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THE WHITE HOUSE

WASHINGTON

October 2, 1993

MEMORANDUM FOR DIANA ALDRIDGE
RICK ALLEN
CATHERINE MILTON
NANCY RUBIN
SHIRLEY SAGAWA

FROM: ELI J. SEGAL

SUBJECT: Enclosed Memo

This is a provocative idea. I would like your reactions.

Amelior Foundation

310 South Street, Morristown, New Jersey 07960

Raymond G. Chambers

Telephone 201-540-9148
Telecopy 201-540-0958

September 16, 1993

Mr. Eli Segal
Assistant to the President and
Director of National Service
Old Executive Office Building
Washington, DC 20500

Dear Eli:

I was invited as one of the Members of the Board of the Points of Light Foundation to attend the ceremony scheduled for Tuesday, September 21, at the White House. I feel so strongly about the legislation that I plan to be there and look forward to seeing you.

I realize one of your major concerns is arranging the financial support from corporate America. I know from extensive personal experience that if you can get an individual, a foundation or a corporation engaged in a program, they are much more likely to give monetary support than if they were not so engaged. In fact, a survey demonstrated that those who volunteer give 60% more to charity than those who don't.

Along the lines of our previous discussions, the most accessible means for corporations to become engaged in community service would be to mentor the youthful participants in the service program. If the participants in National Service were each asked to list the 10 most desirable potential employers with whom they would like to initiate an affiliation, and those employers were then asked to nominate "mentors" to be matched with the servers, I assure you a magical chemistry would immediately develop in our country. I am also confident that it would be the most effective way to raise the optimum financial support from American business and employers.

Perhaps the mentors would engage in specific community service projects with the young adults. In addition, those young people who had not yet decided on a career path would be exposed to the visions of vocational opportunities. This would be a natural stepping stone to the "apprenticeship culture" that Labor Secretary Reich has often articulated.

If those young people participating in National Service would also in turn become mentors, it would have a dramatic effect on our children at risk that would resonate throughout America. On today's segment of Good Morning America, youthful representatives of Children's Express who wrote a book resulting from interviews with our nation's youth regarding violence revealed one clear and unequivocal recommendation -- that each of America's youth at risk needs a caring and responsible adult role model.

I believe more deeply than ever before that the objectives of National Service must be focused programmatically in order to minimize criticism and insure success. There is not even a "close second" to the action of mentoring as a potential solution to the crisis we're in with our children.

The combined image of corporate America providing mentors (and related financial support) to our young people engaged in National Service and those same young people extending that caring to children at risk is overwhelmingly positive and appealing. I strongly urge you to consider this approach as you attempt to resolve both the questions of garnering financial support and making certain that the program is effective and becomes institutionalized.

The entire concept could be significantly enhanced if President Clinton (and perhaps Mrs. Clinton) would become a mentor to a minority youngster. Just the symbolic effect of that youngster being at the White House or doing something with the President would motivate literally millions of American to want to do the same thing and build an extensive support network for all of National Service. I urge you, once again, to request of President Clinton that he lead this critical effort by becoming a mentor.

I look forward to talking with you soon.

Sincerely,

Ray

RGC:fm
9538

Barbara Mikulski

THE WHITE HOUSE

WASHINGTON

10/4

Dear Senator,

Kevin briefed me on the outcome of the conference. Thanks for your incredible leadership when it would have been easy to be diverted.

As we move from essentially the legislative arena to the implementation of national service, your advice & support becomes at least as important as it has been. I'd love to get together at your convenience.

Best regards,

Eli

THE WHITE HOUSE

WASHINGTON

FAX COVER SHEET

Office of National Service
Room 145 - OEOB
Washington, D.C. 20500
(202) 456-6444 Phone

TO: Roger Johnson

ORGANIZATION: GSA

FAX #: (202) 219-1243 PHONE #: (____)

FROM: Eli Segal

DATE: 4 OCT. 1993

NUMBER OF PAGES (including cover sheet): 4

COMMENTS:

(If you have any problem with the fax transmission, please call (202) 456-6444.

THE WHITE HOUSE

WASHINGTON

October 4, 1993

MEMORANDUM FOR ROGER JOHNSON

FROM: ELI SEGAL

SUBJECT: OFFICE SPACE FOR CORPORATION FOR NATIONAL SERVICE

Thank you for forwarding the draft pro formas regarding office space for the new Corporation for National and Community Service (the "Corporation"), which we have reviewed. This memorandum provides our analysis and conclusions from that information and our own study.

Requirements for the Corporation

As you know, the President has made national service one of his four principal goals for this term. That daunting task is made all the more difficult because the Corporation will be starting up two new programs (Americorps and the Civilian Community Corps), absorbing the Commission on National and Community Service (formerly housed in the Press Club Building) and -- over a transition period -- merging into the Corporation the programs operated by ACTION (housed at 1100 Vermont Avenue), along with the ACTION personnel. We need to create a new culture over all of the following: large, government-operated ACTION programs with three decades of history; the newer and non-civil service Commission staff; the former military officers who will run the CCC; and my staff from the White House. To do so, we will need to have numerous team projects, using personnel from the various divisions. I intend to rotate my own office around the building for at least the first year, to get to know the many employees I have not to-date worked with directly.

Difficulties with the 1100 Vermont Building

The ACTION building has a number of crippling draw-backs. It is clearly too small for the various merging and start-up operations (even net of any "reinventing" government cutbacks). Even if additional space is secured nearby, the balkanization of the subsidiary space will make operating integration impossible.

Efficient operations will be difficult, even for those who could be shoe-horned into the ACTION building. The building has a small floor-plate (roughly 5,000 sf, on average). If we follow my revolving team concept, I will have people in the two elevators all day long, running to meet with one another.

It is also clear to me that a vertical arrangement tends to foster a situation where everyone fights to be on the floor where the "boss" is located; most agencies therefore end up with a senior executives' floor. This is detrimental to the culture we must create.

Finally, and this is a critical inaccuracy with the draft numbers you were given, the ACTION space is over-priced. Your regional administrator, June Huber, agreed with my deputy (Rick Allen) that all of the alternative spaces we were examining were likely to rent as much as $5 per foot cheaper than the ACTION space -- that is, rather than spending $250,000 more per year, we will save at least that amount. (ACTION is paying $36 per foot, not $31, and the new space should be obtainable in the $31/sf range.)

Comments on Pro Formas

Our people believe that the actual move costs will be less than those GSA estimates (which are ball-parked at a rate per foot); they also believe that rental agreements might put the full build-out cost on the landlord. Even if we are wrong, the full cost to the Corporation (at GSA figures) would be re-cooped within two years, because of the reduced rental costs.

We can not comment on the costs to GSA to re-lease the space. Reconfiguration numbers are pure guess-work (and reflect an opinion that the building is generally unsuitable for modern tenancy). I am told that GSA agreed more than three months ago that ACTION had the right to terminate its lease. If the lease-up period is four months, GSA would still have the chance of no down-time if it moves immediately; our people estimate 90 to 120 days before we could move into a new facility.

Relationship with GSA

Although GSA has been extremely cordial, we have been frustrated that agreed-upon actions have not been forthcoming. Three months ago, we indicated that we intended to move, and abandoned dealing with private sector brokers to go exclusively through GSA.

Nearly a month ago, we indicated our priorities among the three buildings GSA had shown us; we were to get -- at the end of that week -- refined rental figures, based on GSA's preliminary negotiations with the respective landlords of the top two choices. More than three weeks passed with no information forthcoming. Finally, we received nothing more than the quoted rental rates (which we had three months ago), and the first indication that GSA was actually trying to "urge" us into other alternatives.

Conclusion

Unless you would suggest otherwise, we'd prefer for our people to negotiate the principal economic terms with the landlords, so we can get the process started. If the anticipated rent savings don't materialize, I will want to re-examine the notion of moving. If they bear out, however, I would hope that GSA would fast-track this project.

I will call you on Wednesday to get your recommendations on how we should proceed.

Ell

THE WHITE HOUSE

WASHINGTON

October 4, 1993

The Honorable Leon Panetta
Director
Office of Management and Budget
Executive Office of the President
Washington, DC 20503

Dear Leon:

I am pleased to submit the fiscal year 1995 budget request for the Corporation for National and Community Service which came into existence on September 21. This budget will accomplish one of the major initiatives of the Clinton Administration and begin what I expect to be a new way for Americans, both young and old, to view service to others as a way to build the nation and themselves.

A year ago, when then-candidate Clinton spoke of national service, he struck a responsive cord with the American people. This notion, that one could serve one's community and through that service help obtain the education needed for tomorrow, was an idea people recognized as responding to fundamental American tenets of responsibility and opportunity. The President, with an enormous amount of work by people in the Administration and on Capital Hill, has made this idea a reality. Years from now, historians will remember the passage of the National and Community Service Trust Act of 1993 as a central achievement of the Clinton Administration and a key element in changing the way Americans look upon their country and their responsibilities toward it.

The fiscal year 1995 budget request closely tracks the authorizing legislation we worked so hard to get enacted. The total request of $862.4 million is about 50% more than will be available in 1994, but significantly less than the two-thirds growth we had discussed. We would fund the new Americorps activities at the authorized level of $500 million. Other programs--including Serve America, the Civilian Community Corps, VISTA, and the National Senior Volunteer Corps would grow at a level which would permit these effective programs to contribute to the President's
broad national service agenda.

Specifically, the fiscal year 1995 budget will accomplish the following:

* Address the nation's unmet human, educational, environmental, and public safety needs through service opportunities.

* Integrate existing federal programs, and begin new initiatives, to encourage citizens to engage in full-time or part-time national and community service.

* Enable approximately 33,000 participants to serve on a full-time basis, or the equivalent on a part-time basis, and to receive an educational award of $4,725 upon successful completion of the service.

* Enable approximately 525,000 students, through service-learning, and over 450,000 retired and senior volunteers to participate in non-stipended, part-time activities designed to address the needs of local communities.

* Support participation by over 25,000 low-income seniors in stipended activities designed to provide special support for children and seniors in need.

* Support innovation, demonstration, training, capacity building, evaluation and other activities necessary to assure high quality, effective programs and service opportunities.

* Continue to build a fiscally sound administrative structure for these new programs in keeping with the principles outlined in the National Performance Review.

Enclosed is a table showing the FY 1995 request by program activity. In developing the estimates shown, we have weighed very carefully the President's desire for a strong demonstration of his national service vision with the budget realities we face.

I am very appreciative of the help you and your staff have provided in the development and passage of the legislation and in setting up the new Corporation. I look forward to discussing the details of the request with you.

Sincerely,

Eli J. Segal

Eli J. Segal
Assistant to the President and
Director of National Service

EJS:ra
Enclosure

Corporation for National and Community Service
FY 1995 Budget Request
Dollars in millions

	1/ 1993	2/ 1994	1995
NATIONAL AND COMMUNITY SERVICES ACT ACTIVITIES			
Activity 1: National Service Trust	---	94.5	155.9
Activity 2: AmeriCorps Grants	47.0	155.5	262.1
Activity 3: Innovation, Assistance, and Other	27.9	45.0	75.0
Activity 4: Audits and Evaluations	2.0	5.0	7.0
Activity 5: Civilian Community Corps 3/	20.0	---	21.0
Activity 6: Service Learning/Higher Education	23.2	40.0	60.0
A. 1. School-based Service Learning)		25.5	38.2
2. Community-based Service Learning) 4/	17.2	4.5	6.8
B. Higher Education Programs	6.0	10.0	15.0
Activity 7: NCSA Program Administration	3.0	25.0	29.4
Corporation Administration	3.0	14.0	14.7
State Commission Grants	---	11.0	14.7
Activity 8: Points of Light Foundation	5.0	5.0	5.0
Subtotal, National and Community Service Act 1/	128.1	370.0	615.4
DOMESTIC VOLUNTEER SERVICE ACT ACTIVITIES			
Activity 9: Volunteers in Service to America	40.7	42.4	61.6
VISTA	34.7	36.4	55.0
VISTA Literacy Corps	5.0	5.0	5.6
University Year for VISTA	---	---	1.0
Student Community Service Program	1.0	1.0	---
Activity 10: Special Volunteer Programs	1.0	1.0	1.0
Activity 11: National Senior Volunteer Corps	128.0	131.1	150.9
Retired and Senior Volunteer Program	33.7	34.7	39.7
Foster Grandparent Program	64.8	66.6	71.6
Senior Companion Corps	29.5	29.8	37.6
Senior Demonstration Programs	---	---	2.0
Activity 12: Inspector General	0.9	0.9	1.0
Activity 13: DVSA Program Administration	30.9	30.9	32.5
Subtotal, Domestic Volunteer Service Act 1/ 5/	201.5	206.3	247.0
TOTAL, CORPORATION	329.6	576.3	862.4
Full-time Equivilant Employment	440.0	508.0	508.0
National and Community Service Act Activities	23.0	98.0	98.0
Domestic Volunteer Service Act Activities	417.0	410.0	410.0

1/ Funding history, FY 1993:
DVSA Programs funded in ACTION, from Labor, HHS, Education appropriation
Civilian Community Corps funded in Defense Department
Points of Light Foundation funded in Executive Office of the President
Rest of Corporation Programs funded in Commission on National and Community Service, from VA, HUD appropriation

2/ FY 1994 amounts in pending appropriation bills

3/ Funds for Civilian Community Corps appropriated to Department of Defense in FY 1993; funds were determined by OMB to be available for two years, and will be obligated in FY 1994.

4/ Figure represents combined total for both activities.

5/ DVSA Programs funded in ACTION in FY 1994

THE WHITE HOUSE
WASHINGTON

Shirley / Susan / Nancy R

I didn't read article on charitable giving in today's Post very carefully today -- but if I get its thrust smaller non-profits may be getting knocked out of charitable decision making.

(1) How, if at all, will this affect us?

(2) Is it legal / possible for the Corporation for Nat'l Service to get on the list of United Way approved ~~[illegible]~~ nonprofits for employee check-off? Eli

THE WHITE HOUSE

WASHINGTON

10/13

Bill Daley

This is important because the Hudson Institute is a conservative think tank rarely allied with Dems.

The head of the Hudson Institute, Les Lenkowsky, is very supportive of national service – which is how I met him. (He will be supportive of our welfare reform package as well)

I would appreciate it if someone in your shop reads this, uses it (if appropriate) & acknowledges Reynolds -- & particularly Les Lenkowsky.

Thanks,

Eli

Hudson Briefing Paper

September 1993

Number 156

Eli — This is about to be published. Can you give it to someone in the White House who will make good use of it, as well as its author. Lew

The Perils of Perot

By Alan Reynolds

SUMMARY: *In recent months H. Ross Perot has given his bilious blend of one-liners, simplifications, and earthy homilies a new task: turning American public opinion against the North American Free Trade Agreement (NAFTA, designed to reduce tariffs on goods traded between Mexico, Canada, and the U.S.). Perot spells out his argument in a new book written with the help of protectionist author Pat Choate. In this briefing paper Alan Reynolds critiques the book's arguments and supporting evidence.*

The book aims to provide support for the "giant sucking sound" theory of international trade: Perot's fear that, once American trade barriers are lifted, American corporations will move to Mexico to take advantage of cheap labor. But comparisons of labor costs that ignore productivity—as Perot and Choate's do—are meaningless. Taking productivity into account, American labor can compete with that of any country in the world.

NAFTA will remove incentives that currently entice businesses to move to Mexico. Companies have located there to escape tariffs and trade-balancing rules and to comply with Mexican-content rules, all of which NAFTA would eliminate. NAFTA will provide American corporations with full access to a rapidly growing Mexican economy, spurring economic growth and producing more American jobs. The opposite will occur if Perot's fear-mongering prevails.

Introduction

As their contribution to an increasingly heated debate, Ross Perot and Pat Choate have produced a nasty little anti-NAFTA book with the unsubtle title *Save Your Job, Save Our Country: Why NAFTA Must Be Stopped—Now!* (Hyperion, 1993). It is a remarkably hysterical polemic full of blatant contradictions, paranoid conspiracy theories, devious deceptions, and outright lies. It does, however, provide a summary of the current arguments against NAFTA and an opportunity to identify some of the unattractive motives behind them.

The book begins with a curious complaint—that NAFTA (the North American Free Trade Agreement) will make investing in Mexico too difficult for U.S. businesses: "U.S. investors," gripe Perot and Choate, "cannot hold a one hundred percent ownership in a [Mexican trucking] company until the 11th year of the agreement." They also note that "Even if NAFTA is enacted, U.S. banks will be prohibited from enjoying the full benefits of NAFTA until the year 2007." These complaints are particularly odd, considering the nature of the authors' main charge against NAFTA—that it will supposedly encourage *too much* U.S. investment in Mexico, not too little. This conflict provides a clue to their technique: it appears that the authors are eager to include any interest-group objections to NAFTA, regardless of the resulting contradictions.

These confusions arise because the authors do not appear to have the slightest idea of what "foreign investment" is, much less what it does to employment in either country. For instance, they cite *Business Week* to the effect that "since 1988 Mexico has attracted more than $26 billion of foreign investment. . . . In the process, more than two million jobs have

Currently, more than half of Mexico's exports to the U.S. are totally duty-free, under the Generalized System of Preferences (a far more dramatic free-trade program than NAFTA, though it has yet to generate any similar hysteria).

been created." In the context in which Perot and Choate cite it, this remark is apparently intended to create the impression that "foreign investment" means U.S. companies "relocating" factories to Mexico. Foreign investment, however, most certainly does not mean this. Instead, the vast bulk of the foreign investment referred to in the quotation—which came from many countries—was in Mexican Treasury bills and the stocks of newly privatized companies such as the Mexican telephone company and banks. Direct U.S. investment in Mexico was only $1.5 billion last year.

Moreover, in recent years only 27 percent of U.S. direct investment in Mexico has been in manufacturing (mostly reinvestment in new U.S. machinery by companies already down there), with much of the rest going to building U.S. retail stores, restaurants, hotels, and offices to provide financial, marketing, and legal services to Mexican companies. These "foreign investments" are designed to sell U.S. goods and services to Mexicans and tourists. They do increase service-sector jobs and incomes in Mexico, but they also provide those same benefits to the U.S.

What about those "two million jobs" in Mexico that were supposedly created by foreign investment? You certainly won't find them in Mexico's manufacturing sector. Total employment in the *maquiladoras* (Mexican plants owned by companies that assemble products from duty-free imported materials, such as U.S. fabrics or TV tubes) amounts to only half a million. In total, the *maquiladoras* produce little more than $4 billion a year—barely enough to pay for a tenth of Mexico's imports from the United States. All other Mexican manufacturers employ only 2.4 million—a figure that has been falling, not rising, since 1988. Excluding the *maquiladoras*, the Banco de Mexico reports that blue-collar employment in Mexico fell 4.4 percent last year, including drops of 5.1 percent in textiles and apparel and 13.8 percent in basic metals.

These contradictions are characteristic of a book that argues that NAFTA will cause either too much or too little investment in Mexico, and that whichever happens will be bad for the United States. The authors' attempt to throw in every possible objection sends them down some strange roads indeed.

Misunderstanding *Maquiladoras*

When Perot and Choate are not worrying about the lack of investment opportunities in trucking and banking, or the excessive opportunities for Mexican farmers to feed U.S. grain to their cattle, they become even more hysterical about the relatively trivial *maquiladoras*:

> Today there are more than 2,200 *maquiladora* factories employing more than 500,000 workers. . . . In 1992 almost a third of all U.S. exports to Mexico went directly into maquiladora factories whose products were either shipped back into the United States or to markets outside of Mexico.

This, they claim, is "not trade as trade is commonly understood." To Perot and Choate, apparently, exports are exports only if sold directly to foreign consumers rather than to businesses. The biggest and most competitive U.S. export industries, however, have long been those selling equipment and materials to businesses all over the world—aircraft, machinery, chemicals, paper, and so on. In 1992, the U.S. exported at least $7.5 billion more in manufactured goods *to* Mexico than it imported *from* Mexico. And that trade surplus alone is much larger than the entire value-added (GDP) produced by the *maquiladoras*.

Perot and Choate claim that "the U.S. government subsidizes companies in Mexico that ship products to the U.S. by removing import fees (taxes)." This bizarre idea either reveals the authors' ignorance or is an attempt to deceive the reader. The *maquiladoras* import huge amounts of semi-finished goods from the U.S. and add some labor-intensive services (such as sewing) that help keep the finished product highly competitive, often exportable "to markets outside of Mexico." For example, companies in the U.S. design and cut fabric which is then sewn into slacks in Mexico, using U.S. thread, buttons, and zippers. We design and cut furniture from U.S. wood, which is

There is only one plan before Congress to abolish the *maquiladoras*, and it is NAFTA. Their exemptions from either U.S. or Mexican import duties will become worthless when NAFTA brings nearly all tariffs down to zero.

then assembled and finished in Mexico using U.S. upholstery fabrics. This sort of co-production displaces many products (notably televisions) that were previously imported from Asia. It clearly increases employment and exports for both the U.S. and Mexico. Moreover, the U.S. actually gets the lion's share of good jobs from *maquiladora* production, because the overwhelming majority of these products' value is produced in the U.S.

The U.S. does not levy import duties on the U.S. components of such products for the obvious reason that this would penalize our own manufacturers. It would be like putting a tariff on ourselves! Contrary to Perot and Choate, the U.S. *does* levy tariffs on the relatively minor Mexican contribution to the final product, but most U.S. tariffs are relatively small. Currently, more than half of Mexico's exports to the U.S. are totally duty-free, under the Generalized System of Preferences (a far more dramatic free-trade program than NAFTA, though it has yet to generate any similar hysteria).

On the other hand, Mexico does "subsidize" *maquiladoras* in a sense, because these companies alone (unlike other Mexican companies and consumers) are exempt from Mexican tariffs against U.S. goods. Mexico is free to set tariffs as it pleases. It is clearly in our interest that they set them as low as possible against all U.S. goods, not just those used in Mexico's export industries (although that is better than no tariff relief at all). This is precisely what NAFTA accomplishes—it lifts Mexican tariffs of 13 to 20 percent on many U.S. industrial exports, making them far more affordable and competitive in the rapidly growing Mexican market for autos, textiles, business equipment, chemicals, paper, and much more.

All the book's disinformation about *maquiladoras* is simply irrelevant. There is only one plan before Congress to abolish the *maquiladoras*, and it is called NAFTA. The *maquiladoras* would cease to exist as such under NAFTA; their exemptions from either U.S. or Mexican import duties obviously will become worthless when NAFTA brings nearly all tariffs down to zero. NAFTA will make it no more attractive to set up plants in Mexico to receive the so-called "subsidy" of free trade than to set them up in Detroit or St. Louis. But if any innocent readers swallow this book's extreme claims about the puny *maquiladoras*, they ought to become enthusiastic *supporters* of NAFTA.

Better is Worse

A common technique Perot and Choate use is to write with a sarcastic tone designed to create the illusion of problems where none exist. For example, even where NAFTA pries open closed markets—such as Mexico's tight import quota on U.S. corn—the authors manage to convert it to bad news: "The agreement," the authors complain, "will give Mexico unrestricted access to U.S. and Canadian feed grains." That is, U.S. farmers are supposed to start worrying about "unrestricted access" to their products.

It is instructive to take a closer look at their first objection, quoted earlier, that "even if NAFTA is enacted," certain industries will still not be allowed to invest in Mexico right away. Perot and Choate cannot and do not claim that U.S. trucking, banking, and so on will not benefit from the NAFTA-generated increase in access to the Mexican market. They merely gripe about the fact that these benefits will be phased in. "Even if NAFTA is enacted," they complain, it will still not bring instant perfection! But it most certainly will bring rapid improvements, which will be totally *lost* if NAFTA is not enacted. The improvements, moreover, will not be instantaneous for either country. For example, the highest U.S. tariffs are far higher than Mexico's maximum of 20 percent. The U.S. levies a brutal tariff of 48 percent on athletic shoes, and 765 percent on ground tobacco stems, but under NAFTA it will still take fifteen years to phase out these ridiculous U.S. tariffs.

This technique of condemning improvements because they stop short of instant perfection is used throughout the book. Rather than praise NAFTA for forcing Mexico to cut its 20 percent tariff on U.S. cars to 10 percent immediately and to zero later, Perot and Choate whine that NAFTA is "allowing Mexico to keep half its tariffs on vehicles produced in the United States." They consider it unfair that "the

"Even if NAFTA is enacted," they complain, it will still not bring instant perfection! But it most certainly will bring rapid improvements, which will be totally *lost* if NAFTA is not enacted.

United States must eliminate all its tariffs on automobiles imported from Mexico, while Mexico only has to reduce its tariffs on autos made in the United States over a ten-year period." The U.S. tariff is 2.5 percent; Mexico's is 20 percent. In the first year of NAFTA, the U.S. cuts its tariff by 2.5 percentage points, whereas Mexico cuts its tariff by 10 percentage points. Does that really sound like a bad deal? Would it make any sense for the U.S. to take ten years to reduce a 2.5 percent tariff? Over ten years, Mexico eliminates the auto tariff completely. Unless the authors prefer 20 percent Mexican tariffs to 10 percent and 0 percent tariffs, their numerous "fairness" arguments of this type make no sense at all.

Perot and Choate also complain that not everything will change under NAFTA. It is true that some things will remain the same. "Mexican investors," for example, "will still be allowed to own one hundred percent of farms, forests and other real estate in the United States." The key word here, however, is "still." This is typical of many Perot/Choate remarks intended to insinuate that NAFTA will change things that are, in fact, simply being left the way they have always been. The U.S. has never restricted foreign investment and is not about to do so, regardless of what happens to NAFTA.

Yet it seems particularly strange that the authors attempt to stir up worries that Mexicans will buy expensive U.S. real estate. They keep telling us that the Mexicans are too poor to buy our consumer goods. "With Mexican wages kept artificially low," they ask, "how can the United States expect Mexicans to buy high-priced American products?" Taken together, these two complaints mean that Mexicans can't afford to buy our apples, cereal, and milk, but can afford to buy the farms that produced these goods. Actually, most U.S. exports are industrial goods that are not "high-priced" at all but are instead highly competitive. That is why we are able to export industrial equipment and materials to Mexico and elsewhere despite those nations' high tariffs.

Even on those rare occasions when the authors get the facts right, they still manage to miss the point completely. They correctly point out that a big reason for building auto-parts plants in Mexico has been that "the supplier's part production also gets credited toward the auto manufacturer's satisfaction of Mexico's 'domestic content' regulations, which force companies that sell in Mexico to produce in Mexico." But they then assert, quite incorrectly, that NAFTA "does not significantly alter" such laws. The truth is the exact opposite. Under NAFTA, Mexico can no longer require that cars sold in Mexico have 36 percent domestic content—a rule that now bans even the sale of the Ford Escort, although it is assembled in Mexico, because it has a U.S. content higher than 75 percent.

Mexico's current trade-balancing rules, moreover, now require companies to export $1.75 in cars and parts for every dollar they import. This too would be phased out under NAFTA. Without NAFTA, companies such as Honda Ohio and Toyota Kentucky will not be allowed to export cars or parts to Mexico, because they do not have plants there. Indeed, keeping such Japanese transplants out of Mexico's growing auto market is the real reason why, as Perot and Choate mention (but fail to understand), "the biggest . . . boosters for keeping Mexico's domestic content rules were the Big Three." GM, Ford, and Chrysler have a lot of money invested in Mexican plants, many of which would have to be closed if forced to compete with Honda Civics from Canada or Accords from Ohio. The Big Three want to keep both trade-balancing and domestic-content rules in Mexico as long as possible to keep U.S.-made Japanese cars from taking sales away from their Mexican plants. Why the United Auto Workers got in bed with management on this issue remains a mystery. (Was it to save Mexican jobs from U.S. competition?)

NAFTA includes strict North American content rules that will prevent foreign firms from gaining duty-free treatment unless they use a lot of North American parts. Substituting North American content rules for Mexican content rules, however, removes any regulatory reason for producers to prefer one part of North America to another. The Big Three, which have had plants in Mexico for decades, will no longer be forced to export from Mexico to

Those who oppose NAFTA do so because they profit, economically or politically, from tariffs and import quotas that permit politically favored industries to gouge U.S. consumers with high prices.

import the U.S. parts and vehicles that Mexicans want and need. Without NAFTA, Mexicans will continue to languish on a long waiting list for the very few U.S. cars that the Mexican government has only recently allowed to be imported at all (such as Lincolns and Corvettes).

Three very important reasons why the Big Three built assembly and parts plants in Mexico in the past were (1) to comply with Mexican domestic content rules, (2) to comply with Mexican trade-balancing rules, and (3) to sell cars in Mexico without the handicap of Mexico's import licensing and 20 percent tariff. All three of these reasons will completely disappear if NAFTA is enacted, and they will remain if it is defeated. NAFTA thus *eliminates* reasons to relocate auto and parts plants to Mexico. Once NAFTA repeals Mexican laws that have virtually forced U.S. auto companies to invest in and export from Mexico, car and truck plants in the U.S. and Canada that are now operating at an inefficiently low percent of capacity will be able to profit from economies of scale by exporting to Mexico. This obviously makes more business sense than adding expensive new surplus capacity in Mexico.

Paranoid Fantasies

It is disingenuous to claim, as Perot and Choate do, that "NAFTA is not a trade agreement but an investment agreement." NAFTA is about *reducing tariffs* in both countries. Those who oppose NAFTA do so because they profit, economically or politically, from tariffs and import quotas that currently permit politically favored industries to gouge U.S. consumers with high prices. Perot and Choate devote several pages to defending protection of the U.S. broom industry with quotas and a 32 percent tariff. Yet such protectionist policies are the same as imposing a 32 percent sales tax on brooms and then sending the money to owners of broom companies under the pretense that they might share the loot with workers (who are, in fact, notoriously underpaid in this and other protected industries). It is precisely because protectionist polices are inexcusable that the opponents of NAFTA must resort to subterfuge, pretending that tariffs are not an issue at all. If tariffs are mentioned (as the broom tariff is not), it is always the "average" tariff of 4 percent in the U.S. and 10 percent in Mexico. But the anti-NAFTA lobby represents owners of industries and farms that are protected by tariffs far exceeding these averages or that hide behind import quotas that are the equivalent of tariffs much higher than 100 percent (such as those on sugar and peanuts).

Perot and Choate see "secret deals" and conspiracies everywhere—except among protectionists like themselves. They tell us that a small elite of family-owned Mexican businesses has conspired to reduce Mexican tariffs in order to force their own prices and profits down! Any lawyers, realtors, and investment bankers who provide advice to companies seeking to invest in Mexico are magically transformed into "the same bunch that was in the middle of the S&L bailout and leveraged buyout excesses of the 1980s."

It is usually wise to be suspicious of those who claim so much moral superiority. They "protest too much." There are political ambitions at work here, and special interests eager to retain their tariff privileges. The authors claim that "the decision-making process in Washington is for sale to the highest bidder." By carefully confining their criticisms to "foreign interests," however, Perot and Choate are attempting to conceal what every Congressman knows full well—namely, the formidable political clout of protected U.S. industries. The infamous sugar, tobacco, peanut, citrus, and textile lobbies, for example, are not exactly sitting back and watching NAFTA sail through. Not to mention the AFL-CIO, which hopes to share in any monopoly profits that protection provides—at the expense of consumers who work in unprotected industries.

The *Wall Street Journal* noted that Pat Choate has been receiving a third of his income from the huge, privately owned Milliken textile empire. Roger Milliken has bankrolled protectionist writers and politicians for years. And it's no longer a secret that Perot has long been seeking the political support of Jesse Jackson and the AFL-CIO; the support of the latter

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has been conditional on Perot fighting NAFTA. When politicians make loud noises about interest groups, they mean interest groups other than the ones supporting their campaigns.

Myth or Fact?

The authors list a number of what they call "myths" being propagated about them and about other critics of NAFTA. Let's examine these "myths" and explain why they should be considered facts instead.

Fact 1: NAFTA Critics Are Racists

Perot and Choate fail to quote anybody as actually saying this; it appears to be a trumped-up charge designed to make pro-NAFTA people look almost as demagogic as the authors. To be sure, most NAFTA critics are not racists. They are protectionists. Their goal is to preserve the valuable right to charge monopoly prices, not to slur an ethnic group. But NAFTA critics sometimes seem too willing to play on any emotion that might help keep tariffs up. One example of this is the authors' absurd linking of NAFTA with S&L bailouts and leveraged buyouts. Another example is their ludicrous argument that an increase in the number of trucks coming across the border—mostly heading South—means more illegal drugs.

Why did free-trade agreements with Israel and Canada sail through Congress with none of the emotional intensity that accompanies this one? It is not just income differences, because there were few complaints about the Generalized System of Preferences or the Caribbean Initiative—two deals that lowered U.S. tariffs for poor countries without even NAFTA's requirement that those countries lower their tariffs in response.

If Perot and Choate are not appealing to racism, then what do they mean when they protest that Mexico "does not share a common heritage" with the U.S.? If we are supposed to trade freely only with countries that share a "common heritage" with us, does that mean we should limit our foreign trade to the Protestant sections of Canada and Europe?

Fact 2: NAFTA Will Create More and Better U.S. Jobs

Perot and Choate implore their readers to ignore all serious studies on this subject. All such studies find that more and better jobs are to be gained from greater exports to Mexico than could possibly be lost because Mexican companies displace a few thousand low-wage jobs in small, protected U.S. industries. Mexico's tariffs are typically much higher than U.S. tariffs, for the simple reason that without those tariffs many Mexican firms could not possibly compete, even on their home turf, with the world's most productive economy. And Mexican trade barriers are highest on some very important U.S. exports: 20 percent on cars, 15 percent on auto engines, 13 percent on fabricated metal products, and so on. Steep U.S. tariffs and import quotas, by contrast, favor relatively tiny industries that employ few people at low wages—brooms, rubber shoes, frozen orange juice, canned tuna and peppers, sugar, tobacco, peanuts.

The "high wage" jobs that Perot and Choate pretend to be defending involve wrapping straw around broom handles, picking tomatoes, and sewing in sweatshops. Such jobs are doomed anyway, however, because these products are too cheap (even with tariffs) to allow them to offer a competitive wage. The export industries that Perot and Choate explicitly want to curtail—including capital goods and industrial materials—employ literally millions more people than the protected industries do, and with much higher wages and benefits. The same is true of agriculture, where the huge exporters of grain and dairy products to Mexico are often out-lobbied by the politically generous sugar, tobacco, peanut, and citrus lobbies.

Another way that NAFTA will create more and better jobs is by removing hidden taxes (tariffs and import quotas) that increase the cost of production and the cost of living in both countries. U.S. and Mexican trade barriers reduce economic efficiency, productivity, and real wages on both sides of the border. These gains from freer trade are a matter of standard textbook economics. But there is no

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economics of any sort in Perot and Choate's book—not even bad economics.

Fact 3: U.S. Companies Will Relocate to Mexico with or Without NAFTA

Only if NAFTA fails, not if it passes, will U.S. companies continue to be lured to Mexico by the *maquiladora* program, by efforts to get around Mexican tariff walls by locating there, by trade-balancing requirements, and by domestic content rules. All these schemes will disappear under NAFTA. So it is not simply that companies are already free to relocate to Mexico with or without NAFTA. Instead, some companies will continue to relocate to Mexico if NAFTA fails, but they will have *no* reason to move to Mexico if NAFTA is enacted. In fact, the tiny amount of direct investment in Mexico ($1.5 billion last year) involves almost no "relocation" from the U.S., though it sometimes involves relocation from places like China to Mexico. Anecdotal tales about some typewriter company moving to Mexico can be more than matched by GM moving the Chevy Cavalier back to the U.S., Admiral and Philco going bust in Mexico, the Mexican firms Vitro and Cemex building plants in the U.S., and so on. The numbers show very little direct investment going on in Mexico, particularly in manufacturing.

In light of the fact that many reasons for moving to Mexico *disappear* with NAFTA, how can one argue that NAFTA will somehow increase incentives to set up shop in Mexico? The only answer that Perot and Choate offer is remarkably thin. They claim that U.S. companies currently fear "a long history of nationalizing foreign companies," and that NAFTA would end this fear because it is "an international agreement beyond the reach of Mexican, Canadian and U.S. politicians." This argument is quite fantastic. Not only has Mexico been privatizing everything in sight in recent years, even highways, but Mexico has not nationalized any foreign companies since the 1930s. They did nationalize Mexican banks for a while, but they did not touch Citibank. And the idea that future politicians would be unable to walk away from NAFTA is clearly untrue. Countries change their trade agreements all the time—or void them by violating their terms. NAFTA permits any country to leave the pact at any time, with six months' notice.

Perhaps their most bizarre reason that NAFTA supposedly encourages more U.S. investment in Mexico is that "NAFTA discourages counterfeiting and theft of intellectual property." But that has already been done, and by a Mexican law, not NAFTA. Moreover, it is entirely unclear what is wrong with this. Would Perot and Choate really prefer that Mexico ignore U.S. patents and trademarks? How that would preserve high-wage U.S. jobs is anybody's guess.

Fact 4: Low Mexican Wages Don't Matter

Most major industrial countries set up plants in other major industrial countries, such as IBM in Japan, Ford and GM in Europe, and numerous Japanese auto plants in the U.S. These are simply superior places to do business, with skilled workers, good transportation and communications systems, low inflation, strong domestic markets, and so on. It has often been said that if low wages were a major factor in determining where to locate, then most of the world's best equipment would long ago have moved to places like Haiti and Bangladesh, where wages are much lower than in Mexico. The authors' rather pathetic answer to this "myth" is that "the real reason U.S. manufacturers do not go to Haiti or Bangladesh is that these countries don't have the political stability or investment guarantees of NAFTA."

This statement is quite insulting to American workers, who are thus depicted as no better than those in Haiti or Bangladesh. All "working people" are apparently the same everywhere, just so many homogeneous lumps of labor, and the U.S. is just uniquely lucky to have a stable government. Perot and Choate, however, have to make this unpersuasive argument because if they were to admit that typical U.S. workers are many times more productive than Mexican workers, it would be obvious why wages are lower in Mexico, and it would also be clear why Mexico's low wages fail to provide cost savings to businesses. If

If low wages were a major factor in determining where to locate, then most of the world's best equipment would long ago have moved to places like Haiti and Bangladesh, where wages are much lower than in Mexico.

Mexican labor and other costs were typically lower than ours, after adjusting for productivity differences, then Mexican products would be more competitive in both the Mexican and U.S. markets. But if that were true, Mexico would be running a trade surplus, when in fact it runs a large and growing trade deficit—despite the fact that it imposes much higher tariffs than the U.S..

Fact 5: Mexico is a Vast Market for U.S. Exports

Mexican imports from the U.S. have more than tripled since 1986, reaching $40.6 billion in goods last year plus nearly $9 billion of U.S. services. The U.S. had a surplus in manufactured goods of at least $7.5 billion. Only a fifth of Mexico's imports went to *maquiladoras*, and Mexico's imports of things like processed foods, clothing, and shoes have been soaring. It takes considerable ingenuity to pretend that such inconvenient facts are myths, but Perot and Choate try to do just that:

> Of the $40.6 billion of U.S. exports to Mexico in 1992, $15.5 billion was capital goods—that is, factories. . . . Another $9.4 billion of U.S. exports were for industrial supplies that were used in the manufacturing of products. . . . Less than $8 billion actually entered the Mexican market as consumer goods.

Some 39% of U.S. exports worldwide are capital goods, and that most certainly does not mean "factories." It means farm machinery, trucks, aircraft, computers, machine tools, and the like. The "industrial supplies" they mention include steel, chemicals, paper, and natural gas. Along with U.S. exports of feed grains, to which the authors also object, these *are* the U.S. export industries. The authors object to almost all U.S. exports, at least if they wind up in Mexico! They fret that U.S. machines, steel, and computers will be used to produce something of value.

If you follow this to its illogical conclusion, it means that the U.S. should put a total embargo on all exports of farm machinery, trucks, aircraft, computers, steel, chemicals, and so on. Yet it is only Mexico that Perot and Choate hope to prevent from industrializing. South Korea, for example, has been importing U.S. machinery and materials for more than three decades, which has indeed increased that country's ability to create exports. But it is by selling to the U.S. that Korea acquires the dollars to pay for more and more imports from us, nearly always running a trade deficit with the U.S. Trade and economic growth are not zero-sum games. We need *more* prosperous trading partners, not fewer of them. Had it not been for soaring U.S. exports to Mexico, recent recessions in Japan, Europe, and Canada would have been far more damaging to U.S. industry than they were.

Zero-sum reasoning is the source of the authors' mean-spirited fear that U.S. machines and materials will improve the Mexican economy. They imagine that there is a fixed amount of manufacturing to be done in the world, so that if another country does more, the U.S. must do less. Following this line of reasoning, the more countries we can keep poor, the better off we are. This is why the authors continually refer to all investment in Mexico, even hotels and retail stores, as "relocation." But they are incorrect: the existence of a U.S. or Mexican factory in Mexico does not imply that this factory would otherwise have been built in the U.S., much less that a valuable factory in the U.S. will simply stand idle.

Most U.S. exports—to Mexico and everywhere else—are not consumer goods (aside from grains and milk), but things like machines, chemicals, steel, and paper needed to modernize business and agriculture. And these U.S. products are not at all "high priced" relative to the global competition, as Perot and Choate claim, which is why Mexico places 13 to 20 percent tariffs on such goods: to shore up less-efficient, higher-cost Mexican producers. The reduction of Mexican tariffs since 1988 has already forced many Mexican businesses to close down or "restructure," laying off thousands of blue-collar workers. Whereas Perot and Choate try to paint NAFTA as a conspiracy to favor a few Mexican businesses, many Mexican firms are in fact terrified of facing U.S. competition without the shield of high tariffs. Competition is great for consumers, but businessmen rarely welcome it. Indeed, businessmen in protected industries pay out

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lots of money to support writers and politicians willing to rant and rave about the evils of low tariffs and the virtues of artificially high prices.

Fact 6: NAFTA Creates a Vast New North American Market

The authors correctly point out that Mexico has more than 24 percent of the people in North America but only approximately 4 percent of gross domestic product (GDP). But this is an extremely static point of view. Before the debacle of 1982-87, the Mexican economy went through long periods during which it grew by 6 to 7 percent per year. At that rate, real GDP doubles in a decade. Moreover, the absolute size of the Mexican economy belies the size and growth of imports needed to develop and to feed a growing population. Mexico is not yet a very large economy, but it is already the world's nineteenth largest importer and an extremely large market for U.S. goods. If recent trends continue, Mexico will soon pass Japan and become our second-largest export market, after Canada. If our second largest trading partner does not constitute a "vast" market, what is?

Comparing the absolute size of two economies does not tell us where the growth opportunities are. The U.S. markets for autos and housing, for example, are not expected to grow much in the next few decades, because the baby boom has busted. Because most U.S. families have already filled their two- or three-car garages, annual sales now come mainly from the infrequent replacement of older cars. The Mexican market, on the other hand, will continue to grow at explosive rates, provided that the economy keeps growing. There is only one car for every sixteen Mexicans; most of these cars are very old; half of the rapidly growing population is under the age of sixteen; and it is not possible for Mexico's largely obsolescent domestic vehicle and parts industries to produce a variety of cars and trucks at an efficiently large scale.

Despite onerous trade-balancing and domestic-content rules and a 20 percent tariff, Mexico is already a major reason why U.S. exports of vehicles and parts have increased from $27.6 billion in 1987 to $46.6 billion in 1992—one of the best-kept secrets in the business. If the U.S. auto industry is to grow, the increase will have to come from exports to countries like Mexico. The U.S. market is much larger, but it is not where the future growth in world auto sales will be.

Perot and Choate, however, assert that "within seven years, automakers in Mexico will be producing more than three million units per year." This error comes from confusing demand and supply. Sales of cars and trucks inside Mexico have been growing by 10 to 25 percent per year and might reach two million per year by the turn of the century. But even with the planned additions to capacity, minus the closure of obsolete plants (Chrysler recently closed one that was fifty-seven years old, and GM moved production of Cavaliers back to the U.S.), Mexico will not be able to produce much more than a million cars and trucks, and many of those will have to be assembled from U.S. parts. Without importing vehicles and/or parts, Mexico will not be able to meet its own soaring domestic demand, much less have enough spare capacity to increase exports. The country has been a net importer of cars and trucks in past periods of prosperity, and probably will be again if NAFTA is allowed to eliminate Mexican tariffs and import licenses and repeal trade-balancing and Mexican-content rules.

Fact 7: NAFTA Will Reduce Illegal Immigration

NAFTA will eliminate monopoly profits currently enjoyed by protected industries inside Mexico by subjecting those companies (U.S. and Mexican) to greater competition. This will raise the share of income that goes to labor, and the lower prices will directly raise real wages. NAFTA will also force Mexican firms to get "lean and mean," which involves some job losses in the short run but also raises productivity. Contrary to assertions in *Save Your Job*, productivity gains in Mexico have been more than matched by increases in real wages since the 1988 census (earlier data exaggerated average wages by excluding small firms, and the numbers were also distorted by huge devaluations).

The authors' references to the Mexican minimum wage are beside the point: fewer than 10 percent of Mexicans work for the minimum wage in Mexico (mostly teenagers, and only temporarily).

Measured in dollars, average industrial compensation in Mexico doubled between 1988 and 1992, reaching $2.35 per hour. *Maquiladora* wages are lower but have grown just as fast, and the usual figures given for entry-level "production workers" are misleading because there has been more rapid growth of supervisory jobs (promotions) in the *maquiladoras*. In short, economic development in Mexico is improving opportunities and reducing the incentive to migrate. In other countries that have become integrated with larger economies—Korea and Portugal, for example—wage increases have often averaged 20 percent per year in dollars, as they have been doing in Mexico.

Disregarding these hopeful signs, Perot and Choate claim that Mexican workers will be "drawn north," where "they will quickly find that wages in the Mexican *maquiladora* plants cannot compete with wages anywhere in the United States." Upon making this startling discovery, they argue, more Mexicans will sneak across the border. But U.S. wages have been higher for centuries, and the Mexicans do not have to move north to learn that. Besides, why would they be "drawn north" in the first place, if not because of improving wages there? For this argument to be even slightly relevant to NAFTA, the authors would have to argue that the gap between U.S. and Mexican wages will become *wider* under NAFTA, when in fact it has been narrowing because of rapid increases in Mexican compensation (18.5 percent per year from 1988 to 1992, in dollars).

The assumption that Mexican industry will grow more rapidly along the U.S. border is dubious. The number of *maquiladoras* in the border regions has fallen since 1990, and skilled labor there is scarce. Moreover, there will be less reason to industrialize along the border rather than elsewhere in Mexico if NAFTA passes than if it fails. Besides, as noted earlier, *maquiladoras* throughout Mexico are gravely threatened by NAFTA. Under the agreement, many *maquiladoras* are unlikely to survive the new competition, as U.S., Canadian, and southern Mexican firms finally receive even better tariff cuts.

The authors' references to the Mexican minimum wage are beside the point: fewer than 10 percent of Mexicans work for the minimum wage in Mexico (mostly teenagers, and only temporarily). But many illegal immigrants in the U.S. work *below* the U.S. minimum wage at part-time or part-year jobs. Illegal immigrants picking seasonal fruits in the U.S. or doing casual day labor here can already earn considerably more at a Mexican auto plant: more than four dollars an hour on average, including benefits, which means that a considerable number earn more than that average.

Fact 8: "Rejection of NAFTA Will Cost 400,000 American Jobs"

The U.S. Trade Representative estimated that NAFTA would add 200,000 jobs, and that failure to enact NAFTA would lose 200,000 jobs (due to economic trouble in Mexico). The job gain of 200,000 is a net figure—more jobs in export industries minus the loss of some in protected industries (which are typically smaller and pay lower wages). Perot and Choate, however, dismiss this and other estimates as "mythical" and "nonsense," just as they routinely dismiss or ignore any factual evidence that does not suit their story.

What we do know is that Mexico has been importing much more from the U.S. than it is able to sell to us, even including $8.4 billion from their oil exports. Mexico has a huge trade deficit with the U.S., particularly in products other than oil. Most of the deficit—at least $7.5 billion—is in manufactured goods. And most of these goods are the sort produced in Texas, California, and the Midwest, often with union labor.

Mexico has been able to pay for all these manufactured U.S. goods mainly because investors have been buying Mexican stocks and bonds, thus providing dollars with which to buy imports. There can be little doubt that the failure of NAFTA would be a major shock, pushing the Mexican stock market down and interest rates up. With the resulting capital flight and economic slump, Mexico would have no choice but to sharply curtail imports of U.S. goods.

No sane businessman will make the huge investment of constructing and equipping a modern factory simply on the basis of labor costs, which are typically 20 percent or less of total operating costs.

This would happen very quickly, resulting in a massive and sudden loss of export orders for U.S. industry. There would be big cutbacks in all sorts of machinery and machine tools, autos and parts, cereals, dairy products, chemicals, paper, steel, and more. Most of the pain would be felt in precisely those areas where Congressmen are most virulently opposed to NAFTA—industrial cities such as Detroit, St. Louis, Chicago, Boston, Los Angeles, Toledo, and Milwaukee. Union leaders and politicians from those export centers will have a lot to answer for. And so will Ross Perot.

Myths That Really Are Myths

We have shown that what Perot and Choate would label myths are no such thing: they are, with the possible exception of the charge of racism, demonstrable facts. Perot and Choate, however, believe in some odd myths of their own.

Myth 1: Moving to Mexico Greatly Reduces Unit Labor Costs

When comparing labor costs between the U.S. auto industry and its Mexican counterpart, Perot and Choate use a 1991 figure for Mexico and a 1992 figure for the U.S. This matters, because compensation in Mexican industry rose by more than 20 percent last year, and it has risen faster in autos and parts than in other industries. Instead of U.S. compensation being seven times higher than that of Mexico, as they claim, it is now six times higher.

Overall productivity for all industries was approximately five times higher in the U.S. than in Mexico, according to a World Bank estimate, but it might well be six or seven times higher in autos and parts, because in these industries especially Mexico has a few modern plants but many more that are ancient and less productive. In that case, unit labor costs would be approximately the same in both countries. It stands to reason that if it takes five or six Mexican workers to match the output of one U.S. worker, the U.S. workers will produce and earn five or six times as much.

The authors pretend that their cost comparisons do not include U.S. health care costs. "In U.S. auto plants," they write, "health care expenses exceed the cost of steel." But these costs are, of course, already included in total compensation. And total compensation costs have risen quite moderately in the U.S. in recent years, in autos and elsewhere. Unions have negotiated for better health and pension benefits rather than wages because such benefits escape taxation. U.S. employers gripe about this, but the total of U.S. wages and benefits has not even kept pace with the impressive gains in productivity, so unit labor costs in U.S. manufacturing are extremely competitive with those in Mexico, Japan, Germany, and everywhere else.

Myth 2: Labor is the Most Important Business Cost

Perot and Choate first claim that "labor costs are the principal cost of production for most U.S. manufacturers." In the next paragraph, however, we learn that "labor is 20 percent of the total cost of production . . . for half of all U.S. manufacturers." That is, it is even less than 20 percent for the other half. How, then, can it be true, as they claim, that "for most companies, just one year's savings on labor will pay for the cost of relocation"? The only conceivable answer is that they are failing to count the cost of building a new factory or the losses from shutting down an old one.

The authors claim that labor is the only cost that companies can control, but companies can also control the much larger expenses of idling one factory and building another (which Perot and Choate conceal as "other factors of production"). No sane businessman will make the huge investment of constructing and equipping a modern factory simply on the basis of labor costs, which are typically 20 percent or less of total operating costs. And to the extent that labor costs do influence location decisions, it is labor costs per unit of output that matter ("unit labor costs"). Simple comparisons of wages and benefits are absolutely useless without information about productivity.

Because the machinery in capital-intensive plants is so costly and complex, the *quality* of labor is the deciding factor in location choice (which is why such high-tech operations are often located near U.S. universities).

Myth 3: The Productivity of Mexican Workers Often Matches That of the U.S.

The standards of what constitutes "evidence" are not very high in *Save Your Job*. The authors claim that "dozens of articles in leading publications such as *The New York Times* and *Business Week* document that . . . the productivity of the new Mexican plants operated by U.S. corporations is fully competitive with plants located anywhere in the world." Actually, this is all one story with one source: Harley Shaiken. Perot and Choate refer to this as a "Congressional study," which sounds official, but it was published by the Democratic Study Center. Shaiken first peddled his story to *The New York Times* and *Business Week*, which he then cited as sources for his own "study." Shaiken pins most of his story on the Ford Escort produced in Hermosillo, plus some Mexican plants producing auto engines.

The Escort is essentially a kit car, assembled with up to 80 percent U.S. content, which largely accounts for its decent quality. Shaiken repeatedly speaks of "quality and productivity" as synonyms, which they certainly are not. He says that the Escort is almost as good as the Honda Civic and Nissan Sentra "made in Japan"—though those cars are actually made in Canada and the U.S. The September issue of *Consumer Reports*, however, says that the Escort has "a generally average repair record," but has "poor handling, braking and acceleration." Like Perot and Choate, Shaiken claims that Mexican Ford workers have no right to strike, even though a recent seventeen-day strike at Ford Hermosillo resulted in pay increases of 14 to 16 percent.

Perot and Choate report that Shaiken "found that Mexican workers in one engine plant reached 85 percent of the productivity of their U.S. counterparts within two years." Not true. What he found was that the productivity of a machine did that. This may show that some Mexican workers can handle a fairly complex machine, but it says nothing about how many workers it took to do that, what it cost to train them, or what they were paid (which may have been well above the average). Shaiken claims that productivity is high in a few "capital intensive" plants in Mexico, but by definition such plants involve huge expenses on machinery and very few jobs. Nobody goes to the huge expense of building a capital-intensive plant in another country (and closing down a perfectly good one in the home country) simply because of labor costs, which are often no more than 5 to 15 percent of operating expenses in such operations. Because the machinery in capital-intensive plants is so costly and complex, the *quality* of labor is the deciding factor in location choice (which is why such high-tech operations are often located near U.S. universities).

Above all, the key fault in Shaiken's work, like that of Pat Choate, is that he never bothers to explain how NAFTA would change things. In this case the answer is obvious. The Ford Escort will have a very tough time competing here against the Saturn from Tennessee and Chrysler Neon from Michigan, for reasons that *Consumer Reports* made clear. But NAFTA would help, because it would require that this car be made available to Mexicans for the first time. It could no longer be banned because it has too many U.S. parts to meet Mexico's domestic content rules.

As for auto engines, it is true that Mexico now exports a few more than it imports, but notice how NAFTA changes that. The U.S. currently imposes no tariff at all on Mexican auto engines, whereas Mexico has a 15 percent tariff on U.S. ones. Clearly, the U.S. engine exporters will remain at the current huge price disadvantage in Mexico if NAFTA fails, but that playing field will be leveled if NAFTA succeeds. Someone should explain this to the United Auto Workers.

Myth 4: The Mexican Government Holds Down Wages

Perot and Choate claim that "President Salinas and his government have deliberately kept wages down to attract foreign investment. . . . As a result of . . . el pacto Mexican wages have not kept pace with inflation." ("El Pacto" was a set of toothless wage-price guidelines established after 1987.) They come to that conclusion by comparing the drop in the dollar value of Mexican wages from 1982 to 1988 ("a decade ago") with the rise in Mexican manufacturing productivity from 1988 to 1992. It would be charitable to call

> Canada often uses European fabric to make things such as men's suits. Aside from materials such as silk and linen, Canada will have to use U.S. fabric if the clothes they manufacture are to be duty-free under NAFTA.

this a huge mistake. In reality, Mexican manufacturing wages, in dollars, have risen by 18.5 percent per year since "the Pacto" began in 1988! That far exceeds the 4.9 percent annual gain in productivity. Wages have also risen more rapidly than productivity in real terms, adjusted for Mexican inflation. But it is dollar compensation, not "real" compensation, that matters to any U.S. firm thinking of locating there, because it is unit labor costs in dollars that must be compared with the U.S. That comparison shows that unit labor costs in manufacturing have been flat or falling in the U.S. while rising by more than 13 percent per year in Mexico.

What happened before 1988 is irrelevant because "the Pacto" was not in force before then; because the presence of huge devaluations through 1987 makes conversions into dollars quite meaningless; and because Mexican statistics did not include small firms before 1988 (which is one reason why average wages appeared to fall in that year).

Myth 5: U.S. Investment Abroad Destroys Jobs in the U.S.

Another myth is that any U.S.-based company producing in another country causes a net loss of U.S. jobs. If that were true, Mexico would be the least of our worries. Companies such as Ford and IBM have long produced more in Europe, Japan, and elsewhere than they do here. Consider the following remark by Perot and Choate:

> Tens of thousand of apparel jobs have been moved from the U.S. to Mexico. Today, 129 apparel companies employing more than 30,000 Mexican workers are operating 222 factories in Mexico. . . . Textile jobs will follow the apparel jobs to Mexico [because] NAFTA limits the import of textiles made outside North America.

These sentences may appear to be related to one another, but there is no logical connection. The fact that U.S. apparel companies have some sewing done in Mexico does not mean that the alternative was to preserve U.S. sweatshops, because the latter cannot attract and retain enough U.S. workers at their average pay of $6.94 per hour (and even lower starting pay). A more likely alternative is that entire garments would have been produced in Asia or Eastern Europe, with no North American content at all. Instead, clothing assembled in Mexico of U.S. materials is so competitive that it not only displaces some Asian products from the U.S. and Mexican market, but is even exported to Europe and elsewhere.

NAFTA requires using North American fabric because the U.S. textile lobby knows perfectly well that neither Canada nor Mexico can compete in this field. The Mexican textile industry has been shrinking by 4 to 5 percent per year since 1990 because it produces inferior goods (particularly cotton) at a 25 to 150 percent higher cost than U.S. textile mills (a highly automated industry). Output of Mexican clothing and footwear likewise fell 3.7% in 1991 and another 5% last year. The small amount of Mexican clothing in U.S. stores invariably says "assembled in Mexico of U.S. materials." Canada, on the other hand, often uses European fabric to make things such as men's suits. Aside from materials such as silk and linen, Canada will now have to use U.S. fabric if the clothes they manufacture are to be duty-free.

Myth 6: Millions of Big City Jobs Moved to Mexico

Here is another canard: "Between the 1970 and 1990 census, 19 of the largest American cities lost more than 2.3 million manufacturing jobs. . . . Many of these urban manufacturing jobs have gone to Mexico." If any significant portion of 2.3 million manufacturing jobs moved to Mexico, why are there only 3.1 million manufacturing jobs in that country? And why is manufacturing employment in Mexico falling? What actually happened, of course, is that some northern U.S. cities lost manufacturing jobs to the Sunbelt.

This is obvious in textiles and apparel, as well as autos. Only one of the Japanese transplants set up shop in Michigan, and the Big Three too have been moving elsewhere. (Saturn is made in Tennessee.) Also, millions of low-wage jobs have been "lost" due

> There are strict North American content rules under NAFTA that make it impossible for a country outside North America to gain duty-free access unless its goods have very high North American content.

to labor-saving machinery, which is the same thing that happened earlier on U.S. farms. Improved machinery is what raises output per worker and thus real income per worker.

Myth 7: NAFTA Allows Foreign Companies Duty-Free Access to the U.S.

Perot and Choate worry that "foreign companies operating in Mexico under NAFTA... have unimpeded access to the rich U.S. consumer market.... this will allow Chinese textile and apparel companies to secure an exemption from U.S. quotas and duties." Such claims are extremely misleading—or worse. There are strict North American content rules under NAFTA, particularly for autos and textiles, that make it impossible for a country outside North America to gain duty-free access unless its goods have very high North American content (62.5 percent for autos, 100 percent for fabric).

Mercedes Benz, for example, plans to assemble a few hundred kit cars in Mexico, but those will be for sale in Mexico and Latin America. These cars will have far too many German parts to get around the U.S. 2.5 percent tariff on cars. The Mercedes and BMW plants to be built in South Carolina, on the other hand, will have an incentive to reach a high North American content (as do the Japanese transplants) so that they will be able to export to Mexico and Canada without facing those countries' high import duties.

Mexico has rarely been able to sell as much apparel in the U.S. as past quotas allowed. If an apparel company moved from China to Mexico with the hope of getting around our import quotas, it would have to switch to North American fabric to qualify. The added fabric sales would obviously be a net gain for the U.S., just as moving Japanese television companies to Mexico has greatly increased the demand for U.S. television tubes and parts. And the added employment opportunities in Mexico would increase demand for a wide variety of U.S. goods (including U.S. fashions, which is how young people everywhere waste their first paychecks).

Myth 8: NAFTA Creates a Bureaucracy That Can Overturn Existing Federal and State Laws

Perot and Choate claim that "many existing laws and regulations at all levels of government will be superseded by NAFTA. Equally important, NAFTA gives Mexico and Canada the right to challenge the legality of our federal, state and local laws as illegal trade barriers."

They base the first claim on Article 105, which requires the treaty's "observance, except as otherwise provided in this Agreement, by state and provincial governments." NAFTA critics like to claim that this includes health, safety, and environmental laws and regulations, but that is quite untrue. Such issues are among those "otherwise provided" in the agreement. Specifically, NAFTA does *not* "adopt standards developed by something called the Codex Alimentarius Commission," as Perot and Choate claim, or those of any other international body. Instead, it explicitly permits states to set standards higher than those of any current international rules, and permits them to be challenged at all only if they have no scientific basis whatsoever. Disputes inevitably do arise, and there must be some civilized method of settling them. If NAFTA fails, these disputes will be settled under GATT. When Europe tried to ban exports of U.S. beef on the dubious grounds that cattle had been injected with steroids and antibiotics, for example, the U.S. took the case to GATT—and won.

Unlike NAFTA, GATT *does* require compliance with international standards and with scientific consensus. In other words, it is much easier to get a regulation overturned under GATT than it will be under NAFTA. Perot and Choate complain that GATT ruled that U.S. law was unfairly applied to Mexican tuna fishing, but this has nothing whatsoever to do with NAFTA. If NAFTA fails, Mexico will still be able to appeal to GATT, and it would be *more* likely to prevail in that body than in bilateral negotiations.

NAFTA does not create any lawmaking body, so it cannot "supersede" any laws. The side agreements merely allow each of the three countries to challenge another of the three that may be gaining trade advantages by not enforcing its own laws. Moreover, the

The largest industries depicted as at risk are huge and growing exporters to Mexico—fabricated metal products, machinery, aircraft, etc. Such export industries have no reason to move to Mexico to sell to the U.S.

main point of this process was to appease critics such as Perot and Choate, by ensuring that if Mexico did keep business costs down by not enforcing its tough environmental laws, we could impose fines on them (and although the penalties would ostensibly be levied on the government, any rational government would surely pass the bill on to the offending firms). Only when all else failed for an extended period could "trade sanctions" be invoked. But those sanctions (or fines) are limited to .007 percent of total trade. At the very worst, then, we might end up with the same tariffs we have now, but only temporarily, and only for an industry or two. This is a ludicrous reason for opposing NAFTA.

Myth 9: There Are 5.9 Million Jobs at Risk If NAFTA Passes

When Perot first made his preposterous claim that millions of jobs would be lost if NAFTA passed, everyone who knew anything about NAFTA was totally baffled—until it was revealed that the figure came from Pat Choate. What Choate did was to raise a big fuss over an "AmeriMex Maquiladora Fund," which is one of the many marvelously unsuccessful efforts to get U.S. firms to set up *maquiladoras* in the relatively remote and primitive jungles of Yucatan. Just as every state in the U.S. will try just about anything to entice both foreign and domestic firms to move there, so too with Mexican states. In this case, the pitch was that Yucatan was just the place for U.S. companies for whom labor costs exceed 20 percent of total costs and wages are seven to ten dollars an hour.

Choate did not take this so seriously as to invest there, presumably, nor has Mr. Perot set up shop in Yucatan. Few others took it seriously either: Yucatan has fewer than 2 percent of the *maquiladoras*. But Choate nonetheless added up all the jobs in U.S. industries in which labor costs are more than 20 percent of the total, to come up with the number of jobs that would be lost if half of all U.S. manufacturing up and moved to Yucatan. And Choate didn't even stick to the ten-dollar wage limit but even threw in such unlikely candidates as space vehicles and commercial aircraft. (Boeing isn't about to move to Arkansas looking for unskilled youngsters, much less to Yucatan.) This was a terrific public-relations ploy, because the 5.9 million number was broken down for every state (although, curiously, the state figures don't add up to 5.9 million) and published in hundreds of local U.S. newspapers. The book now reveals that "not all these jobs will be lost," but that little caveat escaped gullible reporters who have treated this as a serious "study."

The Choate monograph "Jobs At Risk," from which this information was taken, consists of two garbled pages and a bunch of numbers. But it never makes the slightest connection with NAFTA. If NAFTA passes, *maquiladoras*, in Yucatan or elsewhere, cease to have any special advantage over firms exporting from the U.S. A firm in St. Louis or Detroit will eventually have the same free-trade deal now granted only to *maquiladoras*. And NAFTA is far more likely to accelerate the already rapid increase in Mexican wages than to cause lower wages, so there will probably be less incentive to move to the Yucatan under NAFTA than without it. As is so often the case, as in Harley Shaiken's paper mentioned earlier, the missing question here is, "What does all this have to do with NAFTA?"

The industries Choate identifies as being at risk are carefully excluded from this book, which only reveals the number of jobs. There is a good reason for that. The largest industries depicted as at risk are huge and growing exporters to Mexico—fabricated metal products, machinery, aircraft, and the like. Such export industries have no reason to move to Mexico to sell to the U.S. By definition, an export industry produces even more than the U.S. buys. These firms have huge capital investments in the U.S. which are quite successful in not only meeting U.S. demand but also in generating surpluses that must be exported to new markets such as Mexico. It is also an interesting embarrassment that autos and parts did not make Choate's list, apparently because labor costs are not as important in that industry as the authors would have us believe. A modern U.S. auto plant can produce a car with only 60 hours of labor.

Moreover, export industries are, by definition, also highly competitive and profitable. They therefore have little luck in pleading for hidden subsidies in the form of tariffs or import quotas. Except for some apparel products, most industries on Choate's list have trivial U.S. tariffs (from 0.1 percent to 3 percent) "protecting" them, though they face steep tariffs on their exports to Mexico (which has been a major reason for building plants in Mexico rather than simply manufacturing in the U.S. and exporting the products to Mexico). For example, more than a million of the "jobs at risk" from NAFTA are said to be in printing and publishing. That's odd. The U.S. has no tariff on printing and publishing, so how could NAFTA possibly change anything there?

Save Your Job is a shoddy piece of work. It objects to obvious improvements on the grounds that they might help the Mexican economy develop. It invents conspiracies among NAFTA supporters, and ignores the protectionist lobbies. It fabricates absurd numbers of jobs at risk, and totally ignores actual and potential job gains in the U.S. export industries. After allowing his name to be put on this trashy fiction, Ross Perot can never again be taken seriously.

Alan Reynolds is Director of Economic Research at Hudson Institute. He was formerly Chief Economist with Polyconomics in New Jersey and Vice President of First National Bank of Chicago.

Mr. Reynolds is a frequent contributor to the Wall Street Journal, Forbes, National Review, *and the* Washington Times. *He has written for numerous other publications, including the* New Republic, Roll Call, Challenge, Fortune, *and the* Harvard Business Review, *as well as professional books from several universities and research institutes and the Federal Reserve Banks of St. Louis and Atlanta.*

Mr. Reynolds has appeared on television programs such as Wall Street Week, Firing Line, and The MacNeil/Lehrer News Hour.

Mr. Reynolds' recently published articles and papers include The IMF's Destructive Recipe of Devaluation and Austerity *(Hudson Institute Executive Briefing, 1992) and "Tax Policy and Budget Deficits: An Alternative Perspective" (Hudson Briefing Paper #153).*

Hudson Institute
Herman Kahn Center
P.O. Box 26-919
Indianapolis, Indiana 46226

THE WHITE HOUSE

WASHINGTON

October 12, 1993

MEMORANDUM FOR SHIRLEY SAGAWA

FROM: ELI J. SEGAL EJ

SUBJECT: Vista

I have now met with enough Vista volunteers and visited enough Vista programs to offer a few preliminary thoughts:

1. Vista offers us our best "post college" models for stipended service; the volunteers do their work conscientiously and seem well trained for the work they do; Vistas in D.C. tutoring, in Philadelphia doing immunization drives, and in Chicago doing community police work are doing valuable work where meaningful results can be demonstrated.

2. Vista creates no sense in the volunteers that they are part of something larger than the non-profit for whom they work; we need to change this through training, continuing interaction with other volunteers and a host of other techniques; we need to put money into this, even, if it means we don't maximize the number of Vista volunteers; we need to make sure that AmeriCorps participants -- who will actually be on the payroll of the non-profits do not start off the same way; we need the non-profits who get our money to understand our "national identity" requirements as well.

3. Before we deal with Vista's "invisibility," we need to clarify its mission; we need to clarify if Vista is a distinguishable part of AmeriCorps, and if so, how is it distinguishable (as opposed to its just being absorbed into AmeriCorps, hopefully with the acquiescence of Tom Harkin et al); unless we can distinguish it, I don't see why we should invest scarce resources in duplicative recruitment drives and training/TA programs.

4. We need to come to grips with the Vista volunteers who are on public assistance; I don't know why so little data exists on the effects of the Vista experience on these volunteers, especially if we talk about the transforming effects of service; we need data here, especially in the context of a) the Administration's (and Oregon's) welfare reform initiative, and b) the $4,725 educational award option.

5. I have communicated some of these thoughts with Gary and Diana London; we need to discuss these major policy matters soon, including somehow factoring in the vision of the yet to be announced Action director.

Unless we drive these -- and related issues -- we will just slide into "business as usual."

EJS:ke

UNITED STATES DEPARTMENT OF EDUCATION

OFFICE OF THE SECRETARY

Maggie/Mark

Paul Jamieson is a star! Low maintenance, high -- very high performance, great self starter! Gets the highest recommendation from me. Don't lose him! Eli

October 13, 1993

Mr. Eli Segal
Office of National Service
The White House
Washington, DC 20009

Dear Eli:

I am writing to ask for your help in securing a position in the Health Care war room. I have enjoyed my job at the Department of Education, and I feel very privileged to have had the opportunity to work on national service, but I feel that it is time to move out of my current position, particularly now that national service is about to move to a different stage.

Gene Sperling has told me that he has been assigned the task of charting the economic effects of the health reform package, and he is trying to assemble a team to research that issue. Gene has also told me that he would like have me as part of that team, but has been unable to get permission to hire new people for this task, partly because of the emphasis on streamling the White House staff. I am aware, however, that there is at least one opening in Communications that, if filled, would not compromise the 25 percent cut pledge. Would you be willing to speak to Maggie Williams and/or Mark Gearan on my behalf for this position? I have enclosed a resume for your information.

Thank you again for taking time to meet with the Department employees. They were very grateful for the opportunity to hear from you, and I think those events do much to bridge the political-career gap that can hinder agency effectiveness. Best of luck with the next eight months. I am sure they will be as challenging as the last eight.

Sincerely,

Paul W. Jamieson

Paul Jamieson

Enclosure

PAUL W. JAMIESON

1812 Wyoming Avenue, N.W.
Apartment 101
Washington, DC 20009
202/986-4402

U.S. Department of Education
400 Maryland Avenue S.W.
Washington, DC 20202
202/708-7862

EXPERIENCE

(1993-present) **U.S. DEPARTMENT OF EDUCATION** Washington, DC
Office of the Secretary
Serve as daily liaison to White House on national service and student aid reform legislation. Manage one of four task forces (25 people) on national service implementation. Brief Secretary, Deputy Secretary, White House Director of National Service and interest groups on legislation and other Department initiatives. Responsible for all public documents for Department's legislation.

(1992-1993) **CLINTON-GORE CAMPAIGN & TRANSITION** Little Rock, AR
Economic Policy Staff, June, 1992-January, 1993
One of three research assistants for Economic Policy Director. Prepared detailed internal analysis of campaign's economic strategy; provided commentary and analysis on economic policy to media. Researched and prepared briefings for President-Elect and Cabinet for economic conference. Researched and recommended sub-cabinet positions.
Domestic Policy Analyst, April-June, 1992
Policy staff for Deputy Communications Director. Co-authored various campaign position papers for publication.
Advance Finance Manager, January-March, 1992
Managed all finances for Scheduling and Advance departments.

(1991) **FRANK JORDAN FOR MAYOR** San Francisco, CA
Policy Analyst, October 1991-January, 1992
Writer and researcher for Press Secretary. Co-authored campaign's position paper on homelessness; oversaw production of direct mail.

SUMMER EMPLOYMENT

(1988-1990) *Summer employment included:* Independent Sector (government relations for nonprofit organization); After School Kids (tutor in alternative-to-incarceration program for D.C. youth); WABC-TV (researcher for political correspondent).

EDUCATION

(1987-1991) **YALE UNIVERSITY** New Haven, CT
B.A., Political Science, with an interdisciplinary concentration in American government. International tour manager for Yale Whiffenpoofs (senior singing group); tutor in New Haven Public School System; Junior Varsity tennis; columnist for The Yale Herald.

(1982-1987) **THE LAWRENCEVILLE SCHOOL** Lawrenceville, NJ
Diploma, with academic distinction.

PERSONAL Travel to twenty-five countries. Working knowledge of French.

THE WHITE HOUSE
WASHINGTON

10/13

Roy

As per our discussion today... The President will be in Seattle on Nov. 19 & 20. While the national story will be the meeting with Asian leaders, a good regional story could be national service. The State of Washington is one of the strongest national service states. We could do event, airport greeting, university appearance.

It would be 2 months between bill signing (~~Nov.~~ September 21) & this [redacted] opportunity.

Please let me know how to proceed.

Eli

Opportunities for President Clinton
to Visit National Service Projects
in Seattle
Associated with His Participation at the
Asia Pacific Economic Cooperation Meeting

Background

The President will be in Seattle on November 19 and 20, 1993, to meet with leaders of the Asia Pacific Economic Cooperation (APEC) organization. The attached newspaper articles from the Seattle Times more fully describe this meeting. Since national service is a major priority of the President, we have proposed examples of innovative project site visits that could be arranged around his APEC commitments.

Potential Project Site Visits

Community Service - Defense Conversion Assistance Program

The State of Washington - Washington Service Corps just received a $2,000,000 two-year grant from the Commission on National and Community Service (CNCS) to develop a series of service projects in Kitsap County, a community that has been severely impacted by Department of Defense (U.S. Navy) reductions at local installations. Most of the project staff, as well as the 45 participants, will be recruited from among individuals who depended upon the Navy for employment.

The first team of participants will start in mid-November. The Navy, local government officials, community organizations, labor and business are strong supporters of this project. The Puget Sound Naval Shipyard and the Bangor Submarine Base are a short scenic helicopter ride (15 minutes) from downtown Seattle. Once at these facilities, the President could greet naval officials and workers and go to a work site and dedicate the project. This formal opening would involve the partners listed above and perhaps be the first of these recently funded projects to begin operations. It would also demonstrate how national service efforts can be developed throughout branches of the Department of Defense.

Housing and Urban Development (HUD) Hope VI
Planning and Community Service Project

The Seattle Housing Authority and the Washington Service Corps applied for and were recipients of a $500,000 planning grant to renovate the Holly Park public housing complex in Seattle. Approximately 900 housing units are located in Holly Park. A team of young adults who reside in this community will be involved in the planning, community outreach, leadership development and technical re-design necessary for the new facility. A key feature of this grant is to empower residents with ownership skills so they are involved in making the critical decisions that impact future community improvements.

This proposal was ranked highest by HUD in their recent Hope VI grant competition. The President could open this service project that will begin in November. In addition, we could help develop a community-wide residential work project on the day of the visit that would involve elementary, high school and college students as well as residents and service team participants. This is another example of how national service projects could be developed in a cabinet agency, in this instance, HUD.

Individual Site Visit(s)

Throughout Seattle, elementary, high school and college students, as well as individuals working on community service projects with the Washington Service Corps, VISTA, and other ACTION-supported programs, are making a positive impact through community service. These projects could be visited or participants brought together for a "town meeting" discussion of service.

Logistic Support

The Washington Service Corps can be counted upon to help support any of the advance needs or requirements that are associated with a visit of this nature. Other programs and organizations could also be approached depending on assignments we would be expected to address.

THE WHITE HOUSE

WASHINGTON

10/4

Jack Quinn

Thought the Vice President would get a kick out of this... I spoke to all Corporation employees on Friday & said that they were "the first department" to get their official reinventing government cards, & then I distributed the enclosed.

We've got contests for best new ideas. Very positive effect on morale from an agency (ACTION) which needs new energy more than most.

Eli

THE WHITE HOUSE

WASHINGTON

I support President Clinton's government reinvention goals:

We will invent a government that puts people first, by

- Cutting unnecessary spending
- Serving its customers
- Empowering its employees
- Helping communities solve their own problems
- Fostering excellence

Here's how: We will

- Create a clear sense of mission
- Steer more, row less
- Delegate authority and responsibility
- Replace regulations with incentives
- Develop budgets based on outcomes
- Inject competition into everything we do
- Search for market, not administrative, solutions
- Measure our success by customer satisfaction

Eli Segal

Eli Segal
Chief Executive Officer
Corporation for National and Community Service

Del Lewis
C & P

THE WHITE HOUSE
WASHINGTON

10/15

Dear Del,

Thanks for your "service" in securing the SERVICE phone # for us. While I'm not sure that by itself it will guarantee the success of national service, it's one good symbolic way of imbuing the Corporation with a daily reminder of our mission.

I think you're moving on to the best job in Washington -- although that shouldn't imply that I'm not very enthusiastic about my new responsibilities.

I'd love to get together with you at your convenience. You should have no trouble remembering my phone #.

Best regards,
Eli

THE WHITE HOUSE

WASHINGTON

October 12, 1993

Ms. Dorothy Stoneman
President
YouthBuild USA
58 Day Street
Somerville, MA 02144

Dear Dorothy:

Thanks for sending me a copy of your letter. I share your dismay with Steve Waldman's piece -- although our office saw it coming months ago. Small comfort.

The bill signing three weeks was moving. With each passing day, I become more convinced that the hard work lies ahead of us, but there is an enormous reservoir of good will for us to tap.

Best regards,

Eli

Eli J. Segal
Assistant to the President and
Director of National Service

EJS:ke

THE WHITE HOUSE

WASHINGTON

October 16, 1993

To: Carol Bellamy

From: Eli J. Segal EJS

Re: Ruth Morgenthau's proposal

I received the attached proposal from Ruth Morgenthau, Professor of Politics at Brandeis, who was a professor of mine at Brandeis many years ago. I wrote back to Ruth explaining that it is an interesting idea that fits more into the Peace Corps' bailiwick than ours, given its focus on international rather than domestic issues.

Ruth is an innovative person and committed to ideas of service. If you want to pursue, I'd be happy to make the introductions.

THE WHITE HOUSE

WASHINGTON

October 16, 1993

Dr. Ruth S. Morgenthau
Department of Politics
Brandeis University
Waltham, MA 02254

Dear Ruth,

After reviewing your proposal, I think it best that I forward it to Carol Bellamy at the Peace Corps. When the President proposed the Corporation for National and Community Service, he intentionally did not include the Peace Corps under the Corporation's umbrella because he wants the Corporation's activities to be focused on domestic issues.

I realize that Susan Stroud has suggested that you be in touch with Tom Edwards, Special Assistant to the Director at the Peace Corps. I will send a letter of introduction to Carol Bellamy with the copy of your proposal.

I wish you all the best with your work at Brandeis.

Best regards,

Eli J. Segal
Assistant to the President and
Director, Office of National Service

EJS:ses

THE WHITE HOUSE

WASHINGTON

October 4, 1993

MEMORANDUM TO DISTRIBUTION

FROM: ELI J. SEGAL

SUBJECT: National Service Start-Up

Thank you for agreeing to be with us next week.

To guide your thinking before we get together. I hope you will take the time to go through the enclosed package of materials. I have elected to include these less flattering portrayals of the service movement largely as a challenge to all of us.

Because our meeting will be most productive if it is not too structured, I am not enclosing a formal agenda. But these are the questions I hope you will think about:

1. Where do we want national service to be in September 1994 (while we expect some participants to begin serving in June, September will be the time when most participants will begin their term)? Can we design a program and move public opinion so that we are actually deemed a success when we send out our first participants? Think about oversubscribed initial public offerings in the corporate world. And though the times are different, think about the Peace Corps.

2. Where do we want to be at the moment of congressional re-authorization in 1996?

3. Can we reach consensus on the area(s) of greatest need between now and September 1994? My personal feeling is that we will do a decent job keeping visible in the months ahead, and there will be excitement on the college campuses about national service which will translate into more young people who will want to serve than we will have the funds (or the capacity) to accommodate. On the other hand, I am really worried about the quality of service which was only reinforced by the mixed experiences of the Summer of Service.

4. If there is a concern about "quality," is there a consensus about the elements which concern us the most? e.g. training participants? training the trainers? training the program applicants? educating the key constituencies (governors, mayors, non-profits, school, labor unions) etc.?

5. How do we create "national identity" in a program as decentralized as AmeriCorps? In my opinion, the most legitimate complaint about VISTA is that it is invisible and/or its recruits identify at least as much with the nonprofit organization as with their federal employer. How do we change that -- especially with existing service entities (e.g. City Year, Teach for America, and Public Allies) which already have their own well deserved identity/reputation? Stated another way, we have been talking about the Corporation for National Service being the investment banker of the movement. Will we really be happy with that role alone?

6. How do we create real partnerships with states, the private sector, existing groups like Points of Light and United Way, and other branches of the federal government so that we can really leverage our existing resources?

7. Under our legislation, we really have three programs: a) stipended service with a post service benefit (AmeriCorps, CCC, and VISTA); b) older Americans service; and c) K-12 and university based service learning. Are these equally important components, and what are the programmatic and message consequences once we agree on the answer?

8. The usual service issues should not be avoided, but hopefully will not bog us down. Race/class/diversity issues; "national priorities" issues; mix of pre, during and post college service; mix of corps and individual placement models, etc.

I know this meeting is an inconvenience. On the other hand, you have devoted so much to the service movement that I do not hesitate to call on you for this. All of us have been given a special gift by the Congress of the United States. With your wisdom and with all of our accumulated experiences. I feel that this session (and perhaps follow-ups if this group is productive) will help lay the groundwork for success.

EJS:ke

Distribution:

Diana Aldridge
Rick Allen
John Briscoe
Ray Chambers
Bill Galston
Jim Joseph
Alan Khazei
Les Lenkowsky
Catherine Milton
Shirley Sagawa
Melanne Verveer
Maggie Williams
Harris Wofford

THE WHITE HOUSE

WASHINGTON

October 16, 1993

MEMORANDUM FOR RICK ALLEN
PETER EDELMAN
GARY KOWALCYZK
CATHERINE MILTON
SHIRLEY SAGAWA

FROM: ELI J. SEGAL EJS

SUBJECT: Enclosed Article

I thought this article from the Journal of Education would be of interest. It is now nine months since I learned of the National Health Service Corps, and I still have not figured out a way in which we can support their efforts. Is this a lack of imagination? Does anyone have any ideas?

EJS:ke

Attachment

FOR AREAS LACKING MEDICAL CARE

Eli - FYI Susan

Clinton Plan Seen Revitalizing 'Anemic' National Health Service Corps

By Stephen Burd

WASHINGTON

PRESIDENT CLINTON'S health-care plan promises to re-invigorate the National Health Service Corps, a 21-year-old program that gives financial assistance to students who promise to work as physicians or other health practitioners in areas with inadequate medical care.

1/3 of our budget

The program, which received $119-million in fiscal year 1993, provides scholarships and loan refunds to those who pledge to work in a federally designated "health professional shortage area" for a particular type of health professional or for a region. The program focuses on primary-care physicians, nurse practitioners, nurse midwives, physician assistants, and dental and mental-health professionals.

SUSAN GREENWOOD FOR THE CHRONICLE

Arthur Fournier, associate dean for community health affairs at the U. of Miami School of Medicine: "The corps seems like the best model."

The President's plan cites the problems that the corps was created to solve, noting that "two of three rural counties today do not have enough doctors and 111 rural counties have no physician at all." The plan calls for a major expansion of the corps, although no dollar figures have been released.

Roger J. Bulger, president of the Association of Academic Health Centers, says the proposal reverses the policies of Mr. Clinton's Republican predecessors, who he says left the corps "anemic." President Reagan pushed to dismantle the corps. President Bush was slightly more supportive and in the second half of his term—with a push from Congress—began the process of rebuilding it.

A TRUE TURNING POINT

But corps officials and academic experts say President Clinton's health-care plan could mark a true turning point. "What we have heard loud and clear is the President's commitment to assuring access to primary care to all members of society," says Rear Adm. Donald L. Weaver, the corps director. "We see our role as very important in the President's overall strategy."

Today, as a result of cuts in the program throughout much of the 1980's, the corps's total field strength is only about 1,600, down from a peak of 3,000. Dr. Weaver says that ultimately the corps needs to field between 5,000 to 10,000 providers to serve adequately the 1,838 counties that the program has identified as underserved. The President is expected to propose financing that would enable the corps to come at least close to that goal.

more than 70,000 re participants

Many physicians and health-care experts say that increasing the reach of the corps is essential. "The President can give everybody a Health Security Card, but you are not going to get treated by having this card. You are only going to get treated if people are available to treat you," says Eli Ginzberg, director of the Eisenhower Center on the Conservation of Human Resources at Columbia University.

And we'll do it in 1 year!

"There are a lot of areas that physicians just don't want to go work in. I don't see any other way of dealing with this but through a beefed-up, properly designed, and properly administered National Health Service Corps," he says.

Arthur Fournier, associate dean for community health affairs at the University of Miami School of Medicine, says, "With medical-student interest in primary care at an all-time low, and indebtedness of students at an all-time high, and the unattractiveness of some of these places to practice, the corps seems like the best model."

Dr. Fournier's own experiences as a corps physician from 1976 to 1978 in Accomack County in Virginia highlight some concerns about the program. Despite enjoying his experience in the rural region, Dr. Fournier left the area after he completed his period of service because, he says, his wife was unhappy there.

RETENTION RATES STUDIED

Throughout its history, a key goal of the corps has been to encourage health professionals to stay in their service areas after they have met their obligations. "We are proud of placing over 17,000 professionals for part or all of their careers," says Dr. Weaver. "We do want people to stay for longer periods of time."

Donald E. Pathman, an assistant professor of family medicine at the University of North Carolina at Chapel Hill, published a study in 1992 that showed the retention rates of corps physicians who began their service during a period between 1979 and 1981. Dr. Pathman found that little more than 20 per cent of the corps physicians stayed three years after their service obligation ended, and only about 12 per cent were still there five years later.

"My wish is that the corps had learned in its 20 years not simply how to place people in needy areas, but also how to better match them with communities where they could both be happy and have a greater likelihood of remaining long-term," he says.

"Expanding the corps without addressing needed changes will be an inefficient use of our primary-care resources."

Dr. Pathman and other critics say the corps has been more interested in placing medical-school graduates in the neediest communities than in trying to discover whether the people would make a good match with their communities. They say that the participants are often ill prepared, isolated, and over-worked. They also say that the corps has done little to help the families of corps members.

The corps is trying to remedy those complaints, Dr. Weaver says. It is working more closely with the communities to prepare them for their new health-care providers, and keeping in closer contact with the providers while they are serving. He also says the corps has been working with the communities to gain employment for providers' spouses.

sound familiar?

EFFORTS BY COMMUNITIES

The question of retention, he adds, should not focus just on whether a person stays in a certain area. The program, he says, should be judged on whether the provider has moved from one underserved community to another, has continued in the field of primary care, or has remained in public service.

Still, some communities and states—tired of seeing corps doctors come and go—have started their own efforts to attract medical practitioners. Richard D. Krugman, dean of the school of medicine at the University of Colorado Health Sciences Center in Denver, says communities should try to entice local medical and nursing students to remain and serve there.

Burlington, Colo., for example, has financed the medical education of two students from the town who will be expected to serve in the town. "Someone from their own community is much more likely to stay than someone from New York," says Dr. Krugman.

Idaho has started a similar program, offering nine local medical-school graduates $20,000 a year in loan repayments for a minimum of two years of service.

CONFRONTING A CRISIS

Others say that it is not enough to duplicate the corps. Instead, they say it must be expanded to include all medical students. Michael M. E. Johns, dean of the medical school at the Johns Hopkins University, says the government should require service from all medical students in exchange for government financing of all or part of their medical educations.

"We have a history of drafting people during crises," says Dr. Johns. "Then why not now, when we're in a health-care crisis?"

Dr. Johns says the current system shifts the responsibility for service in the corps to low-income students. "Rich students have no need to give public service," he says. "I think everybody should have the opportunity to provide service to the country."

Dr. Weaver, however, says the corps was not created to deal with medical-school costs. "We are not a financial-aid program," he says. He acknowledges that it has been "frustrating" that the corps has not been able to meet the demand for medical professionals. But he adds: "We have been out there in places that people have not been. We've always been a program that sees the glass as half full, and we are now looking forward to filling it up even further." ■

THE WHITE HOUSE

WASHINGTON

October 18, 1993

VIA FACSIMILE
202-456-7029

MEMORANDUM FOR MARI ANDERSON

FROM: KAREN D. EWING KDE

SUBJECT: Outgoing National Service Staffers

The following individuals are leaving the White House complex to join the Corporation for National Service at 1100 Vermont Avenue effective October 19. They have been informed to surrender their hard pass to room 23 before leaving on Tuesday.

Diana Aldridge
Chris Gallagher
David Henkel
Jim Kreidler
Nancy Rubin
Shirley Sagawa
Jina Sanone
Susan Stroud
Sarah Whitman

It is my understanding that Eli J. Segal and C. Richard Allen will change from a **W** to an **OGA**.

If you have any questions or comments, please call me (x6444). Thanks for your help.

Chris Cohen

THE WHITE HOUSE
WASHINGTON

10/17

Dear Chris,

Thanks for your letter and those fabulous photos.

I actually visited the law school in May + gave the commencement address. As I said to Tom Kasper, the ultimate triumph of mediocrity!.

I was in Chicago the other day. Gave a speech, met with Trib editorial board + met Matt Rodriguez, the police chief. Next time, I'll give you a call.

Regards,
Bill

10/17

Shirley / Dick

Here's where I think we're at on payroll ~~[illegible]~~ by no later than Nov. 1

Team	# of Employees	Payroll with extras (annualized)
Action	400 (**)	$21 million
Community Service	35	1.5 "
CCC	5	.4 "
Central Office (excluding ACTION)	25	1.0 "
	465	$24 "

** Grade	# of Employees	Salary Range
SES	8	$92.9 + up
GS 15	20	66.1 – 86.6
GS 14	27	59.2 – 73.6
GS 13	80	47.9 – 62.2
	135	
GS 3-12	265	Average of 40 (including benefits)
	400	

We need to continue to work on this.

1. Where do we stand on interim hiring authority?
2. What are key open issues on personnel culture?
3. What is process by which hires are made? I know what we're doing with ONS, but I don't know what Catherine, Don Scott & Gary are doing.
4. Do we have a final organization chart showing agreed upon openings at every level (from head of Vista down to clerk typists).
5. Do we have agreed on set of priorities? e.g. are we set with lawyers? I'm focusing on public liaison, but what else is vital?
6. Do we know how we're integrating consultants? I

know there are legal & policy issues here -- e.g. competitive bidding, distinctions between "temps" & senior consultants, etc.

(7) Do we know how we'll deal with early retirement issues, particularly with respect to some of the 105 senior ACTION people? How handle regional offices?

Could we get together -- just the three of us & maybe Phyllis & Nancy (from OPM) -- by no later than Thursday to see where we stand? Don't hesitate to call Nathalie Birch to schedule me.

E.J.

THE WHITE HOUSE

WASHINGTON

October 19, 1993

Mr. William E. Holland, Esq.
Secretary of the Committee of
Selection for New York
Chadbourne & Parke
30 Rockefeller Plaza
New York, NY 10112

Dear Mr. Holland:

From January to August 1993 Robert Gordon worked as a Policy Analyst in the Office of National Service at the White House, having previously worked in the Clinton/Gore campaign on the Little Rock communications/policy staff and in the transition office.

As Assistant to the President and Director of the Office of National Service, and previously as Chief of Staff of the Clinton/Gore campaign and Chief Financial Officer of the transition, I am familiar with Robert's work in each of these endeavors.

Robert's work over the past year has been truly outstanding, and getting to know Robert well has been a pleasure. He played a critical role in a short, intense and successful campaign leading to the enactment of President Clinton's national service initiative. He worked extensively on policy development, drafting of legislative materials, presidential speechwriting, op-ed writing, and other communications projects.

Robert brought to the task enormous intelligence balanced with maturity of judgment that is a treasure at any age. Moreover, he balanced an openness to intellectual debate and a fixed focus on principled objectives. Robert was a constant voice of the need to remain true to core principles, without which there could be no success. At the same time he helped fashion compromises necessary to resolve many intellectually and politically difficult issues.

At various points, his pure view of the best outcome would conflict with his own best assessment of the realistic options available. It is both a strength and a weakness that Robert does not surrender easily on matters of principle. By revisiting issues as long as there was any possibility that he could improve the outcome, Robert ran the risk of appearing either stubborn or unrealistic, particularly given his age. Even if at times this approach led to frustrating discussions at which already decided issues might be reopened, because of the obvious honesty and integrity of his efforts, Robert's views were never treated lightly, and on many occasions had a direct impact on policy decisions.

Robert worked tirelessly, for months without a break, often through nights and weekends. After countless meetings, after which loose ends far outnumbered resolved issues, Robert could be relied on, often at his own initiative, to put pen to paper so that the next day documents would be ready for more progress to be made.

By performing superlatively in a role more commonly performed by someone with far more experience, Robert earned the respect, and the right, to become a full player in both internal and congressional policy discussions. It is a testament to Robert's ability and his unassuming manner that several congressional committees and numerous White House offices became comfortable relying on Robert as a seasoned professional after only months in Washington.

Robert is a superb and fast writer. He is able to express complicated policy ideas -- orally and in writing -- in a way that makes subtle distinctions easy to understand and balance.

I would strongly recommend Robert for a Rhodes scholarship. Robert has demonstrated potential for leadership which would be greatly enhanced by advancing his studies. My only regret would be that the extra years of education would make him unavailable for further public service for a number of years.

Sincerely,

Eli J. Segal
Assistant to the President and
Director of the Office of National
Service

EJS:ke

~~CONFIDENTIAL~~ ~~CONFIDENTIAL~~

LETTER OF RECOMMENDATION FROM SECOND REFEREE:

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NAME/TITLE Eli J. Segal, Assistant to the President INSTITUTION The White House

DATE October 18, 1993 SIGNATURE Eli J. Segal

This letter with five copies should be forwarded **direct** *to the Regional Centre mentioned overleaf.*

DETERMINED TO BE AN
ADMINISTRATIVE MARKING
INITIALS: YB DATE: 4/6/16

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