV/AIDS prevention. The EID Task Force members continue to coordinate with the World Health Organization to make best use of the available resources.

The EID Task Force members have made significant progress toward the implementation of President Clinton's EID policy. Many challenges remain, however. Through the coordinated efforts of the Task Force, the private sector, and the academic, NGO, and international communities, we will continue to work to eliminate the threat of emerging infectious diseases and to protect the health and well-being of our citizens.

I. Introduction

In June 1996, President Clinton directed the Federal agencies to begin a coordinated national response to the growing threat of infectious diseases, both at home and abroad, through policy directive, PDD/NSTC-7. This Directive calls for action in four key areas: developing a global surveillance and response network; enhancing research and training; engaging our international partners; and strengthening public outreach. To implement this policy, the National Science and Technology Council's Committee on International Science, Engineering and Technology (CISSET) formed a Task Force on Emerging Infectious Diseases, which is co-chaired by the Centers for Disease Control and Prevention and the White House Office of Science and Technology Policy.

The EID Task Force is composed of nearly two dozen agencies and is comprised of five working groups: 1) Surveillance and Response; 2) Research and Training; 3) Capacity Development; 4) Legislation and Mandates; and 5) Outreach. In addition, an ad hoc Working Group on Bioterrorism has been created to address potential terrorist use of biological agents.

Since the release of PDD/NSTC-7, the EID Task Force members have made significant progress in implementing the President's policy. This report summarizes these accomplishments.

II. Surveillance and Response

a. Federal and State laboratory and epidemiologic response capabilities

In the United States, the network of state and local health departments is a major line of defense against emerging infectious diseases. The network operates the national notifiable disease system and conducts local disease surveillance and investigations. CDC has established three programs to strengthen this network:

- Epidemiologic and Laboratory Capacity Cooperative Agreements (ELCs). These agreements provide state and large local health departments with technical tools, training, and financial resources to maintain and strengthen national notifiable disease systems, conduct disease surveillance, diagnose diseases, and investigate outbreaks. By the end of FY 1997, CDC will have entered into ELC agreements with twenty-two states and localities. By 2003, CDC plans to involve fifty state health departments, as well as large local health departments and territorial health agencies.
- Emerging Infections Programs (EIPs). The EIPs conduct population-based surveillance and research that goes beyond the routine functions of local health departments to address the most important issues in infectious diseases and public health. EIP projects include establishing active surveillance for invasive bacterial diseases and food borne pathogens (FoodNet) and participating in emergency outbreak responses. FoodNet is a collaborative

effort of CDC, USDA, FDA, and the EIP sites. To date, EIPs have been formed with the state health departments of California, Connecticut, Minnesota, Oregon, Georgia, New York, and Maryland.

- Provider-based Sentinel Networks. Three provider-based networks have been formed to study specific conditions and syndromes.
 - Emergency Department Sentinel Network for Emerging Infections (EMERGENCY ID NET) is a network of academically affiliated emergency medicine departments, which operate emergency departments at eleven hospitals in large U.S. cities. The network monitors a number of syndromes, including bloody diarrhea, illnesses that follow exposure to animals, first-time seizures, prolonged febrile illness in immigrants and travelers, and hemolytic uremic syndrome following infection with *Escherichia coli* O157:H7.
 - Infectious Diseases Society of America (IDSA) Emerging Infections Network (IDSA EIN) is a network of over 150 infectious disease clinicians that: enhances communications and health education among its members; collaborates in research projects; and provides assistance in case-finding during outbreak investigations.
 - The Sentinel Network of Travel Medicine Clinics (GeoSentinel) is composed of eleven travel medicine clinics: nine in the United States, one in Canada, and one in Germany. The network monitors schistosomiasis, dengue, hepatitis, and persistent fever of unknown origin. The data are analyzed by CDC and used to develop travel advisories and recommendations for health-care providers. In the future, it may help track the spread of diseases from place to place when outbreaks occur.

The Department of Veterans Affairs (VA) Infectious Disease Program has developed the Emerging Pathogens Initiative (EPI), an automated national VA surveillance system designed to track emerging pathogens in VA health care facilities worldwide. The monthly report provides data for a number of pathogens and diseases, including vancomycin-resistant enterococcus, penicillin-resistant pneumococcus, *E. coli* O157:H7, and certain diseases of military importance, such as malaria.

b. Electronic Network for Surveillance and Response

The prompt detection of domestic outbreaks depends on the flow of reliable, laboratory-confirmed surveillance data, from doctors and diagnostic laboratories to local and state health departments, and from state health departments to CDC. Many states are beginning to use electronic systems to integrate laboratory and epidemiologic information and transmit state-wide data to county health departments and other reporting sites.

- Standards. CDC, the Council of State and Territorial Epidemiologists, and the Association of State and Territorial Public Health Laboratory Directors are working with state and local health departments to set standards for laboratory-based reporting of infectious diseases.
- Molecular Fingerprinting. CDC is working with selected state health departments and FDA to develop the online capacity to compare strains of *Salmonella* and *E. coli* O157:H7 bacteria, using the technique called "molecular fingerprinting." Whenever a food borne outbreak of *Salmonella* or *E. coli* occurs in the U.S., the health departments should be able to fingerprint local organisms to determine the extent of the outbreak and implement control measures. FDA is developing fingerprinting for additional foodborne pathogens.

III. Research

The EID Task Force members have committed significant resources to EID research. Examples of major new research programs follow.

- Malaria Research. The NIH is working with partner agencies in France, the UK, the European Community, and with the WHO, the Wellcome Trust, African scientists, and others to develop a strengthened research effort on malaria. NIH has committed over \$1 million for a program to be established through WHO to strengthen research capacity within Africa for improved malaria control. In addition, NIH's National Institute for Allergy and Infectious Diseases (NIAID) has implemented projects in FY 1997 to establish a repository of malaria research reagents and to expand efforts to sequence the genomes of malaria parasites.

USAID has committed approximately \$2 million per year for the development and testing of malaria vaccines. USAID's particular focus is vaccine formulations most suitable for prevention of malaria mortality among children in developing countries.

- Neurocysticercosis Research. NIH and CDC are jointly conducting an epidemiologic survey of neurocysticercosis in the U.S.
- VA Research Program. The VA Research Service has instituted an investigator-instigated research program in emerging pathogens.
- Laboratory Networks. NIH supported a one-time, one-year supplemental award to permit investigators to develop "emerging diseases laboratory networks through travel, reagent exchanges and virtual networks" and to expand existing international programs focusing on emerging diseases.

- Support for Extramural Research. As a follow-up to its Research Agenda for Emerging Infectious Diseases, NIH published a new program announcement on “Expanded Research on Emerging Diseases,” which will receive \$3 million in FY 1997.
- International Training and Research. The NIH’s Fogarty International Center (FIC), working in partnership with NIH’s National Institute for Allergic and Infectious Diseases (NIAID), will make the first awards under its International Training and Research in Emerging Infectious Diseases Program in FY 1997. This 5-year program, with annual funding of more than \$1.8 million, aims to provide training and research opportunities to developing country partners of U.S. scientists in the field of emerging infectious disease research.
- Better Vaccines Against Childhood Bacterial Diseases. In collaboration with the international Childhood Vaccine Initiative, USAID supports the development and testing of vaccines against the major bacterial causes of pneumonia and meningitis in children, as well as the improvement of other important childhood vaccine formulations and the systems and tools for the delivery of the vaccines in developing countries. USAID provided nearly \$1 million in FY 1997 for these activities.

NIAID continues to emphasize vaccine research and development. In FY1997, NIAID committed approximately \$2.7 million to a major effort in streptococcus research and approximately \$2 million for providing tuberculosis research materials to the scientific community.

- Diagnostics. USAID is providing \$300,000 in FY 1997 for the development of new or improved diagnostics suitable for safe and inexpensive use in developing countries, especially in field situations. Some of the specific infectious disease diagnostics being addressed are HIV, malaria, chlamydia, gonorrhea, and syphilis.
- Disease Prevention Research. USAID has committed nearly \$2 million in FY 1997 to the prevention of infectious diseases through behavioral research. Areas of investigation include: the use of safe-water, sanitation, hand washing, and food protection to decrease diarrheal diseases; the use of insecticide-impregnated bednets to decrease malaria transmission; the reduction of domestic smoke pollution to decrease respiratory infections; and the reduction of sexual behaviors that carry high-risk for transmission of HIV and sexually transmitted diseases (STDs).

NIAID continues to focus on research efforts for the development of effective methods of disease prevention, including the development of new vaccines, therapeutics, and behavioral interventions. In FY 1997, NIAID committed over \$1 million to the establishment of clinical trial units for STDs. In addition, NIAID committed approximately \$1 million to research on the development of new vaccines for fungal diseases and improved vaccines for measles.

USAID supports research into: care-seeking behavior, such as parental recognition of respiratory infection severity and dehydration in their children; health care provider behavior related to quality assurance in health-care delivery, such as following effective diagnostic and treatment protocols for infectious diseases; and inappropriate drug prescription and sale by providers, and poor patient compliance in the use of antibiotics.

- Social Marketing. USAID supports social marketing research on how market forces can be harnessed to promote healthful behavior change. For example, the social marketing of condoms for HIV and STD prevention is part of extensive, multi-country commitments for which USAID spends several million dollars annually.
- Antibiotic Resistance. Working with Harvard University, Johns Hopkins University, WHO, INCLEN, and other organizations, USAID has supported the development of a 3-5 year international research agenda on issues important to reducing pneumonia mortality among children, with special attention to the increasing problems associated with resistance to the commonly-used antibiotics.

NIAID issued a program announcement soliciting research on the genetics of drug resistance, development of new diagnostic tools, and development of alternative treatments.

- Importance of Micronutrients (Vitamin A and Zinc) in Susceptibility/Resistance to Infectious Diseases. USAID is continuing its role as the leading donor in researching the roles of Vitamin A in dramatic reductions of infectious disease mortality in developing countries, and in implementing national programs to improve Vitamin A nutritional status among all at-risk children. In addition, USAID is providing \$500,000 to support a newly developing body of research on the role(s) of zinc in resistance of children to infectious diseases in developing countries.
- Agriculture and Public Health. In 1996, USDA established an Emerging Pathogens Division to address issues at the interface of agriculture and public health. Activities include coordinating interagency surveillance, response and research needs related to *Salmonella Typhimurium* DT 104; an emerging, multi-drug resistant food borne pathogen of international concern.
- Links between environmental change and infectious diseases. NASA, NIH, CDC, and NOAA are collaborating on the application of changes in the spatial and temporal patterns of infectious diseases. NASA and NOAA are also organizing a series of workshops on applying environmental data to improve human health. NASA is currently in the process of organizing two more workshops – one on the Malaria in Africa Initiative and a second on the evaluation of future remote sensing systems for surveillance of infectious diseases.

- Interagency Research Partnership in Infectious Diseases (IntRePID). NASA is leading an interagency effort to develop a joint resource for the study of arthropod-borne infectious diseases. Participating agencies included the Walter Reed Army Institute of Research (WRAIR), Department of Infectious Diseases; the Naval Medical Research Institute (NMRI), Department of Infectious Diseases; the CDC Division of Vector Borne Infectious Diseases; the USDA Agricultural Research Service Center for Medical Agricultural and Veterinary Entomology (CMAVE); and the Department of State. University participants include the Johns Hopkins School of Public Health and the University of Michigan School of Public Health. IntRePID activities to date include the following:
 - Prototype study on the links between climate change and Dengue Fever. Using a thirty five year dengue data set, research is underway to study dengue in relation to a variety of weather and climatic conditions, including El Niño.
 - Survey of international researchers: Working in conjunction with ProMed and the University of Michigan, NASA completed an international survey of researchers in Summer 1997. The purpose of the survey was to identify what tools, technologies, data sets, and resources will enable research into the study of climate change and human health.
 - Technology Assessment: NASA is leading an interagency survey of federal resources, specifically intelligent technologies and tools that can enable the study, modeling, and prediction of infectious disease.
 - Development of Online Data Distribution Resource and Archive: IntRePID is developing an online resource to archive, maintain, and distribute data sets, tools, and documents for research into climate change and human health. This resource is intended to include some training materials, to have pointers to researchers and leading activities in the field, and to link with other surveillance systems as they come online.
- Cross-Country Investigation of Climate and Encephalitis. NASA has undertaken a study with researchers at four universities to investigate how encephalitis might be affected by climate and weather conditions, and how these impacts may differ regionally throughout the U.S. Participating institutions will include University of California at Davis, Rutgers University, the University of Michigan, and the University of Florida. Additional participants are likely to include the state mosquito control organizations of the associated universities.
- USGCRP Working Group on Climate Change and Human Health. NASA and NIEHS are co-chairing the USGCRP subgroup on climate change and human health. A key element will be meeting with interdisciplinary researchers to identify human health risk areas, as well as to inventory federal resources of the participating organizations.

- NASA, NIH, and CDC Memoranda of Understanding. NASA has signed memoranda of understanding with NIH and CDC to support collaborative research, education, and training, in the application of remote sensing technologies to study the spatial and temporal patterns of infectious disease. To date, NASA has supported studies to apply remote sensing to a number of infectious diseases including malaria, filariasis, schistosomiasis, leishmaniasis, cholera, ebola, encephalitis, hantavirus, Lyme disease, yellow fever, and diarrheal diseases.

IV. Coordination with the Private Sector

The EID Task Force members are working to promote public and private sector cooperation to ensure the availability of the drugs, vaccines, and diagnostic tests needed to combat infectious diseases and infectious disease emergencies. These efforts include:

- Product Availability. FDA is leading an effort to develop a procedures manual on product availability to provide contact information on medical products (drugs, vaccines, diagnostic tests, antisera, etc.) that may be needed during emergencies. The Ciset Product Availability Group is working with domestic companies through U.S. pharmaceutical and device associations and with international industry associations and WHO.
- International Harmonization. FDA is leading international harmonization efforts, such as the International Conference on Harmonization, which includes the pharmaceutical manufacturers and regulatory bodies of the U.S., Japan, and the EU.
- Vaccine Supply. CDC, FDA, and USAID collaborated with drug manufacturers to address the shortage of vaccines for use in controlling meningitis outbreaks in Sub-Saharan Africa during the 1996-97 winter season.
- Pandemic Influenza. A number of Ciset Task Force members are participating in the Interagency Group for Influenza Pandemic Preparedness and Emergency Response (GRIPPE), which is working with state and local health departments, pharmaceutical companies, and health care delivery organizations to further develop the national plan for pandemic influenza.

V. Training of Health Care Providers

- Expanding training. NIH and CDC sent a letter in August 1997 to medical and microbiology associations and other professional organizations urging them to focus training and certification programs on emerging infectious diseases. In March 1998, NIH, FDA and CDC will sponsor a satellite meeting focused on training needs at the

CDC's International Conference on Emerging Infectious Diseases.

- Judicious use of Antibiotics. In collaboration with the American Association of Pediatrics Committee on Infectious Diseases and the American Association of Family Physicians, CDC has prepared material for physicians on the judicious use of antibiotics in treating common pediatric respiratory infections. CDC has also developed a complementary set of materials aimed at consumers.
- Laboratory Fellowship Program. CDC and the Association of State and Territorial Public Health Laboratory Directors have developed a laboratory fellowship program for students at the BA, MS, and PhD levels.

VI. Screening and Quarantine

Approximately one million legal immigrants and refugees are admitted to the U.S. each year, many from high-risk countries. At the same time, international travel by U.S. citizens has increased substantially, rising from 20 million to 40 million in the past decade. Half of these travelers visit tropical locations, putting them at risk for diseases they would not normally encounter. In response to this trend, the EID Task Force Working Group on Quarantine and Containment is developing a plan to improve the detection and containment of emerging infectious diseases imported into the United States, which will be completed by early 1998.

- Detection and Control at U.S. Ports of Entry. A CDC-led implementation working group, which includes representation from federal, state, and local health departments, held its first meeting in August 1997, to develop strategies for disease detection and control at U.S. ports of entry. Next, regional meetings will be held around the country to develop protocols for managing disease threats at particular ports of entry.
- Review of Regulations. CDC's Division of Quarantine has begun to review and prioritize regulations, focusing initially on imported disease risk from animals and other vectors.
- Refugee and Migrant Groups. The Division of Quarantine is currently developing a protocol for managing infectious diseases in refugee and migrant groups entering the United States and is evaluating the relevance and adequacy of the immigrant and refugee medical screening requirements.

The Division of Quarantine is also developing standardized recommendations and guidelines for the selection of panel physicians and laboratories responsible for conducting immigrant/refugee medical examinations.

- Communicating Health Information. Representatives from universities, travel clinics, and the International Society of Travel Medicine met with CDC in June 1997 to begin drafting a plan to improve communication of health information related to international travel. The plan will include involvement by airlines and cruise ship companies, as well

as by state and local public health groups.

CDC's Division of Quarantine is developing a system for communicating with local health departments about the health risks associated with immigrants and refugees.

- GeoSentinel. GeoSentinel—a surveillance network of travel medicine clinics—is now in place. Representatives of the clinics met in June 1997 to review progress made to date and to work on further improvements. See paragraph on page 5.

VII. Updated Agency Missions and Mandates

Nearly two dozen agencies participate in the EID Task Force and contribute to the government-wide effort to combat the threat of emerging infectious diseases. Several of these agencies have changed or are in the process of changing their missions or mandates in order to make best use of their resources and expertise. A brief description of new or expanded missions and mandates follows.

a. CDC

- Over the past year, the EID Task Force has sought to expand CDC's mandate to allow surveillance and response activities to epidemics overseas. The two principal agencies involved in this issue, HHS and USAID, have been engaged in a discussion of two possible approaches: a narrow mechanism to give CDC authority under the Foreign Assistance Act, and a broader approach to build greater ability to respond to EID outbreaks. The EID Task Force continues to pursue these two approaches.

b. NIH

- NIH, the lead U.S. agency for biomedical and behavioral research, will expand its resources in research and research training in emerging infectious diseases. NIH activities are aimed at improving the understanding of the biology of infectious agents, developing diagnostics to detect them, and developing and testing drugs, vaccines, and other interventions to treat and prevent infections. NIH supports research capacity strengthening through its programs that link U.S. laboratories with those in developing countries for training or research purposes.

c. USAID

- In FY 1998, USAID established emerging infectious diseases as a strategic objective in health and will develop new programs to address malaria, tuberculosis, antimicrobial resistance and EID surveillance needs. USAID will continue to work bilaterally and regionally with more than 50 countries to develop in-country capacity to combat infectious diseases, especially those related to child survival, reproductive health, and

HIV/AIDS prevention.

d. DOD

- Surveillance and Response System. DOD's Surveillance and Response System for Infectious Diseases was created to give senior leadership a system wide view of emerging infections. It will incorporate large surveillance databases that contain detailed information on infectious illnesses in U.S. troops, including data on demographics, hospitalization, reportable diseases, and deployment screening. The mission of DOD's overseas laboratories has been expanded to include a surveillance role, and the corps of epidemiologists has been expanded. Communication with other federal agencies on emerging infectious diseases is provided through public and private web servers.
- Central Communications Hub. DOD has established an Internet-based Central Communications Hub at Walter Reed Army Institute of Research for emerging infectious diseases. It will include a private web server for an intranet chat line to link the overseas laboratories in Cairo, Nairobi, Jakarta, Bangkok, Lima, and Rio de Janeiro with Service hubs that perform surveillance of reportable diseases among U.S. troops. By Summer 1997, the Communications Hub will include a public web site that allows users to search for information in several DOD databases, which will lay the groundwork for automatic reporting of bacterial resistance patterns and certain reportable diseases. Fifteen new billets are being created to train military epidemiologists at DOD's overseas laboratories and the Central Communications Hub.
- Guideline for Surveillance and Response. DOD held a Joint Health Service Support Vision 2010 Conference in Washington, DC, in June 1997, to create guidelines for surveillance and response for infectious disease outbreaks affecting deployed troops around the world.
- Overseas Laboratories. The overseas laboratories have received funding to encourage collaborations with research colleagues from other U.S. agencies or other nations. The funding covers the costs of providing desks, laboratory space, and secretarial assistance to visiting scientists.
- Ensuring Availability of Diagnostic Capabilities. Operational funding has been given to DOD's overseas labs to purchase equipment and reagents for laboratory support of host nations to assist them in diagnosing the causes of outbreaks.
- Scientific Exchanges. DOD is supporting exchanges of scientists, including two CDC epidemiologists, at several overseas labs.

e. NASA

- Since the mid-1980s, NASA has sponsored studies directed at using remote sensing

technologies to monitor and predict the patterns of infectious disease in time and space. The approach is based on the identification and monitoring of environmental, entomological, and epidemiological factors that affect the patterns of disease transmission risk. The results of several studies indicate that remote sensing data can be used to predict the spatial and temporal patterns of infectious disease and that this information can be used to map disease transmission risk and direct control measures.

- Currently, the Office of Mission to Planet Earth supports basic research and education; and training is supported through the Center for Health Applications of Aerospace-Related Technologies. These programs support basic research and provide education, training, and technology transfer in the application of remote sensing technologies to studies of infectious disease. This is accomplished through: interagency agreements with the NIH and CDC; joint research activities with U.S. and foreign university and agency investigators; and training of foreign investigators through the Third World Foundation fellowship program.
- NASA is dedicated to significantly improving the use of its diverse observing systems, data, and information about the Earth to support research on the environment, climate change, and human health. NASA is working with scientists to determine how the best products from NASA's 1997 Earth Observing System missions, and its future missions, can be applied to provide value-added services and to develop joint products with other organizations to facilitate the study, understanding, and predictions of vector-borne and infectious disease and other human health issues.

VIII. Bioterrorism

The EID Task Force is working in coordination with the National Security Council to respond to Section 1443 of the FY 1997 Defense Authorization bill. The EID Task Force formed an Ad Hoc Working Group comprised of the intelligence, security, public health, and law enforcement communities to focus on surveillance for terrorist use of biological agents. The Ad Hoc Working Group met in September 1997 and has initiated a report on the costs and benefits of national and international surveillance and response to incidences of criminal or terrorist uses of biological agents.

IX. International Activities

The challenges presented by EIDs far outstrip the means of any one country or international organization. Therefore, the U.S. has developed a sustained effort to enlist support from other nations and international bodies, as follows:

a. International Outreach

- The Department of State has established an Emerging Infectious Diseases and HIV/AIDS Program under the Bureau of Oceans and International Environmental and Scientific Affairs.
- In 1996, the Department of State cabled all ambassadors requesting that they raise awareness of emerging infectious diseases in each country.

b. Multilateral Initiatives

- Denver Summit (G-8). As a result of a U.S. proposal, the Eight (G-7 + Russia) pledged to work together to reduce the threat of EIDs by cooperating in three areas: 1) coordinating international response to outbreaks; 2) developing a global surveillance network; and 3) building capacity for surveillance, response, and research in developing countries.
- New Transatlantic Agenda (U.S.-European Union). Principal activities under the New Transatlantic Agenda include:
 - Exchanging *Salmonella* surveillance data among EU countries and the U.S.
 - Feasibility study on establishing a global *Salmonella* database.
 - Training exchanges and joint investigations between the EU's EPIET and the U.S. Epidemiology Intelligence Service (EIS).
 - Meeting hosted by EU in May 1997, in collaboration with WHO, to set standards for global surveillance of antimicrobial resistance. This includes common case definitions, reporting formats, and reporting intervals to facilitate the exchange of information.
 - Developing a resource inventory of EU domestic and international activities in cooperation with the U.S. This inventory includes organizations, institutions, and available technical experts responsible for monitoring and controlling communicable diseases. The focus is also on coordinating and evaluating results of assessments for local and national capacity of infectious disease surveillance in developing African countries.
 - Developing a "white paper" on clinical research training in emerging infectious diseases. This was discussed at a U.S.-E.U. meeting in Luxembourg, September 22-23, 1997.
 - Colloquium on Ebola virus research held September 4-7, 1996 in Antwerp. (See Appendix I.).
 - International conference on malaria held in Dakar in January 1997.
- Asian-Pacific Economic Cooperation (APEC). The U.S. introduced the first-ever health initiative, one related to EIDs, into APEC through the Science and Technology Ministerial in 1995. The first project involved the development and application of a self-assessment survey to evaluate each economy's capabilities to address EIDs and identify strengths and areas that need improvement. Support for this area of cooperation was

echoed at the Science and Technology Ministerial in 1996, and a workshop was held in the autumn of 1997 to draft a framework for cooperation and self-action.

c. Bilateral Initiatives

U.S.-South Africa Binational Commission.

- CDC is in the early stages of providing in-country training in surveillance and applied epidemiology within the new government structure, expanding the public health infrastructure to include the entire country.
- Representatives from South Africa participated in CDC's annual Distance Learning Conference, which focuses on technology aspects of distance learning, such as computer- and satellite-based technologies.
- NIAID organized with partners in South Africa a consultation consisting of seminars, site visits, and a grantsmanship workshop in key areas identified by South African investigators, including HIV/AIDS, TB, malaria, arboviruses, and antimicrobial drug resistance. As a result, Secretary Shalala announced that NIAID will develop a special relationship with South Africa on EIDs and HIV/AIDS.
- HHS will collaborate with the South African Department of Health to establish a new school of public health in South Africa.

U.S.-Russia Commission on Economic and Technological Cooperation

- CDC, FDA, and USAID are collaborating on preventing HIV/AIDS and assisting in outbreak response and vaccine quality control to diphtheria in the Russian Federation.
- Complementary to activities formally addressed under this agreement, CDC and FDA have provided U.S.-based and in-country training in applied epidemiology and regulatory quality control to approximately 90 Russians since 1993.
- NIH co-sponsored and co-organized a U.S.-Russia Workshop on EIDs held in St. Petersburg, Russia on December 8-11, 1996, on HIV/AIDS, hemorrhagic fevers, insect borne viruses, and vaccine-preventable viral conditions. At least twelve applications on EIDs were submitted for Civilian Research and Development Foundation funding as a result of the workshop, of which five were funded. In addition, the Ministry of Science subsequently announced the establishment and funding of an EIDS Vaccine Initiative ("Vaccines for Future Generations").

U.S.-Japan Common Agenda.

- The U.S. and Japan agreed to collaborate in four key areas: (1) dengue and dengue

hemorrhagic fever (DHF); (2) antimicrobial resistance; (3) acute respiratory infections (ARIs); and (4) *E. coli* O157:H7 and related foodborne pathogens.

- International conferences on EID research and science policy were held in Tokyo in July 1996, Bangkok in March 1997, and Baltimore in June 1997.
- A team from CDC and FDA participated in a cooperative investigation of an outbreak of *E. coli* O157:H7 in Tokyo during the summer of 1996.
- The Japanese Ministry of Health assigned a staff member to serve as an EIS officer at CDC in 1997.
- NIH continues to co-organize and participate in the U.S.-Japan Cooperative Medical Sciences Program, which sponsors annual scientific conferences in the areas of acute respiratory diseases, tuberculosis, diarrheal diseases, hepatitis, parasitic diseases, and others.

Central Asia Initiatives.

- USAID has provided assistance to all 5 republics within Central Asia to strengthen national immunization and disease control programs. Specific activities and results to date in Kyrgyzstan include the reduced incidence of diphtheria by 40% (from 545 cases in 1995 to 328 cases in 1996) and no new polio cases reported in 1996. Future efforts focus on increasing capacity for infectious disease surveillance information, control, and management, with particular emphasis on TB, hepatitis, and STDs.
- In Ukraine, USAID provided 32 million doses of diphtheria vaccine in 1994 and is continuing to assist the Ministry of Health to control the diphtheria epidemic. As a result, in part, of these efforts, diphtheria incidence nationwide in 1996 was dramatically below 1995 levels.

Other Overseas Capacity Strengthening Activities.

- Training in the NIS. In the Newly Independent States (NIS), USAID and CDC have improved national surveillance capacity through training and technical assistance. Accomplishments to date include the publishing of epidemiological surveillance bulletins in eight republics and training of 180 public health officials, representing eleven republics, in applied epidemiology and scientific communications.
- Controlling Hospital-based Infections in the NIS. In the NIS, the USAID/American International Health Alliance's medical partnerships program is improving hospital-based infection control policies and procedures, which will result in decreased nosocomial infections. AIHA is also assisting the NIS Ministries of Health to develop national infection control programs, basic infection controls courses for health professionals,

training of trainers models, and standardized protocols for infection control surveys.

- EID Conference in Bangkok, Thailand. NIAID co-sponsored and co-organized with the International Medical Center of Japan an international conference on Emerging Infectious Diseases held in Bangkok, Thailand in March 1997, which focused on dengue, antibiotic resistance, and enterohemorrhagic *E. coli* in the Asia-Pacific basin. See previous page.
- Malaria Conference in Dakar, Senegal. The FIC and NIAID, co-organized and co-sponsored with European partners and African scientists an International Conference on Malaria in Africa, held in Dakar, Senegal on January 6-9, 1997. The conference resulted in a set of recommendations aimed at stimulating collaborative malaria research efforts between Northern and Southern scientists. A follow-on meeting of representatives from science agencies, development agencies, pharmaceutical companies, the African scientific community and others was held in July 1997 in the Hague. See page 16.
- International Conference on Improving Use of Medicines (ICIUM). USAID supported the first ICIUM conference in April 1997 in Malaysia, in collaboration with INCLEN and other organizations. Some 272 attendees from forty-six different countries deliberated on points of common interest for making more effective use of pharmaceutical resources, especially related to antimicrobials, in developing countries.
- Country self-assessments. EID Task Force members developed a standardized questionnaire for countries to use to assess their own current priorities, capacity and needs, and thus as a basis for planning their own focused capacity strengthening activities. This tool was distributed on a pilot basis to all countries/economies within APEC plus South Africa and Vietnam. Specific progress includes: collaboration with the Philippines and Vietnam in epidemiology training and laboratory based surveillance; the establishment by CDC-Rockefeller of a Public Health School Without Walls in Vietnam; and collaborations with Bangladesh related to *E. coli* and cholera.
- Internet resources. Based on EID self-assessments completed by eight countries, CDC developed a notebook of Internet resources related to the six highest priority diseases (TB, HIV/AIDS, dengue, malaria, hepatitis, STDs), in key capacity development categories for each: clinical, laboratory, treatment/therapy, epidemiology/surveillance, control/prevention. More than fifty notebooks have been distributed to overseas collaborators. An APEC Emerging Infections Network was also established in 1997.
- Field Epidemiology Training Programs. In late June 1997, CDC and WHO convened a meeting of worldwide FETP directors to begin to strengthen networking of these national epidemiology training programs in support of EREID activities. An FETP Secretariat will be established to institutionalize this important network.
- Ebola Diagnosis. The FIC, through an administrative supplement to Yale University and to U.C. Berkeley, has provided training in Ebola virus diagnosis and research for

scientists from Central African Republic, Cote d'Ivoire, and Gabon.

- Regional Capacity Building. A collaborative effort began at U.S. Naval Medical Research Unit No. 3 (NAMRU-3) in Cairo to conduct special research projects and to help build regional capacity to monitor and respond to emerging infectious diseases. CDC has placed an expert at NAMRU-3 to collaborate on these activities. NIAID provided grant supplements to several projects, including its International Collaborations for Infectious Diseases Research, to expand collaborative research on emerging diseases in developing countries.
- Meningitis Epidemiology. Provision of instructors and educational materials for WHO/AFRO-sponsored training courses in meningitis epidemiology, in Nigeria, Niger, Chad, Burkina Faso, and Mali, in December 1996. (NIH, CDC, USAID)
- Laboratory Training on Diagnosis of Meningitis. Provision of instructors and educational materials for WHO/EMRO-sponsored laboratory training courses on diagnosis of meningitis, in seven of the most populated EMRO countries, in early 1997. (NIH, CDC, USAID)
- USAID provides support to several WHO programs related to infectious diseases. This includes support for global programs on acute respiratory infections, children's vaccine development, diarrheal diseases, TB, malaria, and onchocerciasis.
- USAID also collaborates with and supports UNICEF on many fronts for the prevention and control of childhood infectious diseases, and USAID provides a substantial portion of the financing and other support for UNAIDS and the WHO GPA for the prevention of HIV transmission.

d. Coordination with WHO

- International Health Regulations. In 1996, U.S. health experts met with their international counterparts at WHO to draft a plan of action for revising the International Health Guidelines (IHR), basing them on disease syndromes rather than on specific diseases.
- Networking the WHO Collaborating Centers. The EID Task Force members collaborated with WHO, PAHO, and the National Council for International Health (NCIH) to help strengthen networking among similar WHO Collaborating Centres worldwide (e.g., network of polio reference laboratories, network of applied epidemiology training programs).
- Regional Inventories of resources. Inventories of resources for combating infectious diseases were completed by the Pan American Health Organization (WHO/PAHO), the Southeast Asia Regional Office (WHO/SEARO), the Eastern Mediterranean Regional Office (WHO/EMRO) and the Western Pacific Regional Office (WHO/WPRO) in 1996.

Other joint activities with WHO:

(CDC support for specific WHO Collaborating Centres is attached as Appendix II.)

- Through the Gorgas Institute at the Univ. of Alabama, USAID will support WHO/PAHO's program for the surveillance and study of pneumococcal pathogens in Latin America. The information will greatly enhance knowledge about increasing antibiotic resistance, as well as options for the development of effective vaccines for controlling pneumococcal pneumonia, meningitis, and other illnesses.
- Strengthening of twenty-two U.S.-based WHO Collaborating Centers (WHOCCs), which help diagnose diseases and control outbreaks around the world (see appendix). A new WHOCC on Control of Epidemic Meningitis was established at CDC in 1996, and a Center on Clostridium botulinum has been proposed.
- Demonstration project on meningococcal disease in Sub-Saharan Africa. This project was initiated in Summer 1996, to improve detection and control of meningitis epidemics, and as of June 1997, significant progress has been reported.
- Procedures manual on the availability of emergency medical products (see above).
- Setting of standards for global surveillance of antimicrobial resistance. WHO is revising its program to monitor antimicrobial resistance [now called Antimicrobial Resistance Monitoring (ARM)]. In addition, CDC is working with WHO/EMC to assess the diagnostic proficiency of the laboratories that use WHONET to track the spread of drug-resistant microbes. WHO/EMRO has also established an industry working group on antimicrobial resistance. At the group's request, WHO/EMC is planning to set up a strain bank to provide bacterial strains and laboratory reagents that are not commercially available.
- FDA provided technical leadership and expertise in setting standards for vaccines and other biological products.
- Planning of projects on global communications and regional S&R centers. The Ciset agencies are providing support and assistance to WHO/EMC in its current efforts to improve global health communications (see above) and build regional centers for surveillance and control of infectious diseases. WHO/EMC is sponsoring the development of sub-regional teams, or "hubs", for disease surveillance, outbreak control, training in laboratory diagnostics, and epidemiological and operational research.
- CDC has assigned an expert on Arboviruses and Hemorrhagic Fever to WHO to help develop capacity to respond to outbreaks in these disease areas.

- The Abidjan-based WHO/AFRO-USAID-EU program's mission is to improve responses to epidemic outbreaks in western Africa, including the control of yellow fever, cholera, meningitis, and measles.
- The Harare-based WHO/AFRO-USAID-CDC project involves surveillance for cholera, dysentery, and other diarrheal diseases in southern Africa.
- FDA collaborates with FAO in giving training on detection and control of foodborne pathogens in several countries.

Appendix I

Selected Workshops and Conferences.

- In the Fall of 1996, NIH sponsored a workshop on human ehrlichiosis.
- In September 1996, NIH, CDC, OIRH/DHHS, USAMRIID, WHO, and the Institute of Tropical Medicine in Antwerp sponsored a major scientific meeting in Antwerp on the Ebola virus, filoviruses, and lessons learned from Kikwit.
- CDC, along with its French counterparts, sponsored the 2nd annual workshop on “Molecular Epidemiology and Evolutionary Genetics of Pathogenic Microorganisms” in Montpellier, France, May 26-28, 1997.
- NIH, State, and international partners co-sponsored a U.S.-Mexico-Canada Research Development Workshop on Emerging Infectious Diseases in September, 1997. The workshop focused on improving research cooperation on this topic among the NAFTA partners.
- NIAID, in cooperation with the Embassy of Italy and visiting Italian scientists at NIH, held a conference in May 1997 to consider critical areas for research cooperation on emerging infectious diseases.
- NIAID convened a workshop on drug resistance in *Staphylococcus aureus* in response to recent isolation of strains with reduced vancomycin susceptibility; experts from CDC and FDA participated in discussions about research needs in this area.
- NASA, CDC, DOD, and NIH participated in the American Society of Microbiologists meeting to define a research agenda on climate variability and human health.
- In September 1997, NASA participated in an international workshop on disease surveillance and monitoring in Rostock, Germany. As an outcome of this meeting, NASA is now working with WHO’s Paris-based FluNet, providing climate data sets to assist in modeling relationships between weather parameters and the migration of influenza across Europe.
- Working with the Liverpool School of Tropical Medicine and Hygiene, NASA is developing data sets for a conference-long training session at the European Congress on Tropical Medicine planned for September 1998 in Liverpool. NASA plans to maximize the use of remote sensing products from its 1997 and 1998 missions for the study of climate change and human health.
- The Electric Power Research Institute commissioned a workshop on “Climate Change and Vector Borne and Infectious Diseases” in September 1997, cosponsored by NASA,

NIAID, NIEHS, and DOE, to identify major research gaps and to outline a major research agenda to provide a sound scientific basis for public policy debates and decisions.

- FDA conducted workshops and a public meeting on *Cyclospora cayetanensis* foodborne outbreaks and research.

Appendix II

Enhancement of the Surveillance and Response Capacities at WHO Collaborating Centers

In 1996, CDC conducted a review of the thirty WHO Collaborating Centers located within the National Center for Infectious Diseases. Based on this evaluation, a total of \$800,000 was provided to strengthen fourteen of the Centers. The program was expanded in 1997, with \$2,000,000 allocated to strengthen eight additional Centres, to expand high-priority activities, and to foster collaboration with other Centres around the world.

Projects funded in 1996-1997 include:

WHO Collaborating Center for Arthropod-Borne Viruses, Western Hemisphere. Partial support for expanded production and distribution of reagents for arthropod-borne viruses; re-development of laboratory surveillance for Venezuelan equine encephalitis (VEE) in sentinel laboratories in Central America; re-establish expertise in arbovirology in the areas of diagnosis, surveillance, epidemiology and entomology with the Uganda Virus Research Institute.

WHO Collaborating Center for Leptospirosis. Provide basic terms of reference for surveillance and diagnosis of Leptospirosis, diagnostic development, reagent production and technical transfer

WHO Collaborating Center for Malaria Control in Africa. Study of multi-drug resistant malaria and testing newly-developed drugs and new drug combinations; production and distribution of the sporozoite ELISA reagents.

WHO Collaborating Center for Research and Reagents for Human Immunoglobulin Subclasses. implement a tracking and monitoring system for reagents and other collaborating center services.

WHO Collaborating Center for Mycoses in North America. Provide basic terms of reference for diagnostics and specimen tracking systems for mycoses.

WHO Collaborating Center for Surveillance, Epidemiology and Control of Influenza. Update influenza reagent kit with Influenza A subtyping monoclonal antibodies and ensure worldwide availability.

WHO Collaborating Center for Reference and Research on Plague Control. Develop capacity to provide rapid sample analyses for plague surveillance and outbreak investigations and support molecular epidemiology and training activities. Conduct collaborative research and training on plague prevention in China.

WHO Collaborating Center for Reference and Research on Rabies. Update and maintain lyssavirus collection; produce and distribute reagents including monoclonal antibodies.

WHO Collaborating Center for Evaluating and Testing New Insecticides. Provide technical support for chemical and biological assays used in evaluating compounds in current and new delivery modes for use in malaria strategies. Investigate discriminating dosages for five pyrethroid insecticides using laboratory maintained vectors to establish a base line for pyrethroid resistance.

WHO Collaborating Center for Antimicrobial Resistance. Provide quality control and proficiency testing strains to participants in the global WHONET surveillance system.

WHO Collaborating Center for Research, Training, and Eradication of Dracunculiasis. Stop dracunculiasis transmission in Chad, Senegal, Cameroon, and Yemen by the end of 1997 and reduce to less than 100 cases in Mauritania and Ethiopia.

WHO Collaborating Center for Rickettsia and Rickettsial Diseases. Update rickettsial culture collection, produce and distribute reagents and form a network of collaborators through training of international investigators for rickettsial diagnosis.

WHO Collaborating Center for Shigella. Transfer sustainable technology and expertise for Shigella to southern Africa region.

WHO Collaborating Center for Respiratory Viruses Other than Influenza. Provide support for antigenic characterization of group A and B RSV and sequencing studies of para-influenza type 3.

WHO Collaborating Center for Viral Hemorrhagic Fevers. Produce viral hemorrhagic fever reagent and further develop and distribute immunological and molecular approaches to identify viral causes of fatal illness.

WHO Collaborating Center for Dengue and Dengue Hemorrhagic Fever (in development). Meet the basic terms of reference for reagent production and distribution and diagnostic test evaluation. Develop an international training center for Dengue and Dengue Hemorrhagic Fever.

WHO Collaborating Center for Measles Virus Diagnostics. Transfer the capability to perform the capture IgM EIA virus isolation to at least those African laboratories involved in Polio eradication.

WHO Collaborating Center for Foodborne Disease Surveillance. Develop, produce and distribute reagents for a new food-borne disease laboratory network. Establish a national network and database for molecular subtyping of E. coli 0157:H7 isolates.

WHO Collaborating Center for Prevention and Control of Epidemic Meningitis. Develop a sustainable, national and sub-regional laboratory capacity for neisseria meningitides in Sub-Saharan Africa.

Collaborating Center for Vibrio cholerae 01 and 0139. Meet basic terms of reference for diagnostics, susceptibility testing and molecular and subtyping assays for Vibrio cholerae 01 and 0139.

WHO Collaborating Center for Clostridium botulinum (Proposed). Meet basic terms of reference for diagnostics, toxicity testing, reagents and antitoxin testing for Clostridium botulinum.

WHO Collaborating Center for Control and Elimination of Lymphatic Filariasis. Study distribution and magnitude of Lymphatic Filariasis problem in Americas and establish and coordinate rapid assessment, control and laboratory training activities.

WHO Collaborating Center for Cysticercosis. Meet basic terms of reference for WHO Collaborating Center for Cysticercosis by providing reference sera from humans and pigs infected with different stages of the disease and provide reference diagnostic tests including standardized conjugates and antigen.

Democrat wins House seat once Lloyd George's

ARKANSAS DEMOCRAT-GAZETTE

Democrat Jeff Gillespie of Danville won a special election Tuesday for the state House District 27 seat, beating Kelly Boyd, a Havana Republican.

Unofficial results from the Pope and Yell county clerks' offices showed:

Gillespie 1,748 votes
Boyd 1,091 votes

Gillespie, 28, a farmer, finished first in the five-candidate Democratic primary, then won a runoff Nov. 25.

Boyd, 41, manager of the Firestone Tube Co., was the only Republican who sought the seat. A Republican has never won the seat, said Richard Bearden, state GOP executive director.

Gillespie will complete the term of Lloyd George, D-Danville, who resigned in September after pleading guilty in federal court to mail fraud. His term will expire in January 1993.

George, 71, was involved with a scheme to sell the state Department of Correction an unsuitable irrigation system for \$24,800. He was sentenced a week ago to two years of probation, including nine months of home detention; ordered to pay \$15,000 in restitution; and fined \$10,000.

George served in the state House of Representatives from 1963 until 1966. He was elected again in 1973 and served until his resignation.

Gov. Mike Huckabee called the special election after George resigned.



Arkansas Democrat-Gazette/KAREN VANDONGE

North Little Rock Mayor Patrick Henry Hays heads to the podium after talking with his daughter, Josie, and wife, Linda, before announcing his decision Tuesday not to run for the U.S. Senate. Hays said he "felt very positive" about his campaign but needed to concentrate on being mayor.

Bogged down in Entergy talks, NLR mayor scraps Senate run

BY PATRICK HENRY
ARKANSAS DEMOCRAT-GAZETTE

North Little Rock Mayor Henry Hays abandoned his campaign for the U.S. Senate after just six weeks Tuesday.

Hays said contract talks with Entergy Arkansas Inc. on the wholesale price the city pays for electricity require his full attention and precluded his participation in a statewide election campaign.

"This decision was purely based on my responsibilities as mayor," Hays said at a press conference, accompanied by his wife, Linda, and daughter, Josie. "I've been out both by phone and some travel, and the reception has been pretty good. I felt very positive about the campaign at this stage."

"I simply recognized that the responsibilities of the chief executive of this city were ones that I couldn't or wouldn't ignore, especially in light of the

electric issue becoming so clear over the past several weeks."

Hays said backers had committed more than \$200,000, and he pledged to return unspent campaign funds.

When he entered the race Nov. 15, he said, his belief that he could simultaneously run North Little Rock and campaign for the Senate seat of retiring fellow Democrat Dale Bumpers was "untested."

"There was no way I could have known in advance if I could do both," Hays said. "I will not allow a situation to develop where I do two jobs in a mediocre fashion rather than one job properly."

North Little Rock's Electric Department buys wholesale electricity from Entergy, then sells it at retail rates with discounts for residential and commercial customers in the city.

The city's \$39.6 million 1998 budget, approved Monday night

by the City Council, includes \$9.66 million in projected revenue from electricity sales in the \$30.01 million general fund budget.

Electricity sales are also budgeted to provide \$1 million to the city's drainage improvement fund and another \$1 million to its capital improvement fund to total \$11.66 million.

Negotiations with Entergy have become more urgent since the Arkansas Public Service Commission on Dec. 12 ordered Entergy, the state's largest electric utility with about 615,000 customers, to cut revenue by about \$155 million in 1998.

Entergy's rate cuts, effective Jan. 1, could hamper North Little Rock's ability to raise vital revenue from retail electricity sales. Shortfalls could arise because the price Entergy charges the city for wholesale electricity, 4.25 cents per kilowatt-hour, is

See HAYS, Page 3B

Hays

Continued from Page 1B
fixed until 2000.

Entergy's rates for residential customers will drop 6.17 percent in 1998. Rates for businesses will fall 18.66 percent, and industrial consumers will pay 16.71 percent less.

Hays said at Monday's City Council meeting that Entergy's rate reductions would also undermine the rate advantage North Little Rock has maintained over Little Rock and other cities by extending a discount to its own residents and businesses.

Residential customers in North Little Rock pay 10 percent below Entergy rates year-round and 20 percent less in the hottest months of summer. Businesses enjoy a 5 percent discount year-round, 10 percent in the summer.

The city offers no discount to industrial customers. Little Rock charges Entergy a 5 percent franchise fee; North Little Rock charges nothing.

As a result, when Entergy's rates fall Jan. 1, industrial customers in North Little Rock will be paying some 10 percent more for electricity than their counterparts south of the river — a prospect Hays finds alarming.

He told the City Council that the city must assume that no agreement with Entergy on lowering the price of wholesale electricity will be reached.

The city should prepare to change its rates, frozen since January, or to solicit rival electricity providers, Hays said.

North Little Rock will spend an estimated \$31.81 million to buy wholesale electricity from Entergy in 1998.

The city's own hydroelectric plant will produce electricity worth \$6.87 million.

The city expects to reap \$98.77 million in sales

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12-29-97

THE WHITE HOUSE
WASHINGTON

12-29-97

December 20, 1997

MR. PRESIDENT:

Attached are the following weekly information items:

- (A) Weekly Economic Briefing
- (B) Interest Rates and the Stock Market
- (C) DPC Report
- (D) CEQ Report
- (E) Emanuel Report
- (F) Race Initiative Report
- (G) Public Liaison Report
- (H) Intergovernmental Affairs Report
- (I) Cabinet Affairs Report (for next two weeks)
- (J) OSTP Report
- (K) Political Report

~~COPIED COVER NOTE TO ALL PEOPLE LISTED BELOW~~

Phil Caplan

TAB A - copied Frankel, Bowles
TAB C - copied Reed, Kagan & Bowles
TAB D - copied McGinty, Bowles
TAB E - copied Emanuel, Bowles
TAB I - copied Marshall, Bowles
TAB J - copied Gibbons, Bowles
TAB K - copied Smith, Bowles

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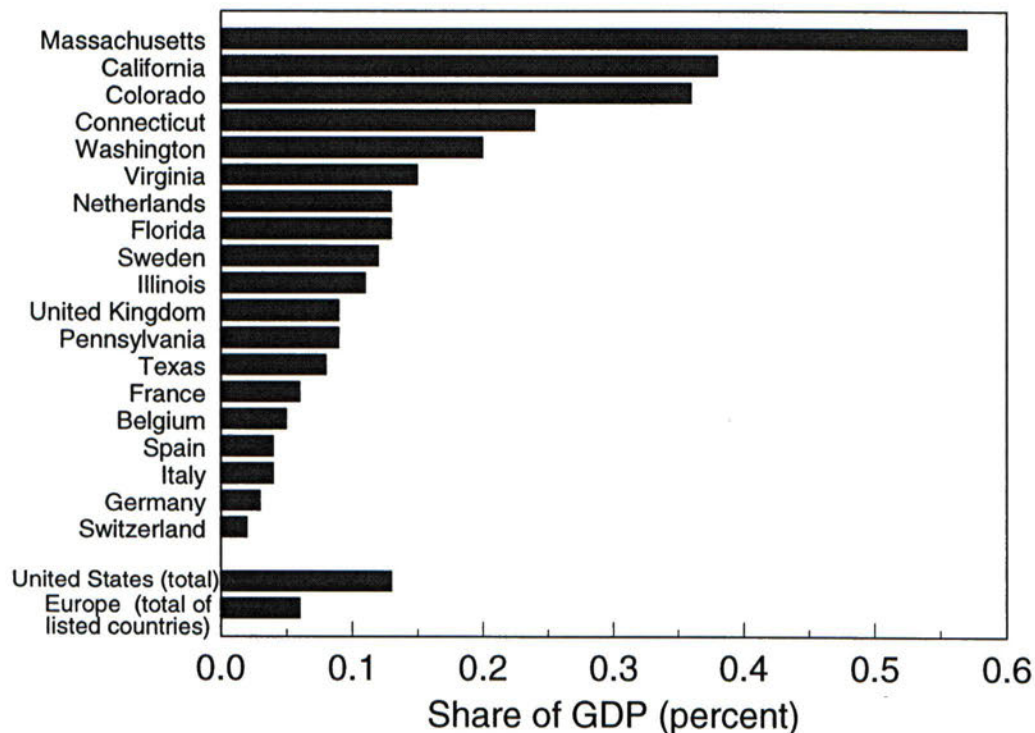
WEEKLY ECONOMIC BRIEFING OF THE PRESIDENT OF THE UNITED STATES

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

December 19, 1997

CHART OF THE WEEK

New Venture Capital in 1996



Six U.S. states attracted more venture capital in 1996 (relative to the size of their economies) than any major European country. The United States attracted the largest dollar amount of any country (\$10 billion), but the Netherlands attracted slightly more as a share of GDP.

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*"Sorry, folks, but your insurance doesn't cover
more than one day in the manger."*

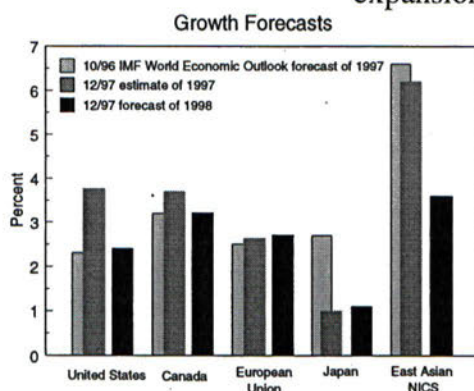
CURRENT DEVELOPMENT

Year-End Global Outlook: U.S. Locomotive Still Leads Train

Four major locomotives matter for global economic growth: North America, Europe, Japan, and—in the past decade—the East Asian industrializing countries. What are the prospects for their growth in 1998?

Retrospective on 1997. Expectations at the end of 1996 were that growth would slow in the United States and that the other three regions would easily outpace it. Instead, the United States (and Canada) saw higher growth rates in 1997 (about 3.7 percent each), while growth among our trading partners slowed (see chart). In Japan, the recovery from the recession of the early 1990s came to a standstill. In Europe, growth was lukewarm (except for strong expansion in a northern tier composed of the British

Isles and the Nordics). In the developing countries of East Asia, slowing growth turned to financial crisis in the second half of the year.



Prognosis for 1998. Forecasters are busy marking down their expectations for the world economy, particularly for Asia. When the OECD released its year-end *Economic Outlook* this week, ongoing developments in East Asia

forced it to announce that the published slowdown to 2.9 percent growth in OECD countries in 1998 might already be out-of-date (2.5 percent might be more realistic). Similarly, the IMF's *World Economic Outlook* published in October called for 4.3 percent global growth in 1998; but a recent updating puts the rate at 3.5 percent. Growth in the newly industrialized countries of East Asia, which had been high, is now forecasted to be only 3.6 percent in 1998. Growth in the United States and Canada is expected to slow to about 2.5 percent in 1998. Only the European locomotive is expected to maintain steam in the coming year.

Implications for the U.S. trade deficit. Relative growth rates in the United States and its trading

partners are a key determinant of the trade balance. Because income increased more rapidly here in 1997 than it did in advanced economies overall, U.S. imports from them increased more rapidly than their imports from us. This is the major reason (along with exchange rate developments) why the U.S. current account deficit increased from \$148 billion in 1996 (1.9 per cent of GDP) to an IMF-estimated \$182 billion in 1997 (2.3 per cent of GDP). In part because of the expected sharp slowdown in East Asia in 1998, the U.S. trade deficit will almost certainly continue to grow. The deficit on the current account is forecasted to reach \$230 billion in 1998 (2.7 percent of GDP). Given current and projected low unemployment, the decline in net exports should not be viewed as a source of aggregate job loss. But a rising trade deficit may nevertheless lead to domestic political discontent with regard to trade policy.

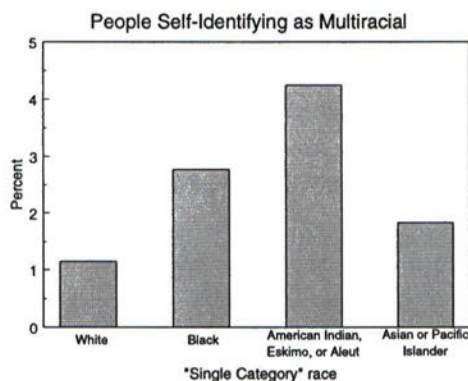
SPECIAL ANALYSIS

Race Categories in Federal Statistics

In the 2000 census respondents will be able to mark more than one racial category. Preliminary studies suggest a relatively modest number of people will take advantage of this opportunity.

Why new standards? Between 1970 and 1990, interracial couples increased from 0.7 percent to about 3 percent of all married couple families; the number of children in interracial families grew from less than half a million to nearly 2 million. Standards for collecting data on race for Federal statistics have been modified to reflect this development. The new standards, which allow respondents to mark more than one race, will be used in the 2000 Census and must be adopted in all Federal programs by January 1, 2003.

Who is affected? Several studies designed to assess the likely impact of these changes suggest that fewer than 2 percent of respondents will mark more than one race. Some evidence of how this response might differ across existing racial groups



comes from a study that examined how people's responses changed between a survey in which they could select only a single race category and a subsequent survey in which they could check a "multiracial" box (see chart). In that study, American Indians were more likely than others to check the multiracial box (see chart). Selecting a single multiracial box is different from the new standards, however, which involve checking multiple boxes.

What combinations will be selected? No direct study has been done on this question. But in one study that included "multiracial" as a choice, those who made that selection were then asked to write in their races. Over 80 percent of the respondents included white as one of their race categories. Asian or Pacific Islander was listed by about 30 percent; black by about 25 percent; and American Indian by about 7 percent. Another way to assess what racial combinations will be chosen is to consider the racial composition of interracial couples. (The children of these couples are probably the group most likely to check multiple boxes.) In 1990, about one-third of the 1.5 million interracial unions were Asian/white unions; over one-fifth were American Indian/white unions, and less than one-seventh were black/white unions.

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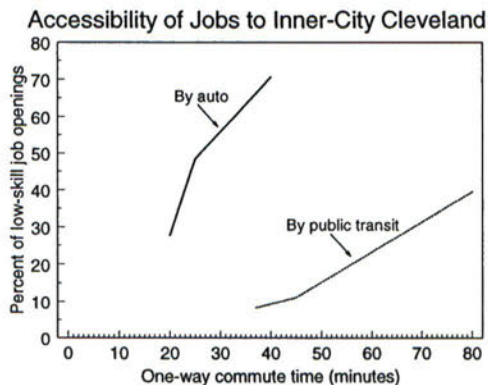
SPECIAL ANALYSIS

Where the Jobs Are

Welfare reform encourages and supports work among former and current recipients. But the transition from welfare to work will require adjustments. A new study of the Cleveland metropolitan area suggests what might be required.

Absorbing unskilled workers into the labor market. The U.S. labor market has absorbed enormous numbers of new workers, some with very low skills, over the past 30 years (for examples, see *Weekly Economic Briefing*, May 9, 1997). Of course, adjustment to increases in labor supply involves costs such as lower wages, increased unemployment, additional human capital investments, longer commutes, and migration to areas of job growth.

Commuting in Cleveland. The new study compares the residential locations of public assistance recipients to areas of projected growth, between 1995 and 2000, in low-skill jobs for which recipients are most likely to qualify. The vast majority of job openings are projected to be in suburban areas at substantial distances from the neighborhoods of inner-city Cleveland where most assistance recipients reside.



The authors computed detailed rush-hour commute times between city neighborhoods and suburban job clusters. The chart illustrates the percent of projected low-skill job openings within various commute times of one inner-city neighborhood with a large number of welfare recipients, but results are similar for other inner-city neighborhoods.

Recipients who must rely on public transit face long commutes. Fewer than 50 percent of low-skill job openings are projected to be located within an 80-minute one-way public transit commute of recipients' neighborhoods. For an 8-hour shift that pays the minimum wage, a 2-hour round-trip commute lowers the net hourly wage from \$5.15 to \$4.12 per hour—not counting the cost of bus trips. Not surprisingly, in 1990 only about 4 percent of employees in four major suburban job clusters commuted from the city of Cleveland. Fewer than 0.2 percent of employees (209 out of 120,500) commuted by bus from the city of Cleveland.

Can recipients move to the suburban jobs? The study also mapped the location of rental units with a rental price of less than \$300 per month (in 1990). A substantial amount of affordable housing is located within an average-length commute of two of the four main suburban job clusters (those closest to the city), but very little affordable housing is located within an average commute time of the other two.

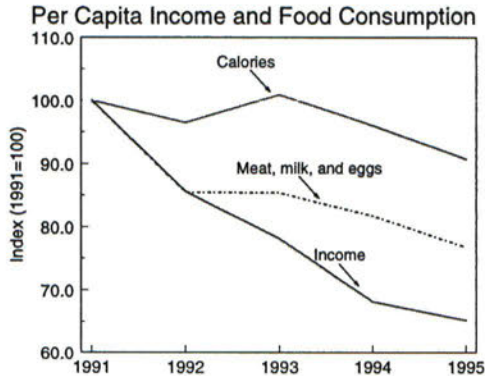
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Implications. Long commuting times between inner city neighborhoods and areas of projected low-skill job growth constitute a major barrier to moving some welfare recipients into work. Individual responses could lessen this problem. For instance, some recipients might buy cars or acquire training to qualify for higher-skilled work. Alternatively, firms might create new inner city jobs to tap an available workforce, using existing tax credits. Nevertheless, continued government focus on innovative strategies to improve transportation and promote housing mobility might be necessary to move many inner city residents from welfare to work.

SPECIAL ANALYSIS

Food Consumption in Russia

Since the breakup of the Soviet Union in December 1991, Russian per capita GDP has fallen by nearly 40 percent. Although life expectancy has declined, average caloric intake remains adequate for the great majority of the population.



A different diet. Consumption of food calories per capita fell by 9 percent between 1991 and 1995 (see chart), though total calories have remained adequate. In response to rising food prices and falling incomes, Russian consumers substantially reduced their purchases of meat, milk, and eggs, while increasing their reliance on lower-cost sources of calories such as bread and potatoes.

Special features of the Russian food system. A 1995 household survey from three oblasts (states) located in European Russia revealed that Russians spent 56 percent of disposable income on food (compared with 12 percent in the United States). In part, this reflects the pattern of economic reform: While most price controls on food have been removed, prices of housing, transportation, and many other household expenditure items remain heavily subsidized. Russian families also rely to a surprising degree on home production for food needs, even in urban areas. In the survey, home garden plots accounted for over 40 percent of household food consumption. The Russian food production and distribution system remains highly inefficient. For example, most farmland has not been privatized, which reduces incentives for private investment, and market institutions are underdeveloped. Moreover, many regions are striving for self-sufficiency in food production, rather than relying on comparative advantage and trade to improve economic efficiency.

Populations at risk. Pensioners, single-parent families and other groups that rely on fixed incomes and social safety nets have seen their real incomes fall sharply as inflation eroded purchasing power. The decline in life expectancy of the Russian population, especially among working age males, has been attributed to stress-related factors, such as increased heart disease, alcoholism, and accidents, rather than inadequate diet. In addition, infant mortality rates are at their lowest level in decades and declining, and acute malnutrition among children is not a major problem.

Implications. Concerns about malnutrition in Russia reflect declining incomes among specific at-risk groups rather than a problem of general food availability. When economic growth resumes, demand for meats and other high-valued food products should increase substantially.

ARTICLE

Does College Financial Aid Discourage Saving?

Parents are bombarded with advice to start saving early for their children's college education. For instance, one bank has run advertisements showing a newborn baby superimposed on that baby's hypothetical college graduation ceremony in 2016. The message to parents is clear: Your child won't be able to go to college unless you open an account and begin to save.

A tax on saving. The irony is, however, that those who heed the "experts'" advice and save for college might reduce their eligibility for financial aid. Because assets are an important determinant of "need-based" aid, two families with the same earnings history can receive dramatically different aid packages if one saved while the other spent. This difference functions as a large tax on savings.

How large is the asset tax? A study using 1986 data estimates that a family that sends two children to college over an 8-year period and receives financial aid is likely to get about \$11,000 less aid at average-priced colleges and \$15,000 less aid at more expensive colleges by accumulating an extra \$50,000 in assets. The corresponding implicit asset "tax" is 22 percent to 30 percent. The tax rate may reach 50 percent at institutions that give out enough aid to meet all of a family's financial "need." (Need is typically measured as the difference between an institution's cost and what a family can reasonably be expected to pay according to Federal or institutional formulas.)

Are these asset taxes a problem? Scholars have voiced two concerns. First, some have argued that these taxes have already or will someday discourage savings, aggravating what they perceive as a dearth of U.S. savings. One researcher has estimated this loss in assets to be about \$500 billion (about 17 percent of the assets of affected households). Others have suggested that the effects may not be felt today, because parents do not understand the financial aid system, but that savings will fall eventually, as people learn how the system works. College advice columns are noting that saving is a mixed blessing.

Another concern is fairness. Two families that earn the same amount can pay dramatically different prices at the same college if one has saved and the other has not. Treatment also varies by the type of asset. For example, financial aid forms do not include pension information (including IRAs and 401(k) assets), whereas a family that saves for retirement by building a business must report the business's value and may, therefore, receive less aid. Another concern is that asset reporting is difficult for colleges to verify, since assets, unlike income, are not reported on tax forms. Asset taxes therefore create a significant penalty for honesty.

Could the financial aid system be improved? It might be possible to achieve the worthy objectives of financial aid without some of these problems. It should be

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noted, however, that although the Federal Government gives out most of the financial aid (about 70 percent in 1994-1995), colleges control their own aid funds. The 1992 Higher Education Amendments removed home equity from Federal financial aid forms, but many colleges still require parents to report home equity. Nevertheless, some Federal changes have probably already lowered the asset tax. The Hope scholarship credit, for example, will reduce, or even eliminate, the tax for some families. Also, the relative mix of grants and loans in aid packages has shifted dramatically toward loans, and this too, may lower asset tax rates.] * /

A more fundamental reform. One possible reform is to maintain the current Federal needs analysis methodology, but replace actual assets with an imputed assets figure that represents a savings target. Such a system would have the advantage of eliminating the asset tax, but would shift the tax to whatever is used to calculate the savings target. If income is used for imputation, people are discouraged from earning income. (This effect is stronger if only one year's income is used rather than a multi-year measure of "permanent" income.) The question, then, may be whether the savings or the income effect is larger, and which more undesirable. It would also be important to ask whether such a change would create any new inequities.

BUSINESS, CONSUMER, AND REGIONAL ROUNDUP

Christmas Price Index Edges up Slightly this Year. Paying the piper costs no more this year than last year, which should be a relief to those who want to buy all the gifts in the traditional Christmas song—including 11 pipers piping. The total cost of the gifts included in the song—from drummers drumming to a partridge in a pear tree—is up 1.12 percent this year, to \$55,086 according to PNC Bank's annual Christmas Price Index (the other CPI). A large increase in the price of a pear tree is primarily responsible for the price increase; but this increase may be overstated because of double counting—the survey may have mistakenly calculated the cost of a pair of trees. The price of lords-a-leapin' also jumped somewhat. Many prices remained the same, however. Possibly thanks to Federal telecommunications policy, the price of four calling birds and five gold rings remained unchanged; so did the price of three French hens, despite a 14 percent depreciation of the franc. Although no large price increases are expected next year, there is concern that El Niño may turn swans-a-swimming into swans-a-swooning.

More Youth, More Crime? The widely recognized link between youth and crime (see *Weekly Economic Briefing*, July 26, 1996), combined with Census projections of an increase of 7.5 million (20 percent) in the population aged 15 to 24 between 1995 and 2010 would seem to make an increase in crime rates inevitable. A recent study suggests, however, that the net effect of all shifts in the age structure of the population will be to reduce aggregate crime rates. In particular, the population aged 25 to 39—the second-most criminally active age group—is projected to decrease by more than 5 million between 1995 and 2010. In addition, the population aged 65 and over—a group with extremely low crime rates—is expected to increase by 6.5 million. The estimated decline in crime rates associated with demographic shifts, assuming that crime rates in each age category do not change over the next 15 years, are 1 percent for murder, 5.2 percent for violent crime, and 3.3 percent for property crime.

A Rebuttal to the Economist Who Stole Christmas. Each year Americans spend billions of dollars on Christmas gifts. But are these expenditures worth it? Not according to a 1993 study showing that, leaving aside sentimental value, those receiving Christmas gifts valued those gifts at 10 to 33 percent less than the estimated prices paid by givers. This is consistent with economists' general belief that it is more efficient to let people make their own spending choices than to impose choices on them. A more recent study finds, however, that recipients place a total value on their gifts that is greater than the estimated cost to the purchasers. One reason may be that this calculation does not adjust for sentimental value in the same way as the earlier study. To put these conflicting survey results to a real market test, two economists conducted an auction to determine the price at which students would in fact be willing to part with their Christmas gifts. The result was a premium of about 28 percent over the purchase price, indicating that the act of Christmas gift-giving may actually create value.

INTERNATIONAL ROUNDUP

Japan Reverses Stance, and Adopts Fiscal Expansion. With new evidence of stagnation and a considerable worsening of business sentiment, the Japanese government reversed course this week and proposed stimulus measures that total about 1 percent of GDP. They include a one-time cut of over \$15 billion in personal income taxes and increased spending of a similar magnitude. The 1997 relapse in the Japanese economy can be traced back to the government's decision in April to increase the consumption tax in response to growing concern for Japan's long-term fiscal position—although pre-existing banking problems and subsequent financial crises in East Asia have added to the list of burdens depressing the economy. Throughout the year, the government expressed reluctance to undermine fiscal consolidation efforts. However, previous government announcements, most recently regarding a series of deregulation plans, have been deemed insufficient to stimulate the economy. Possible contributing causes to Prime Minister Hashimoto's Wednesday about-face include a gloomy atmosphere at this weekend's summit of Asian leaders in Malaysia, political pressure from the U.S. Government, and continued news of serious slowing in the economy. On December 15, the Bank of Japan released its quarterly Tankan survey of over 9,000 businesses, revealing a clear fall in confidence in the economy. The percentage of firms citing conditions as "favorable" rather than "unfavorable" fell in every category of size and industry.

East Asian Worries. The economic response to the fall's IMF programs in Thailand and Indonesia has not been so positive as to convince all of the region's policymakers that western-based reform packages work. Currencies have continued to fall since agreements were reached with the Fund: The Thai baht and the Indonesian rupiah have each declined about 30 percent against the dollar since the introduction of their respective IMF programs. Investors will be watching, in particular, to hear what Kim Dae Jung says about that country's IMF program. Kim, who won Korea's presidential election Thursday, has sent mixed signals about his support for the program in recent weeks, although a recent statement of support helped produce a strong recovery in Korea's currency and stock markets. Other signals in the region are mixed as well. On the one hand, some of the leaders attending the first East Asia-only summit over the weekend were quoted expressing dissatisfaction with the way IMF programs in the region were going. On the other hand, the participation of many of these countries in the WTO agreement completed last weekend in Geneva was a good sign of commitment to open their markets in financial services, despite the temptation in the current financial crisis to erect barriers.

RELEASES THIS WEEK

U.S. International Trade in Goods and Services

The goods and services trade deficit was \$9.7 billion in October; it was \$11.2 billion in September.

Housing Starts

Housing starts rose 1 percent in November to 1.53 million units at an annual rate.

Consumer Price Index

The consumer price index increased 0.1 percent in November. Excluding food and energy, consumer prices also increased 0.1 percent.

Industrial Production and Capacity Utilization

The Federal Reserve's index of industrial production increased 0.8 percent in November. Capacity utilization rose 0.3 percentage point to 83.2 percent.

MAJOR RELEASES NEXT WEEK

Advance Durable Shipments and Orders (Tuesday)
Gross Domestic Product (Tuesday)

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
<u>Nonfarm business (NFB) sector:</u>					
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	0.1
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**.

FINANCIAL STATISTICS

	1995	1996	October 1997	November 1997	Dec. 18, 1997
Dow-Jones Industrial Average	4494	5743	7876	7677	7847
Interest Rates					
3-month T-bill	5.49	5.01	4.97	5.14	5.10
10-year T-bond	6.57	6.44	6.03	5.88	5.76
Mortgage rate, 30-year fixed	7.95	7.80	7.29	7.21	7.07
Prime rate	8.83	8.27	8.50	8.50	8.50

INTERNATIONAL STATISTICS

Exchange Rates	Current level December 18, 1997	Percent Change from	
		Week ago	Year ago
Deutschemark-Dollar	1.775	0.3	14.2
Yen-Dollar	128.5	-1.1	13.1
Multilateral \$ (Mar. 1973=100)	98.57	0.0	11.3

International Comparisons	Real GDP growth (last 4 quarters)	Unemployment rate	CPI inflation (last 12 months)
United States	3.9 (Q3)	4.6 (Nov)	1.8 (Nov)
Canada	4.0 (Q3)	9.1 (Oct)	1.5 (Oct)
Japan	1.0 (Q3)	3.5 (Oct)	2.4 (Oct)
France	2.7 (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)

Need
Kagan
Bowles

'97 DEC 20 AM 11:5

THE WHITE HOUSE
WASHINGTON

December 19, 1997

MEMORANDUM FOR THE PRESIDENT

12-29-97

FROM: Bruce Reed
Elena Kagan

SUBJECT: DPC Weekly Report

1. Welfare -- Welfare-to-Work Competitive Grants: The Department of Labor will release a notice in early January seeking welfare-to-work competitive grant applications. DOL will award a total of \$711 million in five rounds of competition, two in FY 1998 and three in FY 1999. Projects will be funded for up to three years. Both public and private entities may apply, including state and local governments and community and faith-based organizations. We worked with DOL to ensure that the notice seeks projects designed to place welfare recipients into jobs quickly and to provide the support services and skills training they will need to succeed in the work force. Like the activities supported by formula funds (the rest of the \$3 billion welfare-to-work program), these projects must serve long-term welfare recipients with multiple barriers to employment. DOL intends to award about 70 percent of competitive funds to projects in cities with high concentrations of poverty and about 30 percent to projects in rural areas. The first round of applications will be due in March.

2. Crime -- COPS: The Justice Department last week announced \$47 million in grants to fund an additional 800 police officers under the COPS Program. The grants went to law enforcement agencies in 32 states, and included a grant to New York City to fund 300 officers. The announcement brings the total number of officers funded under the COPS Program to 66,000.

3. Crime -- 3-1-1 Community Policing Number: Dallas launched a new citywide 3-1-1 non-emergency response system last week. Dallas residents will be able to call 3-1-1 and request any city service 24-hours a day, seven days a week. Baltimore celebrated its one-year anniversary as the nation's first 3-1-1 project on October 1. The 3-1-1 initiative in Baltimore has helped to reduce the volume of calls to 9-1-1 by 25 percent and to cut the average response time to emergency calls by two-thirds.

4. Crime -- Brady Handgun Checks: Ohio signed an agreement with the Justice and Treasury Departments last week to conduct background checks for all handgun sales. Arkansas is now the only state not conducting background checks. Despite an opinion issued by Arkansas Attorney General Winston Bryant that the state has the necessary authority, the Governor continues to refuse to allow the checks. As a result, Attorney General Bryant has asked the Treasury and Justice Departments to name him the designated chief law enforcement officer authorized to conduct background checks statewide. The proposal is currently under consideration by both Departments.

on the
first
training
on schedule
now on 12/20/97
Gym

12-29-97

5. Tobacco -- Document Disclosure: Chairman Bliley released last week 834 tobacco industry documents that his committee had subpoenaed. The documents do not seem to contain any smoking guns, but reveal the industry's persistent efforts to conduct and support "scientific" research to support its litigation positions. More documents may come to light over the next month, as a result of either judicial rulings or additional congressional subpoenas. Chairman Bliley worked very closely with Rep. Dingell in demanding and releasing the documents; this cooperation may bode well for the progress of tobacco legislation in the House when Congress returns in January.

6. Tobacco -- Smoking Cessation: You recently asked about the possibility of funding smoking cessation efforts through national tobacco legislation. As the CEA informed you, a recent study in the *Journal of the American Medical Association* found that intensive smoking cessation programs can be among the most cost-effective of preventive intervention programs -- more cost-effective, for example, than mammography screening. Because of the proven success of these programs, you have stated that expansion of smoking cessation activities is a critical element of comprehensive tobacco legislation. The settlement itself proposed that \$1 billion annually for the first 4 years and \$1.5 billion annually thereafter would go to smoking cessation efforts. We have protected this level of funding in the budget process, rejecting proposals to use this projected revenue for non-smoking-related programs. This level of funding would be insufficient to allow the exact method of providing cessation services studied by *JAMA*, but neither HHS nor OMB thinks this method the most efficient. HHS is now preparing options for allocating smoking cessation funds, with estimates of how many quitters each option will produce. One potentially effective approach is to provide incentives to managed-care plans to encourage participation in smoking cessation programs.



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

'97 DEC 19 PM8:3

December 19, 1997

MEMORANDUM FOR THE PRESIDENT

CC: ERSKINE BOWLES
FROM: KATHLEEN A. MCGINTY *BSK for*
SUBJECT: CEQ WEEKLY REPORT

12-29-97

PROTECTING COMMUNITIES FROM TOXICS

National Low Emission Vehicle (NLEV)

This week Environmental Protection Agency (EPA) issued a final rule to facilitate a voluntary agreement between the northeastern states and the auto makers to produce vehicles that significantly reduce smog-related emissions. EPA has no statutory authority to issue more stringent tailpipe standards for vehicles before 2004. However, the Clean Air Act authorizes states to adopt California's more stringent standards in lieu of existing federal standards. When several northeastern states threatened to do this, automakers began to negotiate with states for production of cars that are cleaner than today's federal standards but less than those required by California. The National Low Emission Vehicle is the result of these negotiations.

Ford and GM have said they can build these vehicles, but will do so only if all 13 northeastern states "opt in" to this vehicle and give up their right to require California standards. The states now have 45 days to decide whether to opt in, and the automakers then have 15 days to decide whether they will build these vehicles. EPA is optimistic, but not certain, that this agreement will result in cleaner vehicles. Note that this effort relates only to ground-level smog-related pollutants, and has virtually no impact on greenhouse gas reductions. However, the model of voluntary action facilitated by the government may be a useful one for additional action on greenhouse gas reductions. In addition, it is a good example of advances in technology that can solve environmental problems. The technology necessary for these vehicles is well developed now, but was not at the time the negotiations began.

RESOURCE STEWARDSHIP

Transfer of Homestead Air Reserve Base

The Air Force and the Federal Aviation Administration (FAA) plan to announce on Tuesday that they have determined that a supplemental environmental analysis will be necessary before the Air Force can transfer the base to Dade County. Senator Bob Graham, Mayor Penelas, the Governor's office, and others will be alerted to this on Monday. Their staffs have been informed. Since

members of the delegations had been informed last month that the Air Force and FAA had made a tentative decision that a supplemental analysis was necessary, the agencies have been working hard and closely with the staffs of the concerned Florida interests to explore any and all alternative possibilities. The upshot of that work is an increased realization and understanding -- if not acceptance -- of the fact that the county took steps that now necessitate this action. Major press in Florida has been supportive of additional analysis. The message is now beginning to focus not on the supplemental analysis per se, but on criticism of the Administration for delay in announcing the decision to do one. While Senator Graham, Mayor Penelas and others, would like the conclusion to be different, I believe strongly that we have gone more than the extra mile here to get to "yes" but that that is not possible, and, it is not possible primarily due to actions taken by the county, not because of mistakes made by the agencies.

Finally, it is important to keep in mind here that, while this pushes the transfer back, it does not necessarily push redevelopment back. The fact is that there are many state and local processes that have to be completed; Mayor Penelas' own staff has said that, under any scenario, real work could not begin at Homestead prior to late 1999.

Joint Center for Sustainable Communities

CEQ worked with Intergovernmental Affairs and the Community Empowerment Board to facilitate the first meeting of the Advisory Committee of the Joint Center for Sustainable Communities, which was held in the Indian Treaty Room. The Joint Center was formed by the U.S. Conference of Mayors and the National Association of Counties to implement recommendations of the President's Council on Sustainable Development.

This is the first time in history there has been formal cooperation between our nation's mayors and county officials. They have come together knowing that many of the challenges facing our urban, suburban, and rural areas can be best addressed through regional and metropolitan cooperation. The agenda that emerged from the meeting is very supportive of our ongoing activities to build sustainable communities. They have chosen curbing sprawl, brownfields redevelopment, farmland preservation, welfare to work, and sustainable transportation policy as their priorities for the coming year. Vice President Gore and Secretary Cuomo both addressed the gathering.

INTERNATIONAL LEADERSHIP

Climate Change

We have begun follow-up activities related to the Kyoto agreement. This week we held briefings for Congress as well as business and environmental groups. We have also focused efforts on nailing down the important first year budget request of the \$5 billion over five years that you committed to for tax cuts and research funding to spur investments in energy efficiency and renewables. When announced as part of your budget, this will send a clear signal that we are moving ahead domestically to achieve cost-saving reductions in energy use.

12-29-97

In addition, the Hill has begun to react to the Kyoto agreement. We have received letters from Speaker Gingrich (attached) as well as Representative Gilman and Senator Helms that were quite negative. Senator Bryd also sent a letter complimenting our negotiating team and supporting our efforts but voicing his concern about the role of developing countries and the effects of the agreement on the U.S. economy (attached). Finally, Representative Gephardt released a statement on Wednesday supporting the agreement (attached).

We will have to be prepared immediately in January to push back against resolutions, letters, etc. that will be aimed at dissuading -- if not prohibiting -- you from signing the treaty when it opens for signature in March.

Cong. following
up

Congress of the United States

Washington, DC 20515

December 11, 1997

The Honorable William J. Clinton
The White House
1600 Pennsylvania Avenue, NW
Washington, D.C. 20500

Dear Mr. President,

The results of the just-concluded Kyoto Global Warming Conference are of paramount importance because of the effect this treaty will have on the economy. For this reason, I followed the negotiations over the past week with great interest, and increasing dismay.

After Vice President Gore promised to show "increased negotiating flexibility" to achieve an agreement, it appears to me that we simply surrendered. Early reports from those in attendance indicate that on ten critical issues such as cuts in emissions, future developing country commitments, and new U.S. commitments, we sacrificed the future well-being of the country based on environmental correctness and inconclusive science.

Based on what I have learned from conversations with Rep. Sensenbrenner, who led the Congressional delegation, I have concluded that there are serious flaws in both the treaty and the negotiating process. It is profoundly wrong that approximately 134 countries were allowed to vote on a treaty by which they will not be bound. It is also a grave injustice that each country's vote had equal weight regardless of population size—such as the tiny atoll, Nauru, off the coast of Australia—and that equal weight was also given to the votes of such terrorist nations as Cuba and Iran. Mr. President, is this putting America's interests first?

At this time, I do not believe you should sign this agreement until you have consulted with the Congressional delegation that attended the conference. In order to get a clearer view of the conclusions reached by the Conference and the impact of these positions upon the United States, it is vitally important that you be briefed by these House and Senate representatives once they have returned and compiled their research.

The costs to the U.S. economy being currently projected are an outrage. The very future of the United States is at stake, and a treaty that will cripple our economy and cause unemployment is not acceptable. As president, it is your responsibility to safeguard America's interests, and so I strongly encourage you to meet with the delegation as soon as possible.

Sincerely,



Newt Gingrich
Speaker of the House

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STEVEN J. CORTESE, STAFF DIRECTOR
JAMES H. ENGLISH, MINORITY STAFF DIRECTOR

United States Senate

COMMITTEE ON APPROPRIATIONS
WASHINGTON, DC 20510-6025

December 16, 1997

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

Dear Mr. President:

I am writing to commend the skill and persistence with which your negotiators, Ambassador Stuart Eizenstat and his team, represented the United States at the recently concluded climate conference in Kyoto, Japan. I view the decisions of the conference as the first part of an ongoing work in progress which should continue in Buenos Aires next fall and finally, hopefully, culminate in an effective global treaty to limit and control greenhouse gases.

While I await an official, comprehensive report from your Administration on the details and economic impacts of the Kyoto agreement, I would like to share a few observations at the outset of this important post-Kyoto period. I believe that the potential for serious climate disruption is real and that the global community must respond at an appropriate pace in accordance with scientific evidence as it develops. Ambassador Eizenstat has indicated that a number of key U.S. priorities were agreed to at the negotiations, including emissions trading and voluntary projects between industrialized and developing countries; reduction targets for man-made emissions of all greenhouse gases; incentives for worldwide forest preservation; and incentives for early emissions reduction. These are the direct result of American proposals, and are milestones on the road to cost-effective restrictions of greenhouse gas emissions on a global basis. These features are intended to reduce economic dislocations and maximize the use of new technologies and free market mechanisms.

However, of paramount concern is that the agreement reached in Kyoto does not meet the first standard set by the Senate in S. Res. 98, namely that the biggest emitters in the developing world have not yet agreed to binding commitments to be executed together with the industrialized nations. Such commitments should be paced together according to the ability of each country to achieve greenhouse gas emission limitations appropriate to its national circumstances and economic growth, and could be gradually implemented. In the absence of simultaneous legally binding commitments by key developing countries to grow in an environmentally sound way, there will not be an effective restriction of worldwide greenhouse gas emissions. Consequently, there would be little prospect of treaty approval in the U.S. Senate.

I am also concerned about whether the agreement meets the second standard set by S. Res. 98, namely that its implementation would not result in serious harm to our economy. Since the impact of the agreement on the U.S. economy is not now clearly understood, we cannot rule out the likelihood of such damage. It is critical that our nation (and the Senate) understands the probable costs of these specific actions proposed to address global climate change, as well as the possible consequences of taking no action.

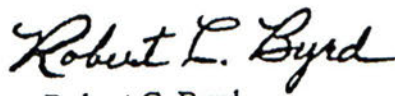
The President of the United States
December 16, 1997
Page 2

Given the incomplete nature of the Kyoto agreement, I believe that it would be prudent for a Presidential signature to be withheld until a more comprehensive treaty is reached which would be more deserving of Senate approval. Nevertheless, with these caveats, a significant new beginning has been achieved in addressing the long-term problem of global warming. The commitment of nations such as China, India, Indonesia, Mexico, Brazil, South Korea, and Argentina is essential to this effort.

Many on both sides of this issue have been quick to register their displeasure with the Kyoto agreement. It has been denounced by some environmentalists for not going far enough, and by some in industry for going too far. While it is regrettable that we were not able to reach an agreement with the developing world in Kyoto, it seems clear that we did gain acceptance on a number of important U.S. objectives. Therefore, I recognize that this is a worthwhile work in progress, and that a durable and effective solution to global climate protection, one which provides sustained economic growth and environmentally sound development for all countries, will require perseverance and patience. I welcome the announcement by the Administration that you consider the Kyoto agreement to be but the first step in a framework or architecture to continue the negotiations, and that this is a global problem requiring global solutions.

I look forward to receiving a comprehensive economic analysis, as the process of negotiating an acceptable international agreement which includes the developing nations proceeds over the next year.

Sincerely yours,


Robert C. Byrd

NEWS FROM THE HOUSE DEMOCRATIC LEADER

For Immediate Release:
December 17, 1997

House Democratic Leader Richard A. Gephardt
H-204, U.S. Capitol

Gephardt Backs Climate Change Initiative

WASHINGTON -- House Democratic Leader Richard A. Gephardt released the following statement today regarding the Kyoto agreement on climate change.

"With leading atmospheric scientists warning us of the possible dangers of climate change, it is vital we act together to reduce the risk to the global environment.

In my view, a global warming treaty should embrace realistic, achievable goals for our economy and businesses and include a shared approach among developed and developing countries. I commend the efforts of Vice President Gore and our negotiators for the successes they have achieved -- an important first step -- in Kyoto. Unfortunately, key developing countries like China and India failed to undertake any significant commitments, leaving loopholes that weaken the treaty. I see this treaty as a work in progress that must be improved and broadened before it can be ratified.

I agree with the President and the Vice President that the United States must lead on this issue -- without delay. I've always felt that improved energy efficiency is both good for our economy and a vital insurance policy against global climate change. I will work next year with the Administration in support of energy efficiency improvements and energy research and technology investments, both of which have suffered in the Republican Congress."

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Contacts: Laura Nichols/Erik Smith (202) 225-0100

Emanuel
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THE WHITE HOUSE
WASHINGTON

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December 19, 1997

12-29-97

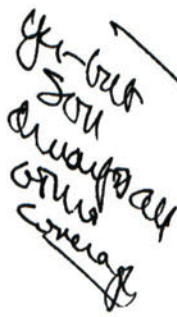
MEMORANDUM TO THE CHIEF OF STAFF
FROM RAHM EMANUEL
SUBJECT WEEKLY REPORT

 **DRUGS:** I am surprised that the Monitoring the Future report on drug use did not leak out of HHS or ONDCP before the President's radio address. Chris Wren from the New York Times is writing a story for the Sunday paper on the report and the new data. Wren is also going to incorporate into the story the President's radio address. The improved attitude and awareness of teens towards drugs will most certainly lead to a decline in drug use in the next few years. As a result, there is the possibility that the President will leave office having reduced teenage drug use from when he took office.

CRIME: The 311 non-emergency community policing number became available in Dallas this week. Over the weekend, NBC ran a story on Baltimore's success with the 311 assistance. The new number has reduced calls to 911 and increased the effectiveness of the community police program.

I am exploring ways with the Justice Department for the President to announce a lifetime probation for all sex offenders. This approach has been adopted in Arizona and the state now has the lowest recidivism rate in the country. I would like this to be the next step in the President's national campaign for stiffer sentences against sex offenders.

FRAUD: I have asked Frank Raines for a memo outlining all Administration efforts to combat fraud and abuse. This memo is the first compilation of Administration efforts in this area. If it documents all our efforts, it may be worthy of a radio address. It is important to continue to own the issue of changing government if we support an activist role for government.

 **STATE of the UNION:** We need to change our current perception of the State of the Union. The State of the Union has traditionally been a single event for the President to present his agenda for the coming year. We need to envision the entire month of January as a single effort to present the President's agenda for the coming three years.

The speech this year has the difficult task of organizing the three remaining years and will be

12-29-97

judged by whether the agenda measures up to the task. For this reason it is important to use key events and speeches in January to build towards the State of the Union. We want the agenda to be seen as "up to the challenge".

Outside of the one big policy idea, which should be held for the speech, I think child care, early Medicare buy in, and classroom size reduction are significant policy initiatives. The President could use his schedule in January to present these policies. A strategic January schedule will only strengthen and reinforce the goal we have set for the State of the Union--an agenda big enough for the challenge.

CAMPAIGN FINANCE: I have suggested to the FCC that the President send the Chairman a letter on Free TV and reduced rates. The Chairman's office reacted very negatively to the suggestion and I reacted negatively to their rejection. Chairman Kennard is coming in to see me today to discuss how we can better coordinate our common agenda. I would like the President to announce something in the State of the Union on this subject. This seems to be the most readily available action.

AFFIRMATIVE ACTION: We need to have a discussion on our affirmative action policy. Recently our message on affirmative action has ranged from "mend it don't end it" to a change in affirmative action policy to one based on class. Republicans have a clear and steadfast position on affirmative action and a number of state ballot initiatives in the works. I believe that this will enable Republicans to make affirmative action an issue with swing voters in the 98 elections. We need to prevent Republicans from making this an issue in 1998; we must define our affirmative action objective.

OTHER: I have attached a survey by the PEW Research Center. I think you will find the information helpful.

I have been informed that you are handling the President's request for a response to Tom Patterson's letter. If I can be of any assistance please let me know.

I want to do it
& have him here
for son prep.



THE PEW RESEARCH CENTER
For The People & The Press

NEWS Release

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FOR RELEASE: MONDAY, DECEMBER 22, 1997, A.M.

EMBARGOED

DEC 22 1997

Top 10 Stories of the Year

1997: High Personal Contentment, Low News Interest

FOR FURTHER INFORMATION CONTACT:

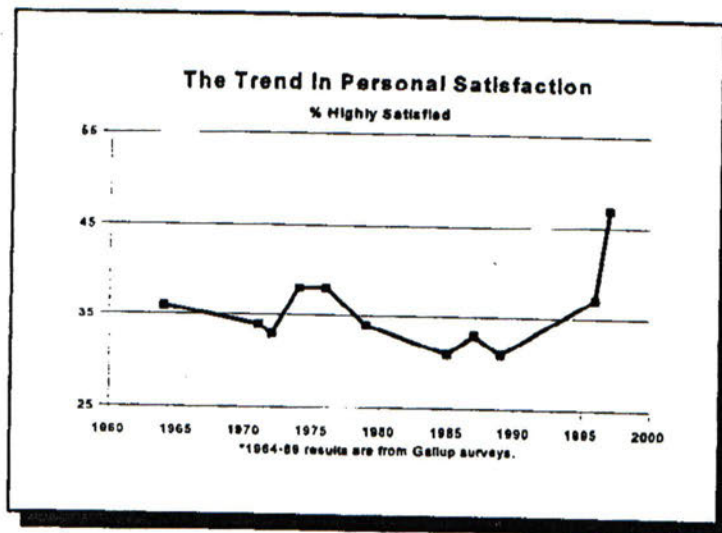
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Top 10 Stories of the Year

High Personal Contentment, Low News Interest

In 1997, Americans were happier with their own lives, felt more religious conviction and were less attentive to the news than at any time in recent years.

Fully 47% of Americans say that they are highly contented with their lives today, a jump of 10% points in just the last year and 9% points higher than at any time in the past 30 years.¹ Another significant change in long term trends shows nearly three quarters of Americans now say they "completely agree" with the statement: I never doubt the existence of God. This represents an 11% point increase over the past decade.



Yet the public's interest in news continues to fall. On average from 1986 through 1996, 25% of the public followed major news stories tracked by the Pew Research Center "very closely." This year, that number fell to 19%. For the second time in the 1990s, only one story united most Americans.

The one story that garnered the "very close" attention of more than half of the public was the death of Britain's Princess Diana. Fully 54% of the American public paid very close attention to news accounts of the Paris tunnel crash that killed the Princess followed by her funeral September 6. No other story this year was close. (See chart next page.)

News out of Washington fared particularly badly. For the second consecutive year, not one domestic policy story made the annual list of top 10 news stories. This year, just 49% of the public paid very or even "fairly" close attention to stories on domestic policy compared to 62% in 1993.

Question: "Imagine a ladder with steps numbered from zero at the bottom to 10 at the top. Suppose the top of the ladder represents the best possible life for you; and the bottom, the worst possible life for you. On which step of the ladder do you feel you personally stand at the present time? You can name any number between zero and 10." Survey field dates September 25 - October 31, 1997; N=1762. (Highly satisfied = steps 8-10.)

12-29-97

Only two Washington-based domestic stories were followed very closely by as much as a quarter of the public this year: the January debate over various Social Security reform proposals (29%) and the fall discussion of IRS reform (25%). Adding those who followed news at least fairly closely, a majority of Americans kept up with just five Washington-based stories this year.

The Public's Top Five Policy Issues of 1997

	% Followed	
	Very or Fairly	
	<u>Date</u>	<u>Closely</u>
Social Security Reforms	Jan	64
IRS Reform	Nov	59
Federal Budget	May	54
Late Term Abortions	May	53
Medicare Reform	June	51

Even the drumbeat of scandal failed to arouse much interest. At the height of public interest, the Senate hearings into allegations of campaign finance irregularities by the Democrats drew the very close attention of just 19% of Americans. Heavy news coverage of the hearings did not harm President Clinton's popularity. For the first time, his approval ratings stayed comfortably above the 50% mark all year.

Baghdad and Bad Beef

The year's No. 2 story was the dispute with Iraq over the role of Americans on United Nations weapons inspection teams in November. The story was followed very closely by 44% of the public. Interest in this story roughly matched the average of 41% who very closely followed stories about military interventions in past years.

Two consumer stories made the top ten list: the recall of tainted hamburger meat (at No. 3 with 40%) and the end of the UPS strike, which interrupted deliveries coast-to-coast (No. 5, 36%).

1997 Top Ten Stories

	% Followed
	<u>Very Closely</u>
Death of Princess Diana	54
Dispute W/Iraq Re: UN Inspectors	44
Hamburger Meat Recall	40
Timothy McVeigh Trial/Verdict	39
End of UPS Strike	36
Floods in Pacific Northwest	34
Heaven's Gate Mass Suicide	32
O.J. Simpson Civil Trial/Verdict	30
British Au Pair Trial	29
Birth of Septuplets in Iowa	29

✓ Crime is featured high on the list. Timothy McVeigh's trial on Oklahoma City bombing charges ranked No. 4 with 39% following the story very closely in June, followed by the O.J. Simpson civil trial and verdict (No. 8, 30%) and the British au pair trial in Massachusetts (No. 9, 30%).

✓ Disasters also drew widespread attention. The winter floods in the Pacific Northwest were followed very closely by 34%, ranking it No. 6, followed immediately by the Heaven's Gate cult mass suicide (32%).

Finally, the birth of McCaughey septuplets drew the very close attention of 29% of the public last month, ranking the story No. 10 for the year.

Public Interest in News Stories in 1997

<i>Story</i>	Followed Story ...				DK
	Very Closely	Fairly Closely	Not too Closely	Not at all Closely	
	%	%	%	%	%
Death of Princess Diana (Sept)	54	31	11	4	*=100
Dispute W/Iraq re UN Inspectors (Nov)	44	32	10	13	1=100
Hamburger Meat Recall (Sept)	40	37	16	7	*=100
Timothy McVeigh Trial/verdict (June)	39	40	14	6	1=100
End of UPS Strike (Sept)	36	40	14	10	*=100
Floods in Pacific Northwest (Jan)	34	37	14	14	1=100
Dispute W/Iraq re UN Inspectors (Dec)	34	33	15	17	1=100
Heaven's Gate Mass Suicide (April)	32	39	19	10	*=100
Timothy McVeigh Trial (May)	30	44	18	7	1=100
O.J. Simpson Civil Trial Verdict (Feb)	30	30	19	20	1=100
British Au Pair Trial (Nov)	29	36	20	14	1=100
Birth of Septuplets in Iowa (Dec)	29	35	24	12	*=100
Social Security Reform Proposals (Jan)	29	35	22	13	1=100
Preparations for El Nino Effects (Oct)	25	37	20	16	2=100
Ups & Downs in Stock Market (Nov)	25	36	18	20	1=100
Congressional Proposals to Reform IRS (Nov)	25	34	18	22	1=100
Bombings at Abortion Clinics (Feb)	24	38	21	16	1=100
Murder of Gianni Versace (Aug)	24	33	24	19	*=100
Debate over Medicare Reform (June)	24	27	25	23	1=100
Kelly Flinn Discharge From Air Force (June)	23	35	25	16	1=100
Ethics Charges Against Gingrich (Jan)	23	35	22	19	1=100
Mammogram Controversy (Feb)	23	28	20	27	2=100
Social Security Reform Debate (Feb)	23	26	22	28	1=100
Mars Exploration (Aug)	22	36	23	19	*=100
Controversy over Ebonics (Jan)	22	34	22	21	1=100
Debate over Late Term Abortions (May)	21	32	23	23	1=100
Liggett Tobacco Settlement (April)	20	40	22	18	*=100
Timothy McVeigh Trial (April)	20	38	25	16	1=100
Debate about Medicare Reform (Feb)	20	27	23	28	2=100
Improper Contributions to DNC (April)	19	37	22	21	1=100
Congressional Hearings Campaign Finance (Oct)	19	32	24	24	1=100
Terry Nichols Trial - OKC Bombing (Dec)	19	31	31	18	1=100
Debate about Federal Budget (Feb)	19	28	22	29	2=100
Reno Decision Re: Independent Counsel (Dec)	19	25	26	28	2=100
Sexual Harassment in Army (May)	18	43	24	14	1=100
Improper Contributions to DNC (May)	18	33	23	25	1=100
White House Coffees Videotapes (Oct)	18	28	28	25	1=100
Improper Contributions to DNC (Feb)	18	27	21	33	1=100

Continued ...

<i>Story</i>	Followed Story ...				DK
	Very Closely	Fairly Closely	Not Too Closely	Not at All Closely	
	%	%	%	%	%
Cloning of Sheep in Scotland (April)	17	33	26	23	1=100
Improper Contributions to DNC (Sept)	17	30	26	27	*=100
Improper Contributions to DNC (Jan)	17	29	26	28	*=100
Stock Market Ups and Downs (April)	17	21	22	40	*=100
Debate over Federal Budget (May)	16	38	23	22	1=100
Sup. Ct. Decision re Paula Jones (June)	16	34	28	21	1=100
Congressional Hearings Campaign Finance (Nov)	16	33	27	23	1=100
Problems with Mir Space Station (Sept)	15	37	25	23	*=100
Clinton's Cabinet Choices (Jan)	15	32	30	23	*=100
Problems with Mir Space Station (Aug)	14	39	24	23	*=100
Hostage Crisis in Peru (Jan)	14	37	24	24	1=100
Debate over Federal Budget (Aug)	14	34	25	26	1=100
Hong Kong/China Reunification (Aug)	14	34	23	28	1=100
Ups and Downs in Stock Market (Sept)	14	22	23	40	1=100
Whitewater Investigation (May)	13	34	26	26	1=100
New TV Ratings System (Jan)	13	33	27	26	1=100
Suicide Bombing in Jerusalem (Sept)	13	30	29	27	1=100
Attempted Coup Against Gingrich (Aug)	13	27	28	31	1=100
Clashes in Bosnia with US Troops (Sept)	12	30	34	24	*=100
Suicide Bombing in Jerusalem (Aug)	12	28	31	29	*=100
Competing Tax Cut Proposals (June)	12	26	29	32	1=100
Middle East Tension over Hebron (Jan)	12	23	29	35	1=100
Fast Track Debate in Congress (Nov)	11	23	29	35	2=100
Ralston's Withdrawal from Joint Chiefs of Staff (June)	11	23	28	37	1=100
Kyoto Conference on Global Warming (Dec)	11	18	24	43	4=100
Jiang Zemin's Visit to US (Nov)	10	29	28	32	1=100
Senate Campaign Finance Hearings (Aug)	10	28	26	35	1=100
Debate over China Trading Status (June)	10	21	26	42	1=100
US Global Warming Policy Debate (Nov)	9	24	33	33	1=100
Albright's Jewish Ancestry (Feb)	8	15	19	55	3=100
IBM/Deep Blue Chess Match (May)	7	20	23	49	1=100
25th Anniversary of Watergate (June)	7	16	29	47	1=100
Protests in Belgrade (Jan)	7	14	29	49	1=100
Off-year Elections VA, NJ, NYC (Nov)	7	14	22	55	2=100
Helsinki Summit -- Clinton/Yeltsin (April)	6	20	33	40	1=100
NATO Expansion (Aug)	6	16	31	46	1=100
Debate over NATO Expansion (April)	6	16	27	50	1=100
British Labor Party Victory (May)	5	19	25	50	1=100
Debate over NATO Expansion (Jan)	5	15	32	47	1=100
Civil War in Zaire (May)	4	19	30	46	1=100

THE WHITE HOUSE
WASHINGTON

12-29-97

December 19, 1997

MEMORANDUM FOR THE PRESIDENT

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

SUBJECT: Summary of Cabinet Weekly Reports
December 13, 1997 - January 2, 1998

DEPARTMENT OF TREASURY

- **Korea:** As of December 17, Korea has undertaken a series of reforms, including the following: 1) eliminate the 10 percent daily limit on how much the Korean currency can fluctuate; 2) commit to raise the ceiling on interest rates from 25 to 40 percent; and 3) commit to make it easier for companies to merge and issue stock. Investor sentiment was buoyed by a December 13 pledge from all presidential candidates to support the IMF program. Treasury is in close contact with the IMF, other international financial institutions, and Korean authorities to assess Korea's financial condition and its implementation of the IMF program.
- **Japan:** On December 17, the Japanese government announced a fiscal stimulus package which calls for increased public works spending, a one-time personal income tax cut, and lower corporate taxes. Initial market reaction was positive. The Bank of Japan sold U.S. dollars for the first time in more than five years to support the yen. Secretary Rubin issued a statement of support and Treasury will determine whether supplemental measures are needed later.
- **Indonesia IMF Program:** On December 11, Secretary Rubin met with the Indonesian Finance Minister. Minister Muhammad argued that in spite of Indonesia's implementation of its IMF program, its currency was continuing to plummet because of regional contagion and concerns over President Soeharto's health. Secretary Rubin responded that investor uncertainty about Indonesia's commitment to its IMF program was a key factor undermining confidence in the currency. The Secretary urged Minister Muhammad to implement structural reforms and tighten monetary policy to restore confidence.

- **Germany:** On December 16, Secretary Rubin met with German Finance Minister Waigel to discuss the European Monetary Union (EMU) and the IMF. Minister Waigel informed Secretary Rubin that it appeared likely that a large number of countries would be chosen as founding members of the EMU in May 1998. Minister Waigel and Secretary Rubin also discussed the economic situation in Germany, the U.S., Japan, and the rest of Asia, and agreed on the importance of strong IMF programs. They noted that the already agreed-upon increase in IMF quotas would provide the IMF with sufficient resources for the foreseeable future, and that a greater increase is not warranted, despite a request for one from IMF Director Camdessus.
- **IRS:**
 - ▶ On December 12, Treasury released an audit that had been sent to the Senate Finance Committee describing the use of enforcement statistics and tools to collect revenue in the Arkansas-Oklahoma district, and Secretary Rubin released a statement that he was seriously disturbed by the finding and demanded strong action.
 - ▶ The IRS recently announced the results of a taxpayer survey taken during its first Problem Solving Day on November 15. On a scale of one to seven, seven being the highest, taxpayers rated IRS overall 6.46 and rated employee courtesy at 6.77.
- **Pennsylvania Avenue:** On December 11, Assistant Secretary for Enforcement Johnson joined representatives from OMB, the National Park Service, DOT, and the Secret Service to brief Rep. Norton on Pennsylvania Avenue. The briefing addressed: a proposal for providing the elderly and disabled with vehicular access to Pennsylvania Avenue, signs for the elderly and disabled, and further beautification of Pennsylvania Avenue. Rep. Norton will be briefed on the expansion of E Street and related matters in the coming months.
- **NADBank:** On December 11, the Finance Committee of the NADBank endorsed eight Federal loan guarantees that will result in \$2.127 million in new private sector financing in AR, CA, PA, TX, and WA.
- **Community Development Financial Institutions (CDFI):** On December 5, the CDFI Fund announced the opening of the third round of the Bank Enterprise Awards (BEA) program, where up to \$25 million may be awarded to insured depository institutions which demonstrate an increase in their investments in community development financial institutions or an increase in their lending, investment, and provision of financial services in distressed communities. Treasury is working with House Banking Committee Democrats to formulate a strategy to secure reauthorization of CDFI in 1998.
- **Frank Sinatra Medal:** On December 11, the Mint presented Nancy Sinatra with the medal plasters for the Congressional Medal to be awarded to her father. The Mint has begun production of this medal and it should be completed by the end of December.

DEPARTMENT OF JUSTICE

- **COPS Grants:** On December 19, the COPS Office will announce approximately \$54 million in grants to 318 jurisdictions in 44 states to hire nearly 800 additional officers under the Universal Hiring Program.
- **Dallas 311:** On December 17, the City of Dallas, TX, will launch its 311 non-emergency number. The 311 system being implemented by Dallas will be the most comprehensive to date and will manage all city non-emergency service calls, rather than just non-emergency public safety calls.
- **Telecommunications Act:** District courts in NC and SC upheld the constitutionality of the judicial review provisions of the Telecommunications Act of 1996. Both courts rejected challenges under the Tenth and Eleventh Amendments, bringing to eight the number of district court rulings upholding the judicial review provisions of the Act.
- **Prison Population:** The U.S. Marshals Service ended FY97 with an average of 25,261 prisoners in custody per day, an 8 percent increase over the FY96 level. This upward trend in population has continued into FY98, with an average daily population level of 27,033 reported in October 1997. Much of this increase is attributed to the Southwest Border Initiative.
- **Social Security Fraud:** Thirty indictments were filed as a result of a multi-agency task force investigation of fraud in Social Security programs and fraudulent use of social security numbers to obtain credit. Losses total nearly \$1 million, approximately \$700,000 of which was sustained by SSA.

DEPARTMENT OF INTERIOR

- **Personal Watercraft:** NPS is developing a proposed rule to help park superintendents determine the propriety of Personal Watercraft (PWC) use in national parks. The rule will require an administrative determination that the activity is appropriate and meets certain criteria before PWC use will be allowed in designated areas.
- **Yellowstone Wolves:** In 1994, the Fish and Wildlife Service began to reintroduce wolves into Yellowstone National Park and Central ID. The WY, MT, and ID Farm Bureaus, and the National Audubon Society sued in federal court to stop the program. Recently the District Court ruled that this experiment violates the Endangered Species Act. The judge ordered the wolves removed but stayed his order pending appeal. The wolves now number approximately 150. If the order takes effect, they will have to be killed.

- **Shasta Dam:** BOR is studying the feasibility of increasing the water storage of Shasta Lake in northern CA. Storage would be increased by adding height to the existing dam or by constructing a higher dam immediately downstream. Preliminary investigations indicate that raising the existing structure is the most feasible option.
- **Salton Sea:** On December 18-19, Secretary Babbitt visited the Salton Sea in CA. The Sea has no outlet and its salinity levels have been steadily increasing. The Secretary held a press conference to announce that federal, state, local, and tribal governments with a stake in the Sea have agreed to coordinate their activities.
- **AK Grizzly Bears:** AK State Troopers and FWS special agents are investigating the killing of grizzly bears for their gallbladders in remote northwest AK. Seven bear carcasses have been found by troopers along a remote stretch of beach bordering the Chukchi Sea south of Point Hope. Bear gallbladders are used for medicinal purposes in some Asian cultures.

UNITED STATES DEPARTMENT OF AGRICULTURE

- **Small and Minority Farmers:** On December 17, Secretary Glickman joined you in a meeting with family farmers. The Secretary announced additional efforts to improve USDA's civil rights program and to increase assistance for small and socially-disadvantaged farmers, as well as budget increases.
- **AR Safe Drinking Water:** On December 11, USDA officials presented a \$6.4 million check to the Van Buren County Water Association, to double the customers it serves by extending service to very low income areas in need of safe drinking water.
- **Fly Gap Project (AR):** The Pleasant Hill District Ranger, Ozark National Forest, withdrew the decision to implement the Fly Gap Project which borders the Pig Trail Scenic Byway (Highway 23).
- **Trade Report:** On December 27, USDA will release a report on trade for calendar year 1997 through October. Through September, imports have been about \$2 billion over 1996, while exports have lagged 1996 by about \$3 billion, reducing the export surplus for 1997 by \$5 billion compared with the similar period in 1996.
- **CA Oranges:** Korea has rejected several shipments of CA oranges in recent months due to pesticide residues above allowable levels, threatening a market worth \$24 million annually. USDA officials are working with their counterparts in Korea to resolve the problem.

DEPARTMENT OF COMMERCE

- **OECD Anti-Bribery Convention:** On December 17, after four years of effort, the Anti-Bribery Convention was signed in Paris by 34 countries (the 29 OECD member states, plus Argentina, Brazil, Bulgaria, Chile, and the Slovak Republic).
- **MA Burma Sanctions:** The EU and Japan allege that a MA law imposing procurement sanctions on companies doing business in Burma violates U.S. obligations under the WTO. The U.S., EU, and Japan will participate in a third round of consultations today.
- **Russia WTO Accession:** The seventh Working Party on Russia's accession to the WTO took place on December 9-11. Russia was criticized for not having its market access offers ready for industrial and agricultural goods, and for failing to submit key documentation in a timely manner. The next Working Party will not be scheduled until Russia has submitted market access offers. Members of the U.S. delegation held bilateral meetings with their Russian counterparts.
- **NAFTA:** Public comments are due this week on the 1,400 products under consideration for expedited duty removal under NAFTA. USTR and DOC will review the comments to determine whether to proceed with the proposed duty eliminations. The USITC is expected to hold public hearings on January 8-9.
- **Africa Initiative:** On December 6-17, several DOC officials joined Representative Rangel on his Presidential Mission of Economic Cooperation to five Sub-Saharan African countries, Cote d'Ivoire, Uganda, Botswana, Mauritius, and Ethiopia. Mission participants also included seven other members of Congress, twenty private sector representatives, and fourteen U.S. officials.
- **Disaster Relief:** FEMA has asked DOC's Economic Development Administration (EDA) to participate in FEMA-led teams which visit communities in the aftermath of disasters to determine needs. EDA will focus on planning, technical assistance, and infrastructure.
- **Chemical Weapons Convention (CWC):** Bureau of Export Administration (BXA) staff are drafting the annual CWC certification report to Congress. You are required to prepare an annual report certifying that "... legitimate commercial activities of chemical, biotechnology, and pharmaceutical firms are not being significantly harmed by any limitations in the CWC." BXA will recommend that you certify that this standard has been met.

DEPARTMENT OF LABOR

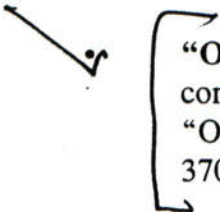
- **International Child Labor Report:** On December 18, Secretary Herman and Senator Harkin released DOL's Bureau of International Labor Affairs (ILAB) fourth report on international child labor, *By the Sweat and Toil of Children (Volume IV): Consumer Labels and Child Labor*. The report analyzes voluntary labeling efforts to inform consumers that measures are being taken to prevent the use of child labor in the production of hand-knotted carpets, leather footwear, soccer balls, and tea.
- **General Dynamics Defense Systems:** Next week, DOL's Employment and Training Administration (ETA) expects to announce a Title III - EDWAA grant of up to \$2,708,666 (with \$1.2 million to be awarded immediately). The grant will assist 450 of the 650 workers dislocated from the General Dynamics Defense Systems plant in Pittsfield, MA. The layoffs are attributed to the company's restructuring due to slumping sales in their Land and Combat Artillery Program division.
- **Year 2000:** Next week, DOL expects to award Year 2000 computer system upgrade grants. A total of \$200 million was appropriated for this purpose, and each state will automatically receive \$1 million assistance. States must compete for the remaining \$150 million in funding to correct the problem in their general computer systems.
- **Double Jeopardy:** On December 10, a unanimous Supreme Court in the case of Hudson v. U.S. narrowed the circumstances under which a defendant faced with civil and criminal penalties for the same conduct can avoid the second penalty by invoking the Double Jeopardy Clause of the Fifth Amendment. This decision has broad relevance to DOL's enforcement programs like the Occupational Safety and Health Act and Mine Safety and Health Act that provide for civil and criminal penalties for the same regulatory violation.

DEPARTMENT OF HEALTH AND HUMAN SERVICES

- **Avian Influenza:** Two more confirmed cases and one possible case of avian influenza have been reported in Hong Kong, bringing the total number of cases to six confirmed and one possible. Avian influenza is 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. Currently, there is a five-person CDC team in Hong Kong.
- **MI Child Welfare Waiver:** On December 19, HHS announced approval of a demonstration project to improve child welfare services in MI. This is the tenth and final waiver granted by the Administration for States to undertake innovations in their child welfare programs. This demonstration will allow the State to use IV-E foster care funds for managed care to test: 1) a payment system to serve high-risk children in out-of-home placements or those at-risk of such a placement; and 2) a community service for adolescents who are already involved with juvenile justice or child protective services.

- **Mental Health Parity:** On December 16, Treasury, DOL, and HHS delivered to the Office of the Federal Register (OFR) an interim final regulation implementing the provisions of the Mental Health Parity Act of 1996 (MHPA). The regulation will be published on December 22. MHPA provisions are effective beginning on or after January 1, 1998. MHPA includes a sunset provision under which the requirements do not apply to benefits for services furnished on or after September 30, 2001.
- **HIV:** The December 19 *MMWR* contains an article on "Evaluation of HIV Case Surveillance Through Use of Non-named Unique Identifiers--Maryland and Texas, 1994-1996." State laws require reporting of AIDS cases, including patient and physician names. To address concerns about reporting of HIV-infected persons by name, MD and TX implemented HIV surveillance using non-named unique identifiers (UIs). This report summarizes results of a 3-year evaluation of the usefulness of UI for population-based surveillance for HIV infection from both States, conducted in collaboration with CDC.
- **Laser Pointers:** FDA is warning parents and school officials about the possibility of eye damage from hand-held laser pointers. The pointers can have concentrated light energy stronger than the sun and may cause retinal damage if pointed at the eye. Recent reduction in the price of these pointers has led to far wider marketing.
- **HIV in India:** Two studies supported by the National Institute of Allergy and Infectious Diseases provide new information about HIV/AIDS in India. One study identifies the risk factors; the other sheds light on how the virus is transmitted from high-risk to low-risk populations in India. The studies appear in the December 17 issue of the *Journal of the American Medical Association*. A recent report by the UN and WHO estimates that 3-5 million people in India are infected with HIV, more than any other country.

DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

- 
- **"Officer Next Door":** For the week ending December 12, HUD accepted 44 sales contracts and closed 22 deals on HUD-held properties to police officers under the "Officer Next Door" program. These additions bring the total number of contracts to 370 and closings to 127.
 - **Housing Accessibility:** On December 15, DOJ filed suit against the developers and architect of four housing developments in Las Vegas, NV, for allegedly failing to construct housing complexes that are accessible to persons with disabilities. Under the Fair Housing Act, as amended in 1988, multi-family housing developments designed and constructed for first occupancy after March 1991 must contain certain accessibility features.
 - **Philadelphia Loan Guarantees:** On December 18, Secretary Cuomo announced two loan guarantees for \$19.5 million and \$20.8 million to Philadelphia, PA. The

guarantees are part of HUD's economic development initiative and Section 108 program, which reduce the interest rate communities are charged on loans from commercial lenders.

- **Waste, Fraud, and Abuse:** On December 15, Secretary Cuomo announced actions against six people and three companies from IL, MA, MO, and NY in HUD's continued crackdown on waste, fraud and abuse. Under the actions, four of the people and three of the companies were barred from working as contractors for the federal government for varying periods.

DEPARTMENT OF TRANSPORTATION

- **Indonesia Plane Crash:** On December 19, at about 1600 local time, a Boeing 737-300 operated by Silkair crashed on a flight from Jakarta, Indonesia, to Singapore. The aircraft wreckage has apparently been located approximately 5 miles northeast of Palembang, on the Island of Sumatra. There were reportedly 103 persons, including five Americans, aboard the flight. It is likely that there are no survivors.
- **Drunk and Drugged Driving (3D) Prevention Month:** On December 18, at a press conference hosted by the National 3D Prevention Month Coalition and NHTSA, Secretary Slater announced the results of a national survey on public attitudes about drunk driving. The Secretary was joined by the International Association of Chiefs of Police, the National Transportation Safety Board, Mothers Against Drunk Driving, the National Commission Against Drunk Driving, and celebrities from Recording Artists and Athletes Against Drunk Drivers.
- **D.C. Federal-City Partnership:** On December 15, Secretary Slater participated in three events highlighting the partnership between the federal government and the nation's capital. Congresswoman Norton, Mayor Barry, and members of the City Council joined the Secretary to highlight DC infrastructure improvements, including grants for 262 new Metro buses, intermodal improvements on Georgia and New Hampshire Avenues, and a neighborhood enhancement project at Grant Circle Park.
- **Quincy Shipyard:** On December 18, MARAD committed to \$53.48 million in guarantee loan financing for the reactivation and modernization of the Fore River Shipyard in a ceremonial signing event in Quincy, MA.
- **U.S.-Brazil Maritime Issues:** On December 16-17, MARAD participated in bilateral consultations with Brazil in Washington, DC.
- **Cocaine Seizure:** On December 8, off the FL coast, Coast Guard and Customs aircraft tracked a suspect fast boat from the Bahamas. A Customs boat intercepted and boarded the fast boat which had 2,244 pounds of cocaine on board.

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- **Marijuana Seizure:** On December 9, the Cutter DURABLE seized a fast boat and arrested two suspects with 270 pounds of marijuana.
- **Advanced Terrain Awareness Warning Systems:** On December 15, Secretary Slater, FAA Administrator Garvey, and the Air Transport Association (ATA) announced a major new partnership to eliminate controlled flight into terrain, a major cause of air accidents. ATA member airlines will voluntarily equip 4300 of their aircraft with these systems by the year 2003. As recommended by the White House Commission on Aviation Safety and Security, the FAA is continuing to develop a regulation that will require these systems for all U.S. carriers by 2003.

DEPARTMENT OF EDUCATION

- ✓ **Internet Access:** On January 6, Secretary Riley will participate in an event marking the implementation of the E-Rate.
- ✓ **Low-Performing Schools:** DOEd has completed a first draft for the guide to effective approaches for turning around low-performing schools that is scheduled to be submitted on January 26.

VETERANS AFFAIRS

- **PTSD Research:** The current edition of *Psychosomatic Medicine* has published a study linking post-traumatic stress disorder (PTSD) with physical ailments. *USA Today* and the *New York Times* are among the news organizations that have asked for VA's comments. Dr. Matt Friedman, Director of VA's National Center for PTSD, has indicated to reporters that the Center's own research confirms the study's findings.

ENVIRONMENTAL PROTECTION AGENCY

- **National Low Emission Vehicle (NLEV) Program:** On December 16, Administrator Browner signed a rule finalizing the basic structure of the NLEV Program, a program for new cars and light trucks that would be 70 percent cleaner than vehicles on the road today. The program allows states and auto manufacturers to agree voluntarily to legally enforceable tailpipe standards that are more stringent than EPA can currently mandate. The final NLEV rule includes a start date of 1999 and outlines a process for states and auto manufacturers to join the program.
- **Toxic Air Emissions:** On January 15, EPA will issue a study on the threats to public health associated with emissions of toxic pollutants from electric power plants. The study identifies mercury as the hazardous air pollutant of greatest concern. EPA will explore a possible regulatory program to curb mercury emissions from coal-fired power plants.

- **Mercury Pollution:** On December 19, EPA issued a study on mercury pollution. The study estimates that industrial sources emit about 159 tons of mercury per year and that the highest emitters are coal-fired electric power plants, waste incinerators, industrial boilers, chlor-alkali plants, and cement manufacturers. Mercury emissions accumulate on land and in water and human exposure occurs mainly through eating fish. High exposures to mercury cause developmental effects in humans and damage to the nervous system. EPA believes subsistence fishers and pregnant women are at greatest risk.

UNITED STATES TRADE REPRESENTATIVE

- **World Trade Organization (WTO) Financial Services:** On December 13, Ambassador Barshefsky joined Secretary Rubin to announce a successful conclusion to multilateral negotiations that will open financial services markets to U.S. suppliers of banking, securities, insurance, and financial data services. This agreement covers 95 percent of the global financial services market as measured in revenue and will open financial services markets to an unprecedented degree.
- **Japan Distilled Spirits:** The U.S. and Japan have successfully settled their WTO dispute on Japan's liquor tax. The settlement will eliminate tariffs on white spirits, accelerate Japan's elimination of tariffs on brown spirits, and ensure that U.S. exports of distilled spirits will no longer face discriminatory tax and tariff treatment in Japan.
- **India Patents:** On December 23, the U.S. will receive the report of the WTO Appellate Body in the case brought by the U.S. against India involving its failure to implement WTO obligations on patent protection for pharmaceuticals and agricultural chemicals. The U.S. has won on all counts, and India has appealed.
- **EU Bananas:** On December 23 or 24, the U.S. will receive the binding decision by an arbitrator on the time to be allotted to the EU to come into compliance with the WTO rulings that concluded that the EU's import regime for bananas violates WTO rules.

OFFICE OF NATIONAL DRUG CONTROL POLICY

- **Youth Anti-Drug Campaign:** Director McCaffrey will conduct a network rollout of the test-phase portion of an anti-drug campaign to focus on children from 9-17 and the adults who influence them. The campaign will be rolled out regionally during the first three weeks of January. The following cities are included in this "learning lab:" Atlanta, Baltimore, Boise, Denver, Hartford, Houston, Milwaukee, Portland, San Diego, Sioux City, Tucson, and Washington, DC. ONDCP expects a network television announcement in the next few days.

SMALL BUSINESS ADMINISTRATION

- **Small Business Regulatory Enforcement Act of 1996:** On December 31, the Administrator will present the first annual report to Congress on the Regulatory Fairness Program, one of the federal government's most significant initiatives ever on behalf of small business. The Program, created by the Act and established by the SBA, will give small businesses unprecedented participation in the regulatory enforcement process.

UNITED STATES INFORMATION AGENCY

- **Cuban Patriotic Reaffirmation March:** Radio and TV Marti provided coverage of the Cuban Patriotic Reaffirmation March, organized by the Cuban exile community in South FL. The march, which included over 50,000 people, was organized to demonstrate the Cuban exile community's desire for a free and democratic Cuba. Organizers adopted a platform which included support for the U.S. economic embargo of Cuba and opposition to efforts to organize travel to the island for the coming visit of the Pope.
- **Rangel Africa Mission:** The African Washington File traveled to Africa with Rep. Rangel and filed ten articles highlighting your letter underlining "our strong desire to strengthen U.S.-Africa ties," as well as the delegation's meetings with the secretary general of the Organization of African Unity, African presidents, other high-level government officials, and representatives of the business sector and the Southern African Development Community. In Uganda, the Chair of the Ugandan Manufacturers Association welcomed the establishment of a U.S.-Africa Economic Forum to facilitate discussions on trade and investment policies and initiatives.

GENERAL SERVICES ADMINISTRATION

- **Civil War Artifacts:** Recently, a GSA employee discovered twenty boxes of historic artifacts (Civil War era newspapers, government reports, wallpaper, textiles, and original signs) in a room once occupied by Clara Barton at 437 7th Street, NW, in Washington, DC. The National Park Service (NPS) believes that Barton lived in the building and used it to conduct her humanitarian efforts during and after the Civil War. GSA, the DC State Historic Preservation Office, and NPS are working together to find a permanent home for the objects.

SOCIAL SECURITY ADMINISTRATION

- **Social Security Solvency:** On December 15, GAO released the final report on examining different approaches for addressing solvency in the Social Security Program. This report responded to the Senate Finance Committee's request to examine proposals that are being advanced to address the future solvency of Social Security. GAO examined Social Security's current and projected financial status, proposed adjustments

to the program's financing and structure, and how the proposed adjustments might affect the program's financial solvency, beneficiaries, national savings and the economy, and the administration of the program. GAO's analysis includes a discussion of adjustments within the current program structure that could restore a 75-year balance and the questions and challenges of moving to an alternative program structure.

- **Disability Report:** In response to a request from the House Ways and Means Committee, GAO recently reported on Social Security disability insurance beneficiaries who are working. GAO interviewed 69 disability beneficiaries who reported earnings to SSA in 1995. GAO reported that services that improved health and functioning were paramount factors that affected return to work, while assistance from SSA had limited impact. SSA believes that the study results cannot be generalized, given the limited scope of the review.

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 STATE

Iraq/Human Rights: There are unconfirmed reports from several Iraqi opposition groups, human rights organizations, and diplomatic sources that the GOI ordered large-scale executions of political prisoners in the past month. Some 800-1500 persons may have been affected by the order, with less than 100 persons executed each day at Abu Gharib Prison and the Radwanayah detention camp. Some reports allege that all prisoners with sentences of 15 years or more are to be killed in order to "clean out" the facilities. State's investigation of these reports is continuing.

DEPARTMENT OF DEFENSE

Guam Shipyard Helps Keep Navy Forward Deployed: The USNS SAN JOSE will undergo more than \$350,000 in repairs at the newly designated Guam shipyard. Formerly a Navy Ship Repair Facility (SRF), the shipyard had been closed as part of the 1995 Base Realignment and Closure Commission's decision. The Guam government obtained a lease from the Navy for the SRF in July 1997 and has subleased the facility to the Bensalem, PA, based Xenotecnix, Inc. The Guam shipyard provides ships operating in the Western Pacific around Guam a ship repair facility with drydock and overhaul capabilities.

Clinton-Jiang Summit Follow-Up: The Chinese People's Liberation Army Deputy Chief of General Staff, LTG Xiong Guangkai, was in Washington December 10-13 for the first ever US-China Defense Consultative Talks. The talks addressed a range of strategic issues including the situation on the Korean peninsula and proliferation. China and the United States also initialed a Military Maritime Consultative Agreement intended to provide a framework for promoting safety at sea.

The Secretary's Schedule: From December 23-25, Secretary Cohen will travel in Naples, Italy; Skopje, Macedonia; and Tuzla, Bosni, for holiday visits with U.S. troops. The entertainer Mary Chapin Carpenter will accompany the Secretary and entertain the troops in each location.



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

Gibbons
Bowles

'97 DEC 19 PM2:09

December 19, 1997

MEMORANDUM FOR THE PRESIDENT

FROM: JOHN H. GIBBONS *JHG*
CC: ERSKINE BOWLES
SUBJECT: OSTP WEEKLY REPORT

12-29-97

RECOGNITION OF THE PASSION FOR DISCOVERY MAKES A DIFFERENCE

Thank you very much for devoting time this week to honoring citizens who have contributed so much to this country through their "passion for discovery." Your speech on December 16 recognizing the accomplishments of the 1997 recipients of the National Medals of Science and Technology won high praise from all those in attendance, including families of the winners and science and technology luminaries from industry, government, and academia. Your time with the families of the Apollo 1 astronauts helped bring closure to tragedy in their lives while reinforcing this Nation's commitment to honor individuals who give their fullest measure to advance our exploration of the unknown. Your commitment to helping this country realize the promise of science and technology is an inspiration.

ECONOMIC SELF-INTEREST PUSHES BIG 3 TOWARD "GREEN" CARS

I reported to you last week that Chrysler will announce a new, 4-stroke, direct injection diesel hybrid car that gets more than 60 mpg and "beats Toyota" at this year's auto show. Ford and GM hopped on the "beat Toyota" bandwagon December 17 with an announcement that they can have cars that will eliminate 99 percent of smog-producing emissions on the road before the end of 1998 — in a favorable regulatory environment. The Ford and GM designs do not significantly reduce CO2 emissions, but they may remove nitrous oxide, which accounts for two percent of U.S. greenhouse gas emissions.

Another announcement this week bodes very favorably for our attempts to revolutionize the automobile. Ford, Daimler-Benz, and Ballard (a Canadian leader in fuel cell technology) have signed a memorandum of understanding to develop and produce fuel cell engines for cars by 2004. This is a key goal of PNGV and climate action.

I believe your decision to launch an intensive effort to engage American industry on the subject of climate change is fostering an atmosphere in which government and industry

can really cooperate to pursue the twin goals of environmental protection and economic growth.

CLIMATE OUTREACH CONTINUES

In the wake of the Kyoto negotiations, my staff and I continued to communicate the science of climate change to the public and to Administration officials. We have printed an additional 10,000 copies of Climate Change: State of Knowledge. Several thousand were distributed in Kyoto and another several thousand have been sent out in response to inquiries over the last few weeks. In addition, Rosina Bierbaum briefed senior officials at the U.S. Agency for International Development and at the Overseas Private Investment Corporation, both of which will play an important role in reaching out to developing nations in the months ahead!

Since the conclusion of the Kyoto negotiations, OSTP has printed and distributed several thousand additional copies of Climate Change: State of Knowledge. In addition, Rosina Bierbaum briefed senior officials at the U.S. Agency for International Development and at the Overseas Private Investment Corporation; both organizations will play important roles in reaching out to developing nations over the course of the next year.

OUTREACH ON CTBT SCALES UP

Efforts are underway, both within and outside the Administration, to prepare for the upcoming debate on ratification of Comprehensive Test Ban Treaty. Updated fact sheets on CTBT are being cleared and should be available soon for public release. Nobel Laureates Jerome Friedman, the Vice President of the American Physical Society (APS), and Robert Schrieffer, the APS Past President, will very shortly start circulating a letter for signature by Physics Nobel Laureates endorsing the CTBT; the letter draws strongly on the statement of the APS Council endorsing the Treaty. I am working with the American Association for the Advancement of Science to encourage them to take a position in favor of the CTBT. As was the case with the Chemical Weapons Convention, I believe the endorsements of major scientific organizations will be important to persuading Congress that our national defense is, in fact, stronger with the test ban than without.

JOINT STUDY OF NATURAL DISASTER RESILIENCE ADVANCES

On December 11, Public Private Partnership 2000 - cosponsored by your National Science and Technology Council -- held its second Forum on Public Policy Issues in National Disaster Reduction. The Forum focused on the management of catastrophic risks and brought together more than one hundred participants from academia, Wall Street, NGOs, and federal, State and local government. Among the issues examined was the concern that the Nation's present insurance system lacks adequate reserves to address a mega-disaster (such as a major hurricane making a direct hit on a large city) in which losses could exceed \$70 - 100 billion. At the Forum, representatives of the academic, reinsurance, and financial communities discussed a variety of approaches for mitigating financial risks, including the possibility of closer coordination between the insurance industry and Wall Street capital markets.



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December 3, 1997

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Ms. Ann Lewis
Assistant to the President
Director of Communications
The White House
Washington, D. C. 20502

Dear Ann,

I am enclosing another missive to the President. The piece is entitled *The Royal Conflict: King David and Michal*. The author, Rabbi Dr. Emanuel Feldman, is Rabbi Emeritus of Congregation Beth Jacob in Atlanta, and is the Editor-in-Chief of *Tradition* magazine, published by the Rabbinical Council of America. He holds a PH.D. from Emory University where he has served as Adjunct Professor of Law.

Sincerely,

Rabbi Menachem Genack

'97 DEC 8 PM 6:28

THE PRESIDENT

12-29-97

Milli-
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Pm

TO Rabbi

Dr. Feldman

THE PRESIDENT HAS SEEN

12-29-97

THE ROYAL CONFLICT: KING DAVID AND MICHAL

by Rabbi Doctor Emanuel Feldman

One of the classic domestic disputes in the Bible takes place in the story of King David and his wife Michal (II Sam. 6:12 - 23).

David, king of Israel, has finally established Jerusalem as the Holy City, the capital of the land. Many years earlier the Philistines had captured the Holy Ark. King David has now brought the Ark back to Jerusalem, and he leads a great celebration in honor of the event. He is ecstatic, and as verse 14 tell us, he dances in the streets "with all his might," leaping and shouting to the sounds of the shofar trumpet.

But not everyone is happy. Michal, the queen, watches from the palace window, and as he hops and springs before the populace she despises him in her heart.

Finally, the Ark is placed in its special tent, David offers up sacrifices to God, distributes cakes and bread to the people, and returns to his own household to give them blessings.

In verse 20, Michal greets her husband the king with bitter, taunting words: "How did the king of Israel get himself honored today, who uncovereth himself today in the eyes of the handmaidens of his servants, as one of the empty fellows shamelessly uncovereth himself." It is unseemly, unbecoming, unworthy, undignified to behave in such a manner.

King David replies: "I will rejoice before the Lord, who chose me king over thy father Saul, and I will be even more contemptible than this and will abase myself even more; and by the handmaidens of whom you have spoken, by them I shall be held in honor" (v. 21).

That is, one's own self and one's dignity count for naught when one serves the Lord; only God is noble and has greatness and dignity; man exalts God by humbling himself. And on this note the story ends, with the laconic statement that Michal bore no children.

It is tempting to dismiss Michal out of hand: shrewish, concerned with status, position, appearances. But Michal is no ordinary person. She is, after all, the daughter of the anointed one, King Saul. She has been raised in his palace, and knows something about giving proper honor to the Creator. Surely there is more to this story than its surface reveals, more than a queen angry at her royal husband for dancing in the streets. Perhaps we can hear in this powerful narrative a distant reverberation and echo of something we have experienced long before the times of King David.

For the source of this echo we must look at the genealogy of the protagonists: David is a direct descendent of Judah, whose mother is Leah. Michal is the daughter of Saul, who descends from Benjamin, whose mother is Rachel. As we see in the Joseph stories, the children of Rachel and Leah represent two prototypes, two diverse though equally legitimate approaches to God. And in the words which ring out between David and Michal there is somehow an echo of the ancient differences between the children of Rachel and the children of Leah.

The first manifestation of these differences takes place in the conflict between Joseph and his brothers: Joseph, son of Rachel, against the leader of the brothers, Judah, son of Leah. Their dispute concerns the proper way to serve God - not merely the symbolic dispute concerning the cloak of many colors. Is the primary service of God to be open, outward, public - or is He to be served inwardly, quietly, in a hidden way?

copied
Emanuel
Bowles

THE PRESIDENT HAS SEEN

12-29-97

Elsewhere we have suggested that Joseph represents the mind, the intellect. He is otherworldly, remote, distant, removed from the mundane things which for him detract from the service of God. Joseph represents the worship of God by solitude, withdrawal, reserve, reflection. By contrast, Judah and the brothers represent the qualities of heart and emotion. God is to be served from within the world, by community, by a coming together, by utilizing and elevating the world.

For Joseph it is enough to love God, to serve him in quiet ways, concealed behind a veil. It is not necessary to demonstrate to others this love for Him; but for Judah, the love of God is so overwhelming that it must be shared and demonstrated to all, so that others may join in reaching for Him and loving Him. How can love of God, so powerful, be kept to one's own self? As we have already seen, this philosophical conflict has never been resolved throughout Jewish history. It appears here once again, a distant echo of that ancient struggle, in the personalities of Michal and David.

David is the "sweet singer" of Israel. He will serve God in all ways: by composing and singing his Psalms, by studying God's word, by prayer. And, if the occasion demands it, he will serve God by dancing, springing, jumping, hopping. He cannot contain his exuberant joy: his inner fire and his enthusiasm know no bounds. And if this king dances together with the commoners, with the servants, with the rabble, what of it? Before God we are all rabble, we are all servants. David's love of God is so overwhelming that it must be shared with others: it cannot remain private, hidden in a quiet corner.

Saul, on the other hand, is contemplative, brooding. Even after Saul is appointed king by Samuel, Saul is "hidden among the vessels" (I Sam. 10:22). (Is this why Saul initially finds David so intriguing and refreshing?) And Michal, the daughter of Saul, tracing her lineage to Joseph and Rachel, approaches God with reserve, thought, inwardness, quiet: God is served in a whisper, just as Rachel whispered her secrets to her sister Leah on the wedding day. And when Michal sees her husband the king dancing wildly in public, the ancient dispute erupts once again, and we hear David's angry retort. (There is an interesting echo of the Joseph story here as well: according to the tradition, one of the charges that Joseph leveled against Judah and the brothers was that they treated the children of the servant wives as inferiors. But now King David [Judah] is accused of behaving before the servants as if they were equals. Is this a correction of Judah's mistakes? Or is it an indication that Joseph's original accusation was wrong?)

It is an issue which will remain unresolved until the end of days, when the way of Leah and the way of Rachel, the way of Joseph and the way of Judah, the way of Michal and the way of David - heart and emotion, mind and intellect - all will be seen to be part of the way of God, whom we serve in private and in public, with heart and with mind, in concealment and in openness.



'97 DEC 23 PM6:

THE WHITE HOUSE
WASHINGTON

December 23, 1997

MEMORANDUM FOR THE PRESIDENT

cc: THE VICE PRESIDENT
ERSKINE BOWLES
JOHN PODESTA
SYLVIA MATHEWS
RAHM EMANUEL
ANN LEWIS
SIDNEY BLUMENTHAL
DOUG SOSNIK
STEPHANIE STREETT
GENE SPERLING
BRUCE REED
ELENA KAGAN
MIKE MCCURRY
FRANK RAINES
JOHN HILLEY
RON KLAIN
MICHAEL WALDMAN

FROM: PAUL BEGALA *PB*

SUBJECT: MESSAGE EVENTS FOR JAN. 3 - 9, 1998

Our message strategy for the beginning of the New Year centers on showing energy and action on the big issues facing the country. In order to start the new year by dominating the issue terrain, I'd like your approval on the following schedule of message events:

Saturday, 1/3: Radio Address on vastly expanding the Peace Corps for the new century, to reach 10,000 volunteers by the Year 2000;

Monday, 1/5: *✓* The new budget baseline number is released. This can be done either by OMB Director Raines and other members of your budget team, or by you in a pool spray at the beginning of a budget meeting. The message would stress the success you've had balancing the budget and your commitment to fiscal discipline in the face of mounting calls from the Hill to spend money we don't yet have;

12-29-97

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Bowles
Begala
STREETT*

Tuesday, 1/6: You and the VP announce your new proposal to allow Americans to buy-in to Medicare at age 62, and displaced workers to buy-in at age 55. We are still working on how best to present this event, but Ann Lewis and I think the best way is to include testimonials from real people who would be affected by this policy; to put a human face on what otherwise might be a somewhat wonky issue;

Wednesday, 1/7: No major message event.

Thursday, 1/8: You, the First Lady and VP announce your child care initiative in an East Room event. If we hold the event at 9:30 am you can still depart on time for your trip to New York. [NOTE: We had originally thought of doing this event on Tuesday 1/6 or Wednesday 1/7, but the First Lady's schedule does not allow it.]

Friday, 1/9: In Texas you stress that college is affordable, and community college virtually free, for every American by virtue of the combination of HOPE, other tax credits, Pell Grants, etc. You can also highlight new proposals in your budget to expand work-study programs.

I realize this is an ambitious first week after returning from the holidays; intentionally so. You have an ambitious agenda, we want to ensure that those whom you will be challenging to enact that agenda understand that you are hitting the ground running in the New Year.

RECOMMENDATION: That you approve of the above-outlined schedule for message events for the first working week after the New Year.

☒ APPROVE

☐ DISAPPROVE

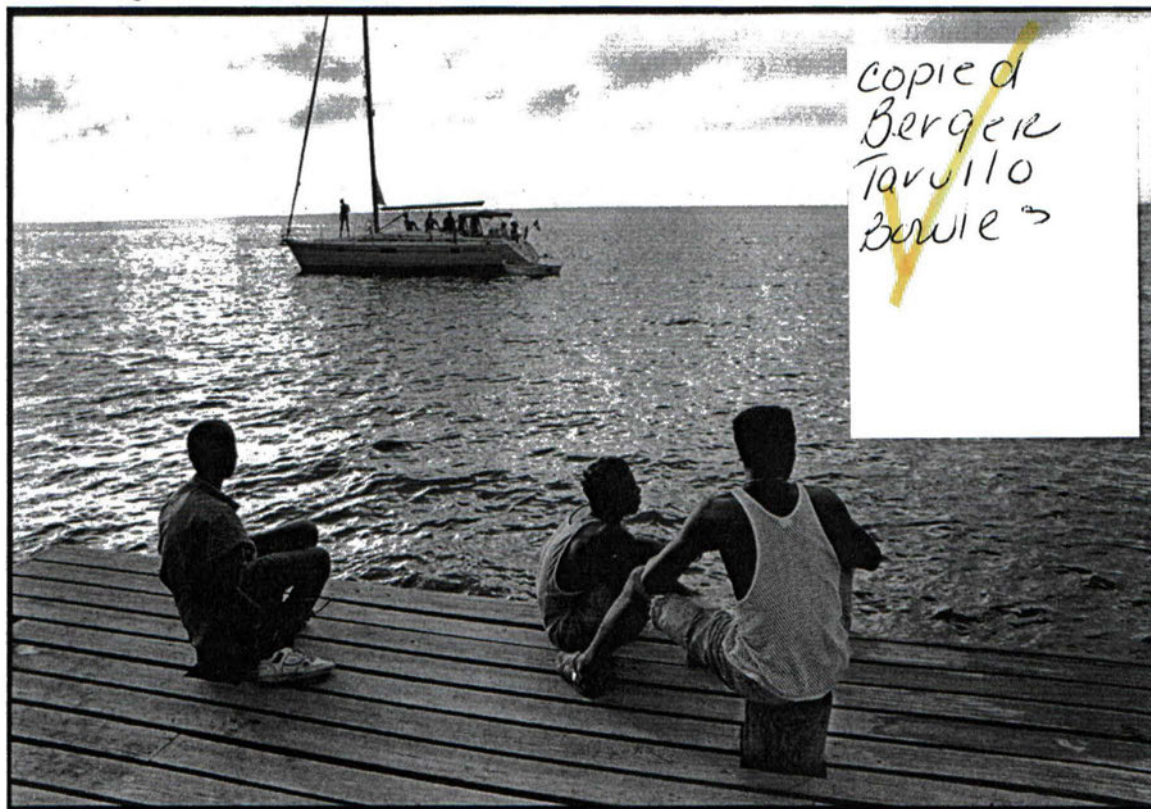
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GLOBALISATION

THE PRESIDENT HAS SEEN

12-29-97

Expelled from Eden



copied
Berger
Tavillo
Bowie

After decades of cosy protection, the banana growers of the Caribbean must reinvent themselves for a world market that has left them behind. Protectionism is never so cruel as when it ends

UNDER a sun so hot that the air itself seems to sweat, a woman walks down a muddy track between banana trees. She walks with the easy motion of the Caribbean, feet splayed and hips swaying, with a tray covered in sacking balanced on her head. Nothing hurries her. It will take five or ten minutes to cover the distance between the packing shed and the hummocky piece of land where a man is harvesting the fruit. And there, too, time moves with a particular humid slowness. The cutter plunges his machete into the tree, and waits; the tree, creaking, bends down to him. He removes the still-green hands of bananas from the bunch, one by one, trims off the fruit from either side, and lays the hand on the ground. The fruit from a single two-foot bunch will cover a square foot of sacking, and this will be carried away by the swaying, silent woman.

At the end of the muddy path is a small shed, built of wood and corrugated iron and open to the weather on three sides. It is piled high with white and blue boxes, the same that can be seen in any British supermarket. Here the bananas are dipped in fungicide and labelled for export. Water drains into the fungicide tanks down bits of bamboo piping tied with string. The floor is beaten earth; sometimes people can be seen sleeping there, or sprawled among the empty boxes. Small children, incongruously dressed in immaculate school shirts and ties, help to pack the boxes. They should be in class, of course, learning the skills that are needed for the globalised electronic age. But in St Lucia, a tiny dot in the Caribbean,

bananas have priority; they are almost all the island knows.

When "banana is up", as the people say, the economy booms. When "banana is down", both economy and people are depressed. St Lucians are well accustomed to the cycle. The present "down" in bananas, however, is not part of the normal cycle. It is what far-away economists would call a secular shift, and what the islanders might call a cataclysmic one. Reforms in the world's trading rules and changes in the world's tastes are combining to leave St Lucia without a protected market for its principal product, and perhaps, eventually, without any market.

It is true that free trade makes losers as well as winners, losers whose fate should not be disregarded. It is true also that trade protections can prop up businesses, industries, even whole (small) countries for many years. They did so in St Lucia, with the best of intentions. But they could not do so forever, and when the morphine is stopped, the pain of withdrawal begins. Can the little farmers of St Lucia survive?

Ties that bound

Tell the history of bananas, and you tell the history of colonialism. The stellar rise of the banana market in the 1900s came just at the peak of Europe's colonial expansion. This was to prove crucial. Countries with colonies in semi-tropical zones encouraged or introduced bananas there to guarantee a regular supply, and the preferences have lasted to this day. Thus France still gets its bananas from Martinique and Gua-

GLOBALISATION

deloupe; Spain from the Canaries and the Azores; Britain from the West Indies, especially the Windward Islands, of which St Lucia is one.

Colonialism tends to be viewed as simple exploitation now; but the colonising powers also had altruistic motives. Bananas were introduced into tiny, poor countries such as St Lucia not only to give them a source of export earnings but to underpin democracy. In place of huge sugar estates, which could be run only under centralised management with a conscripted labour force, small banana plots—mostly five acres or less—were leased to farmers, who were encouraged to be owner-occupiers, working for themselves. The crop proved so successful that the Windward Islands quickly became true banana republics. They now depend on the fruit for up to 60% of export earnings and a third of all employment.

Five acres cannot provide a lush living, even in good years; in villages in the flat banana valleys, water comes from a standpipe, sanitation is a leaning line of Portaloos, and the main building material is rusting corrugated iron. Yet the shacks used to be roofed with straw; sanitation used to mean the open fields; and farmers were rarely seen with shoes, let alone with pickups and watches. Bananas, unlike sugar cane, provide a regular income all through the year: an income which the government now encourages to be paid into proper savings accounts, rather than being spent in one blast on Saturday-night beer.

Moreover, banana cultivation is thought to bring with it a certain self-esteem. Property rights and independent labour feed a relatively lively political culture and an outspoken press. Newspapers in St Lucia are decidedly more fearless than American ones; and the public library in Castries can offer with confidence, though they are slightly stained and softened with humidity, handbooks on British common law alongside treatises on the successful growing of bananas. Bananas have done much for this place.

Body blows

For many years, indeed until as recently as this year, the system looked secure. Europe imagined it could keep banana preferences as a political and economic bulwark for its former colonies, and islands like St Lucia imagined that their

future was guaranteed. The Banana Protocols of the Lomé Convention, agreed in 1957, allowed the Europeans to help their ex-colonies by preferentially importing bananas from them. But as the world steamed steadily towards freer trade, and as Europe progressed towards a single market, the various national systems of banana preferences began to look ever more unwieldy and less acceptable.

Rather than reforming them, however, the old colonial powers agreed in 1993 to amalgamate them into one giant hydra-headed monster known as the EU Banana Regime.

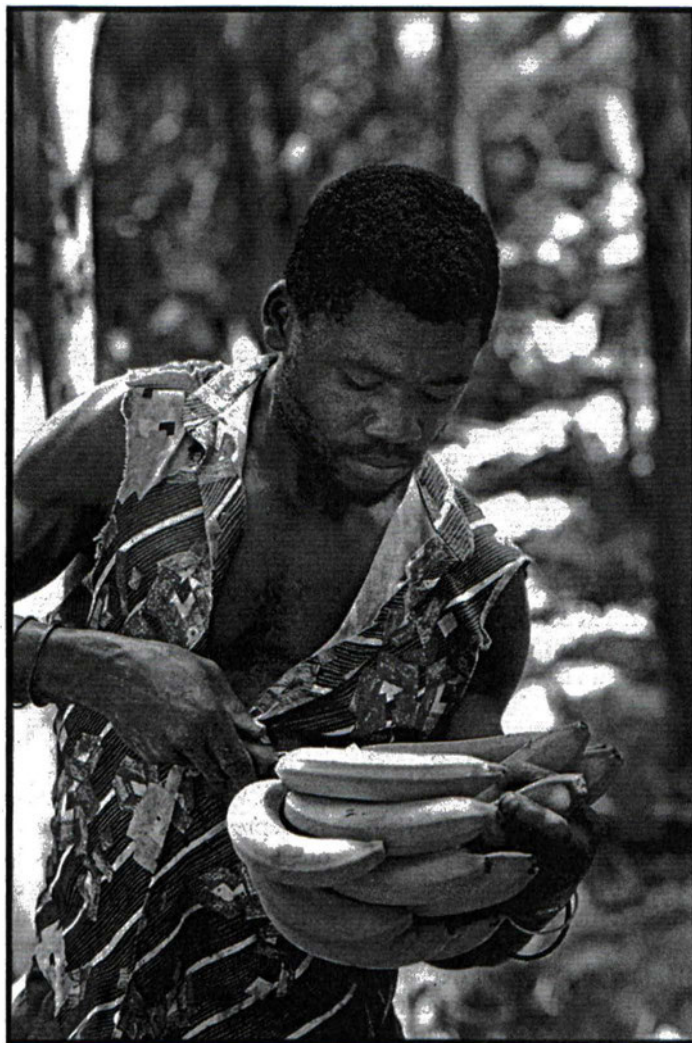
Briefly put, the regime falls into two parts. It imposes tariffs on imports of bananas from outside the ex-colonies, and it allocates licences for European market share preferentially to importers of bananas from the old colonial lands in Africa, the Caribbean and the Pacific.

This regime, unfortunately, is reckoned to cost consumers \$2 billion a year: not small change. So it became one of the first restrictive-trade agreements to be taken to the World Trade Organisation, in 1996, by the United States, Ecuador (the world's leading banana-exporter), Mexico, Guatemala and Honduras. To no one's surprise, it was resoundingly condemned. By the end of 1998 it must disappear.

That was the first blow for St Lucia and its neighbours. But a second, related, blow has fallen, which might be called the industrialisation of the banana business. In recent years, consumer tastes in bananas have changed. Banana-lovers used to be

happy with anything that was vaguely yellow, curved and unsquashed. Now they want a big, bright, uniform, quasi-industrial product that seems untouched by dirty knives, sweaty hands or, indeed, nature. The British tabloids poured scorn on Brussels when, in 1994, an infamous Euro-norm decreed that bananas should be at least 27mm wide, 14cm long and with no "abnormal" curvature. But those are the ones that sell. And they do not come from St Lucia.

They come, ironically enough, from the countries that were the original "banana republics", and the very ones that the EU Banana Regime holds at bay: from Ecuador, Honduras, Costa Rica and Guatemala. Here, too, the history of the banana trade is bound up with colonialism, but of a different sort. As companies from the United States crypto-colonised across Central America, they built railways; as they laid the



track they also bought up the land alongside it and planted bananas, in order to have something to ship on the trains; and, in no time, America's banana supplies were guaranteed by American companies managing vast estates carved out of virgin jungle.

In countries like Honduras, executives from the United Fruit Company, in sharp suits and dark glasses, haunted the corridors of government and even paid off the national debt; on the plantations, workers were housed, fed, harried and buried, in cheap coffins, by the banana company. In coups in Honduras and Nicaragua early in the century, the American navy stood by to guard the dockside operations of the fruit companies; and in 1954, partly at the behest of United Fruit, the Eisenhower administration overthrew an elected left-wing government in Guatemala. It thus seemed appropriate, even inevitable, that the American case at the WTO was brought on behalf of Chiquita: not only is Chiquita the world's biggest marketer of fruit and vegetables, it is also the corporate successor of the United Fruit Company.

If islands like St Lucia are the corner stores of the banana business—chaotic, friendly and unreliable—the Latin American plantations are the Wal-Mart at the edge of town. They cover hundreds of square miles of ideally flat and fertile soil. They are served by railways and cableways, by proper irrigation, efficient refrigeration, and a scrupulously organised workforce working to quality standards and production targets set down by the companies. Productivity, at around 24 tonnes per acre, is three times as high as in St Lucia, and the cost to importers of these “dollar bananas” is half as much. Workers, many of them migrants on short contracts, are paid only half or a quarter of the income of farmers in St Lucia. That is how the future looks.

Tomatoes or pot?

Perhaps the most unfair irony of Europe's Banana Regime is that, despite everything, it has not actually put much money in its beneficiaries' pockets. According to the World Bank, the regime has returned only 7.5 cents to the ex-colonial countries for every dollar it costs; and in recent years it has not stopped banana prices from falling below the costs of production. What the regime has done, unfortunately, is to discourage the

Caribbean countries from either modernising their farms or diversifying away from them. Because the industry has been so rigorously protected, it has failed to become competitive. It has not needed to try.

So what is a place like St Lucia to do? Education is indifferent: classes are so overcrowded that older children must go to school on a shift system, which leaves them playing football in the road for half the day. In country districts, the illiteracy rate is close to 80%. This rules out, for many years, visions of high-tech alternatives. Tourism helps, but its effects are too spotty. Money earned from bananas circulates all through the rural economy; but the plump pink tourists who crowd off the cruise ships are taken immediately to American-style malls behind tall gates, avoiding the hopeful local vendors. These sit by the road, in hamlets with names like Malgreoute (“Despite Everything”) and Patience, displaying coconuts and roasted corn that seem to find few buyers.

The soil of St Lucia is wonderfully fertile, and rain is plentiful. Surely something else will grow? On pocket-patches all over St Lucia, farmers are experimenting with okra, tomatoes and avocados grown under plastic sheets; but they gloomily acknowledge that anything they can grow will grow better in Central America, and bigger and cheaper too. Bananas are the only crop in which they come close to being competitive. A few years back they tried to make a go of plantain, a cousin of the banana; the Latin Americans leapt in at



once and killed the St Lucia trade stone dead.

Increasingly, an easier alternative raises its head: illegal drugs. A few dozen marijuana plants, tastefully arranged in the front yard, will fetch something like 30 times more per pound than bananas. It is reckoned that St Vincent, which has been fast abandoning bananas, can now count marijuana as its principal export crop. There is a good living to be made, too, in and out of the hundreds of little creeks and islands where cocaine is trans-shipped from Central America to the United States. Already, 40% of the cocaine and heroin sold in America comes through the Caribbean; already, the drug-eradication job is so big that it has to be done with American helicopters and American troops.

So law-abiding St Lucians do not need the Banana Regime as such; but they do need bananas. Yet, without the prop

GLOBALISATION

of protection, can bananas be viable? Exposed to the cold winds of world trade, can the region preserve its market at all?

Not easily, for sure. To begin with, there must be casualties. About 15,000 small farmers will have to be persuaded to work together, and some will have to be eased out of the business. The Banana Regime protected inefficiency; fully half of St Lucia's bananas are grown on steep slopes of more than 20 degrees, and average productivity is no more than 8 tonnes an acre. Some farmers are merely squatters; most do not have enough money to dig out irrigation ditches or to buy fertiliser. One plot tends to blend with the next, so that weeds and disease spread unhindered from the lazy farm to the efficient one.

Politics gets in the way, too: the banana-growing areas carry a lot of votes, so farmers, no matter how inefficient, have to be kept happy. They are not happy being told what to do. If St Lucia is going to compete with the great plantations of Latin America, the whole country will need to be run as a corporation with common targets (perhaps, say, productivity of 20 tonnes an acre); but too many St Lucians feel that they have been in that paternalistic place before.

Getting there

Nonetheless, the new left-of-centre government is showing a Blairite enthusiasm for turning them that way. Farmers are being instructed to dig proper drainage ditches, to weed their plots, to bag up their bunches against scarring and to mark them with different-coloured ribbons to determine the time of ripening. Good farms are "certified", which helps them get more government money for fertiliser. There is talk of refrigerated containers at every farm gate, supplementing the rickety sheds where, at the moment, the fruit sits in the heat.

At the dock, inspectors from the banana-growers' association ruthlessly turn back whole boxes of fruit for seemingly slight imperfections. This ruthlessness is new. Once boxes were plumped up with rags and even stones, and were still waved through. There is no more telling illustration of the new reality than the expression on a farmer's face as a box of fine-looking fruit has its plastic lining ripped on all four sides with a knife, a sign that it has failed inspection. The inspector also hands the farmer a copy of the charge sheet; he is expected to read it. If the next consignment fails to shape up, he will receive a visit and a lecture.

After some years of this new sort of Banana Regime, St Lucia may get close to Latin America in productivity and quality. Already, the monthly quality scores awarded to farmers are consistently over 80%. But the spectre of global competition is implacable, and St Lucia will always struggle to compete on costs. Despite all improvements, this is still an industry that cannot survive unless it retains some measure of favoured treatment from other countries. Hopes are pinned on Britain, where contracts with J. Sainsbury, Tesco and Marks and Spencer are thought likely to outlast the EU regime. Sights are turning even to China, where the renewal of diplomatic relations in September was accompanied by dreams of air-freighting the banana crop wholesale to Beijing. "If we could do China at the right price," broods the foreign minister, George Odium, "we might be able to relieve the traditional markets of the trouble of dealing with us."

Things have not quite reached that pass; many people are on the small fry's side, up to a point. The European quotas for dollar bananas, and the absurd licensing system, will clearly have to go; but the WTO has allowed a waiver of the ruling while new ideas are worked out, perhaps including some version of the old nation-based tariff preferences. America has no objection, as long as the market is open. Hillary Clinton has also offered \$500,000 for "micro-projects" in the Windward Islands; but aid goes down badly among these small farmers. They want to stand on their own feet.

Some are saying—and they are not joking—that they would sooner make a deal to produce their fruit for Chiquita.

In the end, that may well be what happens. The result could be worse. Small farmers will produce for giant marketers, and the banana trade will lose its variety along with its distortions. The industrial-strength banana will bestride the globe. Most parties may then end up vaguely happy. The islanders will make a living wage, but less independently; consumers will get their cheap bananas, though all of one sort. But that is all at the far end of the tunnel. The little banana farms of the Caribbean must still claw their way there.

Arab mythology holds that it was not an apple that caused the trouble in the Garden of Eden. It was a green banana. Now comes the flight from paradise.



The Pinson/Vine Family
7205 Blacklock Road
Bethesda, MD 20817

THE PRESIDENT FOR LIFE

12-29-97

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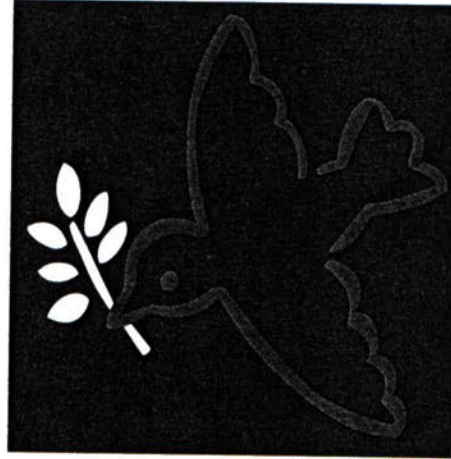
The Clinton Family

12-29-97

will send to
Burkhardt for
Reply after
you have seen.

D. Bird

p e a c e



a n d j o y

In your honor
for the Holidays
we have made a donation
to
Everybody Wins!
A Reading Program
in D.C.
♡

Dear Clintons,

MAY THE SPIRIT OF THE SEASON
LAST THROUGHOUT THE YEAR

Thank you for treating
our family once again!
Happy Holidays!
Marsha, Marty,
Rachel & Max Finkov
and
Adam Vine

1586 Kimplewick Rd.
Potomac, Md. 20854

To Ty
send autograph

Mr. President

THE PRESIDENT HAS SEEN
12-29-97

12-29-97

After you have
seen will send
to Burkhardt
for Reply.

Bird



VERY!!

Dear Mr. President,
I have been so eager to
see you. Since I learned
about you, I would like to
have a picture with you
and your family. ☺

Love,
Nakissa

Merry Christmas!

THE WHITE HOUSE
WASHINGTON

December 13, 1997

MEMORANDUM TO THE PRESIDENT

FROM: BRUCE REED
GENE SPERLING
CHRIS JENNINGS

SUBJECT: Reforms that Prepare Medicare for the Retirement of the Baby Boom Generation

The Balanced Budget Act (BBA) that you enacted took necessary steps to modernize the Medicare program and prepare it for the twenty-first century. It extended the life of the Trust Fund to 2010, invested in preventive benefits, provided more choice of plans for beneficiaries, strengthened our ongoing fraud activities, and lowered cost growth to slightly below the private sector rate through provider payment reforms and modest beneficiary payment increases. However, the BBA's policies were not intended to solve Medicare's long-term problems.

The Medicare Commission was established to address the demographic challenges posed by the retirement of the baby boom generation. The question is whether we should take action prior to the March 1999 Commission deadline to further strengthen the program and lay the groundwork for implementation of likely Commission recommendations.

The NEC and DPC have led an interagency examination of several policy options. This memo examines options to insure pre-65 year olds, to extend Medicare coverage of patient care costs associated with clinical trials, and to increase private long-term care insurance. Financing options to pay for these proposals follow this description.

Your advisors have differing views on whether to pursue any new proposals while the Medicare Commission is active and which proposals to pursue if you choose to do so. OMB and to some extent Treasury have concerns about a pre-65 option, because it may open the door to subsidies for a costly population and have the unintended effect of reducing employer coverage. Both OMB and Treasury oppose the clinical cancer trials proposal because it could set a precedent for every other disease group to ask for the same treatment.

Should you decide to pursue all of the options, traditional Medicare savings alone may not be sufficient to offset the costs and a Medicare income-related premium may be necessary. Such a premium will be politically contentious, although possibly more acceptable to our Democratic base if linked to a benefit expansion. Given the complexity of any decision to adopt an income-related premium, we outline here some of the issues, but defer a recommendation until we can meet with you on the subject.

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A. PRE-65 HEALTH INSURANCE OPTIONS

Although people between 55 and 65 years old are more likely to have health insurance than others, they often face greater problems with access to affordable health insurance, especially when they are sick. Individuals in this age group are at greater risk of having health problems, with twice the probability of experiencing heart disease, strokes, and cancer as people ages 45 to 54. Yet their access to affordable employer coverage is often lower because of work and family transitions. Work transitions increase as people approach 65, with many retiring and shifting to part-time work or self-employment as a bridge to retirement. Some of this transition is involuntary. Nearly half of people 55 to 65 years old who lose their jobs when firms downsize or close do not get re-employed. At the same time, family transitions reduce access to employer-based health insurance, as individuals are widowed or divorced, or as their spouses become eligible for Medicare and retire.

As a result, the pre-65 year olds, more than any other age group, rely upon the individual health insurance market. Because their costs are not averaged with younger people's (as in employer-based insurance), the pre-65 year olds often face relatively high premiums and may face exorbitant premiums if they are sick. While the Kassebaum-Kennedy legislation improved access for people with pre-existing conditions, it did not restrict costs.

* These access problems will increase because of two trends: the decline in retiree health coverage and the aging of the baby boom generation. Recently, firms have cut back on offering pre-65 retirees health coverage; in 1984, 67 percent of large and mid-sized firms offered retiree insurance but in 1997, only 37 percent did (although this decline may be slowing). In addition, in several small but notable cases (e.g., General Motors and Pabst Brewery), retirees' health benefits were dropped unilaterally, despite the firm's prior commitment. These "broken promise" retirees do not have access to COBRA continuation coverage and could have difficulty finding affordable individual insurance. An even more important trend is demographic. The number of people 55 to 65 years old will increase from 22 to 30 million by 2005 and to 35 million by 2010. Assuming current rates of uninsurance, this trend could raise the number of uninsured in this age group from 3 million today to 4 million by 2005, without even taking into account the decline in retiree health coverage.

The last reason for considering the coverage issues of this age group is the likelihood of proposals to raise Medicare eligibility age to 67, consistent with Social Security. The experience with covering a pre-65 age group now will teach us valuable lessons if we need to develop policy options for the 65 to 67 year olds.

Policy Questions

Two central questions determine the policy options for the pre-65 year olds: what is the target population, and what is the best way to cover these people.

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Whom to Target. As with any incremental reform, targeting is essential to reduce the chance that the policy unintentionally offsets or reduces employer health coverage. While this policy will not affect employers' decisions to offer coverage to their current workers, it may affect employers' decisions to cover retirees, as well as employees' decisions to retire early. To protect against substitution, your advisors recommend limiting eligibility to a subset of the pre-65 year olds. There are two ways to limit eligibility.

The first approach is to limit eligibility to people ages 62 to 65. The 6 million people ages 62 to 65 work less than to people ages 55 to 59 (48 percent versus 74 percent), are more likely to have fair to poor health (26 versus 20 percent), and are more likely to be uninsured or buy individual insurance (28 versus 21 percent). In addition, 62 is the age at which Social Security benefits can be accessed. Within this 6 million, we could limit eligibility to the 2 million without access to employer or public insurance, and require that they exhaust COBRA coverage. These steps should reduce the likelihood that the policy will lead individuals to retire or drop retiree coverage.

A second approach is to limit eligibility within a broader age group — e.g., 55 to 65 year olds — to individuals who lack access to employer-based insurance for particular reasons:

(1) Displaced workers: About 60,000 people ages 55 to 65 lost their employer insurance when they lost their job because a firm closed, downsized, or eliminated their position. (2) Medicare spouses: As many as 420,000 people lost employer-based family coverage when their spouses (almost all husbands) turned 65 and retired. This number could grow if employers drop retirees' dependent coverage for these spouses as a result of this policy. (3) "Broken promise" people: A small but visible and vulnerable group is the pre-65 retirees who lost retiree health coverage due to a "broken promise" (i.e., when the employer unexpectedly terminated coverage).

How to Provide Coverage. The second question is: what is the best way to increase access to affordable insurance? One approach is to extend COBRA continuation coverage for longer than 18 months. Currently, COBRA allows insured workers in firms with 20 or more employees to continue that coverage for 18 months by paying 102 percent of the premium. The major problems with extending COBRA are that (1) people in small firms are not eligible, (2) businesses will consider the policy an unfunded mandate, and (3) the policy could lead to discrimination against hiring older workers. In addition, firms could use this longer COBRA mandate as an excuse to not cover any employees.

→ A second approach is a Medicare "buy-in." Eligible people could buy into Medicare by paying a premium. Since Federal premium assistance for this group is prohibitively expensive, your advisors agree that participants should pay the full premium: the age-adjusted Medicare payment rate, plus an add-on for the extra risk of participants. This add-on could be high if, as the actuaries expect, most participants will be sicker than average. To attract healthier people and make it possible for more people to take advantage of the benefit, we could defer payment of part of the premium (e.g., this risk add-on) until age 65 by "amortizing" the payment. Under this option, Medicare would pay part of the premium as a loan up front, with repayment by the beneficiaries with their Part B premiums. This loan would be a Medicare cost in the short term.

Cost?
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approval

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Option 1. "Broken Promise" People Only. The minimal option, with no Federal cost, is to require employers to offer COBRA coverage to retirees whose coverage they have dropped. This would allow retirees to buy into their active employer plan until age 65 at a premium (possibly 150 percent of the group rate, as has been done for other special COBRA populations). Even taking into account the premium payments, employers would bear some of the costs of their decision to terminate coverage, given the higher costs of people in this age group.

Option 2. Medicare Buy-In for Select Groups. The second option is to allow a Medicare buy-in for a subset of 55 to 65 year olds who have limited access to employer insurance. One group is the "Medicare spouses" — primarily uninsured women ages 55 to 65 whose husbands are already on Medicare. An alternative (or complement) is displaced workers. Since these groups are small, Medicare costs would be low.

Option 3. Medicare Buy-In for 62 to 65 Years Old Plus Selected Groups. The third option is to allow 62 to 65 year olds, plus a group like displaced workers, to buy into Medicare. This group is representative of the 65 to 67 year old population, giving a sense of what would happen if Medicare eligibility were postponed to 67 years old. The HCFA actuaries estimate that the Medicare cost of the worst-case scenario — 300,000 sick participants — is \$1.1 billion per year, not taking into account any beneficiary pay-back. Their initial estimate for the 62 to 65 year olds' costs, using more realistic assumptions, is about \$300 million per year. They assume that 160,000 people will participate: 70,000 currently uninsured and the remainder previously insured by expensive, individual insurance. Note that OMB has not yet cleared these estimates.

Discussion

Despite likely business opposition, your advisors all support a COBRA option for the "broken promise" retirees. Beyond this, your advisors have not yet reached a consensus. OMB and CEA are concerned that any unsubsidized entitlement for pre-65 year olds will not stay that way for long because pressure will build to lower the premiums. To test a buy-in for the pre-65 year olds, OMB and CEA would recommend covering only Medicare spouses, because doing so would probably have a smaller effect on the general trend in retiree health coverage and retirement. The Department of Labor supports a general Medicare buy-in. It feels strongest about covering displaced workers because of its broader goal of improving workers' security. Treasury shares OMB and CEA's concerns but would not object to a general Medicare buy-in if there were strong incentives for participants to enroll in managed care. This policy would make insurers, not Medicare, bear the risk, but could be politically difficult. HHS supports the broadest option and is concerned about only covering select groups since the enrollment may not be sufficient to justify the administrative effort.

NEC/DPC recommend a package that includes (1) a Medicare buy-in for 62 to 65 year olds; (2) a Medicare buy-in for displaced workers; and (3) COBRA for the "broken promise" people. We think that this package is sufficiently narrow to limit effects on retiree health coverage or retirement. At the same time, the policy responds to the concerns of pre-65 year olds who feel vulnerable to losing employer coverage and/or facing unaffordable premiums.

B. PRIVATE LONG-TERM CARE OPTIONS

THE PROPOSED

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A second idea to improve access to insurance focuses on long-term care. Unlike acute care, long-term care is not primarily financed by private insurance, which pays only 6 percent of its costs. Medicaid pays for 38 percent, Medicare pays for 21 percent, and families pay for 28 percent of the costs out of pocket. This large government role may not be sustainable as the baby boom generation retires. Today, one in four people over age 85 lives in a nursing home. This could increase substantially as the proportion of elderly living to age 90 is projected to increase from 25 percent to 42 percent by 2050. Thus, it is important to encourage the development of private insurance options. The Kassebaum-Kennedy legislation took a step in this direction by clarifying that certain long-term care insurance is tax deductible. But because many people incorrectly assume Medicare covers all of their long-term care needs and do not know about private long-term care insurance, more action is needed. This action could include providing information to Medicare beneficiaries about private insurance, funding a demonstration program to improve the quality and price of private insurance, or both. None of these options includes a new Medicare entitlement or subsidy.

Information on Quality Private Long-Term Care Insurance

We propose to leverage our role in Medicare to improve the quality of and access to private policies. HCFA would work with insurers, state regulators, and other interested parties to develop a set of minimum standards for private long-term care policies. If a plan met these standards, Medicare would approve its inclusion in the new managed care information system. (As a reminder, the BBA included provisions to provide annual information on managed care choices to beneficiaries.) This proposal would build upon that system and cost up to \$25 million in discretionary funds over 5 years (\$5 million in FY 1999), distinct from the user fees currently authorized for the managed care information system. We also could propose a demonstration that would test the feasibility of a partnership between Medicare and private long-term care insurance on a limited basis. Alternatively, we could experiment in providing more long-term care through Medicare managed care. The cost of a demonstration would depend on its size and policy parameters, but could be limited to \$100 to 300 million over 5 years.

Discussion

 We believe this proposal has significant potential and is worth further development. There is some concern at HHS that coming to an agreement on a set of standards could be difficult and that insurers may argue that our standards drive up the cost of the policies, making them unaffordable. HHS also would prefer that any demonstration be funded through the mandatory budget. However, these concerns may not be insurmountable, especially since one objective of a demonstration could be to investigate high-quality private options that are affordable. Finally, we are still looking into the feasibility and advisability of using tax incentives to encourage the purchase of private long-term care policies and/or the use of IRAs for long-term care financing, although Treasury has strong concerns about the effectiveness of such options.

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C. MEDICARE COVERAGE OF CANCER CLINICAL TRIALS

Medicare has not traditionally covered patient care costs associated with clinical trials. Scientists and advocates believe that we are not making sufficient progress in treating cancer, in part because the lack of Medicare coverage limits participation in these trials. HHS and DPC have been working on an approach that covers patient care for a limited number of these trials. Because of concerns about its cost, OMB and Treasury strongly oppose this option.

Nearly half of all cancer patients are covered by Medicare, yet Medicare does not cover patient care costs associated with these trials. This care can often be prohibitively expensive for cancer patients and their families. Expanding Medicare coverage could increase access to trials for the many beneficiaries with cancer. Historically most insurers have covered clinical trials for children. As a consequence, nearly 70 percent of children with cancer participate in clinical trials. Scientists agree that this participation rate has helped improve cancer treatments for children, and some argue that it is one reason for the dramatically higher survival rates for children cancer patients.

The lack of participation in trials, related to lack of Medicare coverage, has significant implications for research in all cancer areas, particularly for those cancers like prostate cancer where clinical trials are particularly undersubscribed. According to a former National Cancer Institute director, if 10 percent of all cancer patients participated in such trials, trials that currently take three to five years would take only one year. Additionally, as the nation's largest insurer, Medicare plays a significant role in setting the standard for the insurance companies. A commitment from Medicare to cover clinical trials would go a long way to encourage private insurance companies to cover these trials.

Proposal

We have developed a proposal to expand Medicare to cover patient care costs of cancer clinical trials conducted at the NCI and trials with comparable peer review. In addition, we would require a National Cancer Policy Board to make further coverage recommendations, and HHS to assess the incremental costs of such trials compared to conventional Medicare-covered therapies. Assuming the true incremental costs are substantially less than the actuaries project, as we believe, additional trial coverage as recommended by the Board could occur. The initial coverage would cost \$1.7 billion over five years. Senators Mack and Rockefeller have developed a more expansive and expensive proposal (co-sponsored by 26 Senators), which covers all FDA trials, many of which the experts believe do not meet a scientifically-meritorious standard.

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A possible alternative way to cover clinical cancer trials' patient care costs is to dedicate resources from any significant increases that NIH / NCI receive in the upcoming budget. NCI could use these increases to simplify and centralize its clinical trials system, which has the potential to increase patient access. Although this option may be effective, the cancer community has clearly stated its preference for extending Medicare coverage. Another possibility is to require drug companies desiring Medicare coverage of additional clinical trials to contribute to part of the patient costs.

Discussion

HHS is supportive of this policy and believes that it would not only give Medicare beneficiaries choices, but would encourage the private industry to cover clinical trials as well. HHS notes that this proposal is the highest priority for most of the cancer community as well as many in the women's community who believe it is an essential step to improve breast cancer treatment. The advocates have made it clear that they would strongly prefer the more expansive and expensive Rockefeller/Mack approach. But, the Senators might well support our proposal as an important first step and this would matter greatly to patient groups and the cancer community.

OMB and Treasury strongly oppose the Medicare coverage option. They note that Medicare would incur a large cost to provide medical services that are experimental and, therefore, unlikely to help the majority of beneficiaries. They also believe it will create enormous pressure to cover more types of cancer trials as well as non-cancer trials. Congress would likely expand the proposal beyond coverage of NCI trials, which will be very costly (up to \$3 billion over five years). Moreover, similar support will be demanded for trials of treatments for Alzheimer's, Parkinson's, and other maladies. OMB also believes drug companies — not Medicare — should take the lead in improving Medicare beneficiaries' access to clinical trials.

While recognizing the OMB and Treasury concerns, DPC/NEC believes that Medicare coverage has potential to contribute to expansions of clinical trials and possible break-throughs in cancer treatment. Our recommendation to include it in the FY 1999 budget depends on other decisions. If resources are limited, we would propose the pre-65 initiative instead of this one. In addition, a major increase in the NIH — and NCI — budgets could lessen the need for this policy. But, if sufficient resources are available, we would recommend that you support this benefit as a reinvestment in Medicare and an enhancement of our biomedical research package.

D. MEDICARE ANTI-FRAUD POLICIES AND INCOME-RELATED PREMIUM

Funding for Medicare initiatives will probably require Medicare offsets. One approach is to use Medicare anti-fraud initiatives. HHS and OMB believe that these offsets could total about \$2 billion over 5 years. This amount could fund some, but not all of the initiatives described above. To fund a more expansive series of initiatives, you may have to consider an income-related premium, which generates at least \$8 billion over 5 years.

ANTI-FRAUD PROVISIONS

*could pay for
cancer
drugs* ✓ In our ongoing efforts to reduce Medicare fraud, we have identified a number of small but important policies that could total about \$2 billion over five years. Several of them address problems identified by the HHS Inspector General, such as the overpayment by Medicare for certain cancer drugs, that you highlighted in your radio address today.

INCOME-RELATED PREMIUM

Medicare subsidizes 75 percent of the Part B premium for all beneficiaries, including the wealthiest. Higher income beneficiaries, who actually receive more Medicare benefits than do poor beneficiaries, could afford premiums without subsidies. However, the addition of an income-related premium would make Medicare less of a social insurance program.

As you know, the Administration has publicly supported an income-related premium. It is not clear, however, that we should include this policy in our budget. Because this issue is very complicated, we will not make a recommendation until we meet with you on the subject.

Policy Options

Building from our position last summer, the income-related premium would be administered by the Treasury Department, not HCFA or the Social Security Administration. Eligible people would fill out each year a Medicare Premium Adjustment form (a separate form or a line on the 1040 form) and send a check to "The Medicare Trust Fund." Revenue from this premium, which is at least \$8 billion over 5 years, depends on who pays and how much they pay.

Who pays. The income thresholds determine how many people are paying the higher amount. We proposed thresholds of \$90,000 for singles and \$115,000 for couples in the Health Security Act. Last summer, the Senate, including most centrist Democrats, passed a policy that began the extra premium payment at \$50,000 for singles and \$65,000 for couples. During the budget debate, we did not express support for particular thresholds.

How much. The amount of the payment for the wealthiest beneficiaries is a second question. In the budget debate, we argued that a 100 percent premium (no subsidy) would cause some healthy and wealthy people to opt out of Medicare. However, an analysis by the Treasury Department this fall found that the effects of a 100 percent premium would be smaller. HHS would strongly object to changing our position to support an income-related premium that completely phases out the Part B subsidy. If we decide to change our past policy, we should have a strategic discussion about the timing of announcing such a change.

Discussion

The decision to propose an income-related premium is complicated, and your advisors have differing views about its timing and, to some extent, advisability. Some believe that we made a decision last summer to support this policy, regardless of circumstances. However, its introduction may provoke criticism. Many Democrats and possibly AARP will oppose the income-related premium (though this opposition may soften if the premium is linked to a Medicare investment). In addition, Republicans might label it a new tax and use our support for it as an issue during the 1998 campaign. The Medicare Commission almost certainly will recommend this policy if you do not in the spring of 1999. Leaving it to the Commission has the advantage of providing both Democrats and Republicans with political cover, but the disadvantage of decreasing your control over the structure of the premium and how it will be spent. DPC/NEC will prepare for a separate meeting to discuss this issue.

THE WHITE HOUSE
WASHINGTON

December 13, 1997

MEMORANDUM FOR THE PRESIDENT

FROM: BRUCE REED
GENE SPERLING
CHRIS JENNINGS

SUBJECT: Health Insurance Coverage Initiatives

Throughout your Administration, you have worked to enact legislation to expand access to affordable health insurance. The Balanced Budget Act included an unprecedented \$24 billion investment for state-based children's health insurance programs. This historic initiative will clearly reduce the number of uninsured. However, there are other deserving populations whom we could target in our step-by-step reforms. These include the pre-65 year olds (referenced in the Medicare memo), workers between jobs, and workers in small businesses. In addition, we are working on possible proposals to expand Medicaid coverage to people with AIDS and disabilities through pilot programs. The policy development of these proposals is still underway, so we have not included them here.

Taken together, these initiatives total around \$10 billion over 5 years. This amount is less than half of the health investments enacted as part of the Balanced Budget Act and less than 4 percent of the premium assistance proposed in the Health Security Act. Having said this, none of your advisors believe the Medicare and Medicaid savings left after last year's deficit reduction effort are sufficient to fund these initiatives. There may be \$0.5 to 1 billion over 5 years in Medicaid savings, but those savings will be difficult to achieve and there may be other claims on them (e.g., child care, benefits to immigrants). Another possible source of funds is the tobacco settlement, given the natural link between tobacco and health care.

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Your advisors uniformly agree that we need to take all actions possible to achieve if not exceed your goal of increasing insurance coverage for 5 million children. A series of proposals are described in this memo to help accomplish that goal. There is less agreement on whether we should address a new group of uninsured people in this budget. The Department of Labor strongly supports the workers-between-jobs demonstration; of all health initiatives in the budget, it is their highest priority. OMB also supports that demonstration if sufficient funds are available. HHS believes that this proposal has merit, but is skeptical that it will attract any more support than it has in the past three years.

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A. CHILDREN'S HEALTH OUTREACH

The Children's Health Insurance Program (CHIP) provides funds for coverage of millions of working families' uninsured children, a population that previously had trouble affording coverage. It also builds upon the Medicaid program, which covers nearly 20 million children. But important work remains to be done. In particular, we need to work with states to enroll the millions of uninsured children in these programs.

Medicaid eligible children are especially at risk of remaining uninsured. Over three million uninsured children are eligible for Medicaid. Educating families about their options and enrolling them in Medicaid has always been a problem, but it has recently become even more challenging. The number of children covered by Medicaid leveled off in 1995 and, according to the Census, dropped by 6 percent in 1996. While some of this decline may be due to the lower number of children in poverty, another part may result from families' misunderstanding of their children's continued eligibility for Medicaid in the wake of welfare reform.

Options to Increase Outreach for Medicaid and the Children's Health Insurance Program

To address the need for children's health outreach, we propose a series of policy options. Together, these initiatives could cost \$1 to 2 billion over five years (or more depending on policy choices about the enhanced match). Preliminary discussions with NGA and some children's advocates suggest they strongly support these efforts. In addition, the Administration is developing partnerships to encourage a complementary range of private outreach activities.

Enhanced match for outreach. One option for improving state outreach is to provide an enhanced match to enroll children who are eligible for but not previously enrolled in Medicaid. At the end of each year, if a state can document that it has increased its enrollment over its baseline, it would receive an increased matching amount per newly covered child (possibly through administrative payments). This policy rewards states only if they succeed in outreach, rather than matching activities that may or may not work. Depending on the amount of the incentive and the administrative design, this option could cost to \$0.5 to 1 billion over five years.

Moving outreach to schools and child care sites. We could build upon the "presumptive eligibility" provision in the Balanced Budget Act to make it easier to enroll children in Medicaid and CHIP. The BBA option allows limited sites (e.g., hospitals) to give low-income children temporary Medicaid coverage on the spot while they are formally enrolled in CHIP or Medicaid. This proposal would broaden these sites to include schools, appropriate child care sites, and Head Start sites, at the state's option. HCFA actuaries preliminarily estimate that this proposal would cost \$400 million over 5 years. Also, under the BBA, states that use presumptive eligibility must pay for its costs out of the CHIP allotment, reducing the amount available for other coverage. States have advised us that this requirement discourages them from taking advantage of the presumptive eligibility provision. HCFA actuaries preliminarily estimate that dropping this requirement would cost \$25 million over 5 years.

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Accessing 90 percent matching funds for outreach. A third way to increase funding for children's health outreach is to increase states' flexibility in using a special Medicaid fund set aside in TANF for outreach for children losing welfare. This \$500 million fund is currently allocated to states with a 90 percent matching rate for outreach activities to certain children. We could expand its use to all children, not just welfare children. HCFA actuaries preliminarily estimate that this policy would cost \$100 million over 5 years. NGA supports this change.

Simplifying enrollment. A simple, accessible enrollment process could encourage more families to enroll their children in Medicaid or CHIP. To help create such a process, we propose several actions, all of which are inexpensive. First, we could streamline the application process by simplifying Medicaid eligibility and by encouraging the use of simple, mail-in applications. HCFA has already developed a model single application form for both Medicaid and CHIP. We could condition some of the financial incentives described above on using a single or simple application. Second, we are reviewing the feasibility and cost of a nationwide 1-800 number that will link families with their state or local offices. Such a number could be placed in public service announcements, on the bottom of school lunch program applications, and on children's goods like diaper packages.

Discussion

There is unanimous support across agencies for focusing on children's health outreach. HHS, Treasury and CEA believe that such outreach should be the Administration's first priority. NEC/DPC and OMB believe that aggressive outreach will be needed to meet or exceed the Administration's goal of covering 5 million uninsured children. Although OMB is supportive, it points out that because some children may be impossible to reach and some states may not use these options, we are unlikely to enroll all 3 million children. NEC, also supportive, raises the concern that spending on an outreach initiative may be a communications challenge so soon after the enactment of the \$24 billion base children's health program. However, policy experts, Governors, and children's advocates alike will endorse this initiative.

One great challenge is the difficulty of finding savings from Medicaid to offset the costs of this initiative. With this in mind, your advisors are considering the tobacco settlement as a financing source. Specifically, we are exploring the advisability of allowing states to retain the Federal share of the tobacco funds if they dedicate those funds to high-priority Administration initiatives like child care, education, and health care. Governor Chiles would support such an approach if we dedicate the funds to children's health care, not just outreach.

B. WORKERS BETWEEN JOBS INITIATIVE

12-29-97

Families who lose health insurance while they are between jobs are a small but important group of uninsured Americans. These people pay for health insurance for most of their lives, but go through brief periods without coverage when they are temporarily unemployed. If they experience a catastrophic illness during this transition, the benefit of their years' worth of premium payments is lost. In addition, they could lose protection under the provisions of the Kassebaum-Kennedy legislation once they regain coverage.

Policy Options

There are two options. The first is that we include the same proposal that we have carried in our last two budgets. All states would receive grants to provide temporary premium assistance to eligible low-income families. States would use this money to partially subsidize families' premium payments for up to 6 months. This program costs \$10 billion over four years, or about \$2.5 billion per year. The same program could be scaled back by sunseting it in two or three years or possibly reducing the subsidy amount. It would still probably cost at least \$1 billion per year to have a nationwide program with enough funding per states to address this problem.

A second option is to propose the same policy but in a limited number of states. To test how best to address this population's needs, we would select states using a range of approaches like a COBRA-based subsidy, Medicaid, or covering the parents of children covered by CHIP. Since it is a grant program, we could make this program as large or small as we want. To give a sense of the options, last year's \$10 billion proposal over four years covered about 3.3 million people with incomes below 240 percent of poverty. If we assume the same set of policy parameters, a demonstration of \$1 billion over 5 years would cover about 230,000 people; a demonstration of \$2.5 billion would cover about 600,000; and a demonstration of about \$3.5 billion would cover about 800,000 people. OMB has suggested that we could limit the costs by only offering assistance to people below poverty. However, NEC/DPC are concerned about that this shifts the target away from the middle-class families we originally intended to help.

Discussion

On policy grounds, all of the agencies support this policy. It has been in our last two budgets because of its merits. Health coverage for workers changing jobs could also be important to a worker security theme in the State of the Union. This policy remains Labor's first priority because it targets a particularly vulnerable group and addresses the worker insecurity issues that played such a large role in the debate over Fast Track. OMB and CEA would support this initiative if there are sufficient funds. HHS believes that this policy is no more viable this year than it has been in the past; HHS would also object to using Medicare and Medicaid savings to fund this proposal. DPC/NEC are concerned about dropping this policy altogether and support a demonstration that is large enough to be viewed as improving coverage. If resources are limited, however, we would prefer the children's outreach initiative to this proposal.

C. VOLUNTARY PURCHASING COOPERATIVES

12-29-97

Workers in small firms are most likely to be uninsured. Over a quarter of workers in firms with fewer than 10 employees lack health insurance — almost twice the nationwide average. While 88 percent of workers in firms with 250 or more workers are offered health insurance, only 41 percent of workers in firms with less than 10 workers are offered coverage. This disparity reflects the poor functioning of the small group health insurance market. Studies have shown that administrative costs are higher and that small businesses pay more for the same benefits as larger firms.

Grants to States

Given the disadvantages faced by small firms, the question is: are there policies that can make insurance more affordable for small businesses and their employees? In the last two budgets, we have included a policy to provide seed money for states to establish voluntary purchasing cooperatives. These cooperatives would allow small employers to pool their purchasing power to try to negotiate better rates for their employees. This year, we propose both the original policy and a variation: a competitive grant approach so that a more limited number of states could receive a smaller, but more targeted, pool of funds. The total costs would be \$50 to \$100 million over 5 years.

Discussion

All agencies remain supportive of this policy and believe it should be included in this year's budget. In the past, we have failed to enact this proposal because Congressman Fawell has pushed an alternative approach more attractive to small businesses. Fawell's proposal would help small businesses to self-insure and in so doing escape all state regulation. Governors and consumer groups have consistently opposed the Fawell approach, fearing that it would leave the small group market with only the most risky and expensive groups, as low-risk groups move into the self-insured, non-regulated market. Our recent conversations with Fawell suggest that he may be open to compromise this year in a way that he has not been in the past.

Goal - 100 like
to be more -

Democrat wins House seat once Lloyd George's

ARKANSAS DEMOCRAT-GAZETTE

Democrat Jeff Gillespie of Danville won a special election Tuesday for the state House District 27 seat, beating Kelly Boyd, a Havana Republican.

Unofficial results from the Pope and Yell county clerks' offices showed:

Gillespie 1,748 votes
Boyd 1,091 votes

Gillespie, 28, a farmer, finished first in the five-candidate Democratic primary, then won a runoff Nov. 25.

Boyd, 41, manager of the Firestone Tube Co., was the only Republican who sought the seat. A Republican has never won the seat, said Richard Bearden, state GOP executive director.

Gillespie will complete the term of Lloyd George, D-Danville, who resigned in September after pleading guilty in federal court to mail fraud. His term will expire in January 1993.

George, 71, was involved with a scheme to sell the state Department of Correction an unsuitable irrigation system for \$24,800. He was sentenced a week ago to two years of probation, including nine months of home detention; ordered to pay \$15,000 in restitution; and fined \$10,000.

George served in the state House of Representatives from 1963 until 1966. He was elected again in 1973 and served until his resignation.

Gov. Mike Huckabee called the special election after George resigned.



Arkansas Democrat-Gazette/KAREN VANDONGE

North Little Rock Mayor Patrick Henry Hays heads to the podium after talking with his daughter, Josie, and wife, Linda, before announcing his decision Tuesday not to run for the U.S. Senate. Hays said he "felt very positive" about his campaign but needed to concentrate on being mayor.

Bogged down in Entergy talks, NLR mayor scraps Senate run

BY PATRICK HENRY
ARKANSAS DEMOCRAT-GAZETTE

North Little Rock Mayor Henry Hays abandoned his campaign for the U.S. Senate after just six weeks Tuesday.

Hays said contract talks with Entergy Arkansas Inc. on the wholesale price the city pays for electricity require his full attention and precluded his participation in a statewide election campaign.

"This decision was purely based on my responsibilities as mayor," Hays said at a press conference, accompanied by his wife, Linda, and daughter, Josie. "I've been out both by phone and some travel, and the reception has been pretty good. I felt very positive about the campaign at this stage."

"I simply recognized that the responsibilities of the chief executive of this city were ones that I couldn't or wouldn't ignore, especially in light of the

electric issue becoming so clear over the past several weeks."

Hays said backers had committed more than \$200,000, and he pledged to return unspent campaign funds.

When he entered the race Nov. 15, he said, his belief that he could simultaneously run North Little Rock and campaign for the Senate seat of retiring fellow Democrat Dale Bumpers was "untested."

"There was no way I could have known in advance if I could do both," Hays said. "I will not allow a situation to develop where I do two jobs in a mediocre fashion rather than one job properly."

North Little Rock's Electric Department buys wholesale electricity from Entergy, then sells it at retail rates with discounts for residential and commercial customers in the city.

The city's \$39.6 million 1998 budget, approved Monday night

by the City Council, includes \$8.66 million in projected revenue from electricity sales in the \$30.61 million general fund budget.

Electricity sales are also budgeted to provide \$1 million to the city's drainage improvement fund and another \$1 million to its capital improvement fund to total \$11.66 million.

Negotiations with Entergy have become more urgent since the Arkansas Public Service Commission on Dec. 12 ordered Entergy, the state's largest electric utility with about 615,000 customers, to cut revenue by about \$155 million in 1998.

Entergy's rate cuts, effective Jan. 1, could hamper North Little Rock's ability to raise vital revenue from retail electricity sales. Shortfalls could arise because the price Entergy charges the city for wholesale electricity, 4.25 cents per kilowatt-hour, is

See HAYS, Page 3B

Hays

Continued from Page 1B
Fixed until 2000.

Entergy's rates for residential customers will drop 6.17 percent in 1998. Rates for businesses will fall 18.66 percent, and industrial consumers will pay 16.71 percent less.

Hays said at Monday's City Council meeting that Entergy's rate reductions would also undermine the rate advantage North Little Rock has maintained over Little Rock and other cities by extending a discount to its own residents and businesses.

Residential customers in North Little Rock pay 10 percent below Entergy rates year-round and 20 percent less in the hottest months of summer. Businesses enjoy a 5 percent discount year-round, 10 percent in the summer.

The city offers no discount to industrial customers. Little Rock charges Entergy a 5 percent franchise fee; North Little Rock charges nothing.

As a result, when Entergy's rates fall Jan. 1, industrial customers in North Little Rock will be paying some 10 percent more for electricity than their counterparts south of the river — a prospect Hays finds alarming.

He told the City Council that the city must assume that no agreement with Entergy on lowering the price of wholesale electricity will be reached.

The city should prepare to change its rates, frozen since January, or to solicit rival electricity providers, Hays said.

North Little Rock will spend an estimated \$31.81 million to buy wholesale electricity from Entergy in 1998.

The city's own hydroelectric plant will produce electricity worth \$6.87 million.

The city expects to reap \$96.77 million from retail electricity sales after

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THE PRESIDENT HAS DEC

12-29-97

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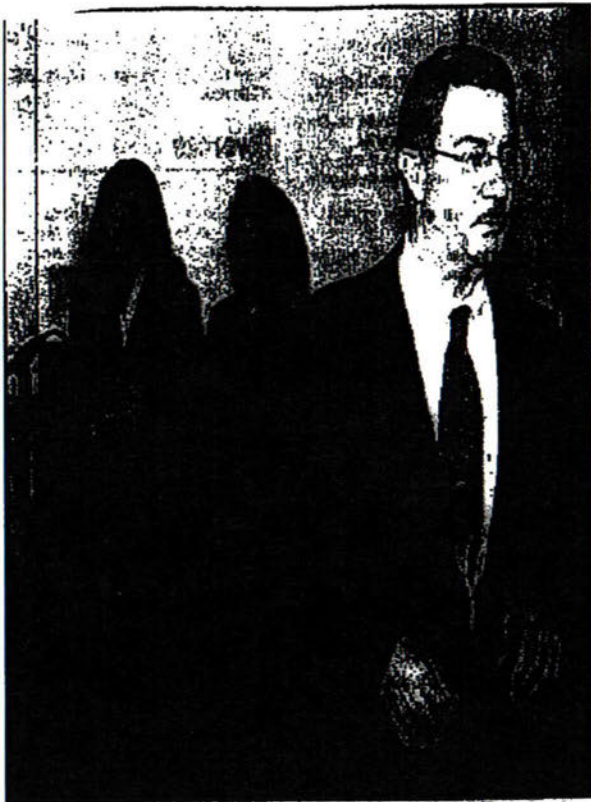
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The city expects to reap \$69.77 million from retail electricity sales after deducting \$5.28 million in customer discounts.

THE WHITE HOUSE

WASHINGTON

December 7, 1997

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Bowles

MEMORANDUM FOR THE PRESIDENT

THROUGH: ERSKINE BOWLES
SYLVIA MATHEWS

FROM: MICHAEL WALDMAN *MW*

THE PRESIDENT HAS SEEN
12-29-97

SUBJECT: STATE OF THE UNION MEETING

The 1998 State of the Union Address – your sixth – comes at a critical time in the Presidency. It will be your first major statement of purpose to the country since the completion of the balanced budget; it will be an opportunity to frame the issues that can dominate the 1998 elections; it can enable you to set large national goals and posit a new role for government in the new era.

The purpose of this memorandum is to prepare you for our first meeting with you on the State of the Union, to be held Monday morning. In this meeting, we propose to:

- discuss the overall strategic goal of the speech,
- focus, in particular, on how best to frame the role for government and the new bonds between government and people -- which you have called the “new social compact for a new economy,” and
- present some overarching thematic approaches for your initial reaction.

This memorandum reflects discussions among Sylvia Mathews, John Podesta, Rahm Emanuel, Paul Begala, Sid Blumenthal, Ann Lewis, Gene Sperling, Bruce Reed, Sandy Berger, Frank Raines, Elena Kagan, Maria Echaveste, John Hilley, Ron Klain, Tony Blinken, Doug Sosnik and Mark Penn.

I. GOALS AND CONTEXT

Goals. First and foremost, it must set forth an ambitious agenda of programs and goals for the nation and world over the next three years, and even beyond. More than most such speeches, this can aim for far horizons.

Second, it should express the philosophy underlying that agenda, and link your many proposals as part of a new vision of government in the new economy. This speech should

express a clear "storyline" about the history of the country, the values you are working to uphold, and the purpose of your Presidency.

~~THE PRESIDENT HAS BEEN~~ ¹²⁻²⁹⁻⁹⁷
Third, it should highlight the different approaches of Democrats and Republicans. The overall purpose of the speech cannot be merely to unite the Democrats, but rather, to lead them and the country by expressing your public philosophy and summoning them to action on compelling issues.

The context. This Address comes at a turning point in your Presidency -- the beginning of a new phase that may encompass your final three years in office. America has fundamentally succeeded in meeting the challenges placed before it when you were elected. You addressed the budget deficit (a legacy of the 1980s), and the crises of crime and the persistence of the underclass (legacies of the 1960s and 1970s). More broadly, the policies you have put in place have gone far to guide the transition to a prosperous new economy that is information-based and technology-powered . . . through the shoals of the post-Cold War world . . . and toward an increasingly integrated global marketplace and community. The public is plainly ready to regard these changes, which once seemed only omens of disruption, as heralding a new and hopeful time. You have put in place a platform of progress on which to build.

Ironically, this very record of success creates a vacuum, and hence an opportunity. We believe there is a willingness, even an eagerness, on the part of the public to be challenged to the next agenda. Many of your most memorable speech lines have been those of negation -- "end welfare as we know it," "the era of big government is over." This is an occasion for focusing on "construction" -- for a distinctly positive vision.

 This argues strongly that the policies advanced should be bolder, painted in more vivid colors, than we are perhaps accustomed to doing. They should paint a vision of the changes we seek, even if the enactment of some of those changes are unlikely in the short term. Each of your previous States of the Union revolved around a single, looming issue -- the economic plan (1993), health care (1994), the unfolding fight with the Republicans on how to balance the budget (1995-1997). The array of smaller policies were accompanying notes to the dominant theme. This time, thus far, no single policy proposal or debate rises to the level of the economic plan, the health care plan, or the balanced budget. (Some of the entitlement reform proposals recently presented to you would possibly rise to this level.)

II. "THE NEW SOCIAL COMPACT FOR A NEW ECONOMY"

Regardless of whether it is an overarching structure for the speech, or merely an extended passage, it may well make sense to talk at length about your vision of the new social compact for a new economy. In recent weeks, you have discussed the new forms of "social security" we need to give people the confidence they need to seize the opportunities of the new economy, as well as the "new social compact" you discussed at the DLC speech. It speaks to your vision of government -- "neither a government that does everything, nor a government that does nothing,

but a government that gives people the tools to make the most of their own lives.”

This could be a way to frame those domestic policy initiatives that involve updating the welfare state:

“America’s mission has always been to keep our most fundamental values alive in each new time. Now, as we enter a new century, America must renew the ties that bind us to each other and our country. During the Industrial Age, we gave life to our values by forging a social compact that protected our people and shielded them from economic dislocation. Today, the unfolding new economy offers wide new opportunities -- but rapid change has made the old social contract less effective. As we enter a new century with a new economy, we need a new social compact/contract as well. One based on individual empowerment, not big institutions. That means more and better education, a lifetime of learning to stay current in the ever-changing economic market, policies that encourage portability of health care and pensions as people change jobs, and an update of important programs like Social Security and Medicare so they can work better in the 21st Century.”

Regardless of the precise wording, there is a more fundamental question that would benefit from your input.

- What, precisely, do we mean? Does this mean, in effect, a modernized welfare state in which people are given the tools to help themselves (e.g., portable health care, IRAs, training) rather than given blanket assurances of “security”, or does it speak more broadly to a change in the relationship between individuals and government? How do we discuss the new habits of the heart needed in this new social compact?
- How does the important theme of “helping people meet their responsibilities at home and at work” fit in?
- Are there specific policy areas -- e.g., a more aggressive approach to unemployment insurance and training -- that need to be developed to bolster the theme?
- Are there approaches or phrases to use or avoid? (Can we talk about the social contract without the words “social” or “contract”?)

III. OVERARCHING THEMES AND STRUCTURES

We are currently discussing several thematic approaches to the speech, and would like to get your initial reaction and guidance before we proceed further. Mark Penn will be testing these various formulations, among others. Two, in particular, seem promising:

Preparing America for the 21st Century. There is a new economy taking shape around us, the product of the progress put in place by your administration. We must act to give our people the tools to seize this new moment. That means a new social compact for the new economy, so all our people can seize the opportunity of this time (*or*, "new opportunity" for the new economy). It means acting to spur the development of miraculous new medical and scientific breakthroughs. It means working to create new security in the new world, as America faces new threats of terrorism, chemical and biological weapons, and ethnic warfare. It means building a new American community -- uniting the races through an ethic of service, and building a new sense of social cohesion.

Note: This theme, a more rigorous update of the 1997 State of the Union, has the advantage of being relentlessly future oriented and visionary.

The New American Dream (alternately, "Renewed American Dream," "21st Century American Dream," or "an American Dream for the 21st Century"): The American Dream has always been at the heart of the American experience. A good job, owning a home in a safe and clean community. Giving your children a good education, seeing a doctor when you're sick, retiring in dignity. Now our mission must be to strengthen those enduring values in a new time. But as we enter a new century we need less bureaucratic and more effective means of enabling people to achieve the American Dream of earning a good living and living a good life. That means an economic policy that invests in people's skills and pays down the debt and deficit of the past. It means tax cuts that are targeted where they're needed most -- retirement, child care, education -- rather than the old days of unfair tax cuts that exploded the deficit and hurt the economy. It means an education policy that reforms and improves public education -- reducing class size, restoring discipline, testing new teachers to make sure they're competent. It means a health care policy that protects the rights of patients, an environmental policy that punishes polluters and ensures clean air and water. And a retirement system that's flexible enough to protect senior citizens in changing times.

Note: This theme has the advantage of being concretely tied to the aspirations of people in their everyday lives.