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FOR IMMEDIATE RELEASE For Information:
David Saltz 202-637-5318
Deborah Dion 202-637-5036

STATEMENT BY JOHN J. SWEENEY
PRESIDENT, AFL-CIO
ON THE WORLD TRADE ORGANIZATION'S
NEW COMMITMENT TO CORE LABOR STANDARDS

December 12, 1996

The AFL-CIO welcomes the decision of the trade ministers in Singapore that for the first time commits the World Trade Organization's members to the observance of core labor standards.

These standards, which are understood to include freedom of association, the right to organize and bargain collectively, non-discrimination in the workplace and a prohibition on exploitative child labor, are essential if the international trading system is to raise living standards for working people around the globe.

The AFL-CIO is encouraged by the broadening consensus for further work on these issues by the WTO.

We appreciate the outstanding efforts of acting U.S. Trade Representative Charlene Barshefsky, which were key to progress in the important area of worker rights. More remains to be done. We continue to believe that the condition of workers should be an integral part of trade relationships.

We, together with trade unions around the world will continue to challenge governments and employers to live up to these basic labor standards by all the means at our disposal.

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EYES ONLY

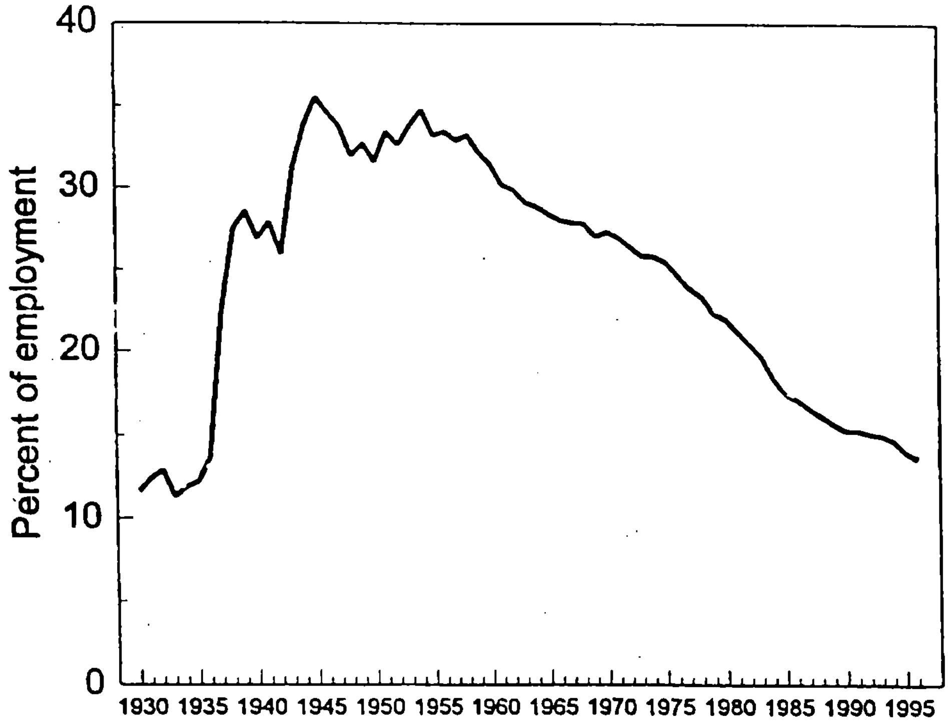
WEEKLY ECONOMIC BRIEFING OF THE PRESIDENT OF THE UNITED STATES

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

February 14, 1997

CHART OF THE WEEK

Long-Term Trends in Union Membership



Unions represented about a third of all employed workers in the decade following World War II, but they represent only about 14 percent today. Through the 1960s and 1970s, union membership continued to grow, but more slowly than employment. More recently, membership has been falling. In 1996, 16.3 million workers were union members, down from a peak of 20.2 million in 1978. Reasons for the decline include increasing employment in less-unionized sectors (services), regions (the South), and demographic groups (women), as well as intensified management opposition to unions (see *Weekly Economic Briefing*, September 12, 1994).

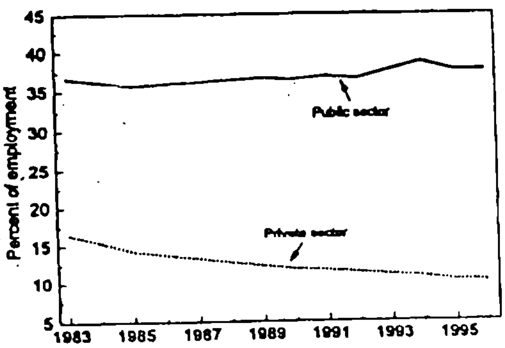
EYES ONLY

CURRENT DEVELOPMENT

Trends in Union Membership and Earnings

At least three aspects of trends in union membership and earnings are noteworthy.

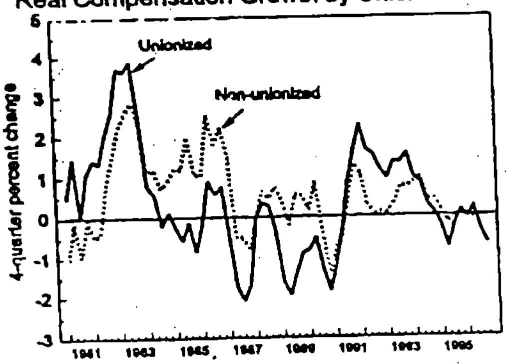
Union Membership



Membership trends. The overall decline in membership has been concentrated in the private sector (see upper chart). While the share of private sector workers who are union members fell from 16.5 percent in 1983 to 10.2 percent in 1996, the share of public sector workers has remained roughly constant at about 37 percent.

Compensation trends. Compensation has often changed at different rates in the unionized and non-unionized sectors of the economy (see lower chart). During much of the 1980s, for example, compensation grew more slowly in the unionized sector than in the rest of the economy, and more slowly than inflation. More recently, the trends have been similar in both sectors.

Real Compensation Growth by Union Status



Wage premium. Weekly earnings for the typical unionized worker were about a third higher than those of the typical non-unionized worker in 1996. Part of this difference reflects the fact that unionized workers tend to be concentrated in higher paying jobs (in larger firms, urban areas, and manufacturing and public utilities industries). Unionized firms faced with higher wages may also have the ability to screen for and select workers with better-than-average skills and training from the queue of workers seeking union-wage jobs. Nevertheless, econometric studies that try to control for these other factors suggest that working in a unionized firm raises a worker's earnings by 10 to 15 percent. In short, being in a union matters, even after taking other factors into account.

American Federation of Labor and Congress of Industrial Organizations

815 Sixteenth Street, N.W.
Washington, D.C 20006
(202) 637-5000

MEMORANDUM

TO: John Podesta

FROM: Jon Hiatt JH

DATE: December 20, 1996

RE: Avondale/NASSCO

At Gerry Shea's request, I am sending you this memo that attempts to summarize the disgraceful situations at the above two shipyards.

While the two situations are quite distinct -- NASSCO concerns a long-time contract dispute in a unionized yard while Avondale involves a brutal anti-union campaign against workers who have been trying to unionize for the first time -- they are related to the extent that both companies are operating under and completely dependent upon contracts with the Federal Government.

It is our view that the Government could and should make clear to these contractors that it cannot accept the immoral and unlawful labor-relations policies that these two wholly dependent contractors are conducting, and that in both cases they must immediately work out their differences with the unions on mutually acceptable terms.

In one case -- NASSCO -- the yard has been unionized for decades. The problem involves a contract dispute that has been going on for several years, and where the main problem has been the company's resistance to retaining a union security provision that limits the rights of non-members to be free-riders, enjoying all of the contract's benefits without paying their fair share of the costs of contract negotiation or administration. This provision had been in the parties' contracts for years. At various stages of the negotiation process, NLRB administrative law judges have found the company to have engaged in unlawful, bad faith bargaining.

With regard to Avondale, the union won an NLRB election in May 1993, by a vote of approximately 1,800 to 1,200 in a unit of over 4,000. The company challenged several hundred ballots and filed 45 objections to the election. The NLRB hearing officer recommended dismissal of all the company's objections, and a resolution of the ballot challenges. It is believed that the counting of these ballots will only widen the margin of union victory.

Over three years have past, however, and the Board has yet to certify the results of the election. The company insisted on taking its challenged ballots and objections to 160 days of hearings. Briefs were filed in May of 1995, yet no decision has issued more than a year and one-half later.

In the meantime, the NLRB General Counsel investigated and found cause to issue complaints on over 200 unfair labor practice charges filed between March, 1993 and December, 1994, all of which were consolidated for a hearing which concluded this past summer. These include allegations of unlawful terminations, lay-offs, transfers, threats, intimidation, surveillance, and other discriminatory treatment.Another consolidated unfair labor practice trial consisting of some 85-100 charges occurring between December, 1994 and the present, is scheduled to be heard this winter.

Moreover, Avondale has signaled, in a bid prospectus that it submitted in seeking a multi-billion dollar contract for the Navy's LPD-17 semi-amphibious ship contract, that it plans to exhaust all available court appeals before even bargaining with the union, once the Board finally certifies.

Meanwhile, at both NASSCO and Avondale, Defense Agency auditors have been approving government reimbursement for millions of dollars of anti-union activities (such as captive audience speeches during the Avondale campaign) allegedly falling in the category of "indirect shipbuilding costs." They have apparently told Avondale that for any of the unfair labor practice cases that it wins, it will be reimbursed for its attorneys fees; for those it loses, no decision has yet been made.

It is impossible to imagine the Administration standing by if a major government contractor, over the course of three years, was found by the EEOC General Counsel to be engaging in a pattern of racial and/or sexual discrimination violations on 300 or more separate occasions. Why should this be any different?

Furthermore, as noted, the list of unfair labor practice charges deemed meritorious by the NLRB General Counsel includes some very serious discrimination allegations, including major discriminatory layoffs, discharges, job reassignments, etc.

For your information, I am attaching an excerpt from Avondale's LPD-17 bid prospectus summary that demonstrates the company's obvious intention to mount court challenges to any forthcoming NLRB certification. Also attached is a letter on the subject sent to President Clinton from several AFL-CIO affiliates' general presidents last May.

We should stress that as misguided as the Government's reimbursement policies are, the problems at both NASSCO and Avondale are of a much deeper nature. As indicated above, we believe the Government needs forcefully to make clear to these contractors that its anti-union policies are just as intolerable as Mitsubishi's sexual harassment record or Texaco's racial discrimination. And given NASSCO's and Avondale's near total reliance on the Government, the Administration should take whatever steps are necessary to promote a full settlement of these disputes.

In the case of NASSCO, that means dropping its insistence on an open shop to facilitate a settlement of the ongoing contract dispute; in the case of Avondale, it would mean no further opposition to the NLRB's certification of the Metal Trades Council as the exclusive bargaining representative, prompt negotiation of a first contract, and a resolution of the 300-400 outstanding unfair labor practice charges.

Thank you for your assistance in this matter.

Attachments

JOHN F. MEESE
President
General Offices:
AFL-CIO Bldg.
815 16th Street, N.W.,
Washington, D.C. 20006
Tele. 202-347-7255
FAX 202-347-0181

OFFICE OF GENERAL COUNSEL
96 MAY 21 PM 3:02

Metal Trades Department

American Federation of Labor and Congress of Industrial Organizations

May 20, 1996

The President
The White House
1600 Pennsylvania Avenue, NW
Washington, D.C. 20500

Dear Mr. President:

As we write this letter, a long-overdue increase in the minimum wage is being debated by Congress, and if the noxious TEAM Act rider is dropped from the bill, millions of American workers will see some improvement in their living standards. At the same time, you are preparing, next week, to host a conference on the issue of corporate responsibility. These are just two examples of how your Administration has lived up to its promise to help American families, and to "level the playing field" for American workers.

You also have been a strong advocate for collective bargaining and the rights of American workers to join unions, if they choose. This is reflected in your appointments to the National Labor Relations Board, an Agency that, once again, is fulfilling its statutory mandate to protect workers who seek to organize and to promote the process of collective bargaining. Indeed, the Agency is doing an admirable job, with a reduced staff and budget, and in spite of being singled out for venomous and time consuming attacks by the Republican Congress.

This is the good news. We write today, however, because much of what your Administration has sought to accomplish in the area of worker rights is being undercut by an antiquated and blind system of awarding huge government contracts -- particularly defense contracts -- to companies with abysmal worker rights, health and safety, and collective bargaining records. This makes no policy sense, and, in these times, it certainly makes no fiscal sense.

We would like to relate to you one astonishing example of a company that receives most of its revenue from one federal government agency, the United States Navy, and then spends countless thousands of those same government procurement dollars fighting the orders and complaints of another federal government agency, the National Labor Relations Board.

Avondale Industries, Inc. operates a large shipyard in New Orleans, Louisiana, and is one of the Navy's premier contractors. In 1993, alone, the Navy awarded Avondale over $1 billion in new contracts. Also in 1993, Avondale employees sought union representation, and on June 25, 1993, the National Labor Relations Board conducted a representation election among a unit of Avondale's employees.

Despite an intense and intimidating anti-union campaign run by Avondale officials, approximately 2000 employees voted in favor of being represented by the Metal Trades Department, AFL-CIO. But this overwhelming vote in favor of representation did not deter Avondale officials from their commitment to preventing collective bargaining. Hundreds of ballots where challenged, and the Company filed dozens of objections to the conduct of the election — a time-tested method by which employers try to defeat employee free choice.

Normally, election challenges and objections are heard in a matter of days at an NLRB hearing, with decisions quickly following. In this case, however, a high-priced team of Avondale attorneys dragged out the process for more than 84 days over a six month period Largely because of the volumes of materials filed by the Company, the NLRB Hearing Officer's Report, overruling Avondale's objections, did not issue for another year.

In the meantime, In July, 1994, the NLRB began prosecuting a series of unfair labor practice complaints against the Company encompassing literally hundreds of unfair labor practice charges. To date, there have been 160 days of trial and over 2000 exhibits introduced concerning charges of unlawful discharge and discrimination against union supporters, interrogations and threats, and other egregious and unlawful conduct. The cost of prosecuting these cases is incalculable but it may well be one of the most expensive cases ever brought by the NLRB.

And, who is financing Avondale's shameless misconduct and "spare-no-expense" resistance to its employees union organizing efforts? The United States Government! Mr. President, there is something seriously wrong with this picture.

Let us be clear. The Metal Trades Department, its affiliated unions, and the Avondale employees we represent are not asking the Navy to withhold contracts won by Avondale after a competitive bidding process. We are painfully aware that any reduction in orders could well result in a loss of work to Avondale employees. But the status quo is unacceptable.

Previous complaints about this situation resulted in a cursory Defense Contract Audit Agency (DCAA) review allowing Avondale to charge its anti-union meetings and activities as an allowable "indirect cost" to be reimbursed by the federal government. At the very least, Avondale should be required to fund its anti-union campaign out of non-federal revenues. This is only one step that should be considered. We implore you to help find others.

We ask that you immediately convene a high level meeting among officials at the Departments of Labor and Defense, the National Labor Relations Board, Avondale's President and CEO, and the leadership of the unions involved. We think the personal involvement of Secretary of Labor Reich is essential.

We also suggest that a Task Force be created to consider the ongoing problem of the federal government awarding taxpayer financed contracts to companies which then use that taxpayer money to fight the orders of other government agencies. In view of the uncertain legal status of executive orders debarring federal labor law violators, other options should be considered. At a minimum, there should be government-wide enforcement of "collection by administrative offset" -- the procedure which permits the federal government to withhold money from a federal contractor if that contractor has failed to comply with an NLRB order to restore : or benefits.

We appreciate your immediate attention to this problem. Avondale's employees deserve the level playing field that your Administration has begun to achieve for so many American workers. American taxpayers deserve a financially sound and sensible federal contracting system.

Sincerely yours,

John F. Meese, President
Metal Trades Department, AFL-CIO

Mr. Doug McCarron, President
United Brotherhood of Carpenters and Joiners, AFL-CIO

Mr. John J. Barry, President
International Brotherhood of Electrical Workers, AFL-CIO

Mr. Jake West, President
International Association of Bridge, Structural and Ornamental Iron Workers, AFL-CIO

Mr. George J. Kourpias, President
International Association of Machinists and Aerospace Workers, AFL-CIO

Mr. Frank Hanley, President
International Union of Operating Engineers, ALF-CIO

Mr. A. L. "Mike" Monroe, President
International Brotherhood of Painters and Allied Trades, AFL-CIO

Mr. Marvin J. Boede, President
United Association of Journeymen and Apprentices of the Plumbing and Pipefitting Industry of the United States and Canada, AFL-CIO

Mr. Arthur A. Coia, President
Laborers International Union of North America, AFL-CIO

Mr. Arthur Moore, President
Sheet Metal Workers International Association, AFL-CIO

Mr. William G. Bernard, President
International Association of Heat and Frost Insulators and Asbestos Workers, AFL-CIO

cc: Honorable Robert Reich
Honorable William J. Perry
Honorable William Gould
General Counsel Fred Feinstein

JFM/skb

PROSPECTUS SUMMARY

The following summary is qualified in its entirety by the more detailed information and financial data appearing elsewhere in this Prospectus and in the Consolidated Financial Statements, including the Notes thereto, and other documents that are included elsewhere herein or incorporated herein by reference. For descriptions of certain vessels and definitions of certain terms used herein, see "Glossary of Selected Industry Terms" appearing elsewhere herein. Unless otherwise indicated, the information in this Prospectus assumes that the Underwriters' over-allotment option is not exercised.

THE COMPANY

GENERAL

Avondale is one of the largest shipbuilders in the United States, specializing in the design, construction, conversion, repair and modernization of various types of ocean-going vessels for the military and commercial markets. A majority of Avondale's contracts in recent years has been for the construction of U.S. Navy surface ships, although it has secured two large commercial contracts in the past year for the construction or conversion of double-hulled product carriers. Management believes the Company's low cost structure, experienced and skilled work force, sophisticated construction processes and extensive experience gained over the past 25 years in building a variety of military and commercial vessels, position the Company as one of the most cost-efficient and versatile shipbuilders in the United States. At December 31, 1995, the Company's shipbuilding backlog (the "firm backlog") was approximately $1.4 billion, exclusive of unexercised options aggregating $485 million held by the U.S. Navy for additional ship orders (including contract escalation) and a commercial contract subject to financing. Of the firm backlog, approximately $1.3 billion was attributable to contracts to build ships for the U.S. Navy.

To assure that its shipyard remains among the most modern in the world, Avondale regularly reviews and assesses its construction and production processes. In the early 1980s, the Company was the first U.S. shipyard to successfully implement modular construction techniques that had previously been perfected by Japanese shipbuilders. Management believes these techniques were a major factor in Japan's dominance of the commercial shipbuilding market during the 1970s. Avondale obtained its modular construction capabilities and "know-how" pursuant to an agreement with one of Japan's largest shipbuilders, which worked with Avondale to change its manufacturing processes and to train Avondale's employees. Modular construction afforded Avondale significant production efficiencies in the installation of ship systems, largely due to the greater ease with which such systems could be installed in open modules rather than closed-in hulls.

The Company has also embarked on a modernization program to enhance its ability to build and deliver vessels at a lower cost. In 1994 the Company entered into a technology sharing agreement with Astilleros Espanoles S.A. ("AESA") of Spain, regarded as an innovative and successful world-class shipyard. After an on-site review of Avondale's shipyard by AESA, as well as a review by Avondale of current shipbuilding technology in other countries, Avondale invested $20 million in capital improvements designed to increase efficiency by improving production flow. In particular, the Company integrated certain assembly-line techniques with its modular construction processes. To that end, the Company has built a covered facility that houses two production lines dedicated to military vessels and two lines for commercial vessels. Avondale believes that sheltering the production process and separating the unit lines will enhance production efficiencies and lower unit production costs.

The principal executive offices of the Company are located at 5100 River Road, Avondale, Louisiana 70094 (telephone no. (504) 436-2121).

U.S. MILITARY OPPORTUNITIES

During the past 25 years, Avondale has built 72 vessels for the U.S. Navy and other branches of the military, ranging from vessels such as AOs and T-AOs that principally require large-scale steel fabrication at

INSURANCE

The Company maintains insurance against property damage caused by fire, explosion and similar catastrophic events that may result in physical damage or destruction to the Company's premises and properties. The Company also maintains general liability insurance in amounts it deems appropriate for its business. The Company is self-insured for workers' compensation liability and employees' health insurance except for losses in excess of $1.0 million per occurrence, for which the Company maintains insurance in amounts it deems appropriate.

ENVIRONMENTAL AND SAFETY MATTERS

General. Avondale is subject to federal, state and local environmental laws and regulations that impose limitations on the discharge of pollutants into the environment and establish standards for the treatment, storage and disposal of toxic and hazardous wastes. Stringent fines and penalties may be imposed for non-compliance with these laws and regulations, and certain environmental laws impose joint and several "strict liability" for remediation of spills and releases of oil and hazardous substances rendering a person liable for environmental damage, without regard to negligence or fault on the part of such person. Such laws and regulations may expose the Company to liability for the conduct of or conditions caused by others, or for acts of the Company which are or were in compliance with all applicable laws at the time such acts were performed. The Company is covered under its various insurance policies for some, but not all, potential environmental liabilities. See Note 10 of the Notes to Consolidated Financial Statements.

The Company is also subject to the federal Occupational Safety and Health Act ("OSHA") and similar state statutes. The Company has an extensive health and safety program and employs a staff of safety inspectors and industrial hygiene technicians, whose primary functions are to develop Company policies that meet or exceed the safety standards set by OSHA, train supervisors and make daily inspections of safety procedures to insure their compliance with Company policies on safety and industrial hygiene. All supervisors are required to attend safety training meetings at which the importance of full compliance with safety procedures is emphasized.

Waste Disposal. Avondale's operations produce a limited amount of industrial waste products and certain hazardous materials. The Company's industrial waste products, which consist principally of residual petroleum, other combustibles and blasting abrasives, are shipped to third party disposal sites that are licensed to handle such materials.

EMPLOYEES

Since September 1985, when all of its outstanding Common Stock was purchased by the ESOP from Ogden Corporation, Avondale has been owned principally by its current and former employees. At December 31, 1995, Avondale had approximately 5,300 employees, many of whom have been employed by the Company for many years.

None of Avondale's employees is currently covered by any collective bargaining agreement. However, on June 25, 1993 an election was conducted to determine whether certain of the New Orleans area employees desired to have union representation. A total of 3,914 workers cast votes, of which approximately 850 votes were challenged by the NLRB and union organizers on a variety of grounds. Although the union did receive a majority of the unchallenged ballots, challenged ballots (which remain under seal) in numbers sufficient to determine the outcome of the election remain uncounted awaiting the NLRB's decision. The Company has filed objections with the NLRB seeking to have the election set aside. The NLRB is currently reviewing the challenged votes and evaluating the Company's objections to the election. The hearing officer assigned to the case has recommended to the NLRB that certain of the disputed votes be counted and that the Company's objections be rejected. If the NLRB upholds the election and certifies the union, and that decision is not overturned by subsequent judicial proceedings, the Company would be required under the federal labor laws to bargain in good faith with the union on matters such as wages, hours and other working conditions. Even though Avondale will only agree to bargaining demands that can be economically justified, union certification may result in an increased risk that the union will engage in potentially disruptive activities such as strikes or picketing, or that the Company may incur higher labor and operating costs.

The union has also filed numerous unfair labor practice charges with the NLRB alleging that Avondale has committed a variety of violations of the National Labor Relations Act principally involving claims that employees were wrongfully disciplined or discharged. Although the Company disputes these claims and is waging a vigorous defense, if there is a finding against the Company, depending on the facts of each case, the employee would be entitled to back pay from the time of his or her claim until the resolution of the case. However, even if there is a finding in favor of some of the claimants with respect to one or more of the unfair labor practice claims, management believes that any judgment would not have a material impact on Avondale's financial condition, results of operations or cash flows.

American Federation of Labor and Congress of Industrial Organizations

815 Sixteenth Street, N.W.
Washington, D.C 20006
(202) 637-5000

February 3, 1997

Erskine B. Bowles
Chief of Staff to the President
The White House
1600 Pennsylvania Avenue, N.W.
Washington, D. C.

Dear Mr. Bowles:

One year ago the Administration postponed the land transportation provisions of NAFTA. That decision was rooted in your serious concerns about the adequacy of mechanisms to insure the enforcement of safety, security and other vital standards. Recently, we have met with your staff to discuss the pending decision to implement the provision. Based on what we have learned in those meetings, those matters which you correctly identified as crucial, if implementation was to go forward, have not yet fully been addressed. In this light, I strongly urge that the postponement be continued.

Even if agreement is someday reached with the Mexican government on the broad elements of the transportation program outlined to us--roadside vehicle inspection capability, data exchange, and safety management oversight--it appears that adequate implementation of an agreement will take the investment of considerable resources and years to accomplish.

Major problems that remain unaddressed include:

- **Hazardous Materials**

In general, less than 2 percent of all Mexican trucks crossing the border are inspected, regardless of what they are carrying. Depending on the border crossing, approximately 25 percent of all Mexican trucks carry hazardous material. When a random inspection does happen to be conducted, less than one in 14 of the trucks carrying hazardous material are property placarded. Up to 90 percent of inspected shipments of hazardous material don't coincide with shipping papers carried by the driver. Put simply, the flow of hazardous material from Mexico is so substantial and unregulated that you could increase the number of enforcement personnel at the border tenfold and not even make a dent in solving the problem.

- **Accessibility of Data**

  The driving and criminal records of U.S. drivers are computerized and readily available to law enforcement officers in the U.S. Mexico isn't even close to having this information computerized and available to U.S. law enforcement officials.

- **U.S. Wage and Hour Laws**

  Even Administration officials admit that resources do not exist to insure that Mexican drivers are protected by appropriate U.S. laws and regulations. With the proposed border opening, a Mexican driver could work-full time in this country, yet not even receive the U.S. minimum wage. NAFTA's impact on workers' wages is already severe, but under this circumstance would have the effect of undermining legally mandated wages.

- **Insurance Coverage**

  Studies by the National Association of Independent Insurers and others have shown that Mexican carriers are chronically under insured. The legitimacy of insurance papers are also questionable. Insurance forms are often altered or duplicated. Inadequate or illegitimate policies can often be purchased for $50 or less at many border crossing locations.

- **Hours of Service**

  Mexico currently has no hours of service regulations. Even if hours of service regulations were adopted, there is absolutely no track record for enforcing such regulations. The entire burden would fall on U.S. officials with no credible enforcement program in place.

- **Inspection Capacity**

  Texas alone had 1.9 million total Mexican truck crossings in 1995 at 15 different border crossing sites. Official figures for 1996 are expected to increase. The current level of enforcement personnel allows for the inspection of only one-half of one percent of all these trucks. When you add Arizona, California and New Mexico into this mix, it is clear that adequate enforcement programs do not exist and cannot be developed at the border.

- **Market Access**

  Reciprocal market access for scheduled bus service has not been achieved. Mexico continues to restrict service to multiple destinations and prohibits bus terminal ownership and operation by non-Mexican companies, thereby effectively denying market access to U.S. carriers.

Other unresolved issues include differential air emission guidelines, the inability to enforce existing prohibitions against cabotage, the ability of Mexican trucking companies to interfere with U.S. industrial relations disputes, and differential drug and alcohol testing programs.

Laws and regulations addressing minimum employment standards, hours of work, job and highway safety, and environmental quality are enacted by governmental authorities to enhance and protect the quality of life for the citizens of this country. It is a serious mistake to believe that any presumed benefit from premature market opening outweighs the public good. Current policy should be maintained and implementation of the land transportation provisions of NAFTA be suspended indefinitely.

Sincerely,

John J. Sweeney

John J. Sweeney
President

MEDIA ADVISORY FOR AFL-CIO EXECUTIVE COUNCIL MEETING FEBRUARY 17- 20

FOR IMMEDIATE RELEASE For Information: Deborah Dion 202-637-5036

Los Angeles, CA -- Top leaders of the AFL-CIO will meet for nearly a week at the Biltmore Hotel in Los Angeles beginning Sunday, February 16th -- the first time in more than 30 years that the winter executive council meeting has not been held in the resort town of Bal Harbour, Florida. After their election in late 1995, the new officers of the labor movement announced that they would be moving the traditional winter meeting to cities around the country where national union leaders could join working families' struggles. Los Angeles is home to a dynamic labor movement and some of the most aggressive new organizing in the nation. High-profile organizing campaigns include SEIU homecare workers and Justice for Janitors, H.E.R.E. New Otani Hotel organizing, UNITE low-wage worker campaign, CWA Port of Long Beach truckers and UC technical workers, IBT Overnite truckers, the Sheetmetal workers' youth-to-youth organizing, and the Strawberry Workers Campaign.

Among guests addressing the council meeting are: Vice President Al Gore, Senator Tom Daschle, Congressman Dick Gephardt, Representative Xavier Becerra, Representative Maxine Waters, U.S. Trade Representative Charlene Barshevsky, and California Lt. Governor Gray Davis.

Press Events Include:

Sunday, February 16

4:00 pm Los Angeles workers and union activists kick off the week with a picnic celebrating L.A. work and L.A. workers -- Union Station

Monday, February 17 Council spends all day on Organizing.

8:00 am Breakfast Briefing on the Strawberry Workers Campaign Executive Council Members, Arturo Rodriguez,Organizing Committee Chairman Arthur Coia

12:30 pm Press Conference on 1997 organizing initiatives -- John Sweeney, Richard Bensinger, Karen Nussbaum

3:30 pm Representative Maxine Waters Press Availability (tentative)

Tuesday, February 18 Political/Legislative plans, Administration and Congressional leader guests.

Morning Senator Tom Daschle and Congressman Dick Gephardt, U.S. Trade Representative Charlene Barshevsky -- Press availabilities -- TBA

Representative Xavier Becerra -- Press Availability TBA

Afternoon Vice President Al Gore

3:15 Press Conference -- Vice President Al Gore and AFL-CIO President John Sweeney

Wednesday, February 19 Corporate/International Affairs and Other National Campaigns.

12:30 pm Press Conference on 1997 Corporate Affairs strategies and initiatives -- actions on other national campaigns released.

4:30 pm March and Demonstration in support of New Otani Hotel Workers -- starts at Pershing Square, 5th and Olive Streets -- directly across from the Biltmore Hotel -- Thousands will march to the New Otani Hotel, at Second and Los Angeles

Thursday, February 20 Communication and community outreach inititiatives. UCLA Teach-In

12:30 pm Press Conference -- Public Affairs Initiatives

7:00 pm - 10:00 pm UCLA Teach-In -- AFL-CIO President John Sweeney Kicks off Teach-In and Addresses "The Fight For Our Future"

Friday, February 21 -- UCLA Teach-In

9:00 am 10:30 am UCLA Teach-In -- AFL-CIO Secretary-Treasurer Richard Trumka addresses "Organizing In California"

3:30 pm - 5:00 pm AFL-CIO Executive Vice President Linda Chavez-Thompson and Working Women's Department Head Karen Nussbaum address "Race, Gender & Class"

The AFL-CIO Public Affairs Office will be in the Regency Room at the Biltmore Hotel. Press will be to work in the Heinfbergen room which will be furnished with phones. A detailed schedule of events and room locations will be sent out on Friday, February 14th. If you have any questions, please call Deborah Dion 202-637-5036.

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FY 1998 BUDGET Q&A
February 1997

Comments to Peter

Q: DOESN'T YOUR BUDGET AVOID ALL THE PAINFUL DECISIONS NEEDED TO ELIMINATE THE DEFICIT?

A:

- Not at all. We are locking in spending cuts of $350 billion over the next 5 years -- including $137 billion in discretionary spending and $100 billion in Medicare savings ($138 billion over 6 years) -- and cutting the deficit by $252 billion.

- We have carefully examined the budget for areas in which we can achieve savings while protecting our priorities. Our Medicare and Medicaid proposals achieve $110 billion in savings over the next five years, and extend the life of the Medicare Trust Fund to 2007, while maintaining the integrity of both programs. Our non-defense discretionary outlays follow a smooth, steady decline -- falling by 9 percent in real terms between FY 1997 and 2002.

- The Budget includes specific, credible cuts in many areas. As just a few examples, we are cutting funding for the U.S. Information Agency, P.L. 480 market development activities, the Corps of Engineers, the Bureau of Reclamation, and the Appalachian Regional Commission. [CHECK SPECIFICS AND GET OTHER INFO FROM OMB.]

Q: DOESN'T YOUR BUDGET ACHIEVE 75 PERCENT OF ITS SAVINGS IN THE FINAL TWO YEARS?

A:

- Our budget is <u>not</u> backloaded. Just take a look at our record. We've already cut the deficit from $290 billion in 1992 to $107 billion last year. When the President took office, the deficit had to be cut by a cumulative $2.75 trillion between 1993 and 2002 in order to reach balance by 2002. We have already locked in $2.5 trillion of those savings, and this budget would lock in the extra $250 billion needed. *The fact is that we've done the majority of the work in our first 4 years.*

- And we are making the hard decisions now. We are locking in spending cuts of $350 billion over the next 5 years -- including $137 billion in discretionary spending and $100 billion in Medicare savings ($138 billion over 6 years) -- and cutting the deficit by $252 billion. Over a 6 year window, we obtain 62 percent of our savings in the last two years -- not a backloaded program at all.

Q: DOESN'T YOUR BUDGET FAIL TO BALANCE UNDER CBO ASSUMPTIONS?

A:

- We have submitted a plan that balances the budget in 2002 under our assumptions -- assumptions that have proven to be conservative over the past four years *(every year, the deficit has been lower and growth has been higher than we had predicted).*

- Since we took office, the deficit has on average been about $50 billion lower than we had projected the year before. CBO has been less accurate: their estimates have been off by $59 billion on average.

- It is important that the numbers we use as part of a balanced budget agreement be credible and conservative -- and that they are supported by both the markets and the public. Our projections for GDP growth and inflation over the next five years match those of the Blue Chip private sector consensus.

- If, despite our expectations, our assumptions do not prove correct, we will pursue an expedited process with Congress to agree on how to close any budget gap. And in order to ensure that we are locking in a balanced budget, we have identified precisely what we do if our assumptions prove inaccurate and the expedited process with Congress doesn't work. Specifically, most of our tax cut proposals would sunset in 2001, and a 2.24 percent across-the-board reduction in spending (except Social Security) would be triggered. The discretionary spending reductions would start in 2001 and the reductions in mandatory programs would be in 2002.

Q: YOU HAVE INCLUDED A HOME HEALTH CARE TRANSFER GIMMICK IN THE BUDGET. HOW CAN YOU POSSIBLY DEFEND IT?

A:

- Let's be clear: our savings of $138 billion in Medicare over 6 years ($100 billion over 5 years) does *not* include the home health care transfer from Part A to Part B of the program. The $138 billion is the net reduction of Medicare spending relative to the budget baseline -- and thus is the amount by which our Medicare changes contribute to deficit reduction.

- The policy you mentioned was in our budget last year, and it was in the House Republican budget in 1995 that every Republican in the House voted for.

- Shifting long-term home health visits (those beyond the first 100 visits following a hospitalization) away from Part A of the Medicare program makes sense. It was also the established policy prior to the 1980s. And it protects the Medicare Trust Fund until 2007, while not imposing harmful cuts on hospitals or excessive burdens on beneficiaries.

[Background: Originally designed as a post-acute care benefit for beneficiaries who had been hospitalized, home health care has increasingly become a chronic care benefit, not linked to hospitalization. Our proposal restores the original split of home health care benefits so that the first 100 home health visits following a 3-day hospitalization would be reimbursed by Part A and all other visits -- including those not following hospitalization -- would be reimbursed by Part B.]

Q: FOLLOW: IF THE HOME HEALTH TRANSFER IS NOT A GIMMICK, THEN WHY DON'T YOU INCLUDE IT AS PART OF THE PART B PREMIUM?

A:

- We have always been concerned about out-of-pocket costs for Medicare beneficiaries. Older Americans spend, on average, 20 percent of their income on health care and three-fourths have incomes lower than $25,000. We have to be careful that as we reform the Medicare program, we do not place undue burden on low-income seniors.

Q. DOESN'T YOUR BUDGET CREATE $60 BILLION IN NEW ENTITLEMENTS?

A.

- No. My budget actually *saves* $121 billion in entitlement spending over the next 5 years.

- We <u>are</u> proposing some new additions to our health care programs, but they are aimed at reducing the number of uninsured Americans and are *not* open-ended entitlements. For example:

-- Our program to provide health insurance for unemployed workers is capped. The program is structured as a grants program to States. While there are provisions to help States that have unanticipated increases in unemployment, there is an overall Federal cap on spending that cannot be breached.

-- There are no new entitlements in children's health as well. The children's health initiative also contains no new individual entitlement. It provides States with grants that, by law, will not exceed $750 million in each year. Medicaid spending itself, under my plan, will be capped for the first time in its history. The Federal funding limits are set based on the number of people covered so that States — not the Federal government — make the decisions about coverage.

- We are also proposing some changes to the welfare reform legislation that was enacted last year, but our purpose is to fix unnecessary and damaging provisions in that legislation -- involving legal immigrants and Food Stamp recipients. We do not view these changes as new spending or new entitlements.

- It is ironic that we are sometimes criticized for phasing out new proposals -- such as school construction -- and simultaneously for creating permanent new entitlements. Our phase-outs are designed to allow an evaluation of how well the new programs are working -- and we have been careful to avoid creating permanent new entitlements without knowing the effects.

Q: WHY DO YOU SUNSET MANY OF YOUR NEW PROGRAMS?

A.

- Many of our proposals -- such as school construction, welfare to work, skill grants, and health insurance for the unemployed -- are new programs. They are untried. We want to see how they work before the government funds these initiatives permanently.

- For example, our school construction initiative -- providing $5 billion over 4 years -- is explicitly designed to jump-start $20 billion in local projects. The Federal government has traditionally not been involved in school construction and renovation, and our proposal is not supposed to be a permanent Federal program.

DRAFT: COMMENTS TO PETER

February 17, 1997

MEMORANDUM FOR THE PRESIDENT

FROM: GENE SPERLING

SUBJECT: *Wall Street Journal* article on the budget

Any document as important as the Federal budget inevitably attracts at least some criticism -- either for what it includes, or for it does not. Viewed from this perspective, the attached *Wall Street Journal* article ("Clinton's New Tack," February 7) represents a relatively positive reception to your FY 1998 budget. The piece recognizes the tough choices faced in the budget process, and validates your focus on reducing the deficit while boosting education and training. The article includes affirmative passages on:

- Deficit reduction and economic growth. The article notes that deficit reduction has improved economic performance: "...both parties now agree fiscal discipline is the one sure avenue to improving economic growth. It has one big argument going for it: It seems to work."

- Emphasis on education and training. Your strategy of boosting education and training was particularly well-received in the article: "Even critics of specific Clinton proposals say he's on the right track. 'The intention to focus on education is a good one,' says John Taylor, a Stanford University economists who advised Robert Dole in the presidential race." Murray Weidenbaum added that, "The idea of expanding the concept of tax-favored investment to include investment in people is a net idea."

- Coherent argument for education and training. In addition to supporting your basic focus on education and training, the article states that you present a coherent argument: "The Clinton budget does offer one coherent argument for useful government action, in this era of fiscal discipline, to spur growth and arrest the widening inequality that marks the past two decades. That, Mr. Clinton proposes, is more and better education."

- Education and training plan not just rhetoric. Furthermore, the article verifies that your support for education and training is real: "Mr Clinton's new education 'crusade' goes beyond rhetoric. For most domestic programs, he proposes spending that fall short of compensating for inflation, but advocates steady increases in outlays for education."

- Tight labor markets and inequality. The article notes that stronger economic growth and the resultant tight labor markets have produced substantial benefits for working Americans: "...the benefits are huge for Americans of all classes, including millions of workers whose wages haven't kept up with inflation in recent years. 'A tight labor market,' says Lawrence Katz, a Harvard University economist, 'is the best thing we've got in keeping up demand for people at the bottom.'"

The article also raises a series of questions and criticisms, including why we have not boosted physical capital investment; whether our education tax cuts will actually increase enrollment; why we have not cut taxes for the poor; and whether we have taken enough of the painful medicine needed to balance the budget while protecting our priorities.

It may be helpful to analyze these issues from an economic growth framework. Economists have identified three sources of economic growth: investment in physical capital, investment in human capital, and improvements in efficiency. Your economic policies -- including your budget proposals -- are intended to lay the foundations for improved living standards in the future by bolstering all three of these growth pillars.

I. Investment in physical capital

The first source of growth, physical capital investment, includes both private and public investment. Your strategy for boosting private-sector investment -- reducing the deficit, and thus cutting interest rates -- has been extremely successful. As the deficit has fallen from 4.7 percent of GDP in 1992 to 1.4 percent now, private investment has boomed:

- Business investment in equipment has grown by 10.3 percent per year since you took office -- faster than for any Administration since John F. Kennedy was President.

This additional investment is the mechanism through which deficit reduction raises growth, and the mechanism is working remarkably well.

The other component of physical capital investment comes from the public sector. The article argues that public investment has been sacrificed on the altar of deficit reduction. This argument has some merit -- we have not expanded public investment in infrastructure as much as we would have liked -- but it is overstated:

- During your first term, investment in highways, transit, and other infrastructure increased by more than 20 percent -- to an average of $25.5 billion.

- Furthermore, uur deficit reduction efforts have reduced interest rates for State and local governments, in addition to businesses, and thus helped to spur infrastructure spending. In constant dollars, State and local investment in infrastructure has risen from $108.1 billion in 1992 to $125.8 billion in 1996 -- a real increase of 16 percent.

II. Investment in human capital

The second pillar of growth is human capital -- investments in the education and training of the American workforce. In the article, even Taylor and Weidenbaum are supportive of your education and training efforts. And with good reason:

- We have already increased funding for Head Start by 43 percent since FY 1993, and we are proposing additional funding for FY 1998.

- We have increased the maximum Pell Grant from $2,300 in FY 1993 to $2,700 in FY 1997, and we're proposing another increase (to $3,000) in our budget.

- We have raised Title I spending by almost $1 billion (15 percent) since 1993.

- We have increased outlays on WIC by 36 percent -- from $2.9 billion in FY 1993 to $3.9 billion in FY 1997.

You have also worked to boost human capital by making work pay -- bringing more people into the workforce and thus helping them to acquire new skills and hone existing ones:

- Policy changes already enacted will expand the EITC by $47 billion between FY 1993 and FY 2002. Contrary to the assertion in the article, your tax cuts have *not* been aimed only at the middle class: this dramatic expansion in the EITC is helping millions of poor, working Americans.

- At least partly as a result of your economic policies, the percentage of working-age Americans who were employed reached 63 percent during your first term -- the highest for any Administration on record.

We continue to work on new human capital proposals -- from the America Reads challenge to the school construction initiative to the Hope scholarship. Our proposals to reduce the cost of college, in particular, have attracted much interest along with some criticism. While supporting the underlying intention of our proposals, for example, the article argues that they "will increase economic growth and restrain inequality *only* if they actually send more young people to college."

Ensuring that more people actually do attend college should be one of the fundamental objectives of your second term. The key to success is raising the expectations of lower-income students. Currently, many low-income students exclude themselves from the college market because they believe -- whatever the reality -- that they could never afford college. Emphasizing our entire package -- from expanded Pell grants, to the Hope scholarship, to the $10,000 tax deduction, to the new expanded IRA -- could help to change perceptions about the affordability of college for all Americans. And if all Americans believe that they have a real opportunity to attend college, more of them will.

The story of Eugene Lang illustrates the power of raising the aspirations of young students. In 1981, Eugene Lang, a New York businessman, was invited to speak to the sixth grade at an elementary school in East Harlem. He unexpectedly told the 61 children that if they graduated from high school, he would pay for all of them to go to college. Based on previous experience, 25 percent of the students should have finished high school, and almost none should have gone to college. In reality, 90 percent did graduate from high school and 60 percent went on to college. (Since 1986, Lang's "I Have a Dream" Foundation has grown to 160 Projects in 61 cities, serving more than 12,000 children.)

Similarly, if our combined proposals succeed in making all Americans realize that they can go to college, the effect could be dramatic. We should be more aggressive in pushing our education package as offering an opportunity for all Americans to go to college. But it may be worth noting that college enrollment is not the only relevant variable in evaluating whether our proposals are successful. If our focus on education induces more students to earn 4-year degrees rather than 2-year degrees, or to go to better schools, it can affect human capital investment and economic growth even without changing the total number of students enrolled in college (and therefore the enrollment rate).

III. Improvements in efficiency

The final pillar of economic growth is the efficiency with which we use and deploy our physical and human capital. Efficiency is enhanced by research and development, which improves our technology, and by more competition, which allows us to shift resources into more productive areas.

Research and development. The article complains that we have shortchanged R&D spending in order to raise education spending. It is true that Federal R&D spending has fallen over the past few years, but only because of declines in defense R&D:

- Nondefense R&D spending has risen: Real Federal spending on civilian R&D has totaled $109.3 billion during your first four years -- up over 10 percent relative to the previous four years.

- Our FY 1998 budget proposal includes a funding increase of more than $1.6 billion for R&D, including $337 million in additional funding for NIH, $97 million more for the NSF, and an increase of $289 million for university-based research.

Promoting competition. The second source of higher efficiency is competition, which encourages firms to adopt best practices and prompts labor and capital to flow to their most productive uses. The criticism on this front by John Taylor and Murray Weidenbaum, included near the end of the article, is simply unwarranted. The Vice President's National Performance Review, for example, is dramatically reducing the burden imposed by government regulations. We have begun the historic process of liberalizing the telecommunications and electricity industries -- each of which account for over $200 billion in annual sales. We have re-invigorated the Anti-Trust Division at the Justice Department. And our efforts to promote trade, as illustrated by the recent signing of the WTO telecommunications agreement, provide another source of efficiency-enhancing competition. Put simply, our economy is the most competitive in the world, and we are working to make it even more so.

Your leadership on the budget

Finally, the article questions whether you have exerted enough leadership on facing the painful medicine needed to balance the budget while protecting our priorities. This criticism seems particularly unfair and unfounded:

- Your courage in raising taxes on the top 1.2 percent of the population in the 1993 budget deal was instrumental to cutting the deficit by 63 percent while continuing to invest in the three pillars of growth. The OBRA 93 tax increase is expected to produce an additional $61 billion in FY 1997 above what would have otherwise been collected. This tax change took tremendous political courage, and has been essential to our deficit reduction efforts.

In summary, the budget affects too many people for it to escape any criticism whatsoever. Your economic team has worked hard to balance the myriad competing interests in shaping our FY 1998 budget proposals. In general, the article is supportive of those proposals. Relative to the reaction to previous budgets (including some of our own), the few criticisms seem mild. And the backing for our basic strategy, as reflected in many of the article's quotations, is refreshing. We will continue to work to garner more support for our economic policies.

February 18, 1997

MEMORANDUM FOR GENE SPERLING

From: Ken Apfel

Subject: G.I. Bill Background

You asked for GI Bill background for your trip on Wednesday. As you know, we are developing an options memo on the issue of skill grants that should be ready for review later this week. The following memo provides more general background on the GI Bill.

BACKGROUND. As detailed in the FY 1996 Budget, the G.I. Bill included combining 70 employment and training programs into one workforce development system (see attached) with five discrete component parts:

(1) **Individual Skill grants.** Financed at $3.6 billion in the Labor Department, vouchers of up to $2,620 would support "technical education" for dislocated workers and low-income persons. $2.1 billion of the amount was derived by transfer from Pell grant funds used then (and now) for these purposes.

(2) **Individual Pell grants.** Financed at $4.5 billion in the Education Department, grants of up to $2,620 would provide student financial aid to defray the costs of associate's and bachelor's degree courses. Pell would no longer be used for non-degree training.

(3) **A grant to States for adult services other than training.** Financed at $2.7 billion in the Department of Labor, this grant would support a State and local system of job placement and training-related services provided through one-stop career centers, with a limited national reserve for activities such as grants for multi-State mass layoffs, and research. This was the major consolidation of the Labor Department's Job Training Partnership Act (JTPA) and the Employment Service.

(4) **Two State grants for youth.** Financed at $2.9 billion, one grant would support vocational education for in-school youth through the Education Department; a second grant for at-risk and out-of-school youth would offer second chance training and work experience through the Labor Department. All activities were to be structured within the School-to-Work framework jointly administered by the Education and Labor Departments.

(5) **A State grant for adult and family literacy.** Financed at $490 million in the Education Department, this grant would provide GED, ESL, and basic skills instruction,

as determined by the States.

The FY 1996 Budget proposed $14.2 billion for the G.I. Bill for America's Workers, an increase in overall funding of $1 billion above 1995. We estimated that the Skill grant part of this approach ($3.6 billion) would serve all dislocated workers who wanted training, but only serve an estimated 60 percent of economically disadvantaged adults who needed and wanted training. As a result, State and local grantees would be required to ration Skill grant resources. It was (and remains) impossible to distinguish clearly between Skill grant and Pell grant eligibility on the basis of individual characteristics, so these take-up rates are very rough estimates. Both degree and non-degree training and education would have remained financible through student loans and income-contingent repayment, but we did not factor these resources into the discussion.

LEGISLATIVE HISTORY. The Administration did not transmit legislation to authorize the G.I. Bill reforms, except for a separate bill in May 1995 to reauthorize the vocational and adult education programs. We chose instead to work informally with the 104th Congress on bills Republicans were moving through both chambers. Our judgment was that specific Administration bill language would raise issues our supporters could not accept and would draw fire from Republicans unnecessarily. Senator Kennedy supported this approach.

The proposal to move Pell resources to the Labor Department was abandoned almost immediately because it was opposed vigorously by the higher education constituency and their Congressional allies.

In the Fall of 1995, training reform bills -- known as "CAREERS" (Goodling) and the "Workforce Development Act" (Kassebaum) passed both Houses of Congress with overwhelming bipartisan support (345-79; 95-2). The Administration expressed conditional support for both bills and organized Democratic and interest group support despite concerns with each. We wanted to keep the issue alive in Congress and looked to conferees to address concerns. This also helped us in the appropriations fight, where we could argue that it made no sense to cut funding deeply with a major reform on the horizon. Of the two bills, Rep. Goodling's CAREERS was closer to fulfilling the G.I. Bill principles.

CAREERS required, with an exception for training run by community-based organizations, vouchers for adult training, "report cards" and performance standards for training programs, one-stop and school-to-work frameworks for adult and youth programs (although it would have repealed the School-to-Work Act), and private sector involvement in workforce development programs. By contrast, the Kassebaum bill would make vouchers available at State option; authorize a single State grant with a 25% "flex pot" for State-determined workforce development activities, which could include supporting company training of the employed; weaken accountability by permitting States to define success in their own terms; and greatly diminish the role of local communities in determining training needs.

As the two bills went to conference, the fierce FY 1996 and 1997 appropriation struggles were underway. The appropriation negotiations led the Administration to advocate financing for existing categorical programs for summer youth, dislocated workers, and vocational education to try to preserve funding for these programs, which had been cut severely by both chambers. With the help of constituent groups, the Administration won the appropriations battles, but in the process, resulting of necessity, moderated the G.I. Bill reform agenda to be less specific on both consolidation and the form of Skill grants.

In a May 1996 letter to the conference leadership the President urged the conferees to craft a bipartisan bill that incorporated the Administration's G.I. Bill principles. The letter advocated earmarked funding for dislocated workers and "properly targeted" resources for a summer jobs program, adult education and training, in-school youth, at-risk youth, and the labor exchange. The original G.I. Bill principles never explicitly stipulated these elements as essential components.

Pressured by conservative "family groups" to resist compromise, and for other reasons, Republican conferees excluded the Administration and the minority from the negotiations. Some of the majority conferees believed the Administration was negotiating in bad faith, or defending the status quo. The partisan conference produced a bill that resembled Kassebaum's flawed block grant approach. In part, the conference bill was unacceptable because it required only a 50-State training voucher "pilot," failed to ensure that adequate resources would be available for adult training, and included weak accountability provisions. Former Chief of Staff Panetta made an effort to re-open negotiations. The last effort, a June 17th offer from the Administration representing our "bottom line issues" received no response from the conferees. Emerging in July 1996, the conference bill failed to gain the Administration's support or the vote of any minority conferee. The bill never reached a floor vote.

G.I. BILL IN THE FY 1998 BUDGET AND 105TH CONGRESS. The FY 1998 Budget reiterates support for the G.I. Bill principles, characterizes training reform as "essential," and anticipates working with the 105th Congress to produce a bill. For comparative purposes, using a program mix matching the original G.I. Bill in the FY 1996 budget, the FY 1998 Budget request for G.I. Bill programs is $14.3 billion ($4.9 billion in Labor, $9.4 billion in Education), $109 million above the FY 1996 Budget request. The FY 1998 Budget makes no specific statement about the number of programs to be consolidated. The non-degree postsecondary education supported by the Education Department's Pell grants (which totaled $2.1 billion in FY 1996 and was proposed to be transferred to Labor) continues as a major contributor to technical education and training. It no longer is considered part of the G.I. Bill/Skill grant mix.

Training reform legislation is a priority for the 105th Congress. In the Senate, a Daschle bill to consolidate adult training programs (S. 17) was introduced on January 21st. This bill authorizes a State voucher system. In the House, hearings on training reform began on February 11th; Labor may be asked to testify on March 4th.

POLICY OPTIONS. We are developing policy options on the nature of the voucher to pursue in a second-term G.I. Bill. All options assume strengthened "gatekeeping" (efforts to ensure high quality training) and consumer reporting of training program performance to ensure accountability for results.

Current programs pay for much more than training. In fact, funds used exclusively for training (a proxy for what would be converted to Skill grants) comprise less than half of all G.I. Bill programs funds. The remaining non-training dollars would finance State grants for a workforce development infrastructure of one-stop career center systems and the labor exchange, local workforce boards, gatekeeping and consumer reporting activities, training support services (such as job counseling), and non-vouchered on-the-job training. These remain key features of the G.I. Bill concept.

Attachment

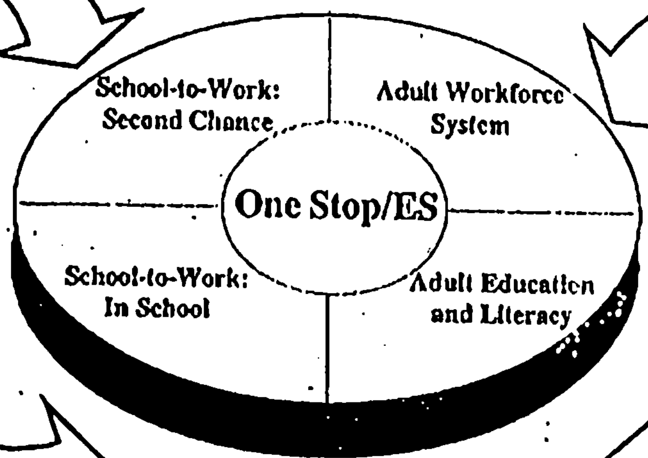
G.I. Bill for America's Workers

School-to-Work Opportunities (DOL/ED)
JTPA Title IIC Disadvantaged Youth
JTPA Title IIC Youth State Ed programs
JTPA Title IIC Youth Incentive Grants
JTPA Title IIB - Summer Youth Employment and Training
JTPA Title IIB - Summer Jobs-Native Americans
YouthBuild
Youth Fair Chance
Youth Innovations

8 Programs

JTPA Title IIA - Adult Training for the Disadvantaged
JTPA Title IIA - Training Programs for Older Individuals
JTPA Title III/EDWAA (Governors' 30% Discretionary)
JTPA Title III/EDWAA (Secretary's 20% Discretionary)
JTPA Employment and Training Pilots and Demos
JTPA Clean Air Employment Transition Assistance
*Employment Services -- Governors' Discretionary Funds
*Employment Services -- Wagner Peyser State Grants
JTPA Defense Conversion Adjustment
JTPA Defense Diversification Program
JTPA Title IIA - State Education Grants
JTPA Title IIA - State Incentive Grants
JTPA Title III/EDWAA (SDA Allotment)
Food Stamp Employment and Training
State Postsecondary Review Program (PELL)
Labor Market Information
*One Stop Career Centers
Women in Apprenticeship
Federal Pell Grant Program
Federal Loan Program (Direct)
Federal Loan Program (Family Ed)
Labor Certification for Alien Workers
Interstate Job Bank
JTPA Employment and Training R&D
American Samoans
Rural CEPS
NOICC (DOL Share)

27 Programs



School-to-Work Opportunities (DOL/ED)
Voc Ed - Programs for Criminal Offenders
Voc Ed - Cooperative Demonstration (all Natl programs)
Voc Ed - Opportunities for Indian & Hawaiian Natives
Voc Ed - Community Based Organizations
Voc Ed - Demo Centers for Dislocated Workers
Voc Ed - Consumer and Homemaking
Voc-Ed - State Councils
Voc-Ed - NOICC
Voc-Ed - Smith-Hughes Act
Workplace transition training for incarcerated youth
Native Hawaiian Ed. - Community-based Learning Ctr
Voc Ed - Basic State Programs
Voc Ed - Techprep Education
Voc Ed - Demo for Integration of Voc and Academic Lng
Voc Ed - Ed Programs for Fed Correctional Institutions
Voc Ed - Ed Comprehensive Career Guidance and Counseling
Voc Ed - Blue Ribbon Voc Ed Programs
Voc Ed - Model Programs for Regional Training, Skill Trades
Voc Ed - Business/Education/Labor Partnerships
Voc Ed - Tribally Controlled Post-Sec Voc Institutions
Voc Ed - State Programs and Activities
Voc Ed - Single Parent, Homemakers, Pregnant
Voc Ed - Sex Equity

23 Programs

Adult Ed State Administered Basic Grant
National Adult Education Discretionary Program
State Literacy Resource Centers
Nat'l Workplace Literacy Program
Workplace Literacy Partnerships
Adult Education for the Homeless
Literacy Training for Homeless Adults
Literacy for Incarcerated Adults
Literacy Programs for Prisoners
Even Start-State Educational Agency
Even Start - Migrant Education
Library Literacy
(Transfer from JTPA Title IIA)

12 Programs

- ES will be retain[illegible] separately authorized and funded program to the states; it will be an integral part of the [illegible] Stop Career Center System. One Stop Implementation grants will be available only through 1999 and School-to-Work grants will be available only through the year 2000.

DAIRY PRICING -- CONTENTS

- **Briefing Memo to the President from Daniel Heath on Federal Milk Pricing**

- **Background E-mails from Daniel Heath on Representative Norwood's Comment to the President that a "Milk Excess Base Plan" Would Have a Positive Impact Upon Dairy Farmers in the Southeast U.S.**

Many dairy producers are concerned about the recent decline in milk prices, and Secretary Glickman has suggested that the issue may be raised during the National Governors Association meeting. Despite reaching record highs during 1996, milk prices declined sharply in the fourth quarter. The price of 40-pound blocks of cheddar cheese on the National Cheese Exchange, for example, fell by 30 percent between early October and mid-December. Over the past few weeks, milk prices have strengthened -- but dairy state Governors, Senators, and Members of the House are still pressing for Administration action. The Department of Agriculture has taken several steps to strengthen milk prices, as described below, but has resisted establishing a price floor as some dairy interests are advocating. A price floor would be incongruous with the Congressional mandate embodied in the Farm Bill, and would pit regions against each other since some are disadvantaged by price floors.

Q: What are you going to do about milk prices? Are you willing to establish a Floor price for milk?

A: I am aware that milk prices declined sharply at the end of last year, and that the Department of Agriculture has already taken several steps to strengthen milk prices, including:

- Purchasing $5 million worth of cheese for use in domestic food assistance programs, in addition to the accelerated school lunch purchases already underway;

- Stimulating exports by reactivating the Dairy Export Incentive Program for butterfat, which has been idle since mid-1995; and

- Working with private voluntary groups to boost the flow of dairy products into international food assistance programs

In addition, Secretary Glickman announced on January 29 that he is taking steps to
address concerns raised by dairy producers about how milk prices are calculated.

I also understand that prices have strengthened in recent weeks. So I hope we can continue to work together to address the concerns that have been raised.

[If pressed on a price support: As instructed by Congress in the Farm Bill, we are moving away from price supports and toward a consolidation and reform of the federal marketing order system. Milk pricing is complicated and has been subject to extensive government intervention over a long period of time.

The Farm Bill instructs us to reform this entire pricing system, and it's best to consider any proposals for a price floor within the context of reforming the federal marketing order system. I am confident that Secretary Glickman will continue to work with the industry to address your concerns in ways that are consistent with the thrust of these reform policies.]

Russell W. Horwitz
02/18/97 12:50:54 PM

Record Type: Record

To: Michael J. Warren/OPD/EOP

cc:
Subject: President's Request on Dairy: Per Gene's Request

Michael, I would include all of this in the additional reading section, including the attachment. I don't think you need to tab this out. We can just add a sheet (table of contents) listing the documents, but with no tabs.

---------------------- Forwarded by Russell W. Horwitz/OPD/EOP on 02/18/97 12:46 PM ---------------------------

Peter R. Orszag
02/18/97 12:16:12 PM

Record Type: Record

To: GREEN_MG @ A1 @ CD @ LNGTWY, Russell W. Horwitz/OPD/EOP, Michael J. Warren/OPD/EOP

cc:
Subject: President's Request on Dairy: Per Gene's Request

Please add to Gene's "reading book" for the trip. Thanks.

---------------------- Forwarded by Peter R. Orszag/OPD/EOP on 02/18/97 12:12 PM ---------------------------

---------------------- Forwarded by Daniel D. Heath/OMB/EOP on 02/18/97 10:30 AM ---------------------------

Daniel D. Heath
02/12/97 06:17:55 PM

Record Type: Record

To: T J. Glauthier/OMB/EOP

cc: Ronald M. Cogswell/OMB/EOP, Mark A. Weatherly/OMB/EOP, Alecia Ward/OMB/EOP
Subject: Sylvia Mathews' Request on Dairy

The President has requested background on Rep. Norwood's comment to him that a "milk excess base plan" would have a positive impact on dairy farmers in the Southeast U.S. Mr. Norwood is urging legislation to reinstate a provision that expired last year. (I'm sending you a copy of his letter to the President.)

The comment reflects a broad and perennial dairy industry theme, dissatisfaction with the Federal pricing of dairy products. It is provoked by the 25 percent decline in prices from September to December 1996. (The 1996 annual average price was a record high, and even after the drop prices remain above levels of most years and recently have risen.) The price swings resulted from market forces (high feed prices, and farmers' responses), but the Federal milk pricing regime is seen by the dairy industry either as the underlying problem or the solution to disenchantment with prices.

More narrowly, the "milk excess base plan" refers to a former scheme in the Federal marketing order system for the Southeastern U.S. to smooth seasonal swings in milk production and corresponding price and income effects of the milk price cycle. This "seasonal base plan" paid farmers higher-than-normal prices throughout the year for a "base" level of production established in the months of short supply, but paid below-normal prices for "overbase" production in the flush months. The effect was to generate more milk in the Southeast from local supplies in the short supply periods, and to boost incomes for Southeast dairy producers. The scheme was authorized in past farm bills, was officially supported by the Administration in the 1996 Farm Bill deliberations, but was not reauthorized in the 1996 Farm Bill due to opposition by Midwest dairy interests. The recent price swings have provoked renewed calls by Southeastern interests for reinstating this provision, which would require legislation.

Federal milk pricing policy usually confronts an internecine squabble of regional interests, and that is the main story on the seasonal base plan. Its effect on Southeast producers' incomes probably is not great; nor are those producers' incomes currently lower than those in other regions. The provision would tend to reduce income for producers outside the Southeast (the Upper Midwest mainly) who "export" to the Southeast when prices are favorable. While the provision might encourage more milk production, and increase mandatory Federal purchases of cheese, it would have minimal impact on Federal costs. Yet the Southeast dairy processing industry's goal of regional self-sufficiency is not inappropriate, especially when the Administration reluctantly implemented the similar New England goal through approval of the controversial Northeast Dairy Compact, authorized in the 1996 Farm Bill.

USDA is charged by the 1996 Farm Bill with reforming the Federal milk marketing order system, and Administration policy has been to consider all the various proposals, and the disparate regional interests, in the context of total reform of the entire regime. The attached page I did with the NEC for the President's briefing book for the NGA last week provides more policy position and context on Federal milk pricing.

Dairy.37

Daniel D. Heath
02/18/97 11:53:02 AM

Record Type: Record

To: Peter R. Orszag/OPD/EOP
cc: Kathleen M. Wallman/WHO/EOP
Subject: President's Request on Dairy: Per Gene's Request

My OMB note sent to Sylvia Mathews follows. Subsequent to writing it I learned of two developments bearing on the President's query, FYI:

1. Sen. Cochran, Coverdell and Helms have introduced S.277, which would restore the authority to operate the seasonal base plan dropped by the 1996 Farm Bill.

2. USDA has sent for OMB clearance its own legislation to restore authority for the seasonal base plan, which I've held up. Sec. Glickman was intending to send a memo to the President in response to Rep. Norwood's letter. I understood last Thursday's draft of the memo urged the President to propose the legislation. I don't know if the memo was sent.

This overall area of dairy pricing policy needs further consideration before the Administration proceeds with ad hoc initiatives. The contentious Northeast Dairy Compact recently was thrown back to USDA by US District Court for Sec. Glickman to reconsider his decision that there was a compelling public interest. Legislation is being introduced on the National Cheese Exchange, and price floors. USDA is in the midst of disputes and seeking comments on basic formula pricing, and USDA is about to release its paper on pricing concepts in preparation for milk marketing order system reform. Regional compacts are being prepared in the Southeast and the Midwest. A Senate Resolution on this stuff pushed by Sen. Specter was passed last week. For the Administration to choose amongst contesting regions with a patchwork approach will make more difficult the real job of ground-up reform of the entire Federal pricing regime, mandated by the 1996 Farm Bill.

Moreover, the seasonal base plan was opposed in 1996 Farm Bill deliberations by prominent Administration allies and they remain so. Midwestern dairy interests, disappointed by the Administration for approving the Northeast Dairy Compact, would likely object to Administration leadership in reauthorizing the seasonal base plan. An Administration policy of "no objection" or even "support" for a proposed bill like S.277 would seem preferable to having the President propose legislation.

The question that needs addressing, aside from the broad policy on marketing order reform, is what would the Administration gain by taking a prominent position on this regional industry squabble that threatens to be the first in a series? I urged USDA to address this point.

Gene:

Here's the USA Today article on the CPI that you asked about. Although the article doesn't note it, the 96 percent who agree that the CPI is biased <u>all</u> thought the bias was at least 0.5 percentage points per year.

I have also attached a survey that Michael Boskin sent out. It finds a lot of support for the Boskin results -- but Boskin has not yet been willing to reveal the names of those who participated.

-- Peter

nflation's exaggeration exaggerated?

Bill Montague
SA TODAY

By an overwhelming majority, economists agree with a blue-ribbon congressional panel that the consumer price index overstates the true inflation rate.

But in the latest USA TODAY/CNBC quarterly economist survey, a sizable number of economists said the panel, known as the Boskin Commission, exaggerated the distortion in the CPI.

The panel, headed by Michael Boskin, chairman of the Council of Economic Advisers in the Bush administration, reported in December that it believed the CPI overstated the annual inflation rate by 1.1 percentage points.

Of 49 economists who responded to the USA TODAY/CNBC survey, an overwhelming 96% agreed that the CPI overstates inflation. Only one economist, James Coons of Huntington National Bank, said the CPI is accurate.

But only 53% of the economists endorsed the Boskin Commission's figure of 1.1 percentage points.

The rest of the economists put the CPI's error considerably lower — at an average 0.53 percentage point.

Reducing the CPI 1 percentage point could save the federal government up to $261 billion over seven years by cutting cost-of-living increases for Social Security recipients and others, and by holding down increases in federal tax brackets, which also are raised each year in line with the CPI.

> "Above all, don't politicize the process by having politicians vote on how much to discount a published statistic."
>
> — Saul Hymans, director of forecasting at the University of Michigan.

But economists disagreed on the best method for adjusting the CPI.

Some suggested the Bureau of Labor Statistics (BLS), which compiles the CPI, should adopt the Boskin Commission's proposals for changing the index.

BLS is working on its own changes, and agency officials have criticized some of the Boskin panel's findings.

Other economists suggest that Congress peg federal cost-of-living increases and tax changes to a new formula — one that would subtract a set amount from the reported CPI each year.

"If you keep (cost-of-living changes) tied to the CPI but include some kind of widely accepted adjustment, you have a better shot at being credible with the people who would be affected," says David Munro, economist for High Frequency Economics, a consulting firm. Munro suggests limiting any CPI adjustment to five years, to give the BLS time to work on fixing the index.

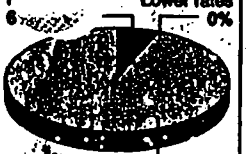
But other economists disagree.

"Above all, don't politicize the process by having politicians vote on how much to discount a published statistic," says Saul Hymans, director of forecasting at the University of Michigan.

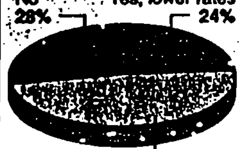
Economists make predictions for 1997

In the l[illegible] USA TODAY/CNBC Economic Survey, the economists' consensus is the economy will remain on a path of [illegible] growth and moderate inflation in 1997. Forty-nine leading economists participated in the survey, which was conducted Jan. 9-14.

Do you think the Federal Reserve will lower rates, raise rates or make no change at the next meeting of the Federal Open Market C[illegible] (Feb. 4-5)?



If you think no change will be made, do you think the Federal Reserve will change rates later this year?



Average projected growth in gross domestic product (after inflation, annual rate in chain-weighted terms)

3rd qtr. 1996 actual	2.1%
4th qtr. 1996 forecast	3.0%
1st qtr. 1997 forecast	2.4%
2nd qtr. 1997 forecast	2.3%
3rd qtr. 1997 forecast	2.1%
4th qtr. 1997 forecast	2.2%

Consumer price index (12 months ended)

December 1996 actual	3.3%
1st qtr. 1997 forecast	3.1%
2nd qtr. 1997 forecast	3.0%
3rd qtr. 1997 forecast	3.0%
4th qtr. 1997 forecast	3.0%

Unemployment rate (end of quarter)

December 1996 actual	5.3%
1st qtr. 1997 forecast	5.3%
2nd qtr. 1997 forecast	5.3%
[illegible]7 forecast	5.4%
[illegible]7 forecast	5.4%

30-year Treasury bond yield (end of quarter)

Friday	6.83%
1st qtr. 1997 forecast	6.74%
2nd qtr. 1997 forecast	6.69%
3rd qtr. 1997 forecast	6.66%
4th qtr. 1997 forecast	6.57%

Prime rate (end of quarter)

Friday	8.25%
1st qtr. 1997 forecast	8.32%
2nd qtr. 1997 forecast	8.35%
3rd qtr. 1997 forecast	8.35%
4th qtr. 1997 forecast	8.32%

Please provide your prediction for each of the following:

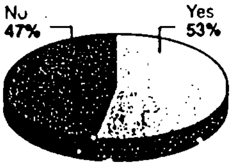
1997 corporate profit growth (as measured by the Commerce Department in the GDP accounts). Average:

4.9%

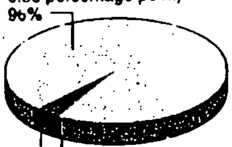
1997 compensation growth as measured by the Labor Dept.'s Employment Compensation Index. Average:

3.4%

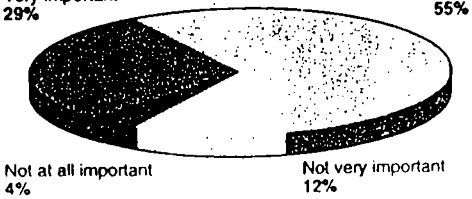
Do you agree with the Boskin Commission conclusion that the CPI overstates inflation by about 1.1 percentage points?



If no, what do you believe is correct?



How important is balancing the federal budget for the health of the economy?



Respondents:

James Annable, First Natl. Bank of Chicago; Richard Berne[illegible] Mellon Bank; James Bills, Comerica Bank; David Blitzer, Standard & Poor's; Robert Brusca, Nikko Securities Int'l; Rosanne Cahn, Credit Suisse First Boston; Larry Chimerine[illegible] Economic Strategy Instit.; James Coons, Huntington Natl. Bank; J. Dewey Daane, Vanderbilt Univ.; Robert Dederick, Northern Trust; William Dunkelberg, Natl. Fed. of Independen[illegible] Business; Michael Evans, Kellogg School, Northwestern Univ.; Robert Genetski, Chicago Capital; Maury Harris, Pain[illegible] Webber; Stuart Hoffman, PNC Bank; Saul Hymans, Univ. of Michigan; Howard Keen, Conrail; Irwin Kellner, Chase Manhattan; Larry Kimbell, UCLA Business Forecasting Project; Nancy Kimelman, Technical Data; Craig Knutson, Southwestern Bell; Nancy Lazar, ISI Group; Carol Leisenring[illegible] CoreStates Financial; David Lereah, Mortgage Bankers Assn. Charles Lieberman, Chase Securities; Christopher Low, HSBC Holdings; Nancy McCallin, Colorado Legislative Council; Robert McGee, The Tokai Bank; Jim Meil, Eaton; David Munro, High Frequency Economics; Joel Naroff, First Union; Elliott Platt, Donaldson, Lufkin & Jenrette; Joel Prakken, Macroeconomic Advisers; Maria Ramirez, Maria Fiorini Ramirez; Donald Ratajczak, Georgia State Univ.; Lyn[illegible] Reaser, Barnett Banks; David Resler, Nomura Securities Intl[illegible] Stephen Roach, Morgan Stanley; Kim Rupert, MMS Intl.; John Ryding, Bear Stearns; Jamie Saguino, Ford Motor; Robert Shrouds, DuPont; Al Smith, NationsBank; James Smith, Univ. of N.C.; Sung Won Sohn, Norwest; Donald Straszheim, Merrill Lynch; John Williams, Bankers Trust; Joh[illegible] Wilson, Bank of America; Raymond Worseck, A.G. Edwards

By Marcy E. Mullins, USA T[illegible]

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Results of Survey of Two Dozen Experts on the Likely Bias in the CPI

Two dozen experts who are:

a) recognized for research in the field and/or

b) current or former government policy officials with responsibility for understanding and acting on these issues and interacting with government researchers in the area

were asked their best judgment on the likely bias in using the change in the CPI as a measure of the change in the cost of living.

The results were as follows (20 of 24 responded; 2 said it was not appropriate to respond):

1. Mean = 1.2%

2. Median = 1.1%

3. 89% were ≥ 1.0%
   95% were ≥ 0.8%
   100% were ≥ 0.5%

What America's Most Renowned Experts Are Saying and Writing Professionally about the Boskin Commission Report on the CPI:

"Michael Boskin, Ellen Dulberger, Zvi Griliches, Robert Gordon and Dale Jorgenson have written an excellent report. Their estimates of bias components in the CPI are very reasonable but perhaps a bit conservative."

-*Professor Erwin Diewert, University of British Columbia,* widely regarded as the world's leading expert on index numbers

"The Boskin Commission Report has done a very careful job in documenting the upward bias in the CPI. The existence of substitution bias as well as the appropriate correction has been known for a long time; the BLS should finally fix the problem. However, the Boskin Commission estimate of the upward bias in the CPI due to failure to adjust adequately for quality improvements and the incorrect treatment of new goods in the CPI is likely to be an underestimate. The reason for the under estimate is that the consumer surplus...from new goods has not been included in the Report's estimate."

-*Professor Jerry Hausman, MIT*
widely regarded as the leading expert in the economics of new goods. Also, former Clark medal winner as the Outstanding American Economist under age 40

"In my view, the overall assessment is probably accurate: the CPI currently is likely to overestimate the increase in the cost of living by at least 1 percent per year...Correction for new products bias might indicate a significant further upward bias to the CPI...I would recommend reducing the CPI adjustment by at least one half and as much as 1 percent per year over the next decade."

-*Professor William Nordhaus, Yale University*
Expert on quality change and new products and former member, Council of Economic Advisers under President Carter.

"For reasons outlined in the Boskin Commission report...we know with near certainty that the current CPI is off...There is every probability that the upward bias ranges between 1/2 percentage point and 1-1/2 percentage points per year...If we cannot find a precise estimate for a certain bias, we should not implicitly choose zero as though that was a more scientifically supportable estimate...it is better to be roughly right than precisely wrong...recent work by staff economists at the Federal Reserve Board has added strong corroborating evidence...[to]...the Boskin Commission."

-*Alan Greenspan, Chairman, Board of Governors,*
Federal Reserve System

January 31, 1997

Dear Survey Recipient:

As you know, the CPI Commission (Ellen Dulberger, Robert Gordon, Zvi Griliches, Dale Jorgenson and myself) submitted our final report to the Congress last month. We concluded that changes in the CPI are likely to overstate the change in the cost of living by 1.1 percentage points per annum (plus or minus a few tenths, but more likely higher than lower).

We made many recommendations to the BLS (using formulas accounting for substitution, more hedonics, more frequent and expanded surveys to capture new products faster, etc.) and to the Congress (allowing data sharing between agencies, increased funding to support BLS's efforts to improve the CPI, etc).

We also indicated it was up to the President and Congress to decide what to do about COLA's in government programs. The BLS is making, and will continue to make, improvements especially if it receives the funding it needs, but gradually, partially and with unpredictable timing and results, and in any event, should not be politicized in any way. We suggested an ongoing commission be established to monitor the state of knowledge and BLS improvements so as to advise the elected officials on indexing COLA's in the future (Fed Chairman Greenspan has made a similar, and in fact, stronger, proposal).

We are writing to a group of expert economists to ascertain their best judgment on the issue of the likely size of the bias and would appreciate your taking a few minutes to fill out and fax back the attached with your answers to the questions.

Your answers will be strictly confidential. Only summary statistics will be used and only economists of some standing on these issues by virtue of their own research and/or current or former job responsibilities are being asked to respond.

I would very much appreciate your response ASAP, preferably by COB, Monday, February 3.

I will share the results with you.

Thanks for your cooperation.

Michael J. Boskin
Chairman
CPI Commission

FAX BACK TO: Michael J. Boskin, 415-723-6494

Questions on Consumer Price Index (CPI)

1. What is your best judgment as to the likely bias in using changes in the CPI as an estimate of the change in the cost of living? __________

2. What would be your best judgment of the minimum amount of bias you're fairly certain of? __________

NOTE: I am only inquiring about your judgment of the size of the potential bias, not about if or how COLA's should be adjusted. You may well believe that COLA's should not be adjusted or that COLA's should be adjusted, whether or not there is a bias, but that is not what I'm asking. I'm asking for your best professional judgment on the size of the bias only.

Also, if you have not received a copy of the Final Report of the CPI Commission and would like one, let my office know.

FAX BACK TO MICHAEL J. BOSKIN AT 415-723-6494, NO LATER THAN FEB. 3.

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THE PRESIDENT HAS SEEN
2-18-97

THE WHITE HOUSE
WASHINGTON

February 15, 1997

MEMORANDUM FOR THE PRESIDENT

FROM: PHIL CAPLAN PM
HELEN HOWELL

SUBJECT: Recent Information Items

We are forwarding the following information items.

(A) **The National Drug Control Strategy: 1997.** Via Barry McCaffrey who notes, "We are proud of this document." *You are tentatively scheduled to release this on Feb. 25.*

(B) **Gil Grosvenor, Chairman, National Geographic Society, letter on geography education.** He notes that your SOTU was "downright exciting." He offers the help of the National Geographic Society to work with you, Sec. Riley, and the Congress to use their national geography standards to develop a pilot national test. *We have forwarded copies of his letter to Rahm, Bruce Reed, and Mike Cohen.*

(C) **Sperling/Orszag follow-up on Hispanic income and poverty.** You commented on a January 30 NY Times article on the poverty rate among Hispanics. Gene and Peter note that the Census Bureau is still investigating whether changes implemented in its income survey biased the results. In addition, ***possible explanations*** for lagging Hispanic income growth include: continuing discrimination in the labor market; the breakdown of the traditional family structure (Hispanic families headed by a single female increased 35% between 1990 and 1995 and female-headed families tend to have a low income); and, lack of education and English-language skills may be limiting opportunities for Hispanics. ***Existing policy responses***: EITC, SBA loans, improved enforcement of the Community Reinvestment Act, Title I spending and the Department of Education's bilingual education and emergency immigrant education programs. ***NEC staff*** will continue working with the Census Bureau and others to examine trends in Hispanic income and poverty, and if you'd like, will work with DPC to explore policy options.

(D) **"God and the White House," and other articles by Shaun Casey, Ph.D. candidate at Harvard Divinity School.** Via Flo McAfee per your request. Over the past four years, Missy Daniel, editor of the Harvard Divinity Bulletin, and Shaun have provided assistance to Flo on religious issues.

THE WHITE HOUSE

WASHINGTON

THE PRESIDENT HAS SEEN
2-18-97

February 13, 1997

'97 FEB 13 PM10:06

MEMORANDUM FOR THE PRESIDENT

FROM: GENE SPERLING
PETER ORSZAG

SUBJECT: Hispanic income and poverty

This memorandum is an initial response to your comments on the attached article ("Hispanic Households Struggle as Poorest of the Poor in U.S.," *New York Times*, January 30, 1996). The newspaper article highlights the distressing plight of many Hispanics in the United States. Census data confirm the tenor of the story: real median household income for Hispanics has fallen significantly over the past few years -- from $24,137 in 1993 to $22,860 in 1995. The 1995 figure is more than $1,000 lower than for any year since 1972, when these data begin.

Problems with the data

We must take some care in interpreting the most recent figures for median income, however. First, the Census Bureau is still investigating whether changes implemented in its income survey -- including the introduction of a smaller sample and new data processing procedures -- biased the results. Second, those data only measure what is happening to the middle of the household income distribution. Other indicators paint a somewhat different story:

- Other Census data show that the poverty rate for Hispanics, while it remains relatively high, *fell* in 1995 -- from 30.7 percent in 1994 to 30.3 percent in 1995.

- The unemployment rate for Hispanics has fallen from 11.6 percent in 1992 to 8.3 percent now.

Nonetheless, the data do suggest that Hispanics are not benefitting as much as other groups from recent economic growth -- especially when the focus is the past decade or so, rather than the most recent year.

Possible causes

There are several possible explanations for lagging Hispanic income growth. One possible cause is continuing discrimination in the labor market. The Affirmative Action Review submitted to you in July 1995 reported significant, continuing discrimination against Hispanics. Audit tests, for example, show that Hispanic interviewers receive substantially fewer job interviews than white interviewers with identical qualifications. And Hispanic men earn only 81 percent of the wages earned by white men at the same educational level. It is not clear, however, that discrimination has become any worse over the past few years -- and therefore may not be a compelling explanation for the recent decline in median income for Hispanics.

Second, the breakdown of the traditional family structure seems particularly severe for Hispanics. The number of Hispanic families headed by a single female increased by 35 percent between 1990 and 1995 -- significantly faster than the growth rate for all Hispanic families. Since female-headed families tend to have relatively low income (their median income was $13,474 in 1995), the growth in those families has pulled down the income of the typical Hispanic family. And income has fallen particularly sharply for Hispanics living alone, providing further evidence that family structure matters.

Third, lack of education and English-language skills may be limiting economic opportunities for Hispanics. For example, the Hispanic high-school dropout rate is substantially higher than for other Americans. In 1994, 31.4 percent of 18-21 year old Hispanics had dropped out of high school, relative to 13.7 percent for the nation as a whole. The *New York Times* article also notes that immigration of relatively low-skilled Hispanic workers has been significant, and could be pulling down the median income figures.

Policy responses

Ensuring that Hispanics share in the benefits of growth seems a crucial policy objective, especially since the Hispanic population is projected to rise from 10 percent of the U.S. population currently to almost 20 percent by 2030. We would note, however, that many of the Administration's existing policies are helping to reduce poverty and raise incomes among Hispanics:

- The Earned Income Tax Credit lifted about 900,000 Hispanics out of poverty in 1995 (3 percent of the Hispanic population). Your expansion of the EITC in 1993 played an important role in producing this result.
- The Small Business Administration has extended more than 11,000 loans, totaling $1.9 billion, in loans to Hispanics since 1993. In the previous 4 years, the SBA had extended fewer than 3,000 loans, totaling just $611 million, to Hispanics.
- The Administration's reform and improved enforcement of the Community Reinvestment Act has helped more low-income minority borrowers to obtain loans. Between 1993 and 1995, the number of mortgage loans to Hispanic home buyers increased by 37 percent.
- About one-third of Title I students are Hispanic, and we have increased Title I spending

by almost $1 billion (15 percent) since 1993. In addition, the Department of Education's bilingual education program and emergency immigrant education programs disproportionately benefit Hispanic students. Our budget raises funding for the bilingual education program by 45 percent, to $199 million in FY 1998, and for the emergency immigrant program by 50 percent, to $150 million.

The Administration also has a series of policies geared specifically to Hispanics. For example, we have established an advisory commission to oversee improvements in education for Hispanic Americans (Executive Order on Educational Excellence for Hispanic Americans); strengthened the Department of Justice's Civil Rights Division to protect against discriminatory aspects of employer sanctions; and appointed more Hispanic Americans to senior level positions than any Administration in American history.

The NEC staff will continue to work with the Census bureau and other interested parties to examine trends in Hispanic income and poverty. If you are interested, we could also work together with Bruce Reed to explore possible policy options -- including expansions of current programs -- for addressing this issue. Please advise.

non-Hispanics; Hispanic students were doing proportionally better in 1975, when 8 percent held college degrees compared with 11.6 percent of non-Hispanics.

7 Just getting through high school is a challenge for the many Hispanic children in school systems as overwhelmed and underfinanced as the Los Angeles Unified School District, which is 70 percent Hispanic.

Crowding is so bad that 40,000 schoolchildren out of 670,000 must be bused outside their neighborhoods and most schools run on year-round schedules, said Vickie Castro, a member of the school board. Music, art and sports programs have been cut, Ms. Castro said, and with 1 counselor for every 500 children, little drop-out prevention can come from that quarter.

"There's a strong work ethic within Latino families," she said, "and we keep telling them education is the tool to get out of poverty, but their immediate needs overtake it."

Those needs overtook Linda Martinez in Houston, a 23-year-old would-be teacher who dropped out to go to work when she was 15. Her first job was bagging potatoes to help support her parents and younger brother because her father, fresh from Mexico, could not find work.

Now, Ms. Martinez is attending community college while working part-time at a community center. She hopes to finish soon, she said, but knows that her education may be interrupted again.

Some Hispanic scholars and community leaders are suggesting that many problems afflicting the nation's Hispanic population stem from the fact that members of the poor, ill-educated immigrant segment tend to settle in crime-ridden, gang-infested inner cities, where a culture of easy money might be difficult to resist.

William, Mrs. Morales's son, for example, has left the Alley Cats 13 gang and reformed, helped by Youth Fair Chance, a training and counseling program that is soon to lose most of its Federal financing. But he says he remembers what the world looked like when he dropped out of high school and had gang symbols tattooed on his back (never his neck).

"I saw friends that didn't graduate from high school robbing and getting money," said William, who works as a peer counselor and is finishing school at Youth Fair Chance in downtown Los Angeles. "And I kept thinking, 'They didn't finish high school and look at all their money!' "

He was seduced by the cash and the parties and the girls, he said, but in the end, "I didn't want my mother crying every night."

She already had plenty to cry about. William's twin sister is the unmarried mother of a toddler now trying to finish high school while waitressing at a steak restaurant, and his older brother, age 20, has been in jail on a gang-related murder conviction since he was 15.

Mrs. Morales, who immigrated illegally in 1973 and received a green card through a family whose disabled son she helped raise, is no quitter. But she is thinking of allowing her husband, a painter who earns about $300 a week, to take their youngest, a 4-year-old son, back to Guatemala and raise him there, "away from all this."

Over Christmas, for example, William was shot in the neck in a street confrontation. He is in rehabilitation for lingering paralysis of the arm.

"I wish I had a better job, lots of money, so I could buy a house outside this neighborhood," Mrs. Morales said of the menacing section of downtown Los Angeles where she lives. But the clinic where she worked closed and housecleaning pays less than it used to because of the competition from new immigrants, she said: Employers who used to offer $70 a cleaning can now often get away with $40.

Because so many businesses have moved to suburbs, "finding their way outward has become harder for many urban-dwelling poor and minorities," Rebecca Morales and Frank Bonilla write in "Latinos in a Changing U.S. Economy" (Sage, 1993). And Hispanics are already more urbanized than most, they note, with 90 percent living in cities compared with 75 percent of the population at large.

Even those who do escape, like Joe Aravena, 40, a plant utility engineer who moved his family from the South Bronx to the ethnically mixed Castle Hill section five years ago, say they seem to be working harder to keep a foothold in middle-class life.

Born in America of a Chilean father and a Puerto Rican mother, Mr. Aravena has seen his $34,000 salary at the state hospital stagnate for years, held up by union negotiations and wage freezes. These days, he said, he can afford to send his 11-year-old son to Catholic school only by putting in frequent 16-hour shifts.

"We're running just to stay in place, and sometimes I fall behind," Mr. Aravena said.

The general problem of Hispanic poverty, researchers agree, begins with the low education and skill levels with which most Hispanic immigrants arrive in the United States. But the most critical barrier to immigrants' success, numerous studies suggest, is language. A Rand Corporation study released over the summer found that Hispanic immigrants come to America speaking less English than their European or Asian counterparts, and never catch up.

"Limited English proficiency is the single most important obstacle to upward mobility among Mexican immigrants," said Wayne Cornelius, the director of the Center for U.S.-Mexican Studies at the University of California at San Diego.

Without a command of English, Professor Cornelius and other scholars said, it matters little how industrious a Hispanic person is. "Clearly," researcher Vilma Ortiz commented in "Ethnic Los Angeles," a just-published U.C.L.A. study, "the traditional ethnic saga of hard labor followed by rewards does not apply to Latino immigrants."

DEMOGRAPHICS

Falling Behind, and Further Behind

Hispanic Americans have roots in more than 20 countries and are the nation's fastest-growing ethnic group. Yet social scientists, reviewing a broad spectrum of social and economic data, fear that the Hispanic population is in danger of becoming an entrenched underclass — the working poor.

Earnings Are Lower . . .

Median weekly earnings for full-time wage and salary workers, 1995 annual averages.

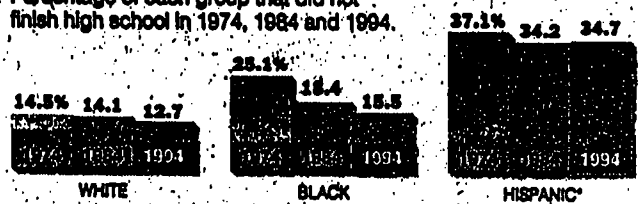
BY GROUP

BY SELECTED OCCUPATIONS

	WHITE	BLACK	HISPANIC*
Executive, manager	$701	$585	$562
Engineer	929	812	852
Secretary	394	399	369
Food service worker	260	248	243
Bus, taxi or truck driver	488	389	403

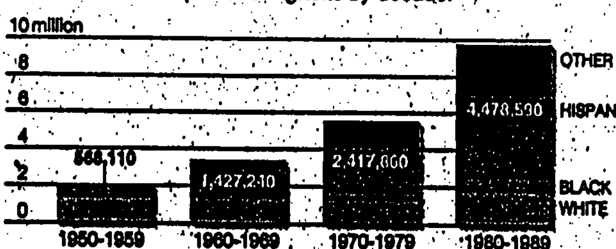
. . . Schooling Ends Sooner

Percentage of each group that did not finish high school in 1974, 1984 and 1994.



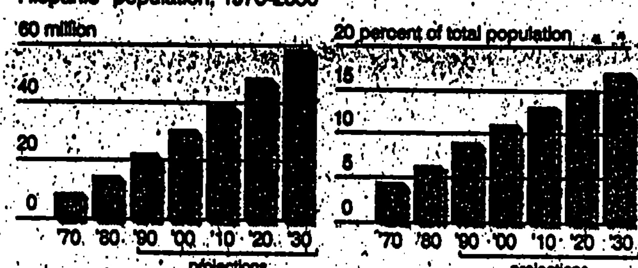
The Population Is Rising . . .

Total number of Hispanic immigrants by decade.



. . . and Will Go On Rising

Hispanic* population, 1970-2030



*May be of any race

Sources: Census Bureau; Bureau of Labor Statistics; Queens College Department of Sociology

The New York Times

The New York Times
THURSDAY, JANUARY 30, 1997

2/2

Hispanic Households Struggle As Poorest of the Poor in U.S.

A1

By CAREY GOLDBERG

LOS ANGELES, Jan. 29 — If he dared tattoo gang symbols on his neck, Myrna Morales warned her strapping 17-year-old son, William, she would burn them off with her iron. Or a frying pan.

Such was the desperation of Mrs. Morales, 41, a naturalized American from Guatemala who has watched three of her American-born children seduced by the worst of inner-city culture and seen her own earnings as a housecleaner shrink in recent years. With her diminishing income, she asked, how can she promise they will prosper like so many immigrants' children before them?

"I tell them go to school and don't be like me, cleaning bathrooms," said Mrs. Morales, who scrubs and vacuums for $300 a week despite her degree as a medical assistant from a local college.

To judge by the latest Census Bureau statistics, Mrs. Morales is right to be worried. The data show that in 1995, median household income rose for every other American ethnic and racial group, but for the nation's 27 million Hispanics, it dropped 5.1 percent. The downturn, which affects the American-born as well as the newly arrived across a broad spectrum of socio-economic indicators, has baffled social scientists. And it has prompted some to warn that many Hispanics, members of the nation's fastest growing ethnic or racial group, may become entrenched as America's working poor.

Census data show that for the first time the poverty rate among Hispanics in the United States has surpassed that of blacks. Hispanics now constitute nearly 24 percent of America's poor, up 8 percentage points since 1985. Of all Hispanics, 30 percent were considered poor in 1995, meaning they earned less than $15,569 for a family of four. That is almost three times the percentage of non-Hispanic white people in poverty. Of the poorest of the poor, those with incomes of $7,500 or less for a family of four, 24 percent were Hispanic.

These are not just statistical blips. Overall, household income for Hispanics has dropped 14 percent since 1989, from about $26,000 to under $22,900, while rising slightly for blacks.

Nor do the data simply reflect the recent influx of illegal Hispanic immigrants. "As we know from the data in other studies," said Manuel de la Puente, the chief of the Census Bureau's Ethnic and Hispanic Statistics Branch, "the immigrants tend to be low-educated individuals, hold service-sector jobs and have little or no English, and all these things contribute to income."

But when Census analysts sep-

Continued on Page A16, Column 3

Continued From Page A1

arated out American-born Hispanics, Mr. de la Puente said, they found their income levels declining as well. Statistics indicate that America's Hispanic population is experiencing an almost across-the-board impoverishment.

"It is the American nightmare, not the American dream," said Arturo Vargas, who heads the National Association of Latino Elected Officials, based in Los Angeles. Though the Hispanic middle class has been growing, Mr. Vargas said, most Hispanics are caught in jobs like gardener, nanny and restaurant worker that will never pay well and from which they will never advance.

The declining income among the nation's Hispanic population is little understood and requires more study, researchers say, as do new data showing improved economic well-being among blacks.

Researchers also caution that the Hispanic population, which is an ethnic term and includes some blacks, is an amalgam of people, and their descendants, from nearly 24 countries. They range from typically prosperous Cubans of Miami to Puerto Ricans, largely concentrated in New York and the nation's poorest ethnic group. Generalizations, then, are often of limited use.

Nonetheless, the growing group of scholars who study America's Hispanics point to several factors that affect most of that population:

¶Structural changes in the economy that have drastically reduced well-paid blue-collar jobs.

¶The failures of institutions like schools to retain Hispanic students and provide them with a marketable education, resulting in a widening gap in graduation rates from both high school and college. Hispanics have by far the highest high-school drop-out rate of any group in the nation: 1990 Census figures found that even among American-born Hispanics, only 78 percent finished high school compared to 91 percent of whites and 84 percent of blacks.

¶Discrimination among employers who see Hispanic immigrants, particularly those who speak poor English, as disposable workers.

Experts acknowledge that the influx of millions of Latin American immigrants over the last 20 years — 2 million between 1990 and 1994 alone, the Census reports — have pulled income numbers down because immigrants tend to be poor.

"Everybody's going up the escalator but there's a big queue at the bottom and the queue's getting bigger, so the average number of steps people have gotten up has slipped," said Dowell Myers, a demographer at the University of Southern California who has studied the region's Hispanic population. The arrival of so many job-hungry new workers, many of them illegal and willing to work for pennies, has also driven down wages in low-skill professions like janitor, hurting other Hispanics in those fields, Professor Myers added.

A new study by the University of California at Los Angeles, based on Census data, notes that in the blue-collar industries of California in which Mexican immigrants are concentrated — clothing and furniture manufacture, for example — real earnings declined more than $6,000 a year between 1970 and 1990.

Government demographers also note that immigration and birth rates have weighted America's Hispanic population toward lower-income groups, like Mexicans, at the expense of higher income groups, like Cubans. Also, Hispanics tend to be younger than the population at large and Hispanic women with children are less likely to work.

But for many scholars and community leaders, the main explanation for Hispanics' plight is education — or the lack of it. A 1994 study by Frank D. Bean, a University of Texas demographer, and his colleagues found that in several age groups, Mexican-Americans whose families had lived in the United States for three generations or more received slightly less schooling than their parents did. And people of Mexican origin account for the biggest portion of the Hispanic population.

Another study, by the Census Bureau in 1995, found that Hispanics have been falling further behind non-Hispanics in rates of college attendance. In 1994, only 9 percent of Hispanics over age 24 held college degrees, compared with 24 percent of

The New York Times

THURSDAY, JANUARY 30, 1997

1/2

THE PRESIDENT HAS SEEN
2-3-97

<u>VB/Gene</u>

We have to try to
address this —
it's appalling —

BC

(13)

U.S. COMMODITY FUTURES TRADING COMMISSION

Three Lafayette Centre, 1155 21st Street, NW, Washington, DC 20581

Brooksley Born
Chairperson

(202) 418-5030
(202) 418-5520 Facsimile

February 14, 1997

The Honorable Gene Sperling
Assistant to the President
for Economic Policy
2nd Floor - West Wing
The White House
Washington, D.C. 20502

Dear Gene:

Enclosed is a copy of my oral testimony presented at the hearings on S. 257, a bill to amend the Commodity Exchange Act. I would like to address the first three topics outlined in my testimony at Tuesday's meeting of the President's Working Group on Financial Markets.

Sincerely yours,

Brooksley Born

Brooksley Born

Enclosure

ORAL TESTIMONY OF BROOKSLEY BORN
CHAIRPERSON
COMMODITY FUTURES TRADING COMMISSION

BEFORE THE
COMMITTEE ON AGRICULTURE, NUTRITION, AND FORESTRY
U.S. SENATE

FEBRUARY 11, 1997

Mr. Chairman and members of the Committee, thank you for inviting me to present the views of the Commodity Futures Trading Commission on S. 257, a bill to amend the Commodity Exchange Act. I request that my written testimony be included in the record of the hearing. With me here today are the other four Commissioners, Joseph Dial, John Tull, Barbara Pedersen Holum and David Spears. My testimony represents the unanimous view of all of us.

The Commission welcomes this Committee's review of the Commodity Exchange Act. Rapid changes in the futures and option markets in the U.S. require periodic review of the Act and of the Commission's regulations to ensure that they continue to serve the important missions of maintaining the competitive strength, fairness and integrity of the markets and protecting market participants and the public from manipulation, fraud, and other abuses. The Commission is dedicated to reducing unnecessary regulatory burdens while at the same time preserving important public interest protections and has proposed or adopted a number of amendments to streamline its regulations.

As stated in our written testimony, the Commission supports a number of the provisions in S. 257 and commends the bill's sponsors for these thoughtful improvements to the Act. The Commission, at the invitation of Chairman Lugar and Senator Leahy, has proposed modest amendments to the Act which would significantly enhance the Commission's enforcement powers. Those proposed amendments to the Act are not currently included in S. 257, and we urge this Committee to consider their inclusion.

I will focus my oral comments on four aspects of the bill which the Commission believes would likely result in the pervasive deregulation of our futures and option markets and thus would pose grave dangers to the public interest. These changes would radically alter the regulatory system that has allowed our futures markets to become the strongest and most respected in the world and would leave those who use and rely on the integrity of our markets exposed and unprotected.

1. Professional Markets

The Commission strongly opposes the provision of the bill that would create a broad exemption from the Act for professional exchange markets. This provision would lead to widespread deregulation of our futures exchanges by eliminating federal oversight as long as exchange trading was limited to entities including small businesses, proprietorships, pension funds, mutual funds, insurance companies, and commodity pools of individual investors, as well as large institutions. The exchanges estimate that approximately 90 percent of the trading volume on their markets currently is on behalf of such entities. We believe that simple rule changes on the part of U.S. exchanges could convert them into professional markets subject to no federal regulation under the bill's provision.

This legislation would create U.S. futures exchanges with less government regulation than any other significant futures exchanges in the world. For more than a decade, the Commission has played a vital role in encouraging other countries to adopt necessary regulatory regimes for futures exchanges, and they are doing so. The bill would send a signal that the U.S. no longer is willing to act as a world leader in protecting the economy and the public from the risks these exchanges pose. Furthermore, the bill would allow exchange trading with far less government oversight and regulation than the London Metal Exchange at the same time that the United Kingdom is strengthening its regulatory protections to prevent a reoccurance of the Sumitomo debacle.

The bill would eliminate all of the protections of the Act that Congress has adopted over the years except for its prohibitions against fraud and manipulation. Indeed, the Commission would lose virtually all the regulatory tools necessary for effective enforcement of even those prohibitions.

The Commission's market surveillance over the 11 U.S. futures and option exchanges would be eliminated, as would requirements such as speculative position limits, large trader reporting, and exchange recordkeeping. Thus, the Commission would be unable to analyze aberrational price movements on the markets, including suspected price manipulation. Exchanges would not be subject to the current legal standards relating to their futures contracts, rules or governance. Standards for trading in these markets such as the requirement of open trading and audit trail would also be eliminated.

The Commission currently supervises 64,000 commodity professionals who trade on the floor of the exchanges or deal with customers. The standards applicable to them, including registration, fitness standards, risk disclosure to customers, and sales practice standards, would be abolished, leaving customers without meaningful governmental protection. Statutory and regulatory standards relating to the financial integrity of the markets and its participants would also be eliminated. These standards include segregation of customer funds, net capital requirements, financial reporting, margining of accounts and special bankruptcy protections.

As part of its effort to reduce unnecessary regulatory burdens, the Commission established a pilot program exempting professional exchange markets from a number of regulatory requirements in November 1995. To date, no exchange has opted to participate in that program. The Commission believes that such a pilot program would provide the necessary experience to determine the appropriate regulatory regime for professional exchange markets and has asked the exchanges for suggestions for improving the program.

The exchanges have said that they should be able to operate in the same unregulated environment as the over-the-counter markets. However, exchange trading involves important public interest considerations which require a higher level of regulation than over-the-counter markets. Exchanges create a concentration of financial risk not present in bilateral over-the-counter transactions and therefore pose a more serious systemic threat to our economy. There is also a strong public interest in protecting the price-discovery and price-basing functions uniquely performed by exchanges. The prices established by the futures exchanges affect what we all pay at the grocery store and at the service station, what we pay for our silverware, our copper plumbing and our lumber. That is why Congress created the CFTC and provided it with powers to protect the public interest in these markets.

Merely restricting participation in the futures markets to large institutions is insufficient to protect these important public interests and cannot justify abandoning the protections of the Act. In fact, it is the large institutions which have the power to hurt us all by their attempts at manipulation, by causing price distortions or by financial irresponsibility. To demonstrate this point, I need only refer to the financial repercussions from the collapse of Barings Plc., the effect on the price of copper by Sumitomo Corporation's trading, Metallgesellschaft's enormous loss in the oil market, and the Hunt brothers' attempt to manipulate the world market in silver.

The U.S. exchanges are the strongest, most dynamic and most innovative in the world. Their volume of trading in 1996 was the second highest in history, and the Chicago Board of Trade set a new world record. During fiscal year 1996, U.S. exchanges launched 92 new contracts approved by the Commission. Indeed, exchange trading in the U.S. has thrived under our current regulatory system, which has assured market participants around the world that our markets are fair, safe and transparent.

While the U.S. exchanges point to the decrease in their percentage of world trading, that is principally a function of the recent creation of new futures exchanges in countries around the world in emulation of the U.S. success. Most of that foreign trading supports local cash markets and does not compete directly with U.S. futures contracts. Despite the growth of foreign markets, U.S. trading volume has also continued to grow at a healthy rate.

The bill would not permit deregulation of futures markets in certain domestic agricultural products, presumably because it would be too dangerous to do so. The Commission believes that futures markets in other products -- for example, crude oil and heating oil, copper and silver, coffee and sugar, and financial instruments -- deserve the very same level of regulatory protection. Furthermore, the Commission is extremely concerned about whether it would be able effectively to regulate and to protect markets in agricultural products which would trade side-by-side on the same exchange with totally unregulated markets.

2. <u>Treasury Amendment</u>

The Commission agrees that the Treasury Amendment provision of the Act needs to be clarified and has submitted a proposed provision at the invitation of Chairman Lugar and Senator Leahy, which we urge the Committee to consider favorably.

Unlike the Commission's proposal, the bill's provision would for the first time deregulate exchange trading in futures on the Treasury Amendment instruments as long as the exchanges exclude some element of the general public. These products constitute more than 70 percent of the trading on the Chicago Board of Trade and nearly 40 percent of all U.S. futures exchange trading. With respect to such markets, the bill's provision would not even preserve the Act's prohibitions on fraud and manipulation, despite the fact that the Commission's most recent manipulation case involved CBOT's U.S. Treasury note futures contracts.

The bill's Treasury Amendment provision would also for the first time endorse the sale of futures and option contracts to members of the general public without the protections of the Act. Fraud in this area is rampant. The Commission has brought 19 cases involving fraudulent off-exchange sales of foreign currency futures and options since 1990, involving more than 3200 customers who had invested over 250 million dollars. In light of this situation, more regulatory power may be needed -- certainly not less.

With respect to over-the-counter transactions in Treasury Amendment futures and options between sophisticated traders, it is the Commission's view that federal law should prohibit fraud and manipulation, whether enforced by the Commission or other federal authorities. The bill does not include such prohibitions.

For these reasons, the Commission opposes the bill's provision on the Treasury Amendment.

3. <u>Private Transactions</u>

The Commission has provided legal certainty to the over-the-counter derivatives market by the careful and responsible exercise of the exemptive authority granted to the Commission by Congress in 1992. The bill would codify those exemptions. While the Commission has no plans to modify its exemptions, the Commission opposes transforming them into a blanket statutory exemption. Both the Commission and the President's Working Group on Financial Markets have been watching and evaluating this enormous and evolving $53 trillion market. The bill would eliminate all regulatory flexibility to respond quickly if developments in that market required.

4. <u>Contract Designation and Rule Approval</u>

The bill's provisions on contract market designation and exchange rule approval are both unnecessary and unwise. The Commission, as part of its commitment to streamline its rules and to reduce unnecessary burdens, has proposed fast-track approval regulations that would permit most new contracts and exchange rules to go into effect within 10 or 45 days. This approach is far preferable to the bill's provisions, which would effectively eliminate the Commission's ability to improve defective contracts and rules before they go into effect, to insure their compliance with the law, to seek public comment if they impact on important public interests and to coordinate with other interested government agencies.

* * *

Thank you very much for the invitation to express the views of the Commission. I would be happy to answer any questions you may have.

PRESIDENT CLINTON'S FIRST FOUR YEARS:
AN ECONOMIC REPORT CARD

	First Clinton Administration	Best Since	Related Facts
✓ Employment	11.5 million new jobs	Only Administration to exceed 11 million	Faster growth rate than any Republican Administration since the Roaring 1920's. 93 percent of the net new jobs were in the private sector.
✓ Construction Jobs	1 million new jobs	Fastest growth since Truman	Four times more new construction jobs than during the previous 12 years.
✓ Automotive Jobs	114,000 new jobs	Fastest growth since Johnson	The United States is once again the world's number 1 producer of automobiles -- for the first time since the 1970's.
✓ Deficit Reduction	From 4.7 percent of GDP in 1992 to 1.4 in 1996	Largest fall since Truman	Deficit narrowed for four years in a row under one President for the first time since before the Civil War.
✓ Investment Growth	10.3 percent per year	Fastest growth since Kennedy	Business investment averaged 7.7 percent of GDP -- the highest share for any Administration since before World War II.
✓ Mortgage Rates	7.9 percent per year	Lowest average since Johnson	Most interest rates were low. For example, rates on 10-year Treasury bonds averaged 6.5 percent -- the lowest average since the Johnson Administration.
✓ Homeownership	Rose from 63.7 to 65.4 percent of households	Largest increase on record	Reached its highest level in 15 years.
✓ Stock Market	The Dow Jones Industrial Average rose from 3242 to 6844	Fastest growth since World War II	The real growth rate was higher than for any Administration since World War II.
✓ Unemployment and Inflation	Combined rate: 8.8 percent	Lowest average since Johnson	Unemployment fell from 7.5 percent in 1992 to 5.4 percent in 1996 and has remained under 6 percent for 29 months.
✓ Inflation	2.8 percent per year	Lowest average since Kennedy	Underlying inflation -- excluding volatile food and energy components -- was lowest since the Kennedy Administration.
✓ College Enrollment Rate	62 percent of recent high school graduates	Highest average on record	The high-school dropout rate was the lowest of any Administration on record.
✓ Median Family Income	2 percent real growth since 1993	Fastest growth since Johnson	Up $1,600 since 1993.

	New Jobs (Thousands)	Construction Job Growth (Thousands)	Automotive Job Growth (Thousands)	Deficit (Change in percent of GDP)	Business Investment (Growth)	Mortgage Rates (Average)
Clinton	11500	1017	144	-3.5	10.3	7.9
Bush	2533	-667	-35	1.7	2.0	9.5
Reagan II	10742	633	-13	-1.7	3.0	10.7
Reagan I	5246	285	98	2.1	5.2	14.9
Carter	10486	723	-124	-1.6	6.2	11.0
Ford	2039	-424	5	4.0	1.6	9.1
Nixon	9206	481	12	-2.6	6.1	7.9
Johnson	12146	456	153	1.7	9.8	
Kennedy	3592	199	109	1.4	11.2	
Eisenhower	3489	142	-250	-0.5		
Truman	5421	1580	137	-23.2		
Source:	Based on data from the Bureau of Labor Statistics, Department of Labor.	Based on data from the Bureau of Labor Statistics, Department of Labor.	Based on data from the Bureau of Labor Statistics, Department of Labor.	Based on data from the Congressional Budget Office.	Based on data from the Bureau of Economic Analysis, Department of Commerce.	Based on data from the Board of Governors of the Federal Reserve System.

	Homeownership (Change in rate)	Dow Jones (Real growth, percent)	Combined Unemployment and Inflation (Average)	Inflation (Average)	College Enrollment Rate (Average)	Median Family Income (Real growth, percent)
Clinton	1.7	15.6	8.8	2.8	62.1	2.1
Bush	-0.2	5.7	10.7	4.2	60.9	-1.9
Reagan II	-0.2	12.0	9.7	3.5	53.1	1.7
Reagan I	-1.5	1.5	14.4	4.9	56.8	0.9
Carter	0.8	-9.6	16.4	10.4	49.8	-0.5
Ford	0.2	5.2	15.9	7.0	49.0	0.6
Nixon	0.5	-9.9	10.7	6.2	50.3	0.8
Johnson	1.2	1.6	6.8	2.9	51.3	4.1
Kennedy		4.7	7.1	1.2	47.3	3.1
Eisenhower		8.8	6.3	1.4	45.1	2.4
Truman		9.7	6.9	2.6		
Source:	Based on data from the Bureau of the Census, Department of Commerce.	Department of Treasury analysis.	Based on data from the Bureau of Labor Statistics, Department of Labor.	Based on data from the Bureau of Labor Statistics, Department of Labor.	Based on data from the National Center for Education Statistics, Department of Education.	Based on data from the Bureau of the Census, Department of Commerce.

DON'T TAKE OUR WORD FOR IT: ASK *BARRON'S*

- *Barron's* recently compared overall economic performance during every Administration since Would War II. The study concluded that President Clinton's first term was better than any Administration since John F. Kennedy was President, and that "the economic achievements of the Clinton Administration are impressive." [*Barron's*, August 12, 1996]

- Other experts agree.

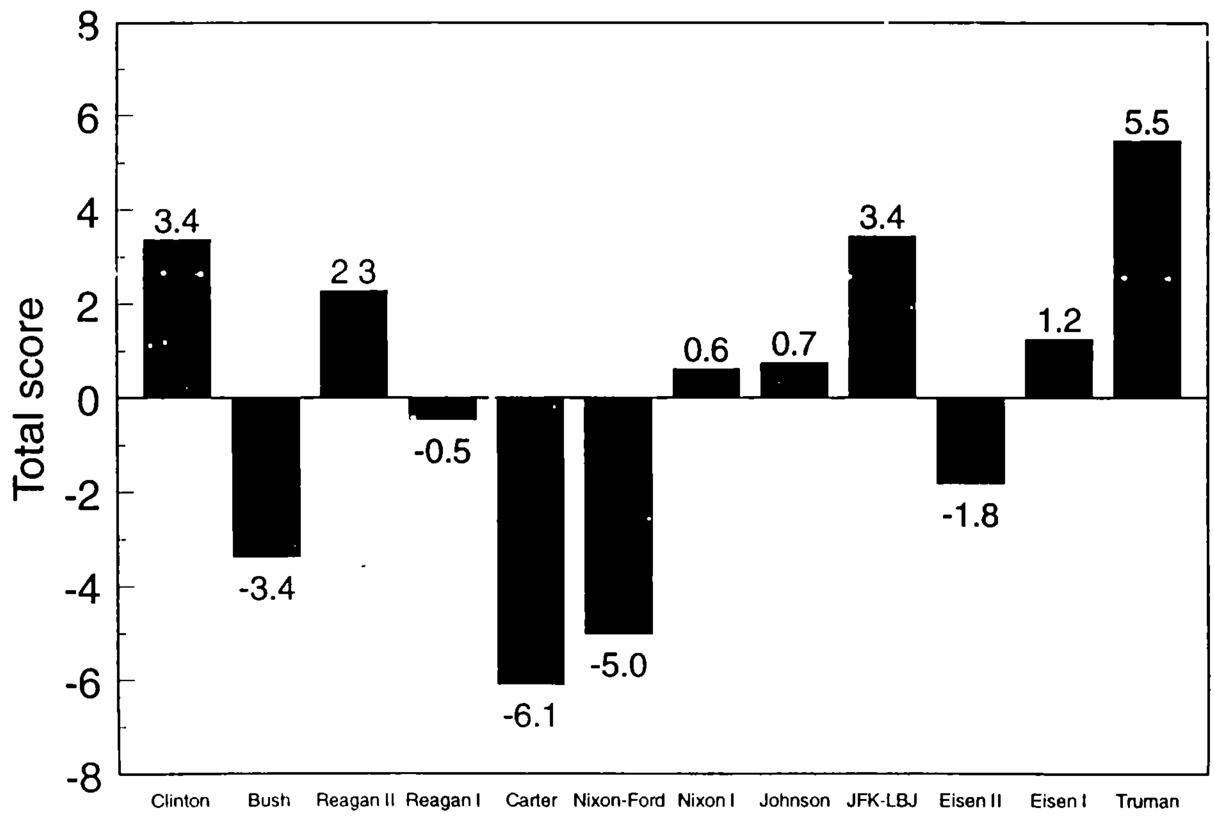
  Money Magazine: President Clinton has "presided over the kind of economic progress any Republican President would be proud to post." [*Money Magazine*, August 1996]

  Paul Volcker, former Chairman of the Federal Reserve: "It's been a remarkable period of steady growth, low inflation and low unemployment." [8/3/96]

  Allen Sinai, a leading economic forecaster: "When the history book on this business cycle upturn is written, it will go down as the best ever, compared with other post-World War II upturns." [10/23/96]

  Donald Straszheim, chief economist at Merrill Lynch: "The U.S. fundamentals are better than at any time in the last 25 years and that is no exaggeration." [12/17/96]

Barron's Economic Report Card



Source: *Barron's*, August 12, 1996.

How you can participate in

Education at a Crossroads

We want
any information which will
help us identify *what works*
and *what is wasted* in
education in America.

Forward your comments to

Congressman Pete Hoekstra
1122 Longworth Building
Washington, D.C. 20515
e-mail: tellhoek@hr.house.gov

Building the Case
for Rational Government

Circulate:
Rahm
Hilley
Sosnik
Sylvia
Bruce
Gene

From Podesta

Repub. recess package

Education at a Crossroads

What Works and What's Wasted?

A comprehensive plan to evaluate where we are and where we must go to take our children into the 21 century

Congressman Pete Hoekstra of Michigan

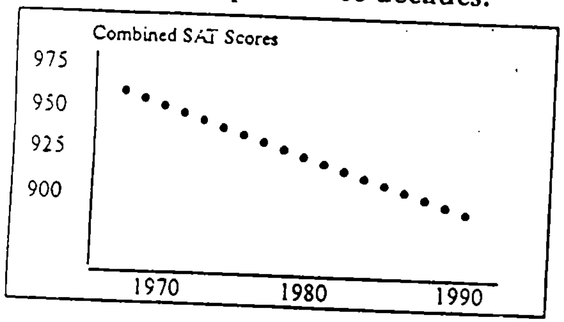
The Problem

* One-half of all adult Americans are functionally illiterate.

* 56% of all college freshman take some kind of remedial education class.

* 64% of 12th graders do not read at a proficient level.

* SAT scores have dropped nearly 60 points in the past three decades.



Washington's Response

760 Programs

39 Bureaucracies

$120 Billion

Is there a better approach?

The Education at a Crossroads Project

√ IT'S ABOUT HELPING STUDENTS LEARN.

Report after report on the state of American education details the need for dramatic improvement to prepare our nation's children for the 21st century. This project is about examining how it can be improved to enhance student learning.

√ IT'S ABOUT WHAT WORKS.

Members of Congress will listen to Americans around the country about how to provide a quality education to America's youth that focuses on basic academics, parental involvment, and sending dollars to the classroom.

√ IT'S ABOUT WHAT'S WASTED.

Young Americans are clearly not performing up to their full academic potential—despite the more than 760 federal education programs which span 39 agencies at the price of $120 billion annually.

√ IT'S ABOUT RATIONAL GOVERNMENT.

For too long, we have relied on Washington bureaucracies to solve all our nation's problems. This project is all about creating a more rational approach to education based on what actually works.

√ IT'S ABOUT WORKING TOGETHER.

America has a stake in improving education. Therefore, over the next year, Members of Congress will travel the country in order to learn from teachers, parents, and school leaders—Americans from all walks of life—what they think needs to be done to improve education. By working together, we can be good stewards of the taxpayer's money while ensuring that all children receive the education they need to have a productive future.

BASIC ACADEMICS, PARENTAL INVOLVEMENT, AND DOLLARS TO THE CLASSROOM.

February 13, 1997

MESSAGE FOR FEBRUARY 1997 RECESS

I. THREE OVERRIDING THEMES:

A. **Five goals we share with the President:**

1. Helping welfare recipients find jobs;
2. Improving education;
3. Combating juvenile crime;
4. Providing tax cuts;
5. Making Washington, DC, a model city.

B. **Three questions we need to ask our constituents:**

1. What specific ways does the government prevent businesses from moving people from welfare to jobs?

2. What changes must be made to the Tax Code to simplify it and end the IRS as we know it? (If a $4 billion computer system can't figure out the Code, maybe it's too complicated!?)

3. What works and doesn't work in education?

C. **Overarching these issues is achieving a balanced budget:**

Overarching all of this is the need for a balanced federal budget. It is a "moral imperative." And we need a constitutional amendment to ensure that a balanced budget is guaranteed for future generations.

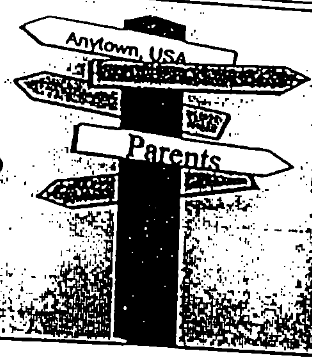
II. FRAMEWORK FOR COMMUNICATING SPECIFIC IDEAS:

Values first	(Yes, a sound education is vital for our children and fundamental to our society)
Goals second	(And every child should read by 8 years of age)
Solutions third	(So we need to learn what works and what doesn't to help students succeed. It will require less money in the hands of Washington bureaucrats and more money at home for teachers, classrooms, and computers, as well as more input from parents and studying from our children.)

III. SUMMARY:

By highlighting these issues now and asking these key questions, we will lay the groundwork for implementing our agenda later on (i.e. overhauling the Tax Code). It is important to educate first before we can bring about change.

Education at a Crossroads:
What Works and What's Wasted?



What is the Crossroads Project?

• **IT'S ABOUT HELPING STUDENTS LEARN.** Report after report on the state of American education details the need for dramatic improvement to prepare our nation's children for the 21st century. This project is about examining the federal role in education to see how it can be improved to enhance student learning.

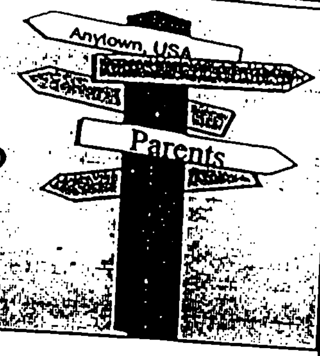
• **IT'S ABOUT WHAT WORKS.** Members of Congress will listen to Americans around the country about how to provide a quality education to America's youth that focuses on basic academics, parental involvement, and sending dollars to the classroom.

• **IT'S ABOUT WHAT'S WASTED.** Young Americans are clearly not performing up to their full academic potential -- despite the over 760 federal education programs which span 39 federal agencies at the price of $120 billion annually. This project will attempt to find out why.

• **IT'S ABOUT WORKING TOGETHER.** America as a whole has a stake in improving education. Therefore, over the next year, Members of Congress will travel the country in order to learn from teachers, parents, and school leaders -- Americans from all walks of life -- what they think needs to be done to improve education. By working together, we can be good stewards of the taxpayer's money while ensuring that all children receive the education they need to have a productive future.

Committee on Education and the Workforce
U.S. House of Representatives
Room B346 Rayburn House Office Building, Washington, D.C. 20515 202/225-7101

Education at a Crossroads: What Works and What's Wasted?



History of the "Education at a Crossroads" Project:

At the beginning of the 104th Congress, the Committee on Education and the Workforce (Committee) initiated a far-reaching project to evaluate the extent and quality of federal involvement in education. During 1995 and 1996, the Committee devised the most comprehensive list of federal education programs that has ever been compiled, using information provided by the Office of Management and Budget's Catalogue of Federal and Domestic Assistance. In addition, the Congressional Research Service (CRS) identified over 100 additional programs which OMB did not include under their heading of "Education Programs" in the CFDA. The initial list amounted to 760 federal education programs that span 39 separate agencies, boards, and commissions at the cost of $120 billion (based on 1995 figures).

Next, the Committee then contacted each of the 39 agencies and requested verification that the programs were within their jurisdiction and, if so, that they provide the Committee with essential information on each program that will allow the Committee to properly oversee these programs. Since February 1996, these agencies have added over 100 programs to the original list of 760. While it may be true that not everyone would agree that every program on this list is focused on "education" in the traditional sense, it is clear that to this day the full extent of the federal government's involvement in education is unknown.

During 1997, the Committee will build upon this first phase of research by trying to better understand the positive and negative impact of federal programs and regulations on state and local education reforms. Additionally, we hope to help call attention to examples of educational excellence and educational improvement throughout the nation. By identifying the positive changes that are happening, states and communities can learn from the success of others and strengthen education for all our children.

Committee on Education and the Workforce
U.S. House of Representatives
Room B346 Rayburn House Office Building, Washington, D.C. 20515 202/225-7101

IMPORTANT FACTS ABOUT AMERICAN EDUCATION

SCHOOLS AND STUDENTS

Number of Schools

- There are over 111,000 public and private elementary and secondary schools in the United States.[i]

Number of Students

- In 1996, approximately 51 million students were enrolled in primary and secondary schools. Of those, over 45 million students were enrolled in public schools and almost 6 million were enrolled in private schools.[ii]

Enrollment in Targeted Population Programs

- During the 1994-95 school year, almost 5 million students with disabilities were served under the Individuals with Disabilities Education Act (IDEA).[iii]

- During the 1993-94 school year over 6 million students were receiving Title 1 services.[iv]

TEACHERS

Number of Teachers

- There are approximately 3 million elementary and secondary school teachers.[v]

Student Teacher Ratio

- The average student teacher ratio in the United States is about 17 to one.[vi]

Salary

- In 1992, the average salary range for an elementary or secondary school teacher was $21,000 to $38,000 per year.[vii]

SPENDING

Amount Spent on Elementary and Secondary Education

- The United States spent $287.5 billion dollars on elementary and secondary education in the 1993-94 school year. Of that, 83% was spent by state and local government and 6% was spent by the Federal Government. The remaining percentage came from private contributions and miscellaneous sources. [viii]

Percent of Gross Domestic Product

- Approximately 3.5% of the United States' Gross Domestic Product (GDP) is spent on primary and secondary education. In comparison, the United States spends more than 11 of 12 other comparable countries on elementary and secondary education.[ix]

Amount Spent Per Student

- The United States spends approximately $6,000 per student in elementary and secondary schools, over $1,500 per student MORE than was spent in 1980 (adjusted for inflation). The United States leads other comparable countries in spending for elementary and secondary education.
- States, the District of Columbia spends the most ($10,200 per student) and Utah ($3,400 per student) spends the least per student in elementary and secondary education.[x] Within the

STUDENT ACHIEVEMENT

Literacy Rate

- Almost 20% of Americans are considered functionally illiterate, reading and writing below 8th grade level. 13% are considered totally illiterate, reading and writing below 4th grade level.[xi]

Reading Test Scores

- Between 1992 and 1994, NAEP reading scores have not improved by more than two points.[xii] In 1992, United States' 14-year-olds scored an average of 535 on reading literacy tests. Eight other comparable countries – including Sweden, Hong Kong and Switzerland – achieved higher scores.[xiii] 60% of 12th graders cannot read at a proficient level.[xiv]

Mathematics Test Scores

- Between 1992 and 1994, mathematics scores on NAEP dropped by one point for students aged 17.[xv] The average score for 8th grade United States' students on the math portion of the Third International Mathematics and Science Study (TIMMS) was 500, thirteen points below the international average of 513. At least 20 countries scored higher than the U.S.[xvi]

Science Test Scores

- Between 1992 and 1994 science scores on NAEP for 9, 13 and 17-year-olds remained approximately the same.[xvii] The average score for 8th grade U.S. students on the science portion of TIMMS was 534. Some countries, such as Singapore, Japan and Korea, achieved scores over 600.[xviii]

History Test Scores

- Only 17% of American fourth graders, 14% of eighth graders and 11% of twelfth graders are proficient in history as tested through NAEP.[xix]

Time Spent in Formal Instruction

- The average 13-year-old spends approximately 5.6 hours per day in formal instruction, 178 days per year and a total of 1,000 hours per year. China, Korea, Taiwan, Japan, Germany, Israel, Italy and Switzerland all spend over 200 days per year in formal instruction.[xx] The United States spends fewer days in school than more than 15 other countries. Within the States, New York spends the most number of days in formal instruction and Minnesota spends the least.[xxi]

Time Spent on Homework versus Time Spent Watching Television

- Sixty-one percent of 13-year-olds spend one hour or less on homework each day, and 29% spend two hours or more.[xxii] 84% of 13-year-olds watch two or more hours of television each day. The U.S. ranks among the lowest compared with other countries for number of hours spent on homework and among the highest on number of hours spent watching television.[xxiii]

Scholastic Assessment Test (SAT) Scores

- In the 1994-95 school year, 41% of graduates took the Scholastic Aptitude Test (SAT). Of those, the average combined score was 910. This has dropped from 937, the average score in 1972.[xxiv]

Advanced Placement Tests

- Over 500,000 students took Advanced Placement (AP) tests in 1996, slightly less than 4% of the students enrolled in grades 9 through 12. Fifty-five percent of the test takers were women. Minority students made up 29% of the pool, which is an increase from recent years.[xxv]

International Comparison

- A recent international education comparison found that United States' students scored far below both Japanese and British students in all subjects for which there were comparisons. In fact, Japanese students came close to doubling scores of U.S. students in certain subjects.[xxvi]

HIGHER EDUCATION & EARNINGS

Cost of Tuition

- The average cost (tuition and fees) of higher education has risen by over $5,000 since 1980 when it cost just over $3,000 to attend school. In the 1995-96 school year the average cost was almost $9,000. The cost of private schools have gone from approximately $5,500 in 1980 to $17,000 in 1995. Public school costs have only risen to $6,000 in that time period, less than a $4,000 increase.[xxvii]

Earnings

- The median annual income for men who are full-time workers aged 25 and older with no high school diploma is $22,048 as compared with $28,037 for workers who graduated with a high school diploma, $32,279 for workers with some college experience and $43,663 for workers with a bachelors degree. For women, the median income with no high school diploma is $15,133 as compared with $20,373 for workers with a high school diploma, $23,514 for workers with some college experience, and $31,741 for workers with a bachelors degree.[xxviii]

SOURCES:

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[i] *National Center for Education Statistics, Digest of Education Statistics*, 1996
[ii] *National Center for Education Statistics, Digest of Education Statistics*, 1996
[iii] *To Assure the Free Appropriate Public Education of All Children with Disabilities, 18th Annual Report to Congress of the Implementation of the Individuals with Disabilities Act*, 1996
[iv] *State Chapter 1 Participation and Achievement Information, 1993-1994, Summary Report*
[v] *National Center for Education Statistics, Digest of Education Statistics*, 1996
[vi] *National Center for Education Statistics, Digest of Education Statistics*, 1996
[vii] *National Center for Education Statistics, Digest of Education Statistics*, 1996
[viii] *National Center for Education Statistics, Education Indicators: An International Perspective*, 1996
[ix] *National Center for Education Statistics, Digest of Education Statistics*, 1996
[x] *National Center for Education Statistics, Education Indicators: An International Perspective*, 1996
[xi] *National Center for Education Statistics, Digest of Education Statistics*, 1996
[xii] *United States Department of Education, Division of Adult Education and Literacy, Basic Data on Literacy*, 1990
[xiii] *National Center for Education Statistics, Report in Brief, NAEP 1994 Trends in Academic Progress*
[xiv] *National Center for Education Statistics, Education Indicators: An International Perspective*, 1996
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[xvi] *National Center for Education Statistics, Report in Brief, NAEP 1994 Trends in Academic Progress*
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[xvii] *National Center for Education Statistics, Report in Brief, NAEP 1994 Trends in Academic Progress*
[xviii] *National Center for Education Statistics, Pursuing Excellence - A Study of U.S. Eighth-Grade Math and Science Teaching, Learning, Curriculum, and Achievement in International Context*, 1996
[xix] *National Center for Education Statistics, Digest of Education Statistics*, 1996
[xx] *National Center for Education Statistics, Education in States and Nations, Indicators Comparing U.S. States with Other Industrialized Countries in 1991*, 1996
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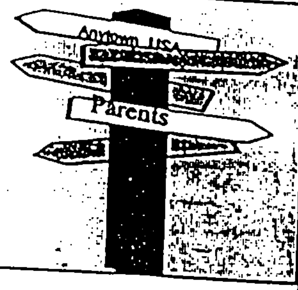
[xxii] *National Center for Education Statistics, Education Indicators: An International Perspective*, 1996
[xxiii] *National Center for Education Statistics, Education in States and Nations, Indicators Comparing U.S. States with Other Industrialized Countries in 1991*, 1996
[xxiv] *National Center for Education Statistics, Digest of Education Statistics*, 1996
[xxv] *College Board Online, Almost One-Fifth of Students Entering Four-Year Colleges are Eligible for Credit Through Advanced Placement*, August, 1996
[xxvi] *National Center for Education Statistics, Education in States and Nations, Indicators Comparing U.S. States with Other Industrialized Countries in 1991*, 1996
[xxvii] *National Center for Education Statistics, Digest of Education Statistics*, 1996
[xxviii] *National Center for Education Statistics, Digest of Education Statistics*, 1996

Education at a Crossroads: What Works and What's Wasted?



Through this project, we want to listen to Americans around the country about how they are providing a quality education. So far, much of what we have heard is that a quality education is usually a result of:

- mastering basic academics;
- engaging and involving parents; and,
- sending dollars to the classroom where they can do the most good.

Examples of What's Working...

- The Vaughn Learning Center in San Fernando, California. This is a school where the principal, Dr. Yvonne Chan, took what was once the worst school in the LA Unified School District and turned it into a place where children love learning, parents claim the school as their school, and parents are intimately involved in their child's education. In her first year as principal of this school, Dr. Chan saved 1.5 million dollars by cutting bureaucracy.

- The ATOP Academy. This school in Phoenix, Arizona is an example of what can happen when parents and teachers put their minds together to improve education in their community. The ATOP Academy concentrates on basic academics and parental involvement. They have an office for the parents to use and assist in running the school. The students at the ATOP Academy are unbelievably inspiring. For example, there is a young man who was misdiagnosed as learning disabled and became a discipline problem at his previous school. Refusing to take "no" for an answer, the teachers at ATOP found his niche – they found out that he could repair computers that even certified technicians couldn't fix. Today, this young man holds his head high and is now an positive example for the other students.

- The Harrison, Arkansas public school system. This district spend far less per pupil than most districts in the country, yet its student test scores are among the highest and 70 percent of the graduates go on to college.

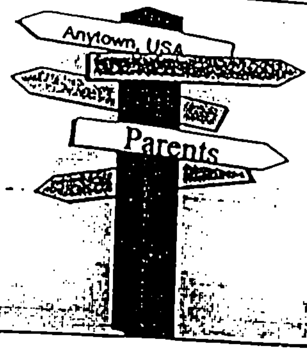
- In major cities across the country such as Los Angeles, New York, Milwaukee, and Detroit where in many cases the odds are against the children, these students are excelling. Many inner city schools have set the example of how to ensure students receive a high quality education. For example, the Barclay School in inner city Baltimore, and the Wesley School in inner city Houston. The two schools have defied conventional wisdom and are educating the hardest to serve poverty stricken children to excellent academic results.

- Lewis and Clark Elementary School in Pocatello, Idaho. This five year reform effort has paid off for this once-troubled school. Attendance is up, as are test scores for these 590 students (33 percent in language arts and 50 percent in math).

- Sace Elementary School. In Sace, Montana this school with a student population of 64 hasn't been stopped from being put into the driver's seat on the information superhighway. Computer lessons begin in kindergarten and Spanish classes are beamed by satellite to students in all grades. Standardized test scores are up 23 percent.

The list goes on, and on, and on...but our list is not enough. We would like to hear from you on what is working in your district. Please fill out the following form called "Great Schools Doing Great Things" and send it to the Committee on Education and the Workforce. We look forward to working with you to improve education for our children. We hope that these great examples will soon become the rule rather than the exception.

TEN THINGS YOU CAN DO TO IMPLEMENT THE CROSSROADS PROJECT IN YOUR DISTRICT



1. Visit several local schools of excellence (use objective measures of proven academic improvement wherever possible.) Be broad-based…include public education, private education and home schooling options.

2. Visit early childhood development programs (i.e. Head Start) and observe how school-readiness is encouraged.

3. Visit adult literacy, family and child-literacy programs. Talk with volunteers and new readers about their experiences.

4. Circulate the "school superintendent survey" to several superintendents in your district. Publish the findings in your district newsletter, release to the press, or write an op-ed. If you would like to participate in the superintendent survey, please contact Derrick Max at 202/225-7101.

5. Conduct town meetings on education … invite parents, students, teachers, school leaders, school board members, and interested citizens to identify what works and what's wasted in local, state and federal programs.

6. Write an op-ed for local media talking about the Crossroads projects and your interest in finding out what works and what's wasted.

7. Establish an education advisory board and meet with them regularly on education issues in the district and state.

8. Set up a delegation meeting with your governor and state superintendent of education. Find out what the state is doing, and how it is impacted positively or negatively by federal programs and regulations.

9. Speak about educational excellence at high school, community college, and university commencements.

10. Ask the Committee on Education and the Workforce for information and sample materials, and share relevant information about your district with the Committee.