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The Congress Daily
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TAXES

Rostenkowski Favors Equipment Expensing Over ITC ...

House Ways and Means Chairman Rostenkowski today said he would favor replacing President Clinton's controversial temporary investment tax credit proposal with a measure to expense equipment. "I would be inclined to look at [expensing] much more favorably," Rostenkowski told the Association of Manufacturing Technology. And he said he already has warned Clinton about mounting pressure in Congress and in the business community to strip the ITC out of the tax package. However, he said he would "swallow hard" if Clinton insisted on retaining the ITC provision. "I do have doubts [about the ITC, but] I will not stand in [Clinton's] way," he said. While contending Clinton "feels strongly" about enacting the ITC, Rostenkowski indicated the president "gave me every indication he is not in cement" on the package as a whole.

Rostenkowski said during the breakfast speech that he expected Ways and Means Democrats to tell Clinton at a White House meeting today that the ITC is in trouble. After the White House meeting, Rostenkowski said, "[The] most productive [thing about the meeting] is that the president heard what my membership is thinking. We're not in total disagreement with what the president's package consists of, but I don't know that we're in total [agreement] either." He acknowledged, "I doubt very much whether there'll be major changes."

Rep. Peter Hoagland, D-Neb., said Clinton and Treasury Secretary Bentsen "showed some flexibility" during the White House meeting when the Democrats recommended alternatives to his proposed investment tax credit. "There was extensive discussion about [increased new equipment] expensing [as an alternative]," said Hoagland. Added another Democrat, "All members seemed to have problems with the ITC." Sources said Clinton also seemed receptive to removing the provision regarding the treatment of foreign royalties. However, they said Clinton indicated there was a problem -- relating to a campaign promise -- with dropping a provision to cut back the deferral for certain controlled foreign corporations.

Some oil state members also expressed concern about the Btu tax proposal's collection points, sources said. Sources also said Clinton was most concerned with retaining the earned income tax credit provision.

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... As Gramm Alternative Indexes Capital Gains Taxes

An economic stimulus plan being circulated by Sen. Phil Gramm, R-Texas, as a budget-neutral alternative to President Clinton's failed jobs bill includes three "job creation incentives" -- expanding individual retirement accounts, indexing capital gains and a passive loss tax break for real estate rental activities. An outline of Gramm's proposal, obtained by CongressDaily, includes an expanded individual retirement account plan authored by Sen. William Roth, R-Del., in which the tax break is back loaded at the time money is withdrawn, not front-loaded at the time of investment -- as it was before the IRA law was changed in 1986. That would cut the deficit by $6.3 billion over five years, according to Gramm's outline. And, according to Fiscal Associates -- a private firm cited by Gramm -- it would create 61,000 jobs.

Gramm also calls for indexing capital gains taxes for investments acquired after April 15, 1993, so taxes would only be paid on an inflation-adjusted basis. That would add $4.6 billion to the deficit over five years and create 500,000 jobs, according to Fiscal Associates. Gramm's passive loss proposal, which would allow taxpayers substantially involved in real estate rental activities to deduct net losses, would add $2.1 billion to the deficit over five years. Gramm claims the three jobs incentives together would add only $400 million to the deficit over five years.

Under "job preservation incentives," Gramm calls for dropping Clinton's proposed energy tax and the earned income tax credit. He claims that move would increase the deficit by $45 billion over five years due to lost revenues and -- according to the National Association of Manufacturers -- save 610,000 jobs. Gramm offsets that revenue loss with a three-year freeze in non-defense discretionary budget authority, which he claims will save $46 billion. Gramm contends the total plan would cut the deficit by $600 million and save or create nearly 1.2 million jobs. Gramm said today he and about a dozen other Republicans are still working on the proposal and that "early next week we'll begin to talk about it publicly."

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EDUCATION

Clinton Loan Plan Would Eliminate Banks' Role By FY97

All banks would be eliminated from the federal student loan program by the end of FY97 under a direct loan plan the Clinton administration will unveil Friday, according to sources. The plan, an outline of which was obtained by CongressDaily, calls for a phased-in direct loan program starting in FY94. Congressional leaders are expected to use the Clinton plan as a base for coming up with $4.26 billion in savings they are required to find in the loan program as the FY94 budget resolution.

The plan calls for the federal government to provide colleges with loan funds and an administrative fee of about $10 per loan. Students at colleges unwilling or without the administrative capability to make loans could obtain loans through a loan originator designated by the government. The loan program would provide students with a variety of repayment options, including one that would be based on a borrower's income once he or she leaves school. The proposal also would require the Treasury and Education departments to study the possibility of collecting student loans through income tax withholding.

The plan establishes safeguards that would ensure student access to loans while the new program is phased in. For example, it would require Sallie Mae and guaranty agencies to make loans when students cannot find private banks to them. The plan also would require Sallie Mae, Treasury and Education to study the feasibility of converting Sallie Mae from a government-sponsored enterprise to a private company. Congressional Republicans, who have opposed converting the current program to a direct loan program are expected to fight the administration proposal and at least one Democrat, Rep. Bart Gordon of Tennessee is developing an alternative way to find the required savings in the student loan program.

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TRADE

Ways And Means Panel Passes Clean Fast Track Bill

The House Ways and Means Trade Subcommittee today approved a series of trade initiatives to be included in budget reconciliation legislation, and lobbying by the administration resulted in a clean fast track extension for the Uruguay Round of GATT. Several committee members, both Democratic and Republican, refrained from offering amendments to the bill after President Clinton and senior administration officials promised to take care of their individual concerns.

Rep. Philip Crane, R-Ill., said he had wanted to offer an amendment that would have extended the negotiating authority to cover trade talks with Chile. However, he said Deputy U.S. Trade Representative Rufus Yerxa "successfully convinced me not to offer it." At the markup, Yerxa promised Crane the administration "recognized the importance of many other bilateral negotiations [and that after the extension for the Uruguay Round] we're prepared to work with Congress on a broader bill." However, he said it was critically important now to extend the authority for the Uruguay Round.

Rep. L.F. Payne, D-Va., refrained from offering an amendment to aid the textile industry after receiving assurances in a letter from President Clinton that industry concerns would be addressed. Rep. William Thomas, R-Calif., received a letter from Trade Representative Kantor making promises on agricultural and trade discrimination issues, and he also said he would withhold his amendments.

However, the problems are expected to surface when the Senate considers fast track legislation, according to sources -- who say there is a danger of the bill being loaded down with other trade measures. Senate Finance Trade Subcommittee Chairman Max Baucus, D-Mont., has said he will offer Super 301 as an amendment. The trade subcommittee approved the fast track legislation in two forms -- independently and as part of a broader package. Such a strategy was intended to "give the committee flexibility on how it wishes to proceed on the Uruguay Round," said Trade Subcommittee Chairman Sam Gibbons, D-Fla.

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BANKING

House Panel Cuts RTC To $18.3 Billion

In a compromise sources said was endorsed by Treasury Department officials, the House Financial Institutions Supervision Subcommittee today by voice vote cut the Clinton administration's Resolution Trust Corp. funding request from $25 billion to $18.3 billion. Sources predicted the committee would also adopt an amendment cutting the Savings Association Insurance Fund (SAIF) request from $17 billion to about $12 billion, shrinking the overall RTC-SAIF package from $42 billion to less than $30 billion.

Under an amendment offered by Rep. Herbert Klein, D-N.J., the $18.3 billion for the RTC is money left over from a previous appropriation. In 1991, Congress approved $25 billion for the RTC but ordered that no funds could be spent after April 1992. The RTC spent $6.7 billion, leaving $18.3 billion unspent. Last year, the House rejected a similar proposal to free up the $18.3 billion.

The panel was expected to work late into the afternoon, and perhaps beyond, because of more than two dozen amendments awaiting the panel's consideration. Rep. Bill McCollum, R-Fla., argued that, because cost estimates to clean up the savings and loan industry varied so wildly, the markup should be postponed. The panel rejected a McCollum amendment that would authorize a supervisory goodwill buyback program designed to keep 18 savings and loans from closing. The amendment was defeated by 23-7 -- with six Republicans, including Banking ranking member Jim Leach, R-Iowa, voting against McCollum.

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TRADE

Rosty: Negotiate With China, Don't Bash It

House Ways and Means Chairman Rostenkowski today offered some muted criticism of legislators pursuing comprehensive efforts to condition the extension of China's most favored nation trading status on improvements in the areas of human rights, trade and weapons proliferation. "We've got our heads in the sand unless we realize that our goals [for improvements in China] are becoming much smaller," he said in a speech to the Association for Manufacturing Technology. Rostenkowski said China has a "hunger for democracy."

Rostenkowski was referring to bills introduced last week by Senate Majority Leader Mitchell and Rep. Nancy Pelosi, D-Calif., which outline a broad list of conditions China would have to meet to continue its preferential treatment under the MFN program beyond June 1994. Both houses passed a MFN conditions bill last year, but the Senate narrowly failed to override a veto by President Bush. Rostenkowski today said some improvements have become evident since that time, suggesting it might be counterproductive to hit China with new directives.

"It would be a mistake to close the market on political grounds," he said, saying China is a "fertile [trading] ground." He said continued improvements might be better achieved through negotiations with the Chinese, adding that he has recommended such an approach to the Clinton administration. Members of the association stressed to Rostenkowski that China is a "good market for [U.S.] machine tool builders."

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SENATE RACES

Panel To Hold Oral Argument On Packwood Issue

The Senate Rules Committee today took the unprecedented step of scheduling an oral argument -- possibly May 10 -- to consider a challenge to last year's election of Sen. Bob Packwood, R-Ore. The decision sets the stage for what committee members said would be the first such hearing regarding the Senate's right to remove a member from the body because of allegations that a candidate's misconduct changed the outcome of an election. In a motion adopted without objection, Rule Committee ranking member Ted Stevens, R-Alaska, defined the questions to be addressed at the hearing fairly narrowly. According to the Stevens motion, the issue at the hearing will be whether the Senate actually has the power to remove a member under the Constitution if it were proven this member "misrepresented personal, historical facts that changed the result of an election."

The petitioners in the matter -- a group of Oregon voters -- maintain that Packwood prevented information, notably allegations of sexual misconduct, from being publicized. This action, in turn, constitutes "electoral misconduct" that was "calculated to skew the outcome of the election," according to an attorney for the petitioners. The Stevens motion also noted that the hearing will address whether threshold tests should be established if, in fact, the Senate decides that it could entertain electoral challenges based on certain misconduct that alters an election's outcome. After the hearing, the committee could decide not to press the matter, launch an investigation or refer the question to the full Senate for action.

The hearing promises to raise what is sure to be a controversial issue: to what degree are legislators accountable for actions during a campaign that stop short of illegality but involve hard-nosed tactics not uncommon in campaigns. As Katherine Meyer, an attorney for the petitioners, put it, "It's a question of conduct." Packwood has maintained his election is not subject to challenge because it was properly certified by the state. Said Packwood attorney James Fitzpatrick, "What [the petitioners] are saying is the Senate should go into the business of determining whether a candidate's statements are true or false ... [That would] turn virtually every election into in an autopsy on campaign statements. I don't think that's constitutionally permissible."

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HILL BRIEFS

In a test vote expected to reflect the final outcome later, the House voted 247-168 this afternoon to approve an enhanced rescission bill sponsored by Reps. John Spratt, D-S.C., and Charles Stenholm, D-Texas. The vote in favor of the Spratt-Stenholm bill took place while the House was in the committee of the whole House and the tally was expected to be similar to a final vote on the House floor.

The gross domestic product, the sum of all goods and services produced in the United States, grew at a seasonally adjusted annual rate of 1.8 percent in the first quarter of the year, the Commerce Department reported today.

President Clinton's overall favorable image rating was 60 percent or better in every region of the country -- except in the Mountain states and the South Central region, which gave him 59 percent and 53 percent favorable ratings respectively, a new poll released today shows. The survey of 1,000 registered voters by GOP pollster Ed Goeas and Democratic pollster Celinda Lake also showed Clinton with an overall favorable rating of 56 percent, with a breakdown of 80 percent approval by Democrats, 33 percent by Republicans and 45 percent "among the ticket-splitters." While 56 percent said they still believe the nation is on the wrong track, 70 percent approve of the president's efforts to reform the nation's healthcare system, the poll said. The survey, conducted April 21-22, has an error margin of 3.1 percent.

The House will debate the national competitiveness bill on May 5 or May 6, probably under an open rule, a spokesman for Speaker Foley said today. The House Science and Technology Committee Wednesday approved the $1.54 billion bill after adopting an amendment by Rep. Tim Valentine, D-N.C., that scaled back funding by about $500 million in FY94 and FY95 in order to be consistent with President Clinton's spending plan.

Clarification: In Wednesday's CongressDaily, it was reported that Rep. John Conyers, D-Mich., "suggested that Attorney General Reno should have offered her resignation" following the deaths in last week's siege against the Branch Davidian cult. Conyers' exact quote to Reno was, "You did the right thing in offering to resign." A spokesman said Conyers was commending Reno for offering her resignation, therefore taking accountability for the government's actions. Conyers was not suggesting that Reno resign, the spokesman said.

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THE FINAL WORD

"You couldn't pipe in C-SPAN -- the Senate side?"

-- Rep. Barney Frank, D-Mass., at a House Judiciary Committee hearing Wednesday into the Branch Davidian standoff, after Attorney General Reno said authorities wanted to find some substance they could pipe into the compound to put everyone to sleep for several hours so agents could raid it.

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April 30, 1993

OUTLINE OF LEGISLATION

NATIONAL SERVICE INITIATIVE

President Clinton's national service program will expand educational opportunity, reward individual responsibility, and build the American community by bringing citizens together to tackle common problems. The President's support for service extends from the youngest elementary students to our oldest citizens, and includes everything from part-time volunteer activities to full-time public service jobs.

The centerpiece of the President's initiative to support service is a new program to offer education awards to Americans who make a substantial commitment to service. In addition to this program, which builds on the youth corps and demonstration programs of the National and Community Service Act of 1990, the National Service Trust Act includes:

o Extension and improvement of programs in the National and Community Service Act of 1990 that enhance elementary and secondary education through community service in schools, support after-school and summer programs for school-age youth, and fund service programs on college campuses.

o Support for the Points of Light Foundation, to support volunteerism.

o Extension and improvement of VISTA and the Older American Volunteer Programs authorized by the Domestic Volunteer Service Act.

o Creation of a new Investment Fund for Quality and Innovation to support model service programs and activities designed to ensure the development of high quality national service programs.

Focus of Service

o National service must address unmet educational, environmental, human, or public safety needs. National priorities may be established within these areas.

o National service must improve the life of the participants, through citizenship education and training.
o Participants may not displace or duplicate the functions of existing workers.
Corporation for National Service

Structure
o The national service program will be administered by a new government Corporation for National Service, created by combining two existing independent federal agencies, the Commission on National and Community Service and ACTION.
o The corporation will be responsible for administering all programs authorized under the National and Community Service Act and Domestic Volunteer Service Act, including VISTA and the Older American Volunteer Programs. The Corporation will also fund training and technical assistance, service clearinghouses and other activities.
o The investment division of the corporation will administer the new trust program and programs currently administered by the Commission on National and Community Service.
o The operating division will administer programs currently run by the ACTION agency, including VISTA and the Older American Volunteer Programs.
o Flexible and quality-driven personnel policies will include pay-for-performance and a 5-year limit on most tenures.
o The Corporation may solicit and accept private funds.
Governance
o The corporation will have an eleven-member volunteer Board of Directors appointed by the President and confirmed by the Senate. It will be bipartisan and include persons experienced in national service and experts in providing educational, environmental, human need, or public safety service.
o The first Board members will be appointed primarily from the Board of Directors of the Commission on National and Community Service. Seven Cabinet secretaries will serve as non-voting ex-offio members.

o The Board will develop the corporation's strategic plan, approve grant decisions, review other policy and personnel decisions, receive and act on reports from the Inspector General, supervise evaluations, and advise the Corporation on all issues.
o A Chairperson of the Board and a Managing Director for each division will full-time employees appointed by the President and confirmed by the Senate.
Oversight
o An Inspector General will oversee programs to guard against fraud and abuse.
o Programs must arrange for independent audits and evaluations, and may also be required to participate in national or state evaluations.
State Commissions

Structure
o In order to receive a grant, each state must establish a

commission on national service. The corporation will provide funding for the state commission.

o Commissions will have members appointed by the governors on a bipartisan basis from among the following: youth, educators, representatives of youth sorps, older American volunteer programs, and other nonprofit service providers, labor, business, and experts in meeting particular unmet needs. No more than 25 percent of voting members may be state officials, although additional state agency representatives may sit on the commissions as non-voting ex-officio members. Commissions will elect their own chair.

o A representative of the corporation will sit on each commission as a voting member and act as liaison between the commission and the corporation.

Duties

o State commissions will be responsible for selecting programs to be funded under the state formula allocation, and in any competitive grant states may request.

o State commissions must also design strategic plans for service in the states, recruit participants, and disseminate information about service opportunities.

o State commissions may also support clearinghouses, training and technical assistance, and other initiatives to support service. They may not operate national service programs, but may use a portion of funds to support programs run by state agencies.

Transition

o For a period of one year, existing state agencies may assume the responsibility of state commissions.

o The Corporation may approve an alternative agency in place of a commission at a state's request, if the agency ensures diverse participation in policy making.

Allocation of Funds

o States submitting plans approved by the Corporation will receive on-third of funds according to a population-based formula and one-third on a competitive basis.

o One-third of funds will be allocated directly by the corporation. Programs eligible for priority consideration include federal programs, national nonprofit organizations operating multiple programs or competitive grant programs, national service initiative in more than one state and meeting priority needs, proposals to replicate successful programs in more than one state, professorial corps, and innovative national service programs.

Programs

Goals

o Programs must set measurable goals regarding the impact of the service on the community and on participants.

Eligibility

o Programs eligible for national service designation include diverse community corps, youth corps, specialized service programs focusing on a specific community need, individual placement programs, campus-base service programs, programs that train and place service-learning coordinators in schools or team leaders in corps programs, intergenerational programs, national service entrepreneurship programs, and professional corps.

o Programs may be run by non-profit organizations, institution of higher education, local governments, school districts, states, or federal agencies.

o Programs may not provide direct benefits to for-profit businesses, labor unions, or partisan political organizations, or involve participants in religious activities.

Selection

o Selection criteria include quality (based on criteria developed in consultation with experts in the field), innovation, sustainability, and replicability of programs.

o Past experience and management skills of program leadership, involvement of participants in leadership roles, and the extent to which the program builds on existing programs will also be taken into account.

o Programs serving and recruiting participants from communities of need, including those designated as enterprise zones, community redevelopment areas, areas with high poverty rates, environmentally distress areas, and communities adversely affected by decreased defense spending will also receive special consideration.

Funding

o All participants will receive educational awards.

o To develop programs, one-year planning grants will be available. To support national service participants, three-year renewable grants will be available for program demonstration, expansion, or replication.

o Administrative costs will be limited to five percent of all grants other than planning grants.

o Programs must pay 15 percent of the stipend and health care benefits in cash and 25 percent of other program costs receiving federal support. The 25 percent match my be in cash or in kind from any source other than programs funded under the National and Community Service or Domestic Volunteer Service Acts.

o Federal funds must supplement, not supplant, state and local dollars.

Participants

Eligibility

o Individuals may serve before, during, or after post-secondary education.

o In general, participants may be age 17 or older. Youth corps participants may be age 16 or older.

o Participants must be high school graduates or agree to achieve the GED prior to receiving educational awards.

Selection

o Participants will be recruited and selected on a nondiscriminatory basis without regard to political affiliation by local programs designated by states or the federal government.

o A national or state recruitment system will help interested individuals locate placements in local programs. Information

about available positions will be widely disseminate through high schools, colleges and other placement offices. A special leadership corps may be recruited, trained, and placed to assist in the development of new national service programs.

Term of Service

- To earn an educational award, a participant must take part in one year of full-time or two years of part-time service in a program designated by a state or the federal government. An individual may serve up to two terms and earn up to two educational awards.

Educational Awards

- Educational awards of $5,000 will be provided for a term of service. Educational awards may be used to repay loans for higher education or to pay for higher education or training.
- Educational awards will be federally funded and deposited into a national service trust on behalf of all participant accepted into the program. Organizations and individual may donate funds to support national service participants in the donor's community.
- Payments will be made directly to qualified post-secondary educational institutions including two- and four-year colleges, training programs, and graduate or professional programs.
- In the case of participants with outstanding loan obligations for qualified educational activities, awards will be paid directly to lenders.
- Awards will not be taxable and must be used within five years of receipt.

Stipends

- Programs will set stipends within program guidelines. However, federal support will be limited to a match of 85 percent of an annual stipend equivalent to benefits received by VISTA volunteers. Programs may provide additional stipends up to twice this amount, with no federal match for the portion of the stipend in excess of the VISTA benefit.
- In the limited case of designated professional corps in areas of great need, such as teaching and public safety in underserved areas, participants may be paid a salary in excess of the guidelines and receive an educational award. However, no federal support will be available for a stipend.

Health and Child Care

- All participants without access to health insurance will receive health coverage. Federal dollars will pay up to 85 percent of the cost of these benefits.
- Participants may receive child care assistance, if needed.

SERVE AMERICA

The proposal extends and expands the existing Serve-America program for school-age youth and Higher Education Innovative Projects for Community Service. Modifications to these programs are described below.

Service-

Learning Program

Program Goals

o To build a foundation for service among the nation's youth, inspiring them to serve and instilling in them the values and attitude to serve effectively after graduation.

o To create opportunities for all American children to serve our country.

Types of Programs

o Programs may be partnerships of local education agencies an community-based organizations.

o Local educational agencies may receive planning grants to hire service-learning coordinators.

Types of Funding

o School-based programs will be eligible for funding through state educational agencies, partly based on formula and partly through competition.

o State educational agencies must develop state plans that indicate programs to be funded and detail 3-year strategies for service-learning in theirs states. The Corporation must approve state plans.

o Programs may receive one-year planning grants for school-based programs. Subgranting to experienced institutions for school-based programs will also be allowed.

o All local programs will be required to provide at least 10 percent of total program costs in the first year of funding, increasing to 50 percent in the fourth. Local programs may utilize other federal education funds to meet the match requirement.

Training and Technical Assistance

o Clearinghouses will be expanded to further enable them to disseminate information and curriculum materials; train teachers, service sponsors and participants; and provide needs assessments or technical assistance.

o States will also receive additional resources to train and educate state educational personnel.

Community-

based Program for School-

Age Youth

o Community-based organizations working with school-age youth may receive grants from the State Commission for programs to involve such youth in community service.

o National non-profit organizations may apply to the Corporation to make subgrants or run multi-state community-service programs for this population.

Higher Education Innovative Projects

o Higher Education institutions, consortia of such institutions, or partnerships of higher education institutions and non-profit institutions may receive grants from the Corporation for student community-service programs or programs to train teachers in service-learning methods.

o Funds may supplement College Work-Study funds being used for community service placements.

EXTENSION OF THE DOMESTIC VOLUNTEER SERVICE ACT OF 1973

The proposal extends and expands VISTA and Older American Volunteer Programs authorized by the Domestic Volunteer Service Act. Following a transition period, these programs will be administered by the Corporation for National Service.

VISTA

o Extends authority for the VISTA program and increases number of VISTA volunteers.

o Authorizes new VISTA Summer Associate program.

o Authorizes a University Year for VISTA program to encourage student volunteer efforts addressing the needs of low-income communities.

o Removes restrictions limiting the flexibility to manage VISTA, while reaffirming commitment to recruiting a diverse group of VISTA volunteers including young and older adults.

o Increases post-service stipends by $30 for each month of service. Such stipends are not available if VISTA volunteer accepts an educational award under the national service trust.

o Continues support for VISTA Literacy Corps.

Special Volunteer Programs

o Provides broadened authority under the Special Volunteer Programs to supporting demonstrations and innovations, provide technical assistance, and promote other entrepreneurial activities. Eliminates specific authority for student community service and drug programs, which are covered under the broadened demonstration authority and under the National and Community Service Act.

Older American Volunteer Programs

o Renames the Older American Volunteer Programs as National Senior Volunteer Corps and the Retire Senior Volunteer Program as the Retired and Senior Volunteer Program (RSVP)

o Lowers eligibility age for participation in the RSVP program to 55.

o Clarifies the Foster Grandparents may work with children with special and exceptional needs in Head Start programs, schools, and day care centers.

o Provides for a new demonstration authority to enrich and strengthen older American volunteer programs across the country.

o Eliminates restrictions that limit the flexibility to administer the program.

o Increases the stipend for low-income Foster Grandparents and Senior Companion once over the next five years to account for

inflation.
Administration

o Encourages relationships between ACTION and other federal agencies where ACTION volunteers might help further the purposes of other Federal programs.
o Authorizes a Center for Research and Training on Volunteerism to strengthen volunteer programs across the country.
o Provides a technical amendment to restore the crediting of VISTA service for federal pensions.
o Provides a copyright for the programs authorized under the Act.

HORIZONTAL_PITCH 8
PRINTER FONT 14_POINT_COURIER
STUDENT LOAN REFORM ACT OF 1993

HORIZONTAL_PITCH 10
PRINTER FONT 12_POINT_COURIER
Today, the Federal student loan programs provide billions of dollars to private lenders and other agencies -- billions of taxpayer dollars that do not go toward serving students. Furthermore, complex procedures and inflexible repayment plans create serious problems for some students. Burdened with debt and locked into insensitive repayment plans, many students cannot repay their loans, leaving taxpayers to foot the bill. The current system doesn't serve students or taxpayers well.

This legislation reforms the student loan system with a less costly and less complicated alternative. The Administration's Student Aid Reform Act will provide all borrowers with flexible repayment options, including EXCEL Accounts, which allow borrowers to repay loans as a percentage of their incomes. It also reforms the student loan system by replacing the current guaranteed student loan system with a system of direct Federal lending. These changes will:

o Make repayment easier by allowing borrowers to select the best way to repay their loans. Borrowers will be able to choose among several different repayment options, including fixed, graduated, extended, and income-contingent EXCEL Accounts. Providing a range of flexible repayment plans will allow students to enter lower-paying community service jobs without worrying about their debt burden and will reduce default rates.
o Reduce costs for taxpayers by substituting Federal borrowing for more expensive private capital and eliminating excess profits in the current system. By using low-interest rate Treasury borrowing and by eliminating excess profits, direct lending will reduce Federal costs by $4.3 billion through fiscal year 1998.
o Reduce costs for students by lowering interest rates. Part of the substantial savings achieved from lowering the cost of capital and eliminating profits will be used to reduce the interest rate for student borrowers, when the plan is

fully implemented.

EXCEL ACCOUNTS: EASING REPAYMENT AND ENCOURAGING SERVICE

The EXCEL Account will, for the first time, allow all borrowers to pay off their loans as a percentage of their incomes. This income contingent repayment plan, together with other flexible repayment options, will give borrowers the opportunity to choose lower-paying service jobs regardless of the level of debt incurred while in school. This new plan will also help to reduce student loan defaults.

Borrowers will have the opportunity to choose from a range of flexible repayment options to best fit their financial situation. In addition, borrowers will be able to switch repayment plans as their financial situations change.

EXCEL Accounts will provide for repayments that depend upon income. Borrowers will be able to repay over a longer period of time than in the other repayment options. The length of repayment will depend on the borrower's level of debt and income.

- o The legislation requires the Secretary of Education to publish regulations on the specific provisions of this income-contingent plan, including the percentage of income to be repaid each year and the length of repayment.
- o To increase accountability, the Secretary will also have the authority to require defaulters to repay through income contingency.

- o The legislation will extend EXCEL Accounts to borrowers with existing loans. It authorizes the Department of Education to offer income contingent repayments to current borrowers if lenders do not offer them acceptable income sensitive repayment opportunities.

Fixed, graduated, and extended repayment plans will also be available to all borrowers.

- o Standard repayment describes a fixed-payment, fixed-term (usually 10 years) plan that is currently used by most student loan borrowers.
- o Extended repayment describes a plan with a lower fixed payment and a longer fixed term than available under a standard repayment plan.
- o Graduated repayment plans expect borrowers to repay smaller amounts in the beginning when their incomes tend to be lower and larger amounts later when their incomes tend to be higher.

IRS Role

To make repayment easier and more effective, the bill contains provisions to include the Internal Revenue Service (IRS) in the collection of student loans.

- o Starting in fiscal year 1994, the legislation gives the Secretary the authority to offer income contingent repayments to borrowers using information from the IRS on borrowers' incomes. The legislation will amend the current disclosure provisions to allow IRS to provide this information to the Department of Education.

o As a second step, the bill requires the Secretaries of Education and Treasury to jointly develop a plan to provide repayment options through the IRS and wage withholding.

ONE-

STOP DIRECT STUDENT LOANS

The legislation calls for the Federal government to make loans directly to students, substituting Federal borrowing for private capital. These changes will streamline the system, reduce interest rates for students, and save taxpayers billions of dollars.

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o Criteria measuring the financial and administrative capability of institutions to originate loans will be used to determine which institutions may originate loans and which should use alternative originators.

o Institutions that meet the financial and administrative criteria, but do not wish to originate loans, will also be able to use alternative originators.

o The Department of Education will pay a small fee to schools that originate loans themselves and will contract out on a competitive, fee-for-service basis to alternative originators. Alternative originators may be State agencies, private lenders, Sallie Mae, and other organizations.

o Responsibility for servicing loans while students are in school and while they are in repayment will not rest with the postsecondary institutions. The Department of Education will contract with a number of organizations to service student loans. These organizations, which could include State agencies, Sallie Mae, and private firms, will be chosen through a competitive process.

ENSURING A SMOOTH TRANSITION

The Department of Education will be responsible for monitoring and overseeing the student loan system as part of its overall oversight of the Federal student aid system. The Department is developing a detailed plan to ensure adequate loan capital in the event that private capital dries up. The legislation will provide the Department with additional authorities to move quickly if capital shortages occur.

- Postsecondary institutions, alternative originators, servicers, and the Department of Education will share data on student loans throughout the nation. The Department will also complete work on the National Student Loan Data System. Such a system has been under development since 1989 and must be expanded to perform all the functions needed for direct loans.
- During the phase-in period, the terms and conditions for the FDSL, including loan limits, eligibility rules for loan subsidies, and number of loan programs, would be similar to the existing FFEL programs, including the provisions for loan deferment and forbearance.
- The legislation also provides for two changes to the nation's guarantee agency services, which provide in every state an intermediary for the Federal government and reinsure all loans in the current FFEL programs. The legislation ensures adequate financing for the current guarantee agencies during the transition and provides for alternative mechanisms to assure loan guarantees in the event that any of the guarantee agencies do not continue to operate.

RECORD TYPE: FEDERAL (RECONSTRUCTED EMAIL)

CREATOR: Joshua Silverman (SILVERMAN_J) (WHO)

CREATION DATE/TIME:30-APR-1993 16:46:00.00

SUBJECT: National Service

TO: FAX (86082576899,Terry Lagland) (TLXA1MAIL_\F:86082576899\C:TERry LaglanD\\ ) (DEFAULT)
READ: UNKNOWN

TEXT:

PRINTER FONT 12_POINT_COURIER
The White House

Office of National Service

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FOR IMMEDIATE RELEASE
APRIL 30, 1993

CONTACT: ETHAN ZINDLER
202/456-6444

*** News Advisory ***

Clinton to Unveil National Service
Plan On 100th Full Day of His Administration

President Clinton will visit the University of New Orleans on Friday, April 30, marking the 100th day of his administration with the announcement of his National Service legislation. The legislation offers educational opportunities to Americans who make a commitment to public service in their communities and an overhaul of the current student loan system.

The President will speak at the University of New Orleans

Health and Physical Education Center at 1 PM CDT to an audience of students, teachers and community members. Prior to the speech, the President will discuss his National Service legislation with a group of students at the Ben Franklin High School in New Orleans.

Attached are summaries of the National Service Trust Act and the Student Loan Reform Act.

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NATIONAL SERVICE TRUST ACT OF 1993

Today, the President announced that he has transmitted to Congress the National Service Trust Act of 1993. The Act represents innovative public policy founded on traditional American values: offering educational opportunity, demanding personal responsibility, and building the American community. In affirming these values, the Act also rejects big bureaucracy -- reinventing government to unleash the ideas and the initiative of the American people.

The President's initiative will:

? Build the American community through a new domestic Peace Corps that brings Americans together to tackle pressing national problems.

? Offer educational opportunity by providing educational awards to hundreds of thousands of students who serve our country; and overhauling and simplifying the student loan system -- saving taxpayers billions of dollars, lowering interest rates, and expanding repayment options.

? Demand personal responsibility by requiring Americans who borrow to repay their loans in one of two ways -- either through service or through repayment plans that make it tougher to default.

? Reinvent government by streamlining federal bureaucracies, relying on locally driven initiatives, and creating flexibility for students and competition among programs.

The Act has two basic parts, the national service initiative and the reform of the student loan system.

NATIONAL SERVICE INITIATIVE

The centerpiece of the Act will establish a Corporation for National Service that will offer Americans who do vital work in the national service program a $5,000 educational award in return -- roughly the average indebtedness of a graduate of a four-year, public institution. In addition, the Act includes a variety of provisions to promote service by all Americans and in all forms.

Definition of National Service

? Meets unmet educational, environmental, human, or public safety needs.

? Improves the life of the participant, through citizenship education and training.

? Does not displace or duplicate the functions of existing workers.

Organizations

? To reduce waste and promote an entrepreneurial government culture, a new government Corporation for National Service will be established, combining the Commission on National and Community Service and ACTION.
? A small bipartisan Board will share power with a chairperson.
? Flexible and quality-driven personnel policies will include pay-for-performance and a 5-year limit on most tenures.
? The corporation will be responsible for administering all programs authorized under the National and Community Service Act and Domestic Volunteer Service Act, including VISTA and the Older American Volunteer Programs. It will fund training and technical assistance, service clearinghouses and other activities.
? At the state level, Commissions on national service will be established to mirror the federal corporation and cooperate with it.
? Like the Corporation Board, Commissions will be composed of bipartisan, non-government officials.
? To ensure a genuine federal/state partnership, a representative of the Corporation will sit on the state Commissions.
? All programs will have to compete for support; none will be guaranteed funding. Programs will compete for state approval, state applications will compete for federal approval, and programs at the national level will compete against each other and states for federal approval.
Programs

? National quality criteria for programming will be developed for every type of program in conjunction with experts in the field.
? Performance goals and independent evaluations will be required in every program.
? To encourage public/private partnership, programs must provide a cash match on stipends and additional match on other support, and demonstrate their efforts in finding private funding.
? Entities ranging from small community organizations to federal agencies will be eligible to operate programs.
? A broad array of possible programs will be eligible for funding: from youth corps for at-risk youth, to specialized service programs for college graduates, to diverse community corps for Americans of all backgrounds. Many other models are possible, and venture capital will be available for new efforts.

Participants

? To encourage wide and diverse participation, individuals aged 17 and over may serve before, during, or after post-secondary education.
? To target program participation to participant interests and community needs, participants will be recruited and selected by local programs designated by states or the federal government.
? A national or state recruitment system will help interested individuals locate placements in local programs. Information

about available positions will be widely disseminated through high schools, colleges and other placement offices.
? To earn an educational award, a participant must complete at least one year of full-time or two years of part-time service in a program designated by a state or the federal government. An individual may serve up to two terms and earn up to two educational awards.
? Educational awards worth $5,000 will be provided for each term of service. Awards may be used for past, present or future expenses, including two- and four-year colleges, training programs, and graduate or professional programs.
? Programs will set stipends within a limited range based at minimum wage. Health and child care will be provided to those who need them.
Encouraging Service by All

? The Act enhances the Serve-America program for school-age youth.
? The Act extends and improves the VISTA and Older Americans Volunteer Programs.
* The Act reauthorizes support for the Points of Light Foundation to continue its nationwide outreach to further volunteerism.
? By removing the obstacle of fixed high monthly payments, new flexible repayment options in the student loan reform will enable Americans who borrow for school to take jobs that pay less but do more for the community.

HORIZONTAL_PITCH 8
PRINTER FONT 14_POINT_ROMAN
STUDENT LOAN REFORM ACT OF 1993

HORIZONTAL_PITCH 10
PRINTER FONT 12_POINT_ROMAN

Today, the Federal student loan programs provide billions of dollars to private lenders and other agencies -- billions of taxpayer dollars that do not go toward serving students. Furthermore, complex procedures and inflexible repayment plans create serious problems for some students. Burdened with debt and locked into insensitive repayment plans, many students cannot repay their loans, leaving taxpayers to foot the bill. The current system doesn't serve students or taxpayers well.

This legislation reforms the student loan system with a less costly and less complicated alternative. The Administration's Student Aid Reform Act will provide all borrowers with flexible repayment options, including EXCEL Accounts, which allow borrowers to repay loans as a percentage of their incomes. It also reforms the student loan system by replacing the current guaranteed student loan system with a system of direct Federal lending. These changes will:

? Make repayment easier by allowing borrowers to select the best way to repay their loans. Borrowers will be able to choose among several different repayment options, including fixed, graduated, extended, and income-contingent EXCEL Accounts. Providing a range of flexible repayment plans will allow students to enter lower-paying community service jobs without worrying about their debt burden and will reduce default rates.

? Reduce costs for taxpayers by substituting Federal borrowing for more expensive private capital and eliminating excess profits in the current system. By using low-interest rate Treasury borrowing and by eliminating excess profits, direct lending will reduce Federal costs by $4.3 billion through fiscal year 1998.

? Reduce costs for students by lowering interest rates. Part of the substantial savings achieved from lowering the cost of capital and eliminating profits will be used to reduce the interest rate for student borrowers, when the plan is fully implemented.

EXCEL ACCOUNTS: EASING REPAYMENT AND ENCOURAGING SERVICE

The EXCEL Account will, for the first time, allow all borrowers to pay off their loans as a percentage of their incomes. This income contingent repayment plan, together with other flexible repayment options, will give borrowers the opportunity to choose lower-paying service jobs regardless of the level of debt incurred while in school. This new plan will also help to reduce student loan defaults.

Borrowers will have the opportunity to choose from a range of flexible repayment options to best fit their financial situation. In addition, borrowers will be able to switch repayment plans as their financial situations change.

EXCEL Accounts will provide for repayments that depend upon income. Borrowers will be able to repay over a longer period of time than in the other repayment options. The length of repayment will depend on the borrower's level of debt and income.

? The legislation requires the Secretary of Education to publish regulations on the specific provisions of this income-contingent plan, including the percentage of income to be repaid each year and the length of repayment.

? To increase accountability, the Secretary will also have the authority to require defaulters to repay through income contingency.

? The legislation will extend EXCEL Accounts to borrowers with existing loans. It authorizes the Department of Education to offer income contingent repayments to current borrowers if lenders do not offer them acceptable income sensitive repayment opportunities.

Fixed, graduated, and extended repayment plans will also be available to all borrowers.

? Standard repayment describes a fixed-payment, fixed-term (usually 10 years) plan that is currently used by most student loan borrowers.

? Extended repayment describes a plan with a lower fixed payment and a longer fixed term than available under a standard repayment plan.
? Graduated repayment plans expect borrowers to repay smaller amounts in the beginning when their incomes tend to be lower and larger amounts later when their incomes tend to be higher.
IRS Role
To make repayment easier and more effective, the bill contains provisions to include the Internal Revenue Service (IRS) in the collection of student loans.
? Starting in fiscal year 1994, the legislation gives the Secretary the authority to offer income contingent repayments to borrowers using information from the IRS on borrowers' incomes. The legislation will amend the current disclosure provisions to allow IRS to provide this information to the Department of Education.
? As a second step, the bill requires the Secretaries of Education and Treasury to jointly develop a plan to provide repayment options through the IRS and wage withholding.

ONE-

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Clinton Presidential Records
Automated Records Management System
[EMAIL] and Tape Restoration Project [Email]

This is not a presidential record. This is used as an administrative marker by the William J. Clinton Presidential Library Staff.

This marker identifies a responsive email, already made available within another collection.

Collection: 2017-1069-F

Bucket: Default

Creation Date: 1993-04-30

Subject: Student Loan Reform Act of 1993

Creator: Jonathan P. Gill GILL_J WHO

RECORD TYPE: FEDERAL (RECONSTRUCTED EMAIL)

CREATOR: Stephen Willson (WILLSON_S) (OMB)

CREATION DATE/TIME:05-MAY-1993 14:23:00.00

SUBJECT: WH Bulletin 5/5/1993

TO: Remote Addressee (PUBLIC@HIMD@MRGATE) (DEFAULT)
READ: UNKNOWN

TEXT:
THE WHITE HOUSE BULLETIN
WEDNESDAY, MAY 5, 1993 -- 13:00 PM EST
SINCE THE MORNING PAPERS:

o Russian Foreign Minister Andrei Kozyrev today issued a joint statement with Secretary of State Warren Christopher committing Russian troops to a peacekeeping mission once the Serbs sign the UN-sponsored peace proposal. However, the Russians came short of promising support of President Clinton's military strategy if the Bosnian war continues. The statement only specified that the two countries will immediately resume their discussions on new and tougher measures if the Serbs reject the peace plan.
o The Arab delegation to the Middle East peace talks will remain in Washington through next week, a Syrian official said today. Originally planning on leaving the end of this week, the decision to remain was a "show of their positive attitude toward the peace process," according to Syrian negotiator Muwaffiq al-Allaf.
o Financial News:
  -- Home values rose 5.1 percent to a median price of $104,200 during the first quarter, the National Association of Realtors announced today. A total of 83 markets posted gains, while 46 recorded declines.

IN THE WHITE HOUSE AND AROUND TOWN:

o This morning, President Clinton welcomed home General Johnston and the men and women of the Unified Task Force in Somalia. According to Clinton, "General Johnston has just reported to me `Mission accomplished.' And so, on behalf of all the American people, I say to you, General, and to all of whom you brought with you, welcome home and thank you for a job very, very well done."
o With yesterday's sharp drop in a key economic growth index, and rumors that the monthly unemployment figures will be up on Friday, the White House has a new opportunity to regain its focus on the economy. Noted one key Democratic source: "The growth index was down a full percentage point yesterday...while there aren't any guarantees on the Senate side, there are attempts in

earnest going on as we speak to try and get purely a jobs-focused package together and make another run at this."

Observed one House leadership aide: "Given the economic indicators released yesterday and predictions that we are not going to see a drop in unemployment when Friday's numbers are released, Democratic members are increasingly anxious to get back to round two on the jobs bill. They want to do it next week or the week after. But Members want to go in knowing we've done the groundwork....we want to avoid another filibuster scene."

The key to success this time, most sources agree, is how available the President will be to push the package. According to a Democratic source: "Clinton was back in focus yesterday with the enterprise zone package and a conference call with mayors. Hopefully, next week we are going to see the President out priming the pump for jobs. What was lacking in this last round was a real presence from the White House in terms of pushing for this thing. What might hinder that unfortunately is what's going on in Bosnia. There's a conflict of interest. No one faults him for having to deal with Bosnia right now, but we need him to get back at this (the economy)."

o Administration officials are confirming this morning that Clinton has dropped his plan to make the government the sole purchaser of childhood vaccines for free distribution to rich and poor alike. Instead, the Administration is now backing a compromise to provide free, government-purchased vaccine to all children who are uninsured or on Medicaid. The move is expected to cut the cost of Clinton's $1.1 billion immunization initiative in half. Health and Human Services Secretary Donna E. Shalala said today the compromise forged with congressional Democrats gives the Administration "90 percent of what we thought we needed. ... It's a big victory for kids."

President Clinton's plan, announced April 1, met with stiff opposition from Republicans in Congress and vaccine makers, who feared the loss of a private market would hurt both their profits and research capacity. Republican senators proposed a compromise of their own Tuesday that would provide $450 million for the immunization initiative, including a new computerized tracking system to remind parents and physicians when youngsters need their shots.

o As the Ways and Means Committee begins to mark-up the Clinton Administration's tax bill, a major issue will be how to use the money allocated for Clinton's proposed investment tax credits (ITCs), according to a key Democratic committee source. This source told the Bulletin: "The big issue is the $28 billion that had been allocated to the two ITCs, since both are probably dead. The President had wanted to save the ITC for small businesses in order to win their support for the overall package. But they are so against the increase in individual rates that the ITC isn't enough to get such support. Since everyone wants to do something for small business, they will get an increase in expensing allowances." This source predicted the most likely outcomes for some of the key Clinton items:

-- $16 billion of the ITC's cost will probably be used to reduce by one half the corporate rate increase Clinton asked for.

-- $4 billion of the ITC's cost will be used to make up the difference between the Treasury's estimate of total revenues raised and the estimate of the Joint Committee on Taxation.

-- $3.1 billion of the ITC's cost will probably be used to delete the change in the treatment of royalty payments from the Administration's international tax package "which is a tough category from a political stand point. Clinton made this a big issue during the campaign when he said it would raise $45 billion and his actual proposal is already just a fraction of that." Under current law foreign-source royalty payments are active income so excess foreign credits can be used against such income. Treasury proposed making these royalties passive income so they could not be used to offset such credits. "Treasury claimed that the 300 percent increase in use of this royalty income against credit since the 1986 Act showed companies were moving too much money into this category. The businesses made the case that many leading-edge companies had only two choices: enter into a royalty arrangement or sell the technology outright. Many members are very concerned about technology transfer abroad and therefore support not changing the law."

-- Business meals and entertainment expenses will probably be reduced to the 50 percent deductibility Clinton has asked for.

-- The elimination of the deduction for lobbying expense "was raised in a meeting last week between the Committee Democrats and President Clinton. He indicated strong support for this provision so it will probably stay."

-- The BTU tax will stay, although the committee expects it to be completely changed on the Senate side.

-- Section 936 treatment for Puerto Rico will most likely follow the Clinton proposal to lower the rate because the committee knows Senate Finance Committee Chairman Moynihan will want major changes on the Senate side on this, "so why give everything away now?"

-- Health care savings has basically been achieved with one big provision -- freezing reimbursement rates -- rather than taking on the many smaller changes Clinton asked for. With health care reform already causing the fur to fly, none of the members really wanted to open this up."

- Senator John Chafee, former Health Secretary Louis Sullivan and former Supreme Court Justice Warren Burger are pushing a new law banning the possession, sale, or manufacture of most handguns. The new law would prohibit the importation, exportation, manufacture, sale, purchase, transfer, receipt, possession, or transportation of handguns and handgun ammunition. Exemptions would be allowed for the military, for the police, for licensed handgun clubs, and for licensed protective and security personnel. Also, the government would reimburse gunowners $25 or the market value of their gun, if they can show that the gun they've turned in is worth more than the $25.

  According to Senator Chafee: "I think the slaughter that's occurring in our society is just intolerable. It's affecting our schools. As you know, there's something like 125,000 youngsters in any one day who've brought a weapon or handgun to school. It's affecting our hospital costs in the United States -- over $4 billion a year is spent by us, the taxpayers, to care for those who are injured by handguns. And it's bringing incredible tragedy to innumerable families. And all too frequently, it's the small child that's effected." Chafee added that "Chief Justice Burger will state today that it's total nonsense that the Second Amendment prevents the enactment of such a law. Listen to this. The Second Amendment says, `A well regulated militia, being necessary to the security of a free state, the right of the people to keep and bear arms shall not be infringed.' The only thing that the Second Amendment applies to is those who are involved with the militia. It doesn't mean everybody in the United States can walk around with a 9 millimeter packed on his or her hip." Chafee made his comments during an interview today on Fox's Morning News show.

- Democratic operatives are frustrated that they are losing control of the health care message. Noted one source: "The New York Times is only reporting the costs, not the savings. There really hasn't been any credible reporting on this yet. If you believe [the Clinton Administration] on the face of it, they haven't even decided how they're going to pay for this.

  "The Clinton message has got to be savings, savings, savings," added this source. "It's going to cost us more money to stay with the status quo. Part of the message is the future...we've got to hold the lines on costs. If we don't do anything, things will be worse."

  Added another Senate source: "We're trying to figure out how we can [avoid making] the same mistakes on health care as were made on the stimulus. We're looking for ways to finesse the health care tax increase."

- Rumors are circulating that Republican Senator Malcolm Wallop might be readying for a run for Governor in Wyoming. These rumors were fueled in recent days when Senator Alan Simpson commented he was unsure what Wallop would decide.
- With Democrats on the defensive on the tax-and-spend issue and voters back home calling for more spending cuts, one part of the budget in serious danger is continued US funding of the European Bank for Reconstruction and Development. In recent days, the Financial Times and then the Washington Post have reported how the EBRD has spent more on administrative costs, including furnishings and staff perks, than on loans to help stimulate market economies in the former Soviet Union. Notes one Congressional source: "It has actually been confirmed that the Bank has spent more on overhead than it has actually loaned."

  This reported virtual cavalcade of wasteful spending -- financed in part by the US taxpayer -- is now gaining the eye of both Democratic and Republican lawmakers. The most egregious examples include: over $87 million spent to refurbish the bank's London headquarters (in one case, $1.2 million was spent to replace Travertine marble in the building lobby with imported Italian Carrara marble); $900,000 in private plane rentals for EBRD President Jacques Attali; and a $78,000 Christmas Party.

  As a result of these reports, an aide to one key Democratic Senator told the Bulletin that "the US will not make a contribution in fiscal 1994 unless something changes....There's a good deal of unhappiness."

  At this time, the Clinton Administration is still supporting a $70 million increase in US contributions to the EBRD for fiscal 1994 and Treasury Secretary Lloyd Bentsen defended the request at an appropriations hearing held by the Senate Foreign Operations Subcommittee last week. Noted one Committee source: "While [Bentsen] said they are reviewing the situation and that they've made clear their dissatisfaction to the EBRD...he did defend the budget request, notwithstanding strong statements against the bank made by [Subcommittee Chairman Patrick] Leahy and [Ranking Minority Member Senator] Mitch McConnell." This source added: "Both Leahy and McConnell will oppose additional aid unless there are radical changes." The sources agreed that it will be difficult political sledding -- and politically risky at home -- for the Clinton Administration to continue defending the status quo at the EBRD.
- Without releasing details, Administration officials continue to insist their plan to restructure the current student loan program will not disrupt the $90 billion secondary student loan market. Current loans will be absorbed into the new system through a gradual process

that lasts through 1997, say officials at the Department of Education. "But there's a real sensitivity here," said one official. "You've got a $90 billion plus secondary student loan market and there are enough business and financial people at the Department of Education to recognize that a $90 billion market needs some care and handling. It would be a fairly significant economic disruption if you didn't take that into consideration," said the official. "There's a plan to deal with that. Sallie Mae is not going to be gone in a month. That's a very important point and one that got recognized early here."

o What do key Department of Education officials think about working with the House Education and Labor Committee? "Just look at the Chairmanship," said one official. "I think you can see it's a more liberal committee than some of the others in the House. Secretary Riley and Bill Clinton's experiences as Governors tended to be more centrist. I think that's what's going on. Riley and Clinton are definitely between the 40 yards lines." The House committee is chaired by William Ford (D-MI).

PERSONNEL:

o Roy Neel, chief of staff to Vice President Al Gore, will move over to serve as deputy White House chief of staff, the AP reports "Neel associates" as saying. According to White House Press Secretary Dee Dee Myers, however: "It's pure speculation. We haven't made an announcement. When we get ready -- if we make staff changes -- we'll make an announcement." Prior to moving to the Vice President's office, Neel, 47, was a top Gore Capitol Hill aide for 15 years, including three years as his Senate chief of staff.

o David Hinson is expected to be appointed to the post of Administrator of the Federal Aviation Administration (FAA), according to Democratic insiders. Hinson is the Chairman and CEO of Chicago-based Midway Airlines.

o Don Steinberg has been chosen as Deputy White House Press Secretary for national security issues. Steinberg comes to the White House from South Africa, where he was serving as the officer in charge of the US embassy in Pretoria.

o The Democrat National Committee is officially denying an item in yesterday's Bulletin that Paige Gardner, the DNC's director of strategic planning, "got the ax." DNC spokeswoman Kiki Moore called the Bulletin to say the Bulletin's report was "not true." Meanwhile, several other Democratic other sources continue to insist the report was accurate and that Gardner was offered a consulting contract for a specific period of time to "soften the blow." According to one source: "I think it's a situation where they're trying to do damage control and they don't want to show there may be a little disarray." said one. But DNC spokeswoman Moore told the

Bulletin that Gardner has the same title and same responsibility this morning as she had previously. "She's here, she's working, she's a valued member of the staff. She's gone to message meetings on the Hill this week," Moore said. Asked if Gardner had any plans to leave, Moore responded: "Not that I'm aware of. ... For all I know, I'm leaving in two weeks. I don't make predictions on the future for anything about anything, except maybe, [yesterday's] Wisconsin [Congressional] race."

THE WHITE HOUSE -- FOCUS, DISCIPLINE, AND MESSAGE:
This morning, the Bulletin interviews communications consultant Michael Deaver, who served as Deputy Chief of Staff in the Reagan White House, where he oversaw communications strategy. Deaver discusses a widely reported search for a second deputy to Chief of Staff Mack McLarty, intended to form a team better capable of focusing the White House efforts and message. Yesterday, President Clinton told reporters that "there needs to be a little tighter coordination here [at the White House] to make sure we've got our priorities straight and those priorities are communicated all the way down through the staff, and a little better focus."

BULLETIN: What do you think of the idea of bringing in a deputy chief of staff at the White House to focus on an Administration-wide message, as you were responsible for doing in a similar position for President Reagan?

DEAVER: The idea is good enough in that everyone needs someone to fill that role. The problem, however, ultimately gets down to the President's focus. The President has got to be single minded about what his priorities are, and the rest of it will pretty much take care of itself. It is important to have one person at a high enough level who is perceived as being very close to the President to be the enforcer of that kind of discipline, but nobody is going to be able to do it unless the President himself is focused. For me it was a fairly easy job because President Reagan had two or three things he wanted to do, and he was stubbornly indifferent -- uninterested even -- in other things. That's why he was successful as he was in that first term. Bush, of course, was not likewise successful. Clinton was during the campaign, but he hasn't been since the election. Clinton may end up like Bush did unless he himself gets focused.

BULLETIN: To the extent that an individual can help focus the policy and the message, what does that person need to do in order to be most effective?

DEAVER: I could only answer that by talking about how I did it. First of all, I had a clear idea of what the President's priorities were. Secondly, I had absolute control over the schedule. And thirdly, I spent 80 percent of my time on the future, not what was going on "today." Somebody has to be in that White House saying "here's where we want to be ten days from now," "two weeks from now," "a month from now." Otherwise, everyone will get caught up in what gets printed above the fold of the New York Times and the Washington Post.

You've got to have somebody telling everyone that there must be a consistent theme repeated over and over again, repeated for a long period of time until the American people and the Congress understand what it is you are interested in doing. Bush had three of those priorities a day, and Clinton's people not only float ideas like health reform and tax reform, they are submitting major pieces of legislation two or three times a week.

BULLETIN: How do you rate the Clinton message so far?

DEAVER: It seems to keep changing. There was, as there is with any new President, all kinds of hope. We had had four years of the people saying, "Do something." So, for a while the American people saw what the Administration was doing as "doing something." But soon enough it gets to be so mixed and confusing that the people get to believing that this White House is exactly what they had before.

An aide to the President can change that if they are given the necessary control and authority. One of the reasons I could do the job I did while carrying the title of Deputy Chief of Staff is because of my personal longtime relationship with both of the Reagans and everybody understood that. So they can put a deputy in to McLarty, but unless that person is someone who everybody understands has stroke, it won't make any difference. Particularly if the President doesn't change.

BULLETIN: You mentioned control over the schedule earlier. How important is that in focusing the message?

DEAVER: It is absolute. If you control the schedule you control policy and you control the message. The schedule drives the events, the public appearances of the President and eventually the spoken word. If something is billed as an education event, then education policy is forced to the very top. If you schedule some events on the environment, you force the bureaucracy to spill up the policy. If it is used right, controlling the schedule is the most important position in the White House.

BULLETIN: What do you think of the idea of George Stephanopoulos moving from briefings to strategy?

DEAVER: I think George Stephanopoulos is a very bright guy. I have said to him and to others that it is a mistake not to use his strategic strength more and not waste his time with this daily briefing business. The President can get spokespeople. What he needs is someone just like George who is perceived to be close to the Clintons and has a strategic sense that can plan this out for the future and impose discipline on the strategic part of the organization.

BULLETIN: How would you rate the television image of the President so far?

DEAVER: Mechanically, I think they are doing it about as well as anybody has. The President looks good most of the time. They understand lighting and sound. They understand the visual around the President's head, and they certainly understand the new technology. The problem I believe they still have is that they have not yet created a presidential image. They have to understand that we want a President to be presidential, to do presidential things, and to be seen in familiar presidential venues. I think they need to work on that.

LAST LAUGHS:

- Jay Leno: "Bill Clinton is helping his daughter Chelsea's school raise money by donating a signed copy of his inaugural address to the school auction. They say it'll fetch a lot of money. You know, I bet it does. I bet it'll bring a lot of money, because the way things are going, there's a good chance this'll be the only inaugural address he'll have." (NBC The Tonight Show)
- Jay Leno: "You know, if Clinton really wanted to help [his daughter Chelsea's] school [auction], he should've donated a signed campaign promise that he actually kept. Can you imagine how much that would be worth." (NBC The Tonight Show)
- Jay Leno: "A new survey reports that if Boris Yeltsin and Chelsea Clinton were both on the telephone at the same time, eight percent of Americans don't know which call Clinton would answer first. ... It doesn't matter, they both want the same thing -- more allowance." (NBC The Tonight Show)

# # # #

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THE WHITE HOUSE

Office of the Press Secretary
(Bensonville, Illinois)

For Immediate Release May 11, 1993

REMARKS BY THE PRESIDENT
TO THE STUDENTS AND FACULTY

Fenton High School
Bensonville, Illinois

9:55 A.M. CDT

THE PRESIDENT: Thank you very much, Brian. Thank you, Dr. Meredith. And thank you, ladies and gentlemen. I'm glad to be here at this fine high school. I should also note before I begin that there is -- one of many reasons that I decided to come here is that this high school is the alma mater of an important member of my White House staff, Kevin O'Keefe, who graduated from Fenton High School. (Applause.) Where are you? Where's Kevin? He didn't have that gray hair when he was here. (Applause.)

I met, in addition to your principal and your superintendent, I met Charlotte Sonnenfeld on the way in here, who said she was a teacher of Kevin O'Keefe, but was not responsible for him in any way. (Laughter.)

I also want to thank a number of other people who are here, including several members of Congress over here to my left -- Bobby Rush, Luis Guttierrez, Cardis Collins, and George Sangmeister. I think they're all here. And I want to thank Richard Dent of the Chicago Bears for coming. Stand up, Richard. (Applause.)

I also want to -- is Michael Cruz over there? Is he here? No? Where is he? Here he is. Come here. This young man was on the President's Town Hall Meeting with Students. Did any of you see it -- when I was -- did you see that? And he became a television star because he is a good student, he goes to school in Chicago, and he said he was worried about the safety of the schools and the streets. And he asked the President to try to make all the schools safe for students in every part of America, no matter how tough the neighborhoods were. And I was really proud of him, so I invited him to come here today. I think you ought to give him a hand. (Applause.)

I know we've got students from other schools here. Where are you, all the students from the other schools that are here?

AUDIENCE: Booo.

THE PRESIDENT: Hey, hey. (Laughter.) No, no, today's the day when you're supposed to welcome them here. (Laughter and applause.)

I want to say how very glad I am to be back in Illinois where I met so many people who shaped the thoughts and the feelings that I carried into the presidential campaign last year. People who asked me to fight for their families and the future of their children, to help to fix our economy, to create more jobs, to bring the terrible budget deficit down, to deal with the health care and education challenges facing America.

A lot of what I learned in that campaign last year I learned from talking to people on the streets in the cities and towns of Illinois, and I'm glad to be back.

This week, some of the members of Congress whom I hoped would be here are in Washington working on things of importance to you. Your two United States Senators, Paul Simon and Carol Moseley Brown, are in the Senate today because they're going to vote on the motor voter bill, which will make it easier for young people to register and vote -- an issue that's been a big issue for MTV and all the MTV watchers in the country who want to make young people a bigger part of the political process. (Applause.)

And Congressman Rostenkowski and the other members of his committee are back in Washington, working on a plan that will help to bring the budget deficit down by over $500 billion over the next five years, so that you can grow up in an America that is not paralyzed by a crushing debt, as we have seen in the last 12 years.

But I don't want to talk just about those issues today, I also want to talk about tomorrow, about your tomorrows and about what it will take for you to make the most of the IN future all of us who have already been in your place and school are trying to make.

I've spent a lot of my time in Washington, in fact, most of my time, working on the economy and the health care crises today. Because I know that unless we can bring the deficit down and invest in jobs and technology and building a strong economy, America can't be what it ought to be. And I believe that unless we attack the problems of health care security and coverage and the enormous contribution that health care costs are making to the financial problems of this country, we can never restore real security to the American family, or strength to the American economy, or reduce the terrible deficit of this government so that we can bring our budget into balance. So that's what I spend my time doing.

But I also know that no matter what we do on these issues, unless each and every one of you is a productive, well-educated, well-trained citizen able to take advantage of the opportunities of the world you will live in, but also able to meet the highly competitive challenges of people from all over the world who will be struggling for many of the same opportunities that you want, that nothing I can do will change your individual lives. You have to do that. And that's why the provision of excellence in education and real educational opportunities are so important.

Those of you who have been able to go to this school or the other schools here represented can leave your high school with the confidence that you've had the opportunity to get a good education. But you should know that in the world you're living in, the average young American moving into the work force will change work seven or eight times in a lifetime. And more than ever before in the history of the country, what you are able to do in your work life, what you are able to earn, will be directly related not just to what you know today, but what you can learn tomorrow.

In the last -- yes, you can clap for that. That's a pretty good idea. Thanks. (Applause.)

Now, in the last 12 years, there has been a dramatic difference -- a widening, growing out between the earnings of young people who have at least two years of good education after high school in a community college, a good training program, or a four year college degree, and young people who drop out of high school or only finished high school. The evidence is -- the clear evidence is that in the world in which you will live, you will need not only to make a personal commitment to learning and relearning throughout your lifetime, but to getting at least --at least -- two years of education beyond high school and hopefully more.

Now, more and more people have got this figured out. College enrollments have grown up, explosive enrollment increases at two-year community colleges and technical schools have been seen -- young people have figured that out. But there are still some problems with it, one of which is purely financial. The college dropout rate is more than twice the high school dropout rate, and one big reason is, a lot of people cannot afford to go, or, having gone, cannot afford to stay.

How many of you want to go on to some form of further education when you get out of high school? Raise your hand. (Applause.) How many of you think you're going to need to borrow some money or get a scholarship or have some financial help to do it? Raise your hand. (Applause.) I think it's nice that you can be enthusiastic about that. (Laughter.)

You know, last year in Illinois alone, almost 180,000 educational loans were made. Five million educational loans were made in America last year. Higher education is really important. It's important to you economically. It's important for reasons far more important than that, even. It promotes personal growth and gets you in contact with things that have happened in the past, and ties you into this great civilization of ours. But it's all academic, to use an appropriate word, if you can't afford to go and stay.

Interestingly enough, the cost of a college education is perhaps the only essential in a family's spending patterns that has gone up more rapidly than health care in the last 10 years. And that's one big reason that the college dropout rate has increased. More and more young people have to deal with this.

On the average, in the country as a whole, tuition fees and room and board cost $5,240 a year at public institutions of higher education, and $13,237 at private schools. The cost of these educations has gone up 126 percent in the last 10 years. That means that a lot of people who try to borrow money drop out and then can't repay the debt; others borrow the money and leave college with massive debts and don't know how to repay them. Still, others might prefer when they graduate to be a teacher, for example, but they're afraid they can't meet their loan repayment schedule. They might wish to be a law enforcement officer, or a police officer; they're afraid they can't meet their loan repayment schedule.

That's a bad case of the tail wagging the dog. People actually deciding what to do with their lives based on the crushing burden of debt they have to get an education, the purpose of which was to be free to choose to do whatever you want to do with your life. We can do better than that.

One of the reasons that I ran for President is that I wanted to change that because I know no economic policy, no health care policy, no reduction in the deficit can change what is in your mind and whether you are able to do well in the world that you will live in. You have to do that. But my generation owes it to you to give you the chance to be able to afford to get a good college education, to go and to stay. (Applause.)

A couple of weeks ago I unveiled a plan to do that based on four simple principals: First, we ought to lower the interest rates on the college loans that you borrow from -- that you make. (Applause.) I don't know how many seniors here have already looked into college loans, but if you want a college loan that's guaranteed by the federal government, there's a lot of paperwork involved and a lot of hassle. That's because there are a lot of extra costs in there, from middle men, from banks and from corporations, who profit from the current loan program.

Your Senator, Paul Simon, was the first person who ever came to me well over a year ago to say that we ought to make loans directly to students from the United States government in a financially secure way so that we could cut out paperwork, cut out all the time it takes to apply for them, and eliminate excess profits from middle men. Every student borrower can enjoy a lower rate if we do this. And if we adopt the plan that I have basically developed in cooperation with Senator Simon and others, we can save the American taxpayers $4 billion over the next five years, and make loans available to you at cheaper rates. I'd say that's a pretty good idea. (Applause.)

The second thing we have to do is make it easier for students to pay the loan back. Today, the loan repayment obligation is directly related to how much you borrow -- whether you have a job or whatever your job pays. What I want to do is to give every American young person who borrows money to get a two-year or a four-year education after high school the option of paying the money back based on how much you make, so that you can never be saddled with a debt burden greater than a certain percentage of your income. That way, there will never be an incentive not to be a teacher, not to be a police officer, not to work with kids in trouble, not to do whatever you want to do. You will be able to pay your loan back because it will be a percentage of your income. Regardless of how much you borrowed, we'll work it out so that the monthly payment is never too burdensome. That means nobody will be able to say they can't afford a college loan. (Applause.)

The third thing we want to do is to give tens of thousands of you the chance to earn credit against these loans before you go to college or while you're in college, or to work them off after you get out of college, not by paying them off, but by serving your country in a community service program -- working with the elderly, working with other kids, working with housing programs, working with things that need to be done in the neighborhood or in nearby neighborhoods. Or if you do it after you get out of college, working as teachers or police officers or in other needed areas in underserved communities in America. Just think of it. We could have tens of thousands of people who could pay off their loans entirely by giving a year or two of their lives to making their countries and their communities better. (Applause.)

Finally -- this is the one kicker -- I hope you will clap for this, too, because it's important. (Applause.) Wait until you hear it. (Laughter.) A lot of people don't pay off their college loans at all. There is an unbelievable default rate. We lose about $3 billion a year from people who don't pay their loans back. Now, there's a reason for that, and I'll explain it more later. But one of the things we do, if we're going to loan you the money directly, we're going to collect the money directly, too, involving the tax records at tax time so you can't beat the bill. People who borrow money, once you make it possible for them to repay it, should not be able to welch on the loans. That undermines the ability of children coming along behind you to borrow the money. People ought to have to pay the loans back if we make it possible for them to do it. Everybody ought to have to do that. (Applause.)

Now, this will make it possible for millions of young people to borrow money to go to college. I don't propose to weaken the Pell Grant programs and the other scholarship programs; we want to keep strengthening them. But this will make it possible for millions of people to borrow money, never have to worry about whether they'll be able to pay it back. You won't have to pay it back until you go to work. When you do go to work, you can pay it back as a small percentage of your income. You will have to pay it back, and will do it all at lower cost. This will open the doors of college education to millions of Americans. (Applause.)

Now, you might ask yourself: Well, if it's that simple, why is this man here talking to me about it? Why don't you just go do it? Here's why. A lot of people are doing well with the present system. They're making a lot of money out of the present system. There are 7,800 lenders today, people making the student loans. There are 46 different agencies that guarantee these loans against failure. Then, there are all these people who service the loans and who buy the loans in big packages in ways that you couldn't even begin to understand, probably, but they're all making good money in ways that you couldn't even begin to understand probably, but they're all making good money out of the present system. It's confusing and it's costly, and the more money that goes to other things, the less money that's available to provide low cost loans to the students of America.

Typically, the student takes out a loan from a bank and then the bank takes the note that you sign when you get the loan and sells it to a corporation. The corporation then makes a profit by packaging the loan to someone else. And the loan is ultimately guaranteed by whom? All of us, the American taxpayers. So nobody can lose any money on it. Now, the biggest middle man in the whole thing is called Sallie Mae, the Student National -- the Student Loan Marketing Association. Last year, lenders made a total profit of $1 billion on student loans. Sallie Mae made $394 million. And between 1986 and 1991 --listen to this -- this is a group that helps us get student loans, right, which should not be a big profit-making operation -- the costs of this corporation went down by 21 percent and its profits went up by 172 percent. But you didn't get the benefits of it; someone else did.

Interestingly enough, banks make more profits and more guaranteed profits on student loans than on car loans or mortgages, but there's no risk. They don't have to worry if the student doesn't pay back the loan. Why? Because the government will send them 90 cents on the dollar. And as all of you know if you follow this at all, there's not much incentive for a bank to come recover the loan because it costs more than 10 percent of the loan to hire a lawyer and go through a lawsuit and file all the papers and do all that. So every year, the government just writes a lot of checks to people for the loans that students don't repay. The taxpayers foot the bill and that's all money that we can't spend loaning money to you and people like you to go to college.

The system is not very good. The lenders do well, but the people who need to borrow the money for a college education are hurt as a result. And the taxpayers get hit coming and going. Not enough money made available for student loans, too much money going out to increase the deficit by paying off loans that never get repaid.

So, you might say, why don't we change this? Because in the system we have, the people that are making plenty of money out of the present system will fight it. And they will hire lobbyists who make their money by trying to influence the Congress.

No sooner had I even mentioned changing this system than Congress was deluged with lobbyists. The biggest organization, Sallie Mae alone, supposed to be in the business of helping you to get money to go to college, has already hired seven of the most powerful lobbyists in Washington to try to stop this process from changing.

Now, there are a lot of people in Washington who want to keep the status quo. A lot of people don't want to lower the deficit, either. How did we get such a big national debt? How did the debt go from $1 trillion in 1980 to $4 trillion in 1992? Because we cut --

AUDIENCE: Republicans.

THE PRESIDENT: No, because we did what was popular. It wasn't just the Republicans; they had the White House -- but let's be fair. Because how do you run up a big deficit? How do you run up a big deficit? The President proposes and the Congress disposes, and it was -- it's popular in the short run to cut taxes and increase spending, right? I mean, that's popular. It's easy. I'll cut your taxes and send you a check. That's good, right? The problem is, is that at some point you run up debt after debt after debt after debt.

So what am I trying to do? What's not popular? I'm trying to cut spending and increase taxes -- mostly on very wealthy Americans, but not entirely. Because we all have to try to recover our financial future. And I'm trying to do it in a way that preserves some money to invest in your education and new technologies for your jobs. But there are a lot of people who are making money out of a system that cuts taxes and increases spending, and it's not very popular to raise the money and cut the spending. That's the way it is here. There are a lot of people who are doing very well out of this system.

Now, why am I telling you this? Because it is your future on the line, and if you would like to have a system in which it is easier to borrow money to go to college, two or four years, and which it will be easier to pay it back, and in which more of your tax money will be spent to benefit you and your education and your future, then you need to tell your members of Congress, without regard to their political party, that you would like to have a better future, and this is a change that you want made. (Applause.)

This country is a very great country. It has been around for more than 200 years because every time we had to make real changes, we did it. Now the challenges we face are very much within our borders. It really bothers me that there are so many kids every year who are lost to the future as well as to themselves because of crime and drugs. It really bothers me that so many people drop out of college and don't get the future that they ought to have just because of the money involved. It bothers me that we spend so much more than any other country in the world on health care, but we don't provide health coverage to all our people. And all the other advanced countries do. And it bothers me that we're not creating jobs for you, but we're piling up debt for your future.

And I believe we can do better. But we can only do it if we'll tell each other the truth, keep our eyes wide open, and if you will say, hey, it is my future. Look, I've lived most of my life. Unless I beat the odds and live to be 94, I've lived half my life -- or 92. I can't even add anymore. (Laughter.) I've lived more than half my life unless I live to be 92 years old. It is your life that's on the line. It is your future that's on the line. And our job now is to open it up for you and to face the problems of this time so that you have the same chance to live the American Dream that your forebears did. That is our job, and you can help us do it. (Applause.)

Again, let me say, I thank you for letting me come here. I look forward to answering your questions. But when I'm gone, if you don't remember anything else I said, just remember this: There's a plan in Washington to provide more student loans at a more affordable rate so that more people can go to college and stay, but we have to have the courage to change to adopt it.

Thank you very much. (Applause.)

Q Thank you, President Clinton. We understand that you have some time where you could answer some questions from our students. So if you'd have a seat ladies and gentlemen and raise your hand, we'll begin by asking you some questions.

Yes?

Q I am wondering what the government is doing about the families that are defaulting on the student loans.

THE PRESIDENT: Well, we try to collect it. But the problem now is that very often the people who don't pay are unemployed, or very often the people who don't pay -- there's another problem with this, by the way -- are people who got educations from trade schools that couldn't deliver what they promised. That is, they said we'll train you and you'll be able to get a good job and you'll be able to get a high salary. And a lot of these schools have been able to rip off this system for years because they could -- they would get all their kids into these programs through student loans, and then they didn't have to worry about whether they finished the program or got jobs, because they already had the student loan money.

So what we're trying to do is, number one, be tougher with the schools. If they're not good schools and they're not really educating the students so the students can repay the loans, we're trying to stop those schools from being eligible for it. Number two, we're looking at ways to toughen up the enforcement.

But look at -- here's the way -- I want to change it so we can collect from almost everybody. If I said to you, look, I'll give you a loan and you don't have to repay it until you actually get a job so you're earning money. And then you may borrow -- let's say you borrow $5,000 and she borrows $10,000 and she borrows $20,000 and you all take jobs earning $30,000 a year, right? The people who borrowed more money would be given the option of paying that loan back as a limited percentage of their income, even though it would take them longer to pay it back. At least they would be able to make the payments and they wouldn't be defaulting. And then if they didn't pay it back, we would know that they didn't because the government would have the records, and we would enforce it just like we enforce taxes. In other words, you couldn't beat the bill. If you had a job and you had an income, you would have to pay it back.

But right now, we get the worst of all worlds. We let somebody else make the loan, and we tell them if it's not paid back, we'll pay 90 percent of the loan, and then after all the time goes by, we've got to figure out how to collect it. So we're doing better, but we can do much, much better if we clean out a lot of the system that's there and go at it directly.

Q Going back to that point you made before about drugs, I was wondering which direction the national drug policy is going, whether you want to support more law enforcement in getting drugs off the streets, or if you're going to move more towards rehabilitation and education?

THE PRESIDENT: Well, I don't think you can do one without the other. But let me say I believe we need to increase the emphasis on education, prevention and rehabilitation because we know that's what works. That is, for several years in the 1980s, drug use went down among most groups of young people, largely because they figured out it would kill them. In other words, people decided to change their behavior from the inside out.

Now, that does not -- you can't sacrifice law enforcement to that. I think we should do two other things. Let me just run it out real quickly. The second thing we should do is to adopt law enforcement strategies that will reinforce people taking responsibility for themselves and increase the likelihood that they will move off drugs or out of the drug culture. I'll just give you two examples.

One is community policing. Thirty-five years ago there were three policemen on the street in America for every crime committed. Today, there are three crimes for every policeman. It's very hard, therefore, to have enough police to walk the streets, to know the neighbors, to know the kids, and to be a force for preventing crime. Where that has happened, it has worked.

The man I named to be the drug czar in our administration, Lee Brown, was the police chief in Atlanta, Houston, and New York City. And when he left New York, in the areas where they had put in police -- community policing, the crime rate was going down in some of those neighborhoods for the first time in 30 years there had been a reversal in the crime rate. So I think you have to do that.

And the final thing I want to say is we still have a big stake in working with our friends and allies in other countries to try to stop drugs from coming into this country. And we are in the process now of reexamining whether there's anything else we can do to reduce the flow of drugs into the country. But I'll tell you one thing, if we all decided we'd stop taking them, the flow would dry up because there wouldn't be any demand. So we've got to -- we can't just worry about blaming people from outside. (Applause.)

Go ahead. Where's the microphone? Yes?

Q A big issue that has been in the newspaper and on the news is military cutbacks. What I'm curious about is that -- what is being cut back in bases, arms, manpower. My curiosity is because I've enlisted in the U.S. Army. And is it going to effect my future if I decide to become -- I mean, use it as a career and go my 20 years or anything like that. Will it affect me?

THE PRESIDENT: Can you all hear his question? He said he was concerned -- I'll repeat the question. He said he was concerned about military cutbacks. He wants to know what the nature of the cutbacks are, how far they will go. He's enlisted in the Army. Will that undermine his ability to make the Army a career because of the cutbacks.

Let me say, first of all, you know why the cutbacks are occurring. The cutbacks are occurring because an enormous percentage of our military force was directed against the Soviet Union and it no longer exists. A lot of our nuclear arsenal was because they had a big nuclear arsenal and we were positioned against them and we had planes and ships supporting that, as well as people on the ground with land-based missiles. A lot of our military forces were positioned against their -- all the troops they used to have in Eastern Europe, which have been withdrawn, and the military positioning they had around the world. So we have been able to -- in fact, we've been obligated to reduce defense spending, starting in about '86 or '87 because of the receding nature of the threat. And that's good on the whole.

Now, the world is still a pretty dangerous place, and the United States is still the only comprehensive military power. And we have to be careful how we reduce that defense spending and how much we do it.

Right now, we're basically doing -- we're doing it across the board in three areas: We're reducing military personnel with the view toward going down to a base force of about 1.4 million over the next five years, down from over 2.5 million just a few years ago. So that's a lot of people that have been mustered out, including all volunteers, people who wanted to serve their country, many of whom would like to have stayed longer.

So the answer to your question is, if we have a smaller base force, it will be more competitive to get into and to stay in the Armed Forces. The recruitment has already been scaled back. So if you've been recruited and if you're going in under the new, smaller recruitment quotas, you'll probably have a reasonable chance to stay in a good, long while if you choose to do it. But not so many good young people will. In that way, it's kind of sad, because the military has done a magnificent job of training and educating people, of inculcating them with good values and good work habits as well as good education. So that's one of the -- kind of the down sides.

The second thing we're doing is closing bases, and that's very unpopular. But you can't just cut the forces and not close the bases. And the third thing we've had to do is to cut back on a number of weapons procurements, which cost jobs in the defense industry.

So, on balance, this has been a good thing, but I want you to understand there are some bad consequences to it. And one of the struggles that I expect to have constantly for the next four years is to try to convince people in the Congress that as we cut defense we need to be reinvesting that money in education and technology in America to create jobs to replace those lost in defense. (Applause.) And thank you for being willing to serve your country. (Applause.)

Q Mr. President, I think the American people have become increasingly disenchanted with the lack of progress in our government. How are you going to convince the American people and all the members of Congress that your programs are good ones and how are you going to break the filibusters that have been --

THE PRESIDENT: Well, we've only had one -- we've broke them all but one. Keep in mind that I've just been there 100 days and I had 12 years of a different direction before I took office. It's hard to turn it around in 100 days. I'm actually quite optimistic.

The Congress passed the outline of the budget I presented which, as I explained earlier, is a very tough thing, you know, to bring the deficit down, in a record time. The first time in 17 years under Democrats and Republican presidents the Congress had every passed the budget resolution within the time limit. So I think we're moving fairly rapidly.

We passed -- just shortly after I took office, Congress passed the Family and Medical Leave Act, guaranteeing people the right to take a little time off from work when they have a sick child or a sick parent or a baby is born without losing their jobs. That had gone through eight years of fights and two vetoes. The Congress is trying to pass today this motor voter bill, which would really open up the political process to millions of Americans. So I think we are making progress.

Now, let me also tell you that some of this stuff is really hard. I mean the reasons that these things have not been done before is that we've done easy things for 12 years. What I'm asking the Congress to do are things that are really hard and it may take a while to do it. But I'm not prepared to say at the moment anyway that we've lost the battle to gridlock. I do think -- I don't agree with the minority of senators who filibustered the jobs bill. But that was not just a political battle, that was an idea battle. A lot of them thought that we shouldn't spend any money on anything until we pass the overall budget which reduces the deficit, even though I knew we were going to.

My view was, we're going to pass this budget, we're going to reduce the deficit and we've got to get some jobs in this economy. So that was an issue I didn't win on. I'm not going to win every issue I'm fighting. But I believe that we have a real chance to make this government work, and I'm basically quite optimistic a bout it.

The one thing I would urge you not to do, any of you, is to put too much faith in just the day-to-day development of the news. You have to take a long-term view of this. And we've had this health care problem for a long time. We've had this economic problem for a long time. And in just a very short time we've been able to put these issues back on the national agenda and move them forward. So I think -- I just would urge you to -- what you need to do is to remind everybody you can remind -- if you want to know what you can do and what the American people can do, it's to try to make everybody think in a less partisan way, not worry about the fights between Republicans and Democrats, and think more every day about what are the problems of this country? And if you don't like what President Clinton said, what's your alternative?

In other words, let's just keep moving the ball forward. What I try to do is to put these problems high on the national agenda and try to ask people to lay down their partisan armor and look at these problems in a new and different way and keep pushing the ball forward. So if you don't like what I want to do about it, then if you're not going to support that, then come up with some alternative so we can do something. The worst thing we can do is stay in paralysis. Let's do something. That I think ought to be the message. (Applause.)

Q In the past, the financial aid has been based upon a quota system for racial and ethnic minorities. I'm wondering if you're planning to continue this quota system or will it be based on talent and merit and needs straight across the board?

THE PRESIDENT: There may be certain minority scholarship programs in certain universities. But the program that I would speak of, both national service and the student loan program, would be available across-the-board. I mean -- and I believe -- and the student loan program should be available across-the-board virtually without regard to income once you can guarantee that the repayment is going to be there so you don't have to worry about loaning too much money. That's what I think. I favor broad-based and inclusive programs and national service will also be broad-based and inclusive.

I think you have to make efforts to include people from all races and income groups, and I would want to see that done because we have a big stake in making sure that we close the disparity and income in race of people getting an education. Because if you come out the other end of the educational system, then the income differences tend to vanish. But I don't think anyone should be excluded, and I don't want to ration this program. I want to open this program to all Americans. (Applause.)

Q Mr. Clinton, I'd like to know what your views are on the space program -- if you are in favor of cutting anything or improving anything?

THE PRESIDENT: In general, I support strongly the space program and the NASA budget. I have some problems with the space station itself for a couple of reasons. One is it's running -- it's a hugely expensive program, and there's a lot of debate within NASA itself about whether the old designs should be continued -- whether we need that space station design.

Secondly, it's had staggering cost overruns. Every time we turn around they're coming back for hundreds of millions of more dollars. And with the deficit the way it is and all these other problems, we can't afford it. So what NASA is doing now is trying to redesign the space station and come up with a multi-year space program that I hope we can get strong bipartisan support for.

I think it would be a big mistake for America to drastically cut back its role in space. And when -- now, I've been criticized for cutting back on the space station, but I haven't cut back the NASA budget. We have cut back the rate of increase that they want to cover all the cost overruns for anything that happens. I just don't think we can do that with the old space station design.

So we're now looking at three alternatives for the space station to take a new and modified course. But I think it would be a great mistake for America to withdraw from space exploration and from work in space. For one thing, it's one of the ways that we may find answers to a lot of our environmental problems as well as to continue to build our scientific and technological base after we cut defense. So I hope we can continue to support it. (Applause.)

Q Mr. President, --

THE PRESIDENT: Go ahead. We'll take one more and then I'll take this young man's. Go ahead.

Q Mr. President, I was wondering with all the news about Bosnia how -- do you see any differences in supporting -- sending troops to Bosnia where you were strongly opposed to civil war in Vietnam in the late '60s.

THE PRESIDENT: Well, first of all, I do. I did not -- that's a good question. But I have never advocated sending troops -- the United States unilaterally sending troops to Bosnia to fight on one side or the other of the civil war.

There are -- let me just say what's complicated about it. There plainly is a civil war in Bosnia that is, among other things, a fight primarily between the Serbs and the Muslims, but also involving the Croatians. It is complicated by the fact that Serbia, a separate country, has intervened in it, and complicated by the fact that the United Nations before Bosnia -- the nation of Bosnia was even recognized, imposed an arms embargo in the area. But the practical impact of the arms embargo that the United Nations imposed was to give the entire weaponry of the Yugoslav Army to the Serbian Bosnians and deprive any kind of equal weaponry to the people fighting against them. So the global community had -- not on purpose, but inadvertently, has had a huge impact on the outcome of that war in ways that have been very bad.

My position has been pretty simple and straightforward from the beginning. I think that without the United States unilaterally getting in, or without even -- I don't think the United Nations should enter the war on one side or the other. But I think there is much more that we can do to induce the parties to stop the fighting, to do what we can to stop this idea of ethnic cleansing -- murdering people, raping children and doing terrible acts of violence solely because of people's religion. There, in fact, the ethnic basis -- biologically, there is not much difference between the Muslims, the Croatians and the Serbians there. It's all -- the ethnic differences are rooted in religious and historical factors.

And thirdly, we want to try to confine that conflict so it doesn't spread into other places and involve other countries, like Albania and Greece and Turkey, which could have the impact of undermining the peace in Europe and the growth and stability of democracies there.

So I think the United Nations -- the world community can do more in that regard. That's quite a different thing than what happened in Vietnam where the United States essentially got involved in what was a civil war on one side or the other. There are some remarkable similarities to it which should give us caution about doing that. There are similarities to that. There are similarities to Lebanon. But that does not mean, just because -- I wouldn't propose doing exactly what the United States did in Vietnam. That does not mean that the United States should not consider doing something more, especially if we can get the Europeans who are, after all, closer to it, who have a more immediate stake in it, to try to help us to stop the ethnic cleansing, the continued fighting and minimize dramatically the risk of the war spreading.

So that's what we're struggling for an answer to. It's a very, very difficult problem. (Applause.)

Q Mr. President, what do you feel we as students can do to better the U.S. educational system? (Applause.)

THE PRESIDENT: Read more. (Applause.) Read more. I think you can read more. I think you can establish tutoring groups in schools where the students that are doing well help those which aren't. There's a lot of evidence that by the time somebody reaches your age that you all have more influence on one another than I would on any of you. And there's a lot of evidence in schools that are succeeding that when students work with each other either in the same classroom or across grade lines, that the overall performance of the school goes up.

Interestingly enough, there are a lot of studies even showing at elementary schools that this is true, and certainly true in high schools. So I think the -- one of the things that I have seen work repeatedly over the last dozen years that I've spent countless hours in schools with students and teachers is that -- that kind of working together.

The third thing that I think you can do is to speak out in a way for a culture of learning and for good values in the schools. I think that's important. I think if the students want a school to be a place where learning is valued and where everybody counts, and where violence or drugs or other bad behavior are not tolerated, the students can have more to do with getting rid of it than anything else. If it is a bad thing, if everybody looks down on it. And I think that can make a huge difference.

It's so limited what the rest of us can do to help the schools unless there is a right sort of feeling in the hearts of the young people involved. And I think anything we can do to convince all students that they count, that they matter, that we need them all, that they shouldn't drop out, that they can learn -- anything we can do in that regard school by school, class by class, year by year, is going to make education in this country a lot better.

The last thing I think you can do is to decide what you think is wrong with education and how we can make it better and tell people like me about it. In other words, tell us from your perspective how we can make your schools a lot better, what you need, how we can give you a better future, what we're not doing that we could be doing. (Applause.) Those are the things you can do. (Applause.)

Q President Clinton, I understand we have time for one more question.

Q Yes. I have a question about women in the military. I heard that they're going to be able to go in combat now. (Applause.) Is it true that -- are they going to be -- is it going to become a law that they're going to be drafted also?

THE PRESIDENT: I'm sorry I didn't hear you. Go ahead.

Q I've heard rumors that women are going to be able to be in combat now in the military. So I'm wondering, are they going to be able to be drafted like men?

THE PRESIDENT: First of all, men are not drafted. We have an all volunteer service. There are no draftees. Anyone who goes into the service is like this young man. The men or women choose to go. And we have a lot of people who want to go now because of the justifiably high esteem in which our military is held. I can tell you that you can talk to any career service officer and he or she will tell you that we have the best educated, best trained, best equipped, highest morale military service we have ever had. And it also, by the way, is the most diverse one we've ever had, opening up more opportunities to women and to all members of all races that we've ever had. And yet it's the best-educated, best-trained, best-equipped, best-able military service we have ever had, although it's under a lot of stress now because of all the down-sizing.

The service Chiefs in the Joint Chiefs of Staff have decided that they ought to open up some more combat roles to women, principally on combat ships. The Navy, for example -- I bet a lot of you don't know this -- the Navy now has three noncombat ships under the command of women -- the United States Navy does. (Applause.)

But Admiral Kelso, the Chief of Naval Operations, had decided that some more combat ship roles should be open to women. And then there was also a decision made that women ought to be eligible to fly combat missions in the face of clear evidence that the airplanes they fly today require not strength so much as response, the capacity for quick and agile response. And there's a lot of evidence that women are at least as good in some of those functions as men, so the Joint Chiefs made that decision. That was a military decision in which did not intervene at all. I think if the evidence supports it, it's a very good decision. But I want you to know it was made based on the evidence in the case and made by the military and they deserve the credit. (Applause.)

Well, I could do this all day long. You have been terrific and I'm very proud of you and you've asked wonderful questions, all of them were very good. I wish you well. Have a good day. And don't stop thinking about these educational issues. Thank you very much. (Applause.)

END10:45 A.M. CDT

================= END ATTACHMENT 1 =================

Clinton Presidential Records
Automated Records Management System
[EMAIL] and Tape Restoration Project [Email]

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Collection: 2013-0661-F

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Creation Date: 1993-05-11

Subject: Comments on the President's Schedule May 11th, 1993

Creator: Jonathan P. Gill GILL_J WHO

RECORD TYPE: FEDERAL (RECONSTRUCTED EMAIL)

CREATOR: Stephen Willson (WILLSON_S) (OMB)

CREATION DATE/TIME:12-MAY-1993 14:31:00.00

SUBJECT: WH Bulletin 5/12/1993

TO: Remote Addressee (PUBLIC@HIMD@MRGATE) (DEFAULT)
READ: UNKNOWN

TEXT:
THE WHITE HOUSE BULLETIN
WEDNESDAY, MAY 12, 1993 -- 13:00 PM EST
SINCE THE MORNING PAPERS:

o Russian President Boris Yeltsin issued a decree calling for a constitutional assembly beginning June 5 to complete a new constitution for the country. The assembly will be comprised of two delegates from each of Russia's 88 regions and republics, as well as representatives of the President and parliament. The assembly should finish its work by June 10, according to the decree.
o Financial News:
  -- The Producer Price Index shot up 0.6 percent in April, the steepest jump in two-and-a-half years, the Labor Department announced today.

IN THE WHITE HOUSE AND AROUND TOWN:

o While not indicating whether he would send in US troops, President Clinton said in an interview today it was in the interests of the United States to keep out of a wider conflict in the Balkans. Clinton said during a radio interview that the US cannot ignore the Balkan civil war without risking a wider conflict. While Clinton said no final decision has been made, the Bulletin has received an unconfirmed report that Secretary of State Christopher has said the US plans to send a small contingent of American troops to join United Nations forces in the former Yugoslav republic of Macedonia, which would be a symbolic deployment designed to stop the fighting from spreading.

  During the interview, Clinton said: "It is in the United States' national interest to keep this conflict from spilling over into a lot of other countries, which could drag the United States into something with NATO that we don't want." Frustrated by the refusal of European allies to endorse his calls for lifting the arms embargo against Bosnian Muslims and possible air strikes against Bosnian Serb targets, Clinton called the crisis a "European issue" and repeated that the US will not act unilaterally. According to Clinton: "I think you'll see over the next few days that we'll be able to take some more steps that will make peace more likely and will make the confining of the conflict more likely." White House Press Secretary Dee Dee Myers said, however, that the President's comments should not be taken to mean that a decision has been made.

- This morning, President Clinton said he will propose a new trust fund to guarantee revenues from any new tax increases go to deficit reduction. Clinton told a Rose Garden ceremony honoring small business leaders from across the country that he would detail the proposal later today in an speech in New York. The President said he would propose "a legally separate deficit reduction trust fund" into which the increased tax revenues would go. Clinton also said he would not sign new tax increases into law unless Congress also adopted his proposed spending cuts. Clinton said the Administration was "in intense negotiations at this moment" with Congress over the details of his package.

  According to a Democratic source on the Hill: "[Clinton's new proposal] is along line of a letter being circulated by Rep. Charles Schumer (D-NY), with Bill Brewster, Chet Edwards, Bob Wise, and Jane Harman, to create a trust fund like the Social Security Trust. It has two purposes, to invest in some of the Federal debt and also provide money to the general fund for deficit reduction. It does not change Clinton's program, but merely how you count the money." The source added: "It is essentially an accounting gimmick. The budget resolution already took care of most of this. The amount of tax increases and reductions in projected entitlements growth equals deficit reductions. Clinton's new investments were basically being paid for out of defense cuts anyway. So, while it helps politically sell the plan, there is no substantive change."

- The negotiations on the energy tax between Clinton Administration officials and Democratic Members of the House Ways and Means Committee are being complicated by the interests of Democrats in the Senate, report knowledgeable Democratic sources this morning. Attention in the Ways and Means Committee is now focused on resolving Members concerns with the President's energy tax. "The critical question now is energy, which right now is more important and difficult than [the questions over the corporate rate or alternatives to the ITC]," a Democratic source told the Bulletin this morning, adding that there are still a "good number" of issues to be worked out. "I still don't know where we are with the White House," said the source. "At the end of the conversations yesterday, the Members thought there was need to take a pulse of the White House, or have the White House take our pulse, to find out if the types of compromises" being discussed were acceptable to both sides.

  According to Democratic sources, however, following the White House's maneuvering on its failed stimulus package, many Democratic House Members are now a little gun shy in their dealings with the White House on the energy tax. There were reports, apparently erroneous, circulating on the House side in recent days that Treasury Secretary Bensten told a few members of the House Ways and Means Committee to forgo their concerns over the energy tax because "we will take care of them in the Senate." A senior Treasury official told the Bulletin such rumors were totally without foundation, but such talk on Capitol Hill is indicative of the current relationship between House Democrats and Administration officials. According to an involved Democratic source: "We are trying to find out what the White House's bottom line is for a number of [energy tax] issues, but we don't want that bottom line to shift as it has in the past. It is important for the White House to look at this discussion process as being one effort, and not make concessions to those in the House, then more later to those in the Senate. "The Members say, `Look, if the White House tells us they can't yield on an issue, we will swallow hard and go with it because we don't want to embarrass the President,'" said another Democratic source. "But if that is the case, we would not be pleased if they then turned around and did yield on that very same issue when [the legislation] got to the Senate. It would leave egg on the face of Members...." The source added: "That has been an undercurrent in a lot of these conversations. We are saying to the White House, `we would like you to move on these issues of concern -- which vary from member to Member -- but if you can't move, tell us, and we will try to accommodate you. But in the event you tell us you can't move, we take that as serious.'"

As for the idea of scrapping the President's BTU tax and replacing it with an increase in the gasoline tax, as is being pushed by a few in the House and Senate, a Democratic source said this morning that it was not a realistic option. According to the source, while House Ways and Means Committee chairman Dan Rostenkowski is a big supporter of a larger gas tax -- "the bigger the better" -- there is not enough support for the concept outside his committee. "We think raising the gasoline tax makes a lot of sense by itself, and may make sense in lieu of some of the Clinton energy taxes," said the source. "But, we don't think there is{

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}embers are now a
pass any gasoline tax on the House floor. And with that being the case, we have to put our prejudices behind us and go for something that is: a) consistent with what Clinton is asking for; and b) can pass on the House floor. And the gas tax doesn't meet either of those tests."

o Republican Senators this morning unveiled a $36.5 billion long term job creation proposal to be funded with $51 billion in offsets. The proposal, which its sponsors claim would create 800,000 new jobs, is primarily the product of Senators Bill Roth (DE), Trent Lott (MS), and Phil Gramm (TX) working under the direction of Senate Minority Leader Bob Dole. It amounts to a series of tax incentives, including the indexing of capital gains taxes and a 13.85 percent jobs income tax credit for hiring new employees. The centerpiece of the GOP proposal, Republicans say, is a reintroduced version of last year's "Bentsen-Roth Super IRA," which would reinstate fully deductible IRAs and, according to the Republicans, create 250,000 new jobs at a cost of $3 billion over five years. To make up the spending offsets, the Republicans propose cutting $6.2 billion in Federal aid for mass transit, $4.2 billion in highway demonstration projects, $8.8 billion in reducing the number of Federal employees by 100,000 over 5 years, and $5.3 billion by repealing Davis-Bacon. The Republicans also propose cutting the funding for the Legal Services Corporation by 50 percent, saving $940 million. According to a GOP Senate source: "The proposal is something we would like to offer somewhere down the road, possibly as part of reconciliation. Then again, if Clinton decides to offer another stimulus package, we might offer it as a substitute."

o This morning, Ira Magaziner said Clinton's health reform plan likely will require all employers and workers to buy health insurance. According to Magaziner, the coordinator of the White House's health care reform task force, the White House has ruled out a value-added tax as high as 17 percent to solve the problem of the nation's 37 million uninsured. "We thought that was a non-starter," said Magaziner.

"You're left then with an employer-employee required contribution of some sort," Magaziner told 250 business executives at a National Association of Manufacturers breakfast. "To our way of thinking, even though that's a difficult decision, we think it is the only equitable decision." An employer mandate would dramatically reduce the amount of new Federal revenues needed for the health care overhaul, Magaziner said. Reports that it could require up to $150 billion in taxes "are just crazy," he added. He said the mandate would have to be phased in gradually so it did not cause a big loss of jobs. "You can't just say to a company that's paying nothing, `You know next year you got to pay 8 percent of your payroll for health care,' or something like that, whatever the number is, because that would be too much for them," said Magaziner. He said afterwards the 8 percent was "just a number pulled out of the air." But Hillary Rodham Clinton, who chairs the White House's health care task force, also reportedly told consumer groups in a private meeting last Thursday the administration was considering a mandatory new payroll levy of 7 percent on employers and 2 percent to 3 percent on workers for health. It would replace, not add to, the existing health insurance premiums that most companies and workers pay. Asked after his speech whether a 2 percent to 3 percent levy was likely for workers, Magaziner said, "We're still looking at that, but that kind of relationship is not out of the question."

o Officials at the Department of Education are defending President Clinton's criticism of the Student Loan Marketing Association (Sallie Mae). The President's frustration with Sallie Mae surfaced in a Chicago speech yesterday in which the President criticized it for being excessively profitable. Sallie Mae was created by Congress to buy government-guaranteed student loans from lenders. Addressing high school students yesterday, the President sought to explain the process: "Typically, the student takes out a loan from a bank and then the bank takes the note that you sign when you get the loan and sells it to a corporation. The corporation then makes a profit by packaging the loan for someone else. And the loan is ultimately guaranteed by whom? All of us, the American taxpayers. So, nobody can lose any money on it. Now the biggest middleman in the whole thing is called Sallie Mae ... Last year, lenders made a total profit of a billion dollars on student loans. Sallie Mae made $394 million. And between 1986 and 1991 -- listen to this, this is a group that helps us get student loans, right? Which should not be a big profit making operation. The costs to this corporation went down by 21 percent and its profits went up by 172 percent. But you didn't get the benefits of it. Someone else did." According to a key official at the Department of Education: "I think the President's comments were entirely appropriate in light of what Sallie Mae has been doing. [Sallie Mae] has been sending out letters to college presidents with, basically, their own view as to what's going to happen and dramatically overstating the cost of doing these loans. They've been extremely aggressive in trying to put the most negative face on direct student loans that they could possibly put. There are two sides to this, and so far, the only thing that has really been out there is their side. And I think the President and the [Education] Secretary Riley just feel as though it's time that our side of the story got out." The President's Student Loan Reform Act of 1993 would "substitute Federal borrowing from more expensive private capital and eliminate excess profits to lenders," said the source. Under the plan, direct lending will be phased in over four years, beginning in academic year 1994-95. The goal is to begin with four percent of new loan volume in the first year, 25 in the second, 60 percent in the third, and full implementation in the 1997-98 academic year.

o White House officials, while pleased that the momentum against NAFTA has been slowed, are still concerned about the balancing act they must pull off in striking side agreements on environment and worker rights. "Getting [Michigan Congressman] Sandy Levin to ask his colleagues to wait and see on the side agreements was big," reports one source. Adds a senior White House official: "We're encouraged that there's major movement on the Hill. ... And the side agreements are coming along pretty well."

But now that an early Democratic revolt has been held off, the White House must court GOP Senator John Danforth, who is now threatening to withhold Republican support if the environmental side agreements give away too much to US environmental groups. One senior White House staffer close to the negotiations describes the balancing act this way: "We are aggressively trying to come up with some good agreements on the environment issue...that will fulfill our campaign promises...but we also want to be sensitive to Danforth's concerns."

o Assistant Secretary of State Winston Lord told Chinese officials they must comply with established guidelines on human rights, arms proliferation and trade if China is to keep its Most Favored Nation trade status, according to a US official in Beijing. Lord, the most senior State Department official to visit China under the new Administration, concluded one-and-a-half days of talks today with Chinese Vice Foreign ministers Tian Zengpei and Liu Hu laqiu. President Clinton must decide by June 3 whether or not China's Most Favored Nation status should be renewed.

o Expanded tax incentives for entrepreneurial investments will be included in the Ways and Means tax bill regardless of the lack of clear support from President Clinton, according to congressional sources. A House tax writing staff member told the Bulletin: "It is clear that the Administration will not move any further to support the original Bumpers-Matsui bill, so we are going forward on the original bill although the White House will not oppose us. There is virtually no opposition in committee, and we are looking for the $300 million in offsetting cuts to make up the difference between the original version and the Administration proposal." Although President Clinton endorsed the Bumpers bill during the campaign, the Administration's actual proposal to reduce, and in some cases eliminate, capital gains taxes for qualified investments in entrepreneurial businesses had a number of restrictions on the size of company, status of investors, and how much one investor can exclude in profits, which supporters believed made the incentives ineffective. According to this source: "People have given up trying to figure out why the White House never came around to reclaim the President's leadership on this issue, but it doesn't matter anymore."

o The Clinton Administration's proposal for community development banks is expected within the next two weeks, according to several congressional sources. One Democratic congressional staffer told the Bulletin: "Although the White House has been quite secretive about the details of the proposal, from what we have learned, it will build upon existing institutions such as credit unions, micro-enterprise funds, and other community-based lending. That does not mean new institutions cannot be created. But there will not be some big new Federal agency creating 100 brand new community development banks. Rather, an interagency group will draw from a pot of money to provide technical assistance grants, lending guarantees, and perhaps some seed money." As to the relationship of such a proposal to last week's enterprise zone policy announcement, this source explained: "It looks like the competitive proposals to receive an enterprise and/or an empowerment zone designation will be given preferences for including some form of existing or new community-based lending institution." Another congressional source, referring to the potential for larger banks to invest in community lending institutions to satisfy their Community Reinvestment Act (CRA) requirements, emphasized: "We have been assured that there will be no such buy-out ability for CRA responsibilities."

o President Clinton is scheduled to travel to California next week to campaign for passage of his economic package. Clinton plans to travel at least once a week to make similar appeals for public support, and is scheduled to travel to California on Monday and return on Tuesday. Clinton is scheduled to deliver three commencement addresses in the coming weeks, one in New Hampshire on

May 22, at West Point on May 29 and at Boston's Northeastern University on June 19.

PERSONNEL:

o Kay Kahler, a reporter with Newhouse News, will move to the Department of Education where she will direct the public affairs operation. At Newhouse, Kahler covers criminal justice and other legal matters as well as the Supreme Court. She also chairs the National Press Club's Board of Governors.

POLITICAL ANALYSIS:

This morning, the Bulletin invites former House Majority Whip Tony Coelho, now an investment banker with Wertheim Schroder in New York, to discuss President Clinton's relationship with the Congress.

BULLETIN: Overall, how has President Clinton gotten along with Congress?

COELHO: The relationship with the Leadership in the Congress has been excellent on the Democratic side. I have always felt that Bill Clinton and Tom Foley would get along extremely well and that Mr. Mitchell and Mr. Gephardt would become major lieutenants, advocates, and confidants of his. That all seems to be working out. The difficulty is a disciplined agenda. Congress needs that and depends upon it. There are a lot of things President Clinton wants to do to reverse the last 12 years, and he has got to be careful not to try and do it too quickly. He has to let people know what his overall goals are for the next four years, and hopefully eight years he is in office. But he should make it clear that he is not going to try to do everything in the first year.

President Clinton's relationship with the Republican Leaders are decent. The problem is that Mr. Dole has told everyone that he is thinking of running for the presidency, and that immediately puts a cloud over the relationship on both sides. The interpretation and actions of that relationship are interpreted by colleagues and the press at all times, and that makes things difficult.

BULLETIN: As Majority Whip, you were in charge of party discipline. How do you think President Clinton, for his part, has done on that score?

COELHO: In the House, President Clinton can basically leave matters of discipline to the Leadership because of the margin of Democratic control. He does have to do some courting, however, because the Democratic Party has not held the White House in the past 12 years. That presents difficulties because the Democratic Members are going to be more demanding than they should be. The overwhelming majority of the Democratic Members have not served with a Democratic President, so they will need to get acclimated to it.

On the Senate side, things are a bit different. The situation there is similar to what it was in 1981-82 where there are two separate groups to be courted -- moderate-to-conservative Democrats and moderate-to-liberal Republicans.

Those two groups control the agenda, not unlike they did in 1982, when Ronald Reagan had to deal with the "gypsy moth" Republicans and "boll weevil" Democrats. The success of the Clinton Administration's legislative agenda will depend on how well they handle those relationships.

BULLETIN: Some loyal congressional Democrats have complained that opposing President Clinton sometimes gets you more in the end than supporting him. Is this a danger for Clinton?

COELHO: This is the tough test of being a Democratic President. Our umbrella is pretty broad, and any time you support one group, the other group gets upset. But the thing that both the Leadership and the White House have to remind themselves of is that it is important to have a Democrat who gets us moving in a direction toward which we, as Democrats, are committed to moving. While we might not always agree on any particular issue, having that Democrat in the White House and moving in that direction is the important thing. Somebody has to reason with the Membership that way as opposed to being specific on any given issue. I also think you have to be tougher. Some of the liberals want Clinton to be liberal all the time and the conservatives want him to be conservative all the time. That's not how Bill Clinton got elected and it is not how he can govern. On some issues, he'll have to be a little more liberal and on others he'll have to be a little more conservative. The factions in the Party have got to understand that and work with him to govern. It's going to take education and discipline and discussion to understand this.

BULLETIN: Moving from tactics to strategy, where do you come down on trying to get an economic reform program passed alongside a major health care reform bill?

COELHO: You must remember that Bill Clinton was elected President with 43 percent of the vote. He has not only to keep that group together but also to bring in another seven percent of the vote before 1996. The overriding issue for the American people is whether or not Bill Clinton can make some changes and provide some hope in regard to a variety of things. But the number-one thing is to get the government working again -- control the deficit in a way that it doesn't appear to people that we are losing control as a government. That's still the issue out there. If I were Bill Clinton, I would work on that primarily, and let other things wait until I could convince the people that I had that under control. As Clinton himself put it, I would be a "laser beam" on that issue.

After that, I would look at health care. Health care is one of those things that will become a signature of his Administration. The people want and expect him to do something. It is a "fear issue" -- people are scared to death they or their loved ones won't be able to get the health care they need. So it is a legitimate issue for President Clinton to have at the top of his list. But I don't think it's as important as providing confidence to the American people that he can control the system of government -- that he can turn this thing around.

President Clinton has all the makings of being a success. He just needs to get some discipline and some victories. If he can, this guy is going to do fine. To a great extent, Washington is Washington. The press corps always overreacts to events, both negative and positive. Right now, they are saying that Clinton is in very serious political trouble. In an important sense, that is no different from their saying that George Bush would be re-elected with no trouble. President Clinton should not govern based on the snapshots taken by the press. He needs to govern on a continuous basis. Poll numbers will rise and fall. His own discipline and his ability to convince the American people that his goals are good for them needs to be the focus of effort. Right now, President Clinton is convincing people of his personal values -- hard work and honesty -- which go a long way in being able to lead. I have felt for a long time that Bill Clinton has the potential to become one of the great presidents. I still believe that. They have struggled in getting acclimated to the office, but there is plenty of time.

LAST LAUGHS:

o Jay Leno: "At an auction over the weekend to help raise money for his daughter Chelsea's school, President Clinton bid on a puppy ... but he dropped out at 3,500 bucks. ... He was outbid by $200. Now, let's think about it. You've gotta say to yourself, what kind of guy would outbid the President of the United States for a little puppy that his daughter Chelsea had her heart set on? Boy, that Bob Dole is unbelievable, isn't he?" (NBC The Tonight Show)

# # # #

Clinton Presidential Records
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Collection: 2017-1069-F

Bucket: Default

Creation Date: 1993-05-27

Subject: Daily Report 5/27/1993

Creator: Stephen Willson WILLSON_S OMB

RECORD TYPE: FEDERAL (RECONSTRUCTED EMAIL)

CREATOR: Stephen Willson (WILLSON_S) (OMB)

CREATION DATE/TIME:28-MAY-1993 11:13:00.00

SUBJECT: Daily Report 5/28/1993

TO: Remote Addressee (PUBLIC@HIMD@MRGATE) (DEFAULT)
READ: UNKNOWN

TEXT:

DAILY REPORT FOR EXECUTIVES
Available each working day at 9:00 AM
Report for May 28, 1993

TODAY'S SUMMARIES

Clinton Confirms Extending MFN To China For Year With Conditions -- President Clinton confirms that he will renew most-favored-nation trade status to China for one year with conditions placed on achieving progress on human rights, and separately will negotiate trade and arms sales issues directly with the Chinese government. The president today is expected to issue an executive order outlining his decision and may host a morning White House event to make the announcement accompanied by Senate Majority Leader Mitchell, Rep. Pelosi and other lawmakers closely associated with the MFN issue. A-14

Dollar Slide Against Yen Continues; Summers Says Market Has Moved "Too Far" --A senior U.S. official says the market has moved "too far, too fast" as the dollar slide against the Japanese yen continued, reaching new lows and prompting intervention by the Federal Reserve. The New York Federal Reserve Bank intervenes three times in order to support the dollar against the yen, New York foreign exchange traders said. They bought dollars twice at 108.30 yen and again at 107.30/40, according to the traders. The dollar nevertheless closed lower than the previous day, at 107.75 yen, down from 108.50 yen May 26. A-18

U.S. To Impose Sanctions Against EC Over Telecom Dispute Beginning Today -- The United States will impose trade sanctions against the European Community beginning today for failing to open up its telecommunications market to U.S. firms, U.S. officials say. The officials, who decline to be identified, say that the sanctions would cost EC-based companies about $20 million a year in lost sales of various goods and services in the United States. EC External Economic Affairs Commissioner Brittan, in a written statement released in Brussels, says that the sanctions were "neither justified, wise nor necessary." He says he would begin consultations immediately on the "appropriate reaction" from the Community. A-22

EC Commission Will Seek GATT Panel On U.S. Countervailing Duties On Steel -- The European Community Commission announces it is asking for a General Agreement on Tariffs and Trade panel on cases involving U.S. countervailing duties on lead and bismuth carbon steel products from three EC member countries. The EC is protesting duties imposed Jan. 19 by the Commerce Department against products originating in France, Germany, and the United Kingdom, according to the Commission statement released in Washington . . . Meanwhile, at a press briefing in Brussels, EC officials criticize the "faulty methodology" used by the United States to impose the duties. A-27, A-3

Canadian House Of Commons Passes NAFTA Legislation -- The Canadian House of Commons passes legislation to implement the North American Free Trade Agreement. Passage of Bill C-115 by a 140-124 vote clears the way for consideration of the bill by the Senate, which is expected to pass it early in June. The government has said, however, that it might delay Royal Assent for the bill, the final stage in putting the legislation into effect, if similar implementing legislation is not ratified in the United States and Mexico before the NAFTA's scheduled Jan. 1, 1994, implementation date. A-15

Worldwide Business Optimism Shows Marked Improvement, D & B Survey Reveals -- Worldwide business optimism for higher second-quarter sales and profits increased significantly compared with first-quarter and year-ago levels, according to the latest Dun & Bradstreet Corp. quarterly survey of more than 11,000 executives in 16 countries scheduled for release today. "Worldwide business optimism for higher sales in the second quarter showed marked improvement," Joseph Duncan, vice president and chief economist, says, he says. A-1

Senate Banking Passes Government Securities Act Reform Bill -- The Senate Banking Committee passes a bipartisan bill that would reform regulation of the $4 trillion government securities market in response to the Salomon Brothers Inc. scandal and other abuses. The proposed "Government Securities Act Amendments of 1993" (S 422) is passed without amendment. A-12

Clinton's High-Speed Rail Plan Undergoes Fine-Tuning In House -- A House Energy and Commerce Subcommittee approves President Clinton's plan to invest about $1.3 billion in high-speed rail over the next five years. However, it restructures the plan's original funding figures to provide significantly less for magnetic levitation and other high-technology systems. A-24

Business, Labor Oppose Clinton Plan To Cut Trade Assistance -- President Clinton's plan to eliminate a program designed to help small- and medium-sized firms adversely affected by foreign competition runs into strong opposition at a hearing of the House Ways and Means Trade Subcommittee. Business representatives laud the trade adjustment assistance program, joined by an AFL-CIO economist who said that while the program is "not even a finger in the dike" given the magnitude of job losses in the manufacturing sector. A-25

House action on omnibus budget reconciliation bill (HR 2264) G-4

TEXT

Budget enforcement provisions related to creation of deficit-reduction trust fund and new entitlement spending controls, as passed by House L-1

NOTICE TO SUBSCRIBERS

This report will not be published May 31, when federal government offices are closed for Memorial Day.

ALSO IN THIS REPORT

* Employment -- New claims filed with state agencies for unemployment insurance benefits were unchanged from their revised level of 340,000 for the week ended May 22, the Labor Department's Employment and Training Administration says. N-1
* Help-Wanted Ads -- The volume of help-wanted advertising in major U.S. newspapers was unchanged in April after showing small signs of improvement at the beginning of the year, according to a Conference Board report. A-2
* Monetary Policy -- The weekly average federal funds rate, a key short-term indicator of Federal Reserve policy, rose by 6 basis points to 3.07

percent in the week ended May 26 from 3.01 percent the previous week, a spokesman for the Federal Reserve Bank of New York says. A-17

Business Confidence

WORLDWIDE BUSINESS OPTIMISM SHOWS MARKED IMPROVEMENT, D & B SURVEY REVEALS

NEW YORK--Worldwide business optimism for higher second-quarter sales and profits increased significantly compared with first-quarter and year-ago levels, according to the latest Dun & Bradstreet Corp. quarterly survey of more than 11,000 executives in 16 countries scheduled for release today.

"Worldwide business optimism for higher sales in the second quarter showed marked improvement," Joseph Duncan, vice president and chief economist, said. "With the exception of a few bleak spots, most notably Japan, sales optimism rose in most of the countries surveyed," he said.

Duncan noted that in line with gains in sales optimism, D & B's International Survey of Business Expectations found that profits and employment optimism also rose over first-quarter and year-ago levels.

In Europe, overall expectations for higher second-quarter sales increased from the record low reported in the first quarter, the survey noted. With the exception of declines in the Netherlands and Belgium, all European countries surveyed posted increases in second-quarter sales optimism. Executives in the U.K. were among the most optimistic of the European countries surveyed. In the U.K., optimism for second-quarter sales, profits and employment showed marked improvement, rallying from marked weakness in the fourth quarter of 1992.

"The survey results confirm that U.K. business leaders believe that the recession in Britain has ended," Duncan said. "In fact, the U.K. sales optimism index is at the highest level since the third quarter of 1989."

Expectations for higher second-quarter sales and employment in Germany rose slightly, but profits optimism slipped to minus 1 from 1 in the first quarter of 1993.

As the survey results for Germany revealed, the expectations in France for higher second-quarter sales and employment rose, but profits optimism fell. That index dropped to zero from 3 in the previous quarter.

Expectations for higher second-quarter sales in Japan fell to the lowest level since the marketer of business information and related services began its survey there in the first quarter of 1990. Furthermore, Duncan noted that the outlook for higher sales in Japan has fallen or remained essentially unchanged in each of the past 11 quarterly surveys.

However, profits optimism increased slightly, reversing the downward trend. The employment outlook in Japan also increased slightly.

Business expectations for higher second-quarter sales and profits in the United States rose well above year-ago and first-quarter levels.

"Driven by strong gains among manufacturers, the outlook for higher sales and profits continued to climb in the U.S., underscoring forecasts for steady and sustainable economic growth," Duncan said.

Duncan also noted that more U.S. firms expect to increase employment in the second quarter.

Pacific Indexes Gain

Second-quarter sales optimism in the Pacific region increased over last-quarter and year-ago levels. Optimism rose 17 points in Australia to 47, the highest level since the third quarter of 1989. However, sales expectations in New Zealand fell eight points to 57. In Japan, sales optimism slipped one point to minus 20 compared with last quarter and remains 17 points lower than its year-ago level of minus 3.

The survey showed that expectations for higher second-quarter profits increased sharply in Australia, while New Zealand posted a decline. In Japan, profits optimism rose six points to minus 27, but remained 10 points below last year's index.

Overall, expectations for higher second-quarter prices in the Pacific region fell slightly, driven by a steep decline in New Zealand. Second-quarter employment optimism in the region rose slightly, with New Zealand and Japan posting increases.

Expectations Mixed in Europe

Overall, the sales optimism index in Europe rose 10 points to 17 from the record low level of 7 in the first quarter of the year, but remained 15 points below year-ago levels. In the U.K., sales optimism rose sharply, with the index soaring to 42 from 17. Italy also posted a sharp increase, up 22 points from 17. Second-quarter sales optimism increased modestly in other countries surveyed, with the exception of the Netherlands and Belgium, which posted slight declines.

The profits optimism index for Europe overall was unchanged at zero. A year ago, the index stood at 16. On a country-by-country basis results were mixed. In the U.K., the profits optimism index rose to 21 from 17, the highest level since the third quarter of 1989. The profits index for Switzerland, while still in the negative range, posted the sharpest gain, rising 14 points to minus 22.

The second-quarter hiring outlook in Europe increased five points to minus 8 from minus 13 in the first quarter, but remained below year-ago levels. At the same time, the outlook for higher prices fell two points to a record low of 3.

North American Outlook Brightens

In North America the second-quarter sales optimism index rose nine points to 57 from 48 in the first quarter. Sales optimism rose in all three countries of the continent, with Canada posting the sharpest increase, up 15 points. Sales expectations in Mexico and the United States rose seven and six points, respectively.

The North American profits optimism index rose eight points to 49. In Canada, the profits optimism index jumped 12 points to 40. Expectations for higher second-quarter profits also increased in the United States and Mexico.

The second-quarter employment outlook rose six points to 17, with all three countries posting increases.

Methodology

The quarterly International Survey of Business Expectations is modeled on D & B's quarterly U.S. Survey of Business Expectations, which has been conducted in the United States since 1947. The survey participants are asked if the expect increases, decreases, or no changes in their sales, profits, prices, inventories, and employment in the coming quarter, compared with the same quarter a year ago. Results, according to the information provided by D & B, have proven to be highly accurate, with quarterly forecasts closely paralleling actual forecasts.

International Trade

MEXICO SPENT RECORD AMOUNT LOBBYING FOR NAFTA, STUDY SAYS

A study released May 27 called Mexico's lobbying effort on behalf of the North American Free Trade Agreement the largest single-country push ever to influence U.S. decision-making.

"The decision-making process for this historic legislation has been distorted by the recent infusion of tens of millions of dollars," according to Charles Lewis, chairman and executive director of the Center for Public Integrity, which released the study, The Trading Game: Inside Lobbying for the North American Free Trade Agreement.

Mexican government and business interests have spent at least $25 million in Washington to promote the development and enactment of NAFTA, Lewis told a press conference. In addition, Mexican officials estimate that Mexican interests will spend an additional $5 million to $10 million to promote NAFTA in 1993, he said.

The lobbying effort has also included the hiring of at least 33 former U.S. government officials, including former U.S. Trade Representative William Brock, Lewis said. It also includes two current high-level Clinton administration appointments, Charlene Barshefsky and Daniel Tarullo, he said. Barshefsky, who was nominated to be deputy U.S. trade representative, said at her confirmation hearing that she would recuse herself from matters dealing with Mexico.

In addition, Mexican interests have taken at least three members of Congress, a governor, and 48 congressional staff members on 12 separate fact finding trips to Mexico, Lewis said.

The effect of those trips, and the lobbying effort as a whole, has been an unfair skewing of the debate on NAFTA in favor of those who support the agreement, including U.S. business, he said.

The Center for Public Integrity is a non-profit research organization based in Washington. It receives 10 percent of its funding, about $40,000, from organized labor, and labor leaders Lane Kirkland and Owen Bieber are on its board, Lewis said.

However, Lewis said that the study was done independently of labor interests and that the center has not refrained from taking positions opposed by organized labor. He cited a critical study about then Commerce Secretary-designate Ronald Brown, who had the support of organized labor, as upsetting to labor representatives and a factor in decreased labor funding for the research organization this year.

Lewis said the study did not take a position for or against NAFTA, but sought to be critical of the process in which the agreement was drafted.

"The trade policy process should be open and it should be open earlier," he said.

Help-Wanted Ads

VOLUME OF HELP-WANTED ADVERTISING WAS UNCHANGED IN APRIL, REPORT SAYS

The volume of help-wanted advertising in major U.S. newspapers was unchanged in April after showing small signs of improvement at the beginning of the year, according to a Conference Board report scheduled for release today.

The board's seasonally adjusted help-wanted index registered 96 percent of its 1967 base in April, the same as in March and a point below February. In April 1992, the index reading was 90.

"After a very modest rise in job advertising at the start of this year, ad volume has again become very static," said Conference Board economist Ken Goldstein, in a statement.

"The graduating class of 1993 is facing a tougher labor market than those who graduated in the middle of the recession in 1991," he added.

Help-wanted ad volume increased somewhat in all regions of the country except New England, where the advertising level stayed the same. By individual city, ad volume increased in 59 percent of the labor markets surveyed, the board said.

The greatest increase in ad volume--10.4 percent--was recorded in the Mountain region (Denver, Phoenix, Salt Lake City). Other relatively strong gains were in the East South Central region (Birmingham, Knoxville, Louisville, Memphis, Nashville), where volume was up 7.7 percent, and in the Pacific region (Los Angeles, Sacramento, San Bernardino, San Diego, San Francisco, Seattle), where it was up 5.3 percent. Other regional increases were below 4 percent, the board said.

Although the index as a whole was unchanged, the increase in ad volume in the depressed Pacific region was good news, according to Goldstein. He predicted that employment in those Pacific cities will improve shortly.

The Conference Board surveys help-wanted advertising volume in 51 major newspapers across the country each month to gauge labor market conditions.

European Community

EC INFLATION REPORTED STEADY AT 3.4 PERCENT IN APRIL

BRUSSELS--European Community annual inflation remained steady at 3.4 percent through April, according to figures released May 27 by the European Statistical Office (Eurostat).

Although this figure for the rise in the consumer price index represents no decrease from the revised March-to-March inflation rate (lowered from 3.5 percent), "today's figures indicate a steady fall in Community inflation since last autumn," according to the agency.

The year-to-year figures for October were 3.9 percent, for November 3.7 percent, for December 3.6 percent, for January 3.6 percent, and for February 3.5 percent.

The drop is largely attributable to the lowest inflation rates for 33, 26, and 30 years in Denmark, the United Kingdom, and Ireland, respectively, the figures show.

At 1.1 percent, 1.3 percent, and 1.9 percent, respectively, these countries also showed the lowest yearly inflation rates through April, Eurostat said.

Annual rates for the rest of the EC countries were 2.1 percent for France; 2.4 percent for the Netherlands; 2.9 percent for Belgium; 3.8 percent for Luxembourg; 4.3 percent for Germany; 4.3 percent for Italy; 4.6 percent for Spain; 6.2 percent for Portugal; and 16.2 percent for Greece.

Eurostat also pointed out, however, the consumer price index for Europe as a whole rose by 0.4 percent from March to April.

This was the third consecutive month of such a rise, the report noted, and, if extrapolated over a year, would boost the annual inflation rate to 4.8 percent.

Such an increase in inflation is consistent with a slow upswing in the economy, as may now be occurring in some parts of Europe.

Indeed, the report says, the highest monthly rise in the CPI was in the U.K. -- 0.9 percent. It is the U.K. that is expected to come out of the European slump earliest.

The report also points out that the inflation rates for the same April-to-April period in the United States and Japan were 3.2 percent and 0.7 percent, while the comparable rates for the EC applicant countries were 3.9 percent for Austria; 2.6 percent for Norway; 5.1 percent for Sweden; and 2.6 percent for Finland.

International Trade

EC OFFICIALS CRITICIZE U.S. METHODOLOGY USED TO IMPOSE

COUNTERVAILING STEEL DUTIES

BRUSSELS--European Community Commission officials criticized the "faulty methodology" used by the United States to impose countervailing duties on imports of lead and bismuth steel from three EC countries, during a press briefing May 27.

Earlier in the day, EC Commission spokesman Peter Guilford had revealed that on May 19 the EC Commission had requested the formation of a complaint panel within the General Agreement on Tariffs and Trade to settle the dispute. He said that on June 4 the GATT's Subsidies Committee will decide whether to set up the panel. An EC official said establishing the panel "is almost automatic, although a contracting party can try to delay the process."

The dispute focuses on the March 4 ruling by the U.S. International Trade Commission imposing definitive antidumping and countervailing duties on imports of lead and bismuth steel from the United Kingdom, Germany, and France worth an estimated $90 million per year. The United States imposed duties on Brazilian steel as well. The decision imposed a combined 87 percent levy against French steel, of which 23 percentage points is the countervailing duty; a total 102 percent duty against German steel, of which the countervailing duty represents 17 percentage points; and 38.5 percent, of which 12.7 percentage points represent the antisubsidy tax, against British steel.

The EC Commission considers both the antidumping and countervailing duties unacceptable and unjustified.

In the hopes of resolving the dispute and as required by the GATT dispute settlement process, the EC and the United States have held a series of consultations over the past two months on both types of punitive duties. Although bilateral consultations regarding the antidumping decision are continuing, the EC decided May 19 to move to the next stage in the GATT procedure in regards to the countervailing duties by requesting the formation of a panel.

The EC Commission reserves its rights to ask for a similar panel to investigate the antidumping duties, Guilford said.

Following the formation of a panel, it will take three to nine months for a final determination.

Whatever the panel conclusion on subsidies, EC Commission officials said that "it will set a precedent" for the much bigger case involving the possible introduction of antidumping and countervailing duties on imports of flat steel products from the EC worth an estimated $1 billion. The Commerce Department will make its decision on provisional duties June 21, and the ITC will issue the final determination Aug. 5.

An EC official warned that "if the final determination [in the flat steel case] is as unpleasant as in the lead and bismuth case," and since "the principles and issues in the lead and bismuth case are broadly similar to the flat cases," then the EC will undoubtedly open a formal complaint procedure in the GATT as well.

Six Techniques Cited

In its request, the EC Commission has cited six techniques used by the United States to calculate the level of subsidization, which the EC Commission asserts "overstate the effect of any alleged subsidization of EC steel producers and thus violate express provisions of the GATT Subsidies Code."

Although the EC Commmission officials acknowledged that five of the six "are old issues," which the United States has used in other countervailing cases against other countries, they said one, concerning the calculation of the British subsidy, is new. This involves the U.S. decision that although the

U.K. company United Engineering Steel bought the lead and bismuth division of British Steel at full market value in 1986, the subsidies received by British Steel prior to that purchase are viewed as subsidies received by UES.

The EC Commission also criticizes the U.S. decision to take into consideration all subsidies received over the past 15 years. Not only does the EC Commission say that generally the depreciation period accepted by tax authorities for equipment and benefits is seven years, but during most of the period under review EC steel exports to the United States were subject to a strict voluntary restraint agreement.

Another criticism involves the U.S. decision "to reconstruct the value of the alleged subsidies" by taking into account, for example, interest payments that a company would have had to pay if it had taken out a loan rather than receive the subsidy. This calculation, an EC official said results in firms facing countervailing duties "which amount to up to three times the actual size of the subsidy."

"This methodology is quite weird," he said.

The fourth objection cited by the EC Commission concerns the U.S. calculation of subsidies to France's Usinor-Sacilor. In this case it calculated the level of subsidies received by the global company and applied it to the revenues of the purely French domestic operation, giving an inflated view of the level, an EC official claimed.

The fifth criticism reveals the difficulty in drawing the line between a purely commercial investment and a subsidy and reflects the EC position that an inside investor will be willing to invest more in a company to protect his initial investment than an outside investor with no stake in the company. For the EC the inside investor is not therefore subsidizing the company as the United States seems to claim, the official said.

The final point focuses on the inclusion in the subsidy calculation of debt canceled by private German banks as part of a debt rescheduling plan worked out by the German government for Saarstahl.

Bananas

Meanwhile, a GATT panel report has ruled that the EC's maze of national restrictions on imports of bananas discriminates against Latin American producers in favor of former European colonies in Africa, the Caribbean, and the Pacific. In response to questions about the report that surfaced May 26 Guilford said May 27 that "the EC Commission is in the process of reviewing it."

The GATT Council will debate the report during its next meeting June 16 when the EC Commission may simply argue that the report's conclusions are irrelevant because starting July 1 an EC-wide arrangement will replace the national regimes which range from the totally unrestricted German market to the markets of France, Spain, Greece, and Portugal, which are basically closed to Latin American imports.

The new EC-wide system will allow the import of 2 million tons of Latin American bananas a year at a levy of 100 European currency units (about $120). Any quantities imported above this level would be subject to a duty of ECU850 ($1,020) per ton.

In March the EC Commission blocked the formation of a panel to investigate this new regime, which Latin American producers assert is discriminatory as well.

International Trade

LITTLE PROGRESS MADE IN GATT TALKS TO EXPAND AIRBUS AGREEMENT, SOURCES SAY

GENEVA--A subcommittee of the Civil Aircraft Committee of the General Agreement on Tariffs and Trade tried at a meeting May 26-27 to find ways of extending the 1992 U.S.-European Community Airbus agreement to a wider range of nations, but little progress was made, GATT sources said.

Canada and Japan, the major countries pushing for a widening of the agreement, put forward proposals for widening it into one covering all 22 nations in the GATT Civil Aviation Agreement but no decision was made. The subcommittee decided to meet again later.

The United States and the EC struck a deal last year ending eight years of squabbling over subsidies to the Airbus Industrie consortium. The United States had charged that the four members of the consortium had paid $26 billion over the years in subsidies.

Germany, one of the partners, was singled out in particular because of the compensatory terms the German government had offered Deutsche Airbus, the German member of the consortium, to protect it against exchange rate fluctuations. The other members of the consortium are Britain, France, and Spain.

The 1992 U.S.-EC pact prohibited future government subsidies on production and capped development support to 35 percent of the expenditure on any future program.

Since then other nations have asked GATT to get them involved in a wider-ranging version of the pact, and the talks here May 26-27 were held with this in mind. However, the talks amounted to little more than an exchange of views according to participants. Doubts expressed by the Clinton administration on the 1992 pact also cast a cloud over any future agreement in GATT, they said.

Canada and Japan were the most prominent of the nations asking for an extension of the pact to other nations, GATT sources said, but others who expressed an interest included Switzerland, Sweden, and Brazil. The discussion revolved around three major points, including new disciplines on direct government supports to civil aircraft such as the Airbus; indirect aid to such projects, which would include research and development and aid to military aircraft; and the issue of what should be done about existing subsidy schemes such as the EC's for the Airbus.

All those points were debated with no conclusions reached, GATT sources said. They said Canada made the firmest proposal, namely that a civil aircraft section should be written into the draft final act of the Uruguay Round trade talks, defining subsidies and in line with GATT's existing Subsidies Code.

The meeting will convene again in late June, however no date was set.

International Economics

CANADIAN INDUSTRIAL PRODUCT PRICE INDEX UNCHANGED IN APRIL 1993, DATA SHOW

OTTAWA--Canada's industrial product price index stood at 112.3 (1986=100) in April, Statistics Canada reported May 27.

That represented no change from the revised level of 112.3 for March and followed a 0.1 percent increase the previous month, the federal statistics agency said. Indexes for 13 of 21 major product groups showed increases in April, while four decreased and four were unchanged.

On a year-to-year basis, the index was up 3.9 percent, up from the 3.6 percent year-to-year growth reported in March. It was the 11th consecutive year-to-year gain in the index.

The lumber, sawmill, and other wood products index continued to be a dominant factor, showing a decrease of 2.8 percent after five consecutive monthly increases, but remaining 31.9 percent higher than in April 1992. The decline was largely attributed to a 5.3 percent decrease in softwood lumber prices.

The index for automobiles, trucks, and other transportation equipment increased 0.6 percent in April, a turnaround from the 0.3 percent decline in March and representing year-to-year growth of 6.4 percent, up from the 4.2 percent reported the previous month. The chemicals and chemical products index fell 0.6 percent compared to March, but remained 1.1 percent higher than a year earlier.

Primary metal products showed a 0.5 percent decrease, the third consecutive monthly decline and representing a decrease of 2.2 percent in the index compared to April 1992. The index for meat, fish, and dairy products increased for the 16th consecutive month, 0.5 percent in April, and was up 4.7 percent compared to a year earlier.

Raw Materials Prices Up

Statistics Canada also reported May 27 that its raw materials price index for April 1993 increased 1.5 percent to 113.8 (1986=100), a larger increase than the 1.2 percent increase reported for March. That represented a year-to-year increase of 11.2 percent compared to April 1992, up from the 10.9 percent year-to-year growth reported the previous month.

The RMPI excluding mineral fuels increased 1.7 percent in April compared to March, down from the 1.9 percent growth in March, representing year-to-year growth of 12.0 percent, up from the 9.2 percent increase reported the previous month.

The wood index increased 6.2 percent in April, down from the 7.4 percent growth in March and representing year-to-year growth of 37.7 percent, up from the 32.5 percent reported a month earlier. The mineral fuels index was up 1.1 percent in April, a turnaround from the 0.4 percent decline in March, representing year-to-year growth of 9.5 percent, down from the 11.5 percent reported the previous month.

The vegetable products index increased 1.4 percent, up from the 0.6 percent growth in March, representing year-to-year growth of 5.6 percent, up from the 3.5 percent a month earlier. The animal and animal products index posted a small gain of 0.4 percent in April, the same size growth as in March, representing year-to-year growth of 6.1 percent, down slightly from the 6.3 percent year-to-year growth reported in March.

The non-ferrous metals index decreased 2.3 percent, a smaller decrease than the 2.4 percent in March, representing a year-to-year decline of 2.1 percent, a larger decline than the 1.3 percent reported the previous month. The ferrous metals index increased 0.5 percent in April after no change in March, representing year-to-year growth of 7.0 percent, up from the 6.2 percent in March. The non-metallic minerals index was up 0.3 percent, following no change in March, representing year-to-year growth of 0.3 percent, down from the 1.4 percent reported the previous month.

International Economics

JAPANESE RETAIL SALES DROP 4 PERCENT IN APRIL FROM 1992, ACCORDING TO MITI

TOKYO--Japan's retail sales in April fell 4.0 percent year-to-year to 1.73 trillion yen (about $16.03 billion), compared with a 7.5 percent drop in March, the Ministry of International Trade and Industry said May 27.

April's decline marked the 11th straight month that the key consumer spending indicator contracted year-to-year. However, a MITI official said the fall was much less than in recent months. "It suggested actual spending is not as bad as reported" by the press, he said.

Another feature in April was that summer clothing and other seasonal product sales were affected by unusually cool spring, as well as price cuts to reflect the yen's appreciation against the dollar, the official said.

He also said March's drop was distorted by the fact that there were four Sundays this year compared with five in March last year.

Department store sales fell 5.7 percent to Y890.4 billion ($8.24 billion) year-to-year, compared with an 8.5 percent drop in March. Supermarket sales were down 2.1 percent at Y841.7 billion ($7.78 billion), improving from a 6.1 percent drop.

April's clothing sales fell 5.2 percent; foodstuff and beverages were down 1.1 percent.

SEC

HOUSE SUBCOMMITTEE CLEARS SEC REAUTHORIZATION BILL

The House Energy and Commerce Telecommunications and Finance Subcommittee May 27 reported to the full committee without amendment legislation reauthorizing the Securities and Exchange Commission.

The legislation--HR 2239--would provide the agency $281.9 million for fiscal year 1994 and $317.7 million for fiscal year 1995. Those figures are the amounts Acting SEC Chairman Mary Schapiro requested at a May 19 hearing before subcommittee Chairman Edward Markey (D-Mass).

At that hearing, Schapiro detailed some of the significant initiatives undertaken by the commission since its last authorization hearing in May 1991.

Pensions

SEC WANTS SECTION 401(k) INVESTORS TO GET MORE INFORMATION, OFFICIAL SAYS

The Securities and Exchange Commission would like to see defined contribution plan participants receive the same type of investment information as that provided to other types of investors, an SEC official said May 26.

Thomas S. Harmon, chief counsel for the SEC, told the Association of Private Pension and Welfare Plans that the agency believes defined contribution plan participants are no different from people who invest savings out of pocket or those who invest in individual retirement accounts. Like other investors, defined contribution plan participants bear the consequences of their investment decisions and have the right to certain types of disclosure that the securities laws require, Harmon said at APPWP's legislative policy conference.

SEC Commissioner J. Carter Beese Jr. has stated publicly his belief that many plan participants lack the expertise to adequately invest their defined contribution funds. Beese said SEC plans to propose legislation that would require employers to provide employees with investment prospectuses and shareholder reports.

No Turf Battle Intended

SEC's interest in this area does not reflect a turf battle with the Labor Department or the Internal Revenue Service nor is it a "naked attempt to grab power," Harmon told conference participants. Rather, SEC is concerned that the pension industry has changed dramatically since the enactment of the Employee Retirement Income Security Act, he said.

Securities laws exclusions were put in ERISA because defined benefit plan sponsors made the investment decisions and they bore the risk of their actions, while participants did not, Harmon argued. Now, however, with more employees participating in defined contribution plans, employees bear the consequences of their investment decisions. They need to be on equal footing with other types of investors, Harmon said.

The Labor Department issued final regulations in October 1992 on self-directed participant account plans under Internal Revenue Code Section 404(c). The regulations govern the types of information that must be provided to plan participants as well as information that need only be made available to them.

Alan D. Lebowitz, deputy assistant secretary for the Pension and Welfare Benefits Administration, who discussed Section 404(c) during a panel discussion with Harmon, noted that Section 404 (c) is not a mandatory provision but "a protection--a limitation to one degree or another." In the absence of Section 404(c), "the normal kinds of ERISA liabilities and responsibilities continue to attach," he said.

"It's hard to tell whether the formulation works well or not," Lebowitz said. "We just have to wait and see." The Labor Department is satisfied that the approach taken in Section 404(c) rules makes sense, he added.

Among other requirements, the regulations state that a plan participant who invests in any vehicle that is subject to the Securities Act of 1933 must be given immediately a copy of the most recent prospectus available to the plan.

Mutual funds, which must be registered under the Investment Company Act of 1940, are required to supply prospectuses, but other types of investment products such as bank or insurance company pooled products may not face such requirements. There is no reason why plan participants who choose these types of investments should not be given a financial statement or some other type of disclosure, Harmon said.

Both Beese and Commissioner Richard Y. Roberts have taken an interest in the disclosure issue, Harmon said. Beese is "hoping for a marketplace solution" through greater education of plan participants, while Roberts is more inclined to fix things legislatively, he said. Legislation has been drafted but cannot be introduced until after SEC's new commissioner receives Senate confirmation and decides what he wants to do with the commission, Harmon said.

"We're not advocating disclosure for disclosure's sake and it is not our goal to require countless disclosure documents be put into participants' hands," Harmon said, "particularly if they are full of legalese." SEC does not believe prospectuses and financial reports are perfect, but hopes that through "periodic tinkering" with its prospectus and shareholder report requirements the documents will yield more meaningful disclosure, he said.

Plan sponsors will be reluctant to take on regulatory burdens from yet another federal agency in addition to the Labor Department, IRS, and the Pension Benefit Guaranty Corporation, Steve O'Neill, Cooper Industries Inc., told Harmon. Increased administrative burdens help to drive companies out of the pension system, he said.

Futures Trading

REFORM, NOT MERGER IS ANSWER TO REGULATORY PROBLEMS, ALBRECHT SAYS

Acting Commodity Futures Trading Commission Chairman William Albrecht told reporters May 27 that he does not support the regulatory reform plan recently proposed by the Chicago Mercantile Exchange under which seven financial regulatory agencies would be consolidated into a single cabinet-level department.

"Bigger isn't necessarily better," Albrecht stated.

In other remarks at the National Press Club, Albrecht said that because he is leaving the commission, he was taking the opportunity to discuss his tenure at the CFTC "without having to worry about reappointment."

In April, Albrecht announced that he would leave the agency in August to return to teaching at the University of Iowa. Asked in February if he would like to remain as head of the agency, Albrecht responded that in the "highly unlikely" event he was approached by the Clinton administration, "I'd be interested."

A commissioner since 1988, Albrecht was elected acting chairman in the wake of Chairman Wendy Gramm's Jan. 22 departure.

Super Regulatory Model

Albrecht called the press conference to respond to the super-regulator model recently proposed by CME Chairman Jack Sandner. The proposed "Federal Financial Regulatory Service"--FFRS--would regulate financial services according to particular products, services, and markets, and would be organized along functional lines, consolidating seven government agencies, including the CFTC and the Securities and Exchange Commission.

According to Albrecht, reform within the system, not consolidation, is the answer to current regulatory problems. In particular, he cited three changes in the market since the commission's creation that necessitate internal reform: advanced technology; increased institutionalization of customers; and heightened international futures market competition.

"These three changes mean we have to seriously address what we're doing and how we're doing it," Albrecht stated. He analogized the remodeling of the commission to that of a house: "You still have the foundation there, but you don't know how solid it is."

Albrecht also stressed the need to increase financial regulatory efficiency and flexibility, saying he is not sure that "that neat-looking chart of [Sandner's] is going to bring that about."

Specifically, Albrecht said he dislikes Sandner's proposal because "a super-agency scares me. My experience with government and other agencies is that bigger isn't necessarily better." Albrecht went on to note that individual congressional committees are often fiercely protective of their interests, and that competition among regulators is not always readily dissolved.

Commissioner Sheila Bair, on the other hand, has termed it "time to give . . . serious consideration" to the idea of a single regulator. In remarks to the National Futures and Options Society last December, Bair nonetheless stopped short of endorsing the concept.

Legal Gymnastics

Next, Albrecht mentioned the effect of the 1992 Futures Trading Practices Act, which provides the commission authority to exempt certain instruments from CFTC regulation without having to determine if they are futures contracts. According to Albrecht, the CFTC has used this power three times, to avoid the "legal gymnastics" otherwise involved in classifying swaps, hybrid instruments, and energy products. In general, however, the act has added to the commission's regulatory burden, Albrecht claimed.

In this connection, Albrecht cited two recent proposals for regulatory exemptions the commission staff is currently considering--the CME's petition to exempt its rolling spot currency futures and options contracts, designed to permit the exchange to compete with over-the-counter cash market instruments; and a rule proposal to exempt electronic trading by large commercial traders.

The commission will release proposals involving these two issues sometime this summer, according to Albrecht. Saying he he personally supports both deregulatory efforts, Albrecht explained that regulators in general often resist such attempts, because "letting go is hard to do."

Commission Personnel

Asked about the fact that two seats on the commission currently are vacant, and a third--his own--is about to become so, Albrecht acknowledged his concern about "what will happen to the commission" if new appointees lack the knowledge or ability to serve. He also commented that "we don't want a lot of people from the Hill. Their view is to make Congress happy. and that's not our job."

Albrecht subsequently clarified his remarks, saying that in his view, it is "important to get some people on the commission who"--like himself--"don't want to be Washingtonians."

In terms of his own role as acting chairman, Albrecht said he feels "quite comfortable getting these things [the two exemptive proposals] out for comment," but that he "wouldn't feel comfortable moving on them" because of his upcoming departure from the agency.

Pensions

GICs ATTRACT LARGE PERCENTAGE OF PLAN ASSETS, WYATT SURVEY FINDS

Guaranteed investment contracts attracted the largest percentage of investment in a recent Wyatt Co. survey of defined contribution plans, outpacing company stock and index funds by large margins.

The survey found that plans had an average of 51 percent of assets in GICs, compared to 26 percent of assets in company stock and 9 percent in index funds. Plans had 3 percent of assets in equity growth funds, 2 percent of assets in money market funds, and 2 percent of assets in bond funds. Balanced funds and diversified funds held 2 percent of assets each, while "other" investments had 2 percent of assets and aggressive equity growth funds had 1 percent of assets. Real estate funds accounted for less than 0.5 percent of assets.

The survey data were taken from the 1992 Wyatt COMPARE data base of employers, with 545 mid- and large-sized companies taking part in the survey.

Plan participants' attraction to lower-risk investments, however, could make it more difficult for them to amass enough savings to earn a comfortable retirement, a Wyatt consultant noted. "Individually directed 401(k) accounts typically earn two to three percentage points less than large professionally managed pension plans," Richard Joss said in a news release. "That spread can mean the difference between a comfortable and not-so-comfortable retirement."

Plans with assets of $100 million of less had a lower percentage of assets in both GICs (45 percent of assets) and employer stock (13 percent of assets) than did plans with assets exceeding $100 million, the survey found. Such plans had 11 percent of assets in equity growth funds, compared with larger plans' 2 percent of assets.

The survey was prepared for Wyatt use and is not available to the public.

International Trade

U.S.-JAPAN EXPECTED TO NEGOTIATE ON ACCESS TO PENSION, INSURANCE MARKET

TOKYO--The United States and Japan are expected to hold negotiations on foreign access to Japan's pension and insurance markets, government sources said May 27.

Tokyo hopes to reach agreement on the issue, as well as the problem of foreign access to bond underwriting, before the July 7-9 annual economic summit in Tokyo to prevent it from becoming a subject on the summit agenda, the sources said.

The United States is demanding that Japan lift a series of existing regulations imposed on investment management services in managing pensions, allow foreign banks and securities houses to serve as lead underwriters for corporate bonds, and let life insurance salespersons sell products of several insurers, according to the sources.

Those are mostly valid demands, Katsutaro Aizawa, International Pension and Economic Research Institute president, said. Japan authorized investment management companies to offer their services in late 1989, injecting competition to the pension funds management market that had been dominated by life insurers and trust banks alone until then.

But investment management firms were limited to managing "new money," or new pension premium income, that is entrusted by plan sponsors to fund management firms after 1989, Aizawa said. "Old money," which is pooled in life insurers' general accounts and trust banks' discretionary accounts and represents the bulk of the $1.4 trillion aggregate pension assets, remains under life insurer and trust bank management.

Furthermore, investment management companies are limited to managing no more than one-third of each plan sponsor's gross assets. In addition to these restrictions, there are other "agreements" that investment management companies are required to follow, such as an agreement that a salesperson of an investment management firm usually will visit plan sponsors with a salesperson of a "keiretsu" securities house, industry sources told BNA.

Life insurance salespersons currently are allowed to sell products of a single insurance underwriter even though most of them are working on an individual commission basis.

The European Community separately is demanding that Japan shed its de facto ban on foreign insurers selling casualty insurance policies for aircraft and ocean-going ships. And both the United States and EC are demanding that Japan unravel the existing barrier between life and casualty insurers.

During the upcoming meeting Japanese officials are expected to argue that the barrier is helping foreign insurers sell specialty policies, like cancer insurance sold by American Family Insurance, Aizawa said.

Health Care

HEALTH SUBCOMMITTEE MEMBERS SPAR OVER COMPETENCE OF STATE AGENCIES

Ranking members of the House Ways and Means Health Subcommittee sharply differed May 27 over the competence of states to regulate the health insurance industry--a debate prompted by the release of a General Accounting Office survey of state insurance commission practices.

During a hearing on the role of state insurance regulation in health care reform, Health Subcommittee Chairman Fortney H. Stark (D-Calif) charged that state insurance regulators "are the handmaidens of insurance companies" and have a poor record of protecting consumers from insolvent companies. Stark argued that strong federal oversight and uniform standards are needed under any health reform plan calling for state-based health insurance purchasing cooperatives.

To support his contention, Stark cited a General Accounting Office study he personally requested indicating that many states have failed to adopt model regulations issued by the National Association of Insurance Commissioners. By not adopting the standards, state legislatures have not given regulators the authority they need to do their job, he said.

However, Rep. Bill Thomas (R-Calif), ranking Republican on the subcommittee, sharply criticized GAO's methodology, charging that the study "trashes state's ability to play a role" in insurance regulation without any basis of comparison.

"[The study] is a compilation of numbers which means very little to me capacity of states," Thomas said.

GAO Cites Wide State Variation

Leslie G. Aronovitz, GAO's associate director for health financing issues, human resources division, told the committee that GAO's study does not make any conclusions about the performance of insurance departments or advocate any approach to insurance regulation. Rather, it merely notes there are wide variations in state insurance departments' regulatory authority, oversight, and resources, she said.

Specifically, GAO's survey of state agencies found that resources committed to health insurance regulation vary widely, ranging from 4 percent to 57 percent of their budgets, Aronovitz said. The number of full time staff devoted to health insurance also varies significantly, ranging from 1 to 153 among the 28 states giving responses, GAO's study notes.

The study also found that many states have not adopted voluntary NAIC models addressing health insurance regulation, even though the guidance has been in existence for five years, Aronovitz said. For example, 19 states have not adopted NAIC's model regulation for identifying insurers in poor financial condition and 16 states have not adopted standards on how insurance companies must determine cash reserves for paying future claims.

The role of state insurance departments in regulating health care coverage is becoming more limited as increasing numbers of employers self-insure under the Employee Retirement Income Security Act, which exempts self-insured firms from state requirements, Aronovitz noted. Currently, only about 24 percent of health care is paid for by private insurance regulated by state insurance departments, she said.

As Congress debates various health reform proposals, it should consider carefully what role state insurance departments are expected to play, taking into account the wide variation in existing legal authorities, regulatory activities, and resources, Aronovitz concluded.

Rep. Earl Pomeroy (D-ND), a former NAIC commissioner who presented his views to the subcommittee, generally agreed with the objections raised by Thomas, calling the GAO study "a worthless document" for evaluating state competence.

However, Pomeroy said he supported Stark's view that federal oversight is necessary to ensure that all states to implement and enforce insurance standards. While state flexibility is desirable in health care reform, the federal government should have the ability to monitor and preempt state actions if certain threshold levels are not met, he said.

Environment

GOVERNMENT SHOULD TURN TO ECOFORESTRY TO MAINTAIN FEDERAL FORESTS, GROUP SAYS

To maintain the long-term health of federal forests, the U.S. government needs to move away from standard industrial logging procedures and turn to cutting methods that recognize woodlands as ecosystems, a foresters group said May 27.

Representatives of the Ecoforestry Institute said at a news conference they were scheduled to meet with Clinton administration and congressional representatives May 27. They said they want to influence the administration's plan for the old-growth forests of the Northwest.

Specifically, they want ancient forests established as reserves, with lands surrounding them and connecting them to be restored to woodlands. Principles of ecologically sustainable forestry should be applied to all other types of federal woodlands, according to the institute. The organization is a U.S. and Canadian network of commercial foresters who use alternative methods for harvesting forest products.

Institute Director Mike Barnes said that instead of using standard industrial logging procedures such as clearcutting, ecoforesters try to work with nature to grow healthy forests that maintain their biological diversity.

"What industrial forestry does is liquidate the whole store" by cutting most or all of a forest at one time, he said. "We're bankrupting our forests."

In ecoforestry, on the other hand, a woodland's capital is left untouched while the forest's increase or interest is harvested, Barnes said.

Those practicing ecoforestry initially reap a smaller yield than commercial forestry, he explained. They do not cut the largest trees but the "middling" or weaker ones, he said.

"We leave the larger trees as a genetic and seed base for the forest," he said. In a few years' time, this practice pays off and the forester can log regularly and sustainably without cutting down the whole woodland, Barnes argued.

In addition, ecoforesters focus on a diversity of woodland products, not just timber. Mushrooms, huckleberries, medicinal herbs, decorative plants, and firewood can be harvested from a biologically diverse forest, he said.

Also at the news conference, Rep. Elizabeth Furse (D-Ore) endorsed the efforts of the Ecoforestry Institute. The methods the institute promotes can help maintain employment in forest communities, she said.

Furse said ecoforestry practices also should be used on private lands. "We must provide incentives for the cooperation of private landowners in order to affect any real, long-term forest solution for the Northwest."

Andy Kerr, director of conservation for the Oregon Resources Council, said the draft report on the April 2 forest summit is expected to be given to President Clinton by June 2.

But he said the crucial deadline the administration faces in the battle between endangered species and communities dependent on lumbering in the Pacific Northwest is July 15. That is the day that Forest Service and the Bureau of Land Management are required by a federal court to produce a draft environmental impact statement on commercial cutting of old-growth national forests that are home to the endangered spotted owl, Kerr said.

The U.S. Court of Appeals for the Ninth Circuit recently set the July 15 deadline for the draft EIS in the Seattle Audubon Society case against the Forest Service, he said.

Securities

ROBERTS SAYS MSRB SHOULD CONSIDER POLITICAL CONTRIBUTION DISCLOSURE RULE

The Municipal Securities Rulemaking Board should consider adopting a rule requiring municipal securities underwriters to disclose political contributions, Securities and Exchange Commissioner Richard Roberts said May 26.

In remarks to a San Francisco meeting of the Public Securities Association, Roberts also noted that the SEC's Acting Chairman Mary Schapiro is "very interested in this subject," and that he "would not be surprised to see some

Commission activity, short of rulemaking, in this area in the near future."

Roberts' remarks were released in Washington, and expand on his recent congressional testimony on the issue.

Integrity

While the connection between political contributions and the municipal securities underwriting business has caused concern for many years, Roberts said, "recent press reports have heightened this concern, as well as heightened public awareness in general, over the role of political contributions in the municipal underwriting process."

Those press reports "call into question the integrity of the municipal securities market and of the business activities municipal underwriters use to obtain underwriting contracts," the commissioner observed. "While it may have been a long time in coming," Roberts said, "a regulatory response to this issue is now necessary in my opinion in order to restore integrity to a marketplace supposedly known for its integrity."

"I imagine that if the MSRB were to pursue a rulemaking response, and I believe it should, the rule would most likely require some form of disclosure of political contributions," the official told the meeting.

He suggested that the MSRB could limit any disclosure requirement to cover only contributions to those officials who are responsible for underwriter selection decisions and "could further limit the requirement to contributions to officials whose decisions involve non-competitive underwritings."

SEC Should Defer To MSRB

Roberts noted that the MSRB's Rule G-20 prohibits brokers and dealers from providing any gift or gratuity in excess of $100 per year to any person other than an employee of the broker or dealer. Thus, municipal securities dealers that make illegal payments to obtain underwriting business probably violate G-20, Roberts said.

However, he continued, to date the MSRB "has not interpreted Rule G-20 or any of its other rules to apply to political contributions. Historically, state law regulated such contributions and was relied upon for oversight in this area."

"I believe that the MSRB does have the authority to adopt a rule requiring underwriters to disclose political contributions," Roberts declared. The rule would have to address the "manner and content of disclosure and should not conflict with existing disclosure requirements of the states," the commissioner said. He suggested that the rule "could require an underwriter to report political contributions when it is required to deliver official statements pursuant to Rule G-36." The MSRB could make the information available to interested parties through the MSRB's Municipal Securities Information Library system, Roberts added.

The commissioner also noted that the MSRB would "have to consider whether a disclosure rule would be unduly burdensome on underwriters and on competition." Finally, Roberts observed that the SEC "could engage in rulemaking action to enhance disclosure of political contributions." However, he said, "I believe that it would be preferable to defer to the MSRB with respect to any rulemaking initiatives on this issue, at least for a reasonable time."

Food Safety

MEAT INSPECTION INITIATIVES ANNOUNCED BY ESPY AFTER SLAUGHTERHOUSE REVIEW

Agriculture Secretary Mike Espy May 27 announced five initiatives to upgrade meat inspection, in light of a special review of 90 beef slaughterhouses prompted by the January E. coli outbreak in the Pacific Northwest and futile attempts to trace the source of the E. coli contaminated meat.

The five meat inspection upgrades include the continuation of special plant reviews begun in March. The review process, including quarterly reports and explanation of corrective actions taken by the Food Safety and Inspection Service, would be expanded to all meat and poultry products.

The upgrades require publication within 90 days of a guide for meat and poultry industry adaptation to the Hazard Analysis and Critical Point system, a food safety system, and the hiring of a public health advisor for the FSIS.

Espy also called for the publication of criteria needed for rapid microbiological in-plant tests. In-house test results are currently available in two to three days, as opposed to the target of 24 hours, Pat Stolfa, associate deputy administrator for science and technology, said.

The final initiative is a proposal for changes in inspection laws, to be completed within 30 days of a June 18 regional meat inspection hearing, the last of six in an ongoing series. An expected proposal is increased identification of animals to allow for easier trace-backs from the plant to a specific farm, Espy said.

The unannounced USDA review, which specifically focused on potential contributors to E. coli bacteria and other contaminates, forced the temporary closure of 30 of the tested plants for four hours or more. Twelve were found in violation after a second review and placed under progressive enforcement action, which withdraws USDA inspection from a plant, forcing it to close if it does not comply. Twenty-six of the 90 slaughterhouses reviewed during March and April had no negative findings.

The Agriculture investigation of the E. coli outbreak narrowed the source of the contaminated beef to nine slaughterhouses, but could not pinpoint the actual source, according to Espy. Because of the inspection system in place when the outbreak occurred, "it is unlikely that we will ever be able to narrow it down to a single source," Espy said.

The report on the USDA investigation of the E. coli outbreak released May 27 concluded it was likely the procedures at the plants "were in accordance with federal standards but not sufficient to prevent the pathogen from contaminating the meat."

International Trade

HOUSE SUBCOMMITTEE HEARS CONFLICTING VIEWS ON NAFTA

The House Government Operations Employment, Housing, and Aviation Subcommittee May 27 heard divergent views on what the North American Free Trade Agreement would mean for U.S. workers and the economy.

Thea Lee, of the Economic Policy Institute, blasted the pact, saying that it would accelerate job losses and put downward pressure on U.S. wages. Her testimony stood in sharp contrast to that of U.S. Council for International Business Senior Vice President Robert Morris who argued that NAFTA means more U.S. exports to Mexico and more high paying jobs for the United States.

Institute for International Economics Senior Fellow Jeffrey Schott commented that NAFTA's job impact has been greatly exaggerated. NAFTA will have a small but positive impact on the U.S. labor market, he remarked, saying that the efficiency gains NAFTA would bring over the long run are much more important. In his view, the solution to economic problems lies mostly outside of trade agreements.

Contraction Of Trade In Short-Term

Rejection of NAFTA would lead to a sharp contraction in U.S.-Mexico trade over the short term, Schott said.

In an opening statement, Committee Chairman Collin Peterson (D-Minn) said that the winners under NAFTA are "the big businesses who want the freedom to move anywhere in the world to take advantage of the lowest wages, at the least risk to their investment." He charged that multinational corporations are using NAFTA to get around laws they do not like. Peterson chairs the anti-NAFTA congressional caucus.

In contrast, Rep. Ronald Machtley (R-RI) characterized the agreement as vital for the future economic well-being of the United States.

PPG Industries executive John Reichenbach Jr. warned that as many as 6,000 U.S. jobs may be lost in the flat glass industry if NAFTA is passed without achieving tariff parity for flat and automotive glass products. "The U.S. flat glass industry would be placed at a competitive disadvantage because Mexico would continue to charge a prohibitive 20 percent tariff on imported glass while the U.S. tariff would be eliminated almost entirely in 1994," he cautioned.

Testifying on behalf of the council and USA-NAFTA Inc., Morris stated: "If you are against the NAFTA, you are against creating a level playing field with our third largest trading partner, and our second largest market for manufactured goods. If you are against NAFTA, you are for maintaining an economic relationship that is blatantly one-sided and harmful to this country." The current status in Mexico is one where U.S. companies are impeded from free operations and U.S. exports are reduced in many ways, Morris said.

Morris' testimony sought to dispel what he characterized as myths regarding NAFTA. In his view, one of the most misleading myths is that NAFTA will divert investment from the United States to Mexico, derailing the U.S. economy. Commenting that investment to Mexico must be kept in perspective, Morris said that Mexico is a small country compared to the United States and is not as attractive as the United States and other developed countries are for most forms of investment. "Thus, there is no reason to fear that our industrial base will be left to rust in favor of investment in Mexico," he stated.

In other remarks, Florida Farm Bureau board member Mary Lefils expressed "grave concerns" over NAFTA, saying that the Florida Farm Bureau is "adamantly" opposed. The bureau is also convinced that the side agreements "cannot materially improve this agreement," she said.

EPI's Lee challenged figures which have been cited by U.S. Trade Representative Mickey Kantor to promote the agreement. According to Kantor, U.S. trade with Mexico supports 700,000 jobs; if NAFTA is passed, that figure will rise to 900,000 jobs but, if NAFTA is defeated, the United States will lose 400,000 jobs. "These numbers are extremely misleading and speculative. They have no legitimate place in the policy debate," Lee said.

Studies Made Misleading Assumptions?

Meanwhile, EPI President Jeff Faux and Pat Choate, director of the Manufacturing Policy Project, held a news conference to discuss what they called misleading assumptions on which many studies in support of NAFTA have been based.

Faux said that past projections of net U.S. job gains from NAFTA were based on assumptions of full employment in all NAFTA nations and no capital transfer between the United States and Mexico. "They were uniformly wrong," Faux said.

In fact, the current U.S. trade surplus with Mexico is supported by a surplus in capital goods, Faux said. The United States is in a trade deficit with Mexico in terms of consumer goods, and that can only worsen as more consumer goods are produced in Mexico with the aid of the large amount of U.S. capital goods, he said.

"The stimulus that we're getting now in the capital sector clearly will be short-lived," Faux said.

Another study, Faux said, assumed that investment in Mexico would increase Mexicans' earnings and create a large consumer base, but it also assumed that none of the investment would come from the United States in such a way that it would cost U.S. jobs.

Choate said that studies claiming that job gains are likely from NAFTA reached that conclusion through the use of mathematical models, which are unable to calculate a number of important factors, such as the effect of internal Mexican investment.

The economists urged reliance on Jobs At Risk, a Manufacturing Policy Project study released last month by Ross Perot. The study identified 10 states as those with the most production jobs at risk because of NAFTA. But Faux cautioned against the blithe acceptance of any NAFTA-related statistics.

"The real point is that you can't trust any of these numbers," Faux said. "Even the numbers I'm giving you you shouldn't trust unless you look at them very, very carefully."

Banking

FED APPROVES COLORADO ACQUISITION, SAYS BANK MARKET INCLUDES PART OF UTAH

The Federal Reserve Board May 26 approved a bank holding company application despite protests that one element of the deal will inconvenience bank customers in a small Colorado community.

In a decision that drew a dissent from Fed Governor Wayne Angell, the Fed settled on bank market boundaries that included a city in Utah.

The transaction involved Colorado institutions. The Fed approved the application of Rio Blanco Holding Co. to take on bank holding company status by acquiring Rio Blanco State Bank.

In addition, the Fed gave Rio Blanco State Bank the go-ahead to acquire the Bank of Rangely, in Rangely, Colo., a community in the northwest portion of the state that has a population of 2,278.

But to do that, the Fed had to meet its statutory obligation of ensuring that the proposal would not substantially lessen competition in any relevant banking markets.

In this case, the Fed said, the relevant market includes Vernal, Utah, which is located 52 miles from Rangely.

Some Residents Protest

The acquisition plan prompted protests from several residents of Rangely, as well as from customers and shareholders of the Bank of Rangely.

They said the acquisition of the bank would raise loan rates and prices for bank services, and claimed it would inconvenience Rangely residents by forcing them to seek alternative services from competitors 50 miles away.

But the Fed said its drawing of market boundaries is reasonable, given the geography and the way Rangely residents already do their transactions.

According to the Fed, some Rangely residents already commute to Vernal on a regular basis, because Vernal has a wider array of good and services.

Surveys also indicated that Vernal is a reasonable alternative for banking services, with more than half surveyed saying they would move their banking business there if dissatisfied with services in Rangely.

The Fed added that Rangely residents would have to travel twice as far to reach a Colorado community that matches Vernal's size.

Angell dissented, however, saying he sees no reason to draw the market's boundaries beyond Rangely itself.

"Because this merger would eliminate the only other competitor in the Rangely banking market, I am constrained under the relevant statutes to vote to deny the proposal," he said.

Securities

SENATE BANKING COMMITTEE APROVES GOVERNMENT SECURITIES ACT REFORM BILL

The Senate Banking Committee approved May 27 a bill that would reform regulation of the $4 trillion government securities market in response to the Salomon Brothers Inc. scandal and other abuses.

The proposed Government Securities Act Amendments of 1993 (S 422) was passed without amendment.

The bill had been introduced Feb. 24 by a bipartisan group, including the committee chairman, Sen. Donald Riegle (D-Mich), Sen. Christopher Dodd (D-Conn), the securities subcommittee chairman, and Senator Alfonse D'Amato (R-NY).

Last year Salomon agreed to pay $290 million to settle Securities and Exchange Commission charges stemming from revelations in 1991 that officials of the firm had participated in submitting false bids in government securities auctions.

Among other measures, S 422 would permanently reauthorize the Treasury Department's rulemaking authority for government securities dealers. It would also clearly prohibit the use of false or misleading statements in connection with offerings of government securities.

A substantially different companion bill in the House -- the proposed Government Securities Reform Act of 1993 (HR 618) -- was introduced Jan. 26 by Rep. Edward Markey (D-Mass), chairman of the House Energy and Commerce Telecommunications and Finance Subcommittee.

Renewed Authority

The U.S. government securities market is the largest securities market in the world. It includes Treasury debt securities and securities issued or guaranteed by federal government agencies, securities guaranteed by the Government National Mortgage Association and the Federal Home Loan Mortgage Corp., and securities issued by the Student Loan Marketing Association and the Farm Credit System.

There are more than $2.75 trillion in marketable Treasury securities currently outstanding, and the average daily trading of Treasury securities by the primary dealers is approximately $130 billion, according to Banking Committee staff. Spreads are commonly 1/128th of 1 percent for institutional trades in two-year notes, indicating an extremely liquid and efficient market. Interest rates on Treasury securities are used as a benchmark for rates for home mortgage loans, consumer loans, and business loans.

Bill's Provisions

S 422 would amend the 1934 Securities Exchange Act. It is designed "to ensure the efficient and fair operation of the government securities market, in order to protect investors and facilitate government borrowing at the lowest possible cost to taxpayers, and to prevent false and misleading statements in connection with the offerings of government securities."

The bill's findings section includes a statement that rules promulgated by the Treasury Department pursuant to the Government Securities Act of 1986 have "worked well to protect investors from unregulated dealers and maintain the efficiency of the government securities market."

Accordingly S 422 would remove the "sunset" provision in current law, under which Treasury's authority to write financial responsibility (capital) and certain other rules for government securities dealers expired Oct. 1, 1991. Treasury requires this renewed authority in order to act on rules to establish higher minimum capital standards for government securities brokers and dealers, according to a Banking Committee staff memorandum. Treasury also wants to move forward with rules to require notification for large capital withdrawals from a government securities dealer, the staff noted.

The House version of the bill would move the sunset date to Oct. 1, 1997.

Sales Practices

The government securities market is the only securities market where all investors are not protected by sales practice rules, such as rules against churning of accounts by brokers, excessive markups and unsuitable recommendations, according to a staff memorandum. S 422 would create a structure for sales practice rules for government securities dealers, Dodd explained at the markup.

In the case of banks that are government securities dealers, the appropriate banking regulator would be authorized to write rules "necessary to prevent fraudulent and manipulative acts and practices and to promote just and equitable principles of trade." The National Association of Securities Dealers would be authorized to write these rules for securities firms that are government securities dealers, subject to SEC approval. This provision would essentially eliminate the current prohibition on the application of NASD sales practice rules to government securities transactions.

Consultation Required

However, both bank regulators and the SEC would have to consult with Treasury before approving sales practice rules. The rule could not be approved if Treasury were to determine that it would:

* adversely affect the liquidity or efficiency of the government securities market or
* impose any unnecessary burdens on competition.

The House measure does not contain this specific standard by which Treasury's determinations would prevent promulgation of a rule. In both S 422 and HR 618, however, an "emergency" determination by the SEC would permit the agency to take expeditious or summary action.

Another provision of the Senate bill would affirm SEC rulemaking authority to require government securities broker-dealers who are not members of the Securities Investor Protection Corp. to disclose the lack of SIPC coverage to their customers.

Salomon Legacy

S 422 would direct the Treasury, the SEC, and the Federal Reserve to monitor and evaluate the effectiveness of GOVPX and other private sector information processors that disseminate government securities price and volume information. The report would be submitted to Congress 18 months from enactment.

This study would be narrow in comparison to the study called for in HR 618. The latter study would cover the regulatory system for government securities and would be due March 31, 1997. HR 618 would also ask the General Accounting Office to conduct an additional study, considering, among other matters, the effectiveness of the amendments made by the legislation.

As part of the legacy of the Salomon Brothers scandal, S 422, like HR 618, includes a provision making it clear that any false or misleading written statement in connection with bids for or purchases of a government security related to an offering of government securities is a violation of the law. This recommendation was endorsed by the SEC, the Fed, the Federal Reserve Bank of New York, and Treasury, among others, in their Joint Report on the Government Securities Market, issued in 1992.

Dodd emphasized at the Senate Banking Committee markup that "every taxpayer in this country is affected by this legislation . . . conditions in the Treasury market determine the cost to the taxpayer of financing U.S. government operations."

Other House, Senate Differences

S 422 does not contain an array of provisions that are included the companion House measure. Among other provisions not included in S 422, HR 618 would grant the SEC authority to adopt recordkeeping and reporting rules for government securities dealers. In addition, HR 618, unlike S 422, would provide the SEC with two tiers of backstop authority to assure that adequate transparency in the government securities market--not including mortgage-backed securities--could be maintained or achieved if private sector efforts fail.

Also, S 422 does not include, as HR 618 does, a grant to Treasury of authority to write rules requiring government securities brokers and dealers to report to regulators on large positions of government securities.

In hearings before the House subcommittee, then-chairman of the Securities and Exchange Commission Richard Breeden asserted that the federal securities laws could be seriously compromised unless the SEC were given new authority over the government securities market, which HR 618 would provide. Officials of the Fed and the New York Federal Reserve Bank testified strongly against granting more authority to the SEC.

International Trade

CLINTON CONFIRMS EXTENDING MFN TO CHINA FOR YEAR WITH CONDITIONS

President Clinton said May 27 he will conditionally renew most-favored-nation trade status for China for one year, and will separately negotiate trade and arms sales issues directly with the Chinese government.

An administration official told BNA the extension of MFN will be conditional on an improved human rights record.

The president today is expected to issue an executive order outlining his decision and may host a morning White House event to make the announcement accompanied by Senate Majority Leader George Mitchell (D-Maine), Rep. Nancy Pelosi (D-Calif) and other lawmakers closely associated with the MFN issue.

Clinton, during a two-hour live broadcast from the Rose Garden on "CBS Morning News," said in response to an audience question that he has decided to extend most-favored-nation trade status to China for one year "because I want to support modernization in China and it's a great opportunity for America there."

The Clinton administration this week consulted with members of Congress about its position on MFN, but the president, facing a June 3 deadline, had not publicly confirmed his decision before May 27.

The president said he wants to make clear to the Chinese government that "there has to be some progress on human rights and the use of prison labor."

U.S. trade differences with China and disputes about arms sales will be negotiated "directly with them," he said.

"I think they will appreciate the gesture I'm making, but I hope they understand that the United States just can't turn its back on the abuse of lots of people, and especially the use of prison labor and just choking people off when they say their piece," he continued.

In trying to explain the U.S. position, the president said China is moving from communism to a market economy, but "they still put political prisoners in jail. They still, we think, have used prison labor to make products. And we have some other problems with them."

An administration official, speaking on background, told BNA that Clinton's executive order will make MFN conditional upon progress in the areas of political prisoners, use of prison labor to produce goods, rights of free expression, China's relationship with Tibet, and "a variety of others."
White House Communciations Director George Stephanopoulos said May 27 the president will place seven conditions on MFN with China and include "differentiations on how you meet them."

The language of the executive order, the official said, will make clear that the administration is not including nuclear non-proliferation and arms sales issues, as well as trade goals, as conditions for MFN, but expects to see results on these fronts consistent with existing legislation and trade agreements. Separating the arms and economic issues from human rights maintains the historical intent and use of MFN status, according to the official.

The White House believes the executive order is consistent in its intent with proposed legislation in the Senate and House sponsored by Mitchell and Pelosi, the official said. An announcement was delayed this week to allow for three days of consultation with lawmakers on Capitol Hill, the official added.

Mitchell-Pelosi Legislation

The Mitchell-Pelosi legislation (S 806, HR 1835) would have linked MFN renewal for China to progress in trade and weapons non-proliferation as well as human rights issues.

Under Title IV of the Trade Act of 1974, the Jackson-Vanik amendment, non-market economies must meet freedom-of-emigration requirements, or have them waived by the President, in order to have most-favored-nation status renewed every year. MFN status was first granted to the People's Republic of China Feb. 1, 1980.

China's MFN status has been extended every year since then on a presidential waiver. Congress can rescind that waiver authority, and with it, China's MFN status.

Rep. Sam Gibbons (D-Fla), chairman of the House Ways and Means Subcommittee on Trade, has scheduled a hearing on China's MFN status June 8. One or more members of Congress are expected to introduce resolutions disapproving China's MFN status, Gibbons said in a statement.

Reaction In Beijing

There was no immediate Chinese comment on Clinton's decision, which was learned late May 27 in Beijing, but earlier in the afternoon at a weekly press briefing Foreign Ministry spokesman Wu Jianmin reiterated China's opposition to conditions on its MFN status.

"The MFN status is not a favor offered by one side to the other rather it is the basis for normal trade between two countries and the position of the Chinese government on opposing attaching any conditions to the MFN status has not changed," Wu said.

Asked if he welcomed earlier reports in U.S. newspapers that Clinton was trying to soften conditions Congress has proposed on China's MFN and if this might temper any retaliation, Wu said the Chinese government's "position for opposing any conditions attached to the MFN status is a firm one."

Chinese officials have not said how they will retaliate to conditional extension of MFN, but Zhu Mincai, chief of the information department at the Ministry of Foreign Trade and Economic Cooperation told BNA April 23 "because MFN is a mutual arrangement, if they put conditions on MFN the other side will have the right to do something similar."

Damage To U.S. Interests

John Hart, president of the American Chamber of Commerce in Beijing, told BNA two hours before Clinton's decision "my concern is the damage is already done."

"It has to have the wrong psychological effects, its the uncertainty caused by this annual exercise that's the real damage, I don't know if you can measure the amount of losses caused by that," he said.

Asked if to comment on Clinton's attempts to soften conditions Hart said "from a commercial basis, as long as we're the only ones doing it you're still going to be left with this uncertainty."

Asked if riots earlier in the week in the Tibetan capital of Lhasa had embarrassed the Chinese government before the MFN decision, Foreign Ministry Spokesman Wu Jianmin said "what happened in Lhasa is an internal affair of China."

"MFN status is a matter between China and the United States," Wu continued. "I don't hope that you should try to link the different questions."

Environment

POLLUTION PREVENTION URGED AS PART OF DRINKING WATER ACT REAUTHORIZATION

The National Drinking Water Advisory Council advocated a greater focus on pollution prevention in reauthorization of the Safe Drinking Water Act in a report submitted to the Environmental Protection Agency May 26.

The report was submitted to Martha G. Prothro, acting EPA assistant administrator for water. EPA had asked the council to provide specific recommendations for the agency to consider in its discussions on the reauthorization of SDWA.

The Clinton administration has proposed a drinking water state revolving loan program similar to the program for financing waste water treatment facilities currently operating under the Clean Water Act.

The council recommended that Congress allow local and regional governments to spend up to 5 percent of states' revolving fund allocation for wellhead protection and other measures to safeguard drinking water sources.

Funding should be restored for local demonstration projects, and state wellhead programs should be funded at $10 million per year at both the state and local level, the report said.

A General Accounting Office report released in May recommended that EPA and Congress consider providing federal money for wellhead protection programs, "in light of their preventive orientation and focus on protecting precious drinking water supplies."

The council also recommended ensuring comprehensive state protection of ground water. To this end, principles and strategic activities of comprehensive state ground water protection programs should be incorporated into the proposed SDWA reauthorization, the report said. Annual funding of $10 million should be allocated to finance state development and implementation of these measures, the report said.

In its recommendations for protecting drinking water supplies, the report said all federal environmental statutes, including SDWA, as they are reauthorized, should be amended to direct explicitly protection of source waters from contamination.

In addition, ambient water quality standards should be established for source water and used as a trigger to initiate additional watershed or ground water recharge area prevention measures, according to the report.

Further, efforts should be made to "provide comprehensive watershed protection and management as the bridge to holistically protect ambient water quality," the report said.

Incentives For Consolidation

The council also recommended incentives for consolidation of water systems. The SRF should be structured to remove obstacles and create incentives for viable systems to consolidate with non-viable or less viable systems, according to the report.

Such incentives should encourage the attraction of private capital to help systems meet the increasing requirements of SDWA and minimize the economic impact on government agencies, the report said. Obstacles to consolidation or restructuring, such as liability for past non-compliance and federal taxes of contributions in aid of construction, should be identified and eliminated, the report said.

The council also proposed funding for non-viable drinking water supply systems. Non-viable systems, for example, should be eligible for SRF funds to help them achieve viability and compliance, according to the report. A separate set-aside also should be established to fund programs that help small state systems become viable, the report said.

The council also discussed how state drinking water programs can be maintained and strengthened.

The council recommended, for example, that the federal government provide at least 75 percent of the state program implementation costs for each new rule, "especially given that some states feel that they have not been able to impact the rules in a way that reflects the limits of their resources for implementation."

In addition, EPA should not require states to establish a long-term source of program funding, such as a fee system, as a condition of state authority to operate the federal SDWA program, the report said. Some states may decide to fund their program entirely from general tax revenues, while other states may elect lower-cost approaches than those prescribed in certain EPA rules, the report said.

International Trade

CANADIAN HOUSE OF COMMONS PASSES NAFTA LEGISLATION

OTTAWA -- The House of Commons passed at third reading May 27 legislation to implement in Canada the North American Free Trade Agreement.

Passage of Bill C-115 by a 140-124 vote clears the way for consideration of the bill by the Senate, which is expected to pass it early in June. Prime Minister Brian Mulroney's government has a majority in the Senate, with 51 Progressive Conservatives to 41 Liberals and six independents. The majority was strengthened by Mulroney's May 26 appointment of three new Conservative senators.

The government has said, however, that it might delay Royal Assent for the bill, the final stage in putting the legislation into effect, if similar implementing legislation is not ratified in the United States and Mexico before the NAFTA's scheduled Jan. 1, 1994, implementation date.

The vote at third reading came only a day after the government used its large majority in the House to stop an opposition filibuster aimed at delaying the third reading vote. A motion by the opposition Liberals to delay third reading of Bill C-115 for six months was also defeated.

International Trade Minister Michael Wilson took advantage of the debate on Bill C-115 at third reading to attack opponents of the trilateral agreement among the United States, Canada, and Mexico. Critics are wrong in suggesting that trade liberalization provides benefits for one country at the expense of another, he said.

"Expanded trade and investment benefits all those who engage in it," Wilson said. "Through trade liberalization, we both preserve and create jobs, and improve the prospects for Canadian companies to compete successfully worldwide. This is the proven strategy for growth and for improvements in Canadians' standard of living."

Trade statistics show the strength of liberalized trade, with Canada's merchandise trade surplus with the U.S. increasing 13.6 percent in 1992 compared to 1991 to a record C$17.7 billion (about $13.5 billion), he said. And a study by the C.D. Howe Institute showed that during the first three years after implementation of the U.S.-Canada free trade agreement, Canadian exports to the United States were strongest in those sectors liberalized by the trade deal, notably non-resource-based manufacturing, he said.

In addition to preserving the gains made by the FTA, the NAFTA opens up trade between Canada and the United States in a substantial number of new areas, he said. It offers improved access in financial services, adds land transportation to the list of liberalized sectors, and improves on the FTA's provisions for investment, services, dispute settlement and rules of origin, he said.

"These improvements give Canadian businesses new opportunities in the U.S. and Mexico and place Canadian business on an even sounder footing for expanding our exports in important offshore markets," he said.

Wilson dismissed as "myths" some of the criticisms of the NAFTA, specifically that it opens the way for exports to the United States of Canadian fresh water and that it will lead to significant reductions in Canadian jobs due to competition from low-wage Mexico.

He described as "absurd puffery" claims that the NAFTA gives the United States or Mexico any right to exploit Canadian water, saying that the government's 1987 Water Policy Act specifically prohibits large-scale exports of water through inter-basin transfer or diversion.

"Nothing in the NAFTA or any other trade agreement forces Canada to exploit our water resources or to export water. Until water enters commerce as a good, it is not covered by the NAFTA or any other trade agreement," he said. "Canadian governments, both now and under the NAFTA, have the freedom of action to regulate the exploitation of our water resources. Period."

Likewise, the NAFTA does not represent any new threat to Canadian jobs, which are already under pressure due to low productivity, recession-battered markets, protectionist trade barriers, inflation-driven prices, volatile exchange rates, and inward-looking business plans, he said.

"The NAFTA does not create competition. Canada is already competing against low-wage countries and high-wage countries throughout the world, and their markets are our hope for the future," he said.

Opposition To NAFTA Continues

Despite Wilson's assurances, opposition politicians in the House of Commons continued to criticize the government's decision to proceed with Bill C-115 before the completion of negotiations with the United States and Mexico on side agreements to the NAFTA on environmental and labor standards.

Liberal Leader Jean Chretien questioned why the legislation is being approved in the dying days of the Mulroney administration, just as signing of the NAFTA was one of former President Bush's final acts in office. "Now we're approving it in the dying hours of a prime minister. We have a lame duck prime minister and we had a dead duck President," he said.

In passing Bill C-115, the government is passing up another opportunity to gain bargaining leverage in the talks on environmental and labor side deals to the NAFTA, Chretien said. Both the United States and Mexico have agendas for what they want to gain from the parallel negotiations, but the Canadian government has never given any indication of what it hopes to gain, he said.

"They want to pass the law when they don't know the result of the (negotiations) yet. What will be the (trade) minister's bargaining position tomorrow?" he said.

Trade Minister Wilson has steadfastly rejected suggestions that the government is being foolish in proceeding with implementing legislation while the negotiations on environment and labor side deals are still underway. Bill C-115 is not at all relevant to the achievement of Canada's objectives in the side agreements, Wilson said during the third reading debate.

"The NAFTA is a good deal for Canada with or without side agreements. We are working hard for good agreements on environment and labor cooperation, but the value of the NAFTA to Canada is not conditional upon the conclusion of these additional agreements," he said.

"All that delaying our implementing legislation would accomplish, perversely, would be to deprive Canadian businesses and their workers of the certainty needed to finalize plans for taking advantage of the many opportunities opened by the NAFTA."

That view was also espoused by John Weekes, Canada's chief negotiator on the parallel agreements, at a May 21 meeting in Ottawa among the three chief negotiators. Canada sees the parallel negotiations as a good opportunity to obtain better agreement on environmental and labor standards, but does not see them as a precondition for proceeding with the NAFTA, he told reporters. "We like the NAFTA as it is," he said.

Chretien said that if his Liberal Party forms the government after the next federal election (which, according to recent public opinion polls, would be the likely result if an election were held today) he would not scrap the NAFTA as some NAFTA opponents have proposed but would try to renegotiate some sections of the deal to make them more equitable for Canada. "We cannot go back to square one," he said.

He proposed five conditions needed to put the NAFTA into a form that would be acceptable to his party -- renegotiation of environmental provisions; renegotiation of labor conditions; the same energy deal for Canada as has been given to Mexico; a definition and binding rules for subsidies; and a definition and binding rules for dumping.

And he rejected government suggestions that seeking renegotiation of those areas would require further concessions by Canada in other areas. "We don't have to give up anything," he said. "We're not asking for any privilege. We just want equality."

New Democratic Party Leader Audrey McLaughlin called the NAFTA "the sell-out of Canada," saying it would lead to the loss of thousands of jobs and represent a betrayal of Canadian families. She criticized the government for being too quick to accept the NAFTA, which she described as only one of a wide range of trade policy options for Canada.

McLaughlin also criticized the government for failing to listen adequately to Canadians' opinions of the NAFTA and trade liberalization in general. "The government cannot pass legislation by going to the people, so it will impose legislation by circumventing the people. This injustice will not be forgotten by Canadians," she said.

Spokesmen for both parties had earlier hinted, however, that they were not altogether displeased with the government's apparent rush to pass Bill C-115, as it would give the opposition parties a major plank for the federal election campaign.

"Frankly, I'm puzzled," Liberal trade critic Roy MacLaren said May 25. "There don't seem to be any real advantages to what they're doing, either to the national interest or to the domestic partisan advantage they were initially seeking."

And NDP Leader McLaughlin said May 25 that the rush to ratify NAFTA was serving an excellent issue "on a platter" to the opposition parties. "I don't subscribe to Machiavellian theories, but I can only wonder at their rush," she said.

Monetary Policy

EFFECTIVE FEDERAL FUNDS RATE RISES IN WEEK; M2 POSTS MODEST GAIN, N.Y. FED SAYS

NEW YORK -- The weekly average federal funds rate, a key short-term indicator of Federal Reserve policy, rose by 6 basis points to 3.07 percent in the week ended May 26 from 3.01 percent the previous week, a spokesman for the Federal Reserve Bank of New York said May 27.

The Federal funds rate is the interest rate charged by banks with excess reserves at Federal Reserve district banks to banks needing overnight loans to meet reserve requirements. The Federal Reserve sent a signal to the market Sept. 4 through open market operations that it was lowering the Fed funds target 25 basis points to 3.00 percent from 3.25 percent.

Short-term borrowing from the Fed by its member banks totaled $113 million on a daily average basis for the week ended May 26 compared with $95 million the previous week.

For the two-week maintenance period ended May 26, discount window borrowing totaled $104 million compared to the previous two-week period, when it totaled $142 million. Both figures are on a daily average basis.

The M2 monetary aggregate rose $2.4 billion to a seasonally-adjusted $3.51 trillion for the week ended May 17. The level of the M3 monetary aggregate dropped $1.7 billion to a seasonally adjusted level of $4.17 trillion while M1 increased $2.8 billion to $1.07 trillion.

The M1 measure of money includes currency, checking accounts and demand deposits, and traveler's checks. M2 includes the components of M1 as well as savings accounts of less than $100,000 and deposits in money market mutual funds. M3 includes the elements of M2 and also large time deposits, term instruments, and institutional money market funds.

Bank holdings of excess reserves rose to a daily average of $1.18 billion in the two weeks ended May 26, up from a revised $827 million for the two weeks ended May 12.

Excess reserves consist of total reserves that are not needed to meet reserve requirements. Excess reserves arise because depository institutions do not have perfect control of the level of their reserve balances.

Free reserves, on a daily average basis, totaled $1.08 billion for the two weeks ended May 26, up from a free reserve figure of $686 million for the two weeks ended May 12.

Depository institutions hold reserve balances at the Fed to meet their reserve requirements-on average over a two-week maintenance period which ends on a Wednesday. The reserve requirements are the amount of reserves depository institutions must hold against various types of funds and accounts. At the end of the two-week period, the Fed calculates both excess reserves and free reserves and then revises the data the following week.

Reserve Factors

There were no large adding factors for the week ended May 26, the New York Fed spokesman said.

Three factors drained reserves in the latest week. They were a decline of $834 million in other Federal Reserve assets, a drop in float of $509 million, and an increase of $173 million in Treasury deposits at the Fed.

Factors that add or drain reserves are those which increase or decrease by $100 million or more.

There were no large one-day net misses in the projections, the spokesman said.

International Finance

DOLLAR SLIDE AGAINST YEN CONTINUES; SUMMERS SAYS MARKET HAS MOVED 'TOO FAR'

A senior U.S. official May 27 said the market has moved "too far, too fast" as the dollar's slide against the Japanese yen continued, reaching new lows, and prompting intervention by the Federal Reserve.

The New York Federal Reserve Bank intervened three times on May 27 in order to support the dollar against the yen, New York foreign exchange traders said. They bought dollars twice at 108.30 yen and again at 107.30/40, according to the traders.

The dollar nevertheless closed lower than the previous day, at 107.75 yen, down from 108.50 yen May 26.

The New York Fed, which acts in concert with the U.S. Treasury in foreign exchange market interventions, declined to comment on the reports.

In Washington, Treasury Undersecretary Lawrence Summers read a statement to reporters prior to testifying at a 2 p.m. Senate Foreign Relations subcommittee hearing.

"The market has moved too far, too fast," Summers said. "We certainly are not seeking and the U.S. has no policy of promoting the appreciation of the yen. U.S. policy remains that excess volatility is counterproductive."

The Bank of Japan was a buyer of dollars overnight, but they were absent during New York trading time, one trader noted.

The dollar's decline against the yen accelerated this week with the release May 25 of a Treasury Department report which in part said that, if the yen's rise were to be sustained, it would "provide some counterweight to the forces tending to increase Japan's surpluses" (100 DER A-18, 5/26/93). Summers told reporters that the Treasury language was "descriptive" and not "prescriptive" and on May 26 stated before a House committee that the United States "is not seeking further appreciation of the Japanese yen" (101 DER A-7, 5/27/93).

The market was focusing on the comments made by Summers but there was a sense of incredulity about them. One trader said, "he's called the wolves too many times now." The belief in the foreign exchange market is that the Clinton administration wants a stronger yen, Earl Johnson, vice president at Harris Bank noted.

While the dollar may have bottomed out at 107.10 yen May 27, "we are in uncharted waters now and there may be a desire to test the resolve of the central bank," Johnson said.

"The softer dollar is a temporary phenomenon," the Harris Bank executive noted. Although the April durable goods number was flat (101 DER, 5/27/93, N-1) and the market anticipates a downward revision of the second quarter gross domestic product, to be released today, "I expect better numbers next week," he said. The dollar was also supported by speculation that the Federal Reserve would raise short-term interest rates, but "the economy is much too fragile for that," he said. That support should wane by week's end, Johnson said.

Lawrence Veit, international economist with Brown Brothers Harriman & Co., said in a May 26 analysis of the yen surge that "renewed confidence in a modest U.S. economic expansion will provide some support for the dollar, probably allowing the exchange rate to correct to about 114 yen." However, he added, "economic progress in Japan and that country's persistent current account surplus are forecast to gradually push the yen to new highs in 1994."

FTC

HOUSE SUBCOMMITTEE APPROVES LEGISLATION REAUTHORIZING FTC

A House Energy and Commerce subcommittee May 27 cleared by voice vote a three year reauthorization bill (HR 2243) for the Federal Trade Commission.

"The public deserves to have its premier consumer protection agency unhampered by outstanding, unresolved issues that are now--since their inception--almost two decades old," according to Rep. Al Swift (D-Wash), who introduced the bill on May 24.

"The Federal Trade Commission Act Amendments of 1993" would allow up to $99 million in FY 1995 for the Commission, whose authorization expired in September 1982.

The bill approved by the Transportation and Hazardous Materials Subcommittee lacks any provision that would bar the FTC from undertaking rulemakings based on its jurisdiction over "unfair" acts or practices. Critics have argued that FTC rulemakings should be used only to correct "deceptive" acts or practices. A prohibition against rulemakings based on unfairness has been carried in appropriation bills for the agency since expiration of the authorization Sept. 30, 1982.

Rep. Carlos Moorhead (R-Calif), the committee's ranking minority member, warned, "If we do not address this issue, I believe we will not wind up with an enactable bill,"

At a subcommittee hearing on May 26, witnesses for various national advertising organizations asked the committee to continue the prohibition (101 DER A-10, 5/27/93).

The witnesses contended that FTC attempts at "unfairness" rulemakings during the 1970s were futile--such as a proposed rule on children's television advertising--took staff time away from other enforcement and were costly to the agency and the parties attempting to prevent the activity. They also testified that such rulemakings could constitute impermissible censorship under the First Amendment and fly in the face of judicial rulings covering restraints on commercial speech.

Rep. Michael Oxley (R-Ohio), the Commerce subcommittee's ranking minority member, told the markup session that he considered offering an amendment but decided against it so as not to hold up the bill. However, he insisted that the issue be addressed at some point and that the committee work toward "an eventual consensus provision."

Oxley pointed out that it was not just the ban that has "restrained the FTC's policies in this area over the past decade."

Another factor is the commission's 1980 policy statement on unfairness that established criteria, such as unavoidable consumer injury and the absence of countervailing consumer or competitive benefit, for unfairness enforcement. The statement served to guide "the FTC's application of the otherwise very elastic concept of unfairness."

At the hearing, Oxley had suggested that a possible compromise could be the codification of the policy statement in the authorization bill.

In a statement submitted for the record, Commerce Committee Chairman John D. Dingell (D-Mich) expressed his desire to move the bill expeditiously and remarked that unfairness authority has been considered to be constitutional.

"I will not bother to enumerate the many other compelling reasons I oppose restrictions on the FTC's unfairness authority, but urge all members to examine the extensive record on this matter," he declared.

However, Dingell indicated his willingness to engage in "intelligent debate" on the matter when the bill goes to a conference committee.

Communications

WITHDRAWAL OF CLINTON'S TOP FCC CHOICE LEAVES LEADERSHIP UNCLEAR, SOURCES SAY

The withdrawal of President Clinton's top choice to chair the Federal Communications Commission leaves the commission without a clear leadership choice, industry sources said May 27.

In a statement issued late May 26, Antoinette Bush said she has asked the White House not to consider her further as a possible nominee to the commission.

Bush, who gave birth to a child May 28, said in the statement "I am very happy and satisfied with my position on the staff of the Senate Commerce Committee and look forward to returning to my duties in that position upon completion of my maternity leave." Bush cited her son as one of the "challenges and honors" precluding service on the FCC.

Industry sources said she had been offered the job in April, and that the terms would be worked out after her maternity leave.

The five-member commission, which is made up of at least two members from each political party, has been operating with only three commissioners. Former Republican chairman Alfred Sikes resigned in January, and former Republican commissioner Sherrie Marshall left the FCC in April.

"We're sort of going through a best of times, worst of times thing," said an aide to Interim Chairman James Quello. He said that proceedings have been going smoothly at the commission and that decisions have been reached with a minimum of problems.

Under Quello's temporary leadership, the commission has been pursuing a full agenda, including implementation under a congressionally mandated timetable of the cable reregulation law enacted last year.

In addition, the FCC is expected this year to adopt rules for implementing and licensing new personal communications services -- a new generation of wireless communications -- and to adopt an industry standard for the introduction of high-definition television.

The aide added that "we still have our other work to do," including licensing.

Commission officials have said repeatedly that their work will become increasingly harder unless they are granted supplemental appropriations to aid in carrying out the cable rules. A $12 million 1993 supplemental appropriations request which was in the original bill rejected by the Senate was not part of the second bill approved this week by the House, but FCC sources said they hoped the request would still be adopted in the legislative process.

The aide to Quello said that the commission is expected to furlough employees for five days this year. He added that originally they expected even more days, but the FCC has saved money on the vacancies of commissioners and staffs.

Banking

HOUSE SMALL BUSINESS PANEL HEARS COMPLAINTS ABOUT SBA PROPOSALS

The House Small Business Committee May 27 heard many complaints from the banking industry over fiscal 1994 budget proposals that would place additional fees on the Small Business Administration's 7(a) guaranteed loan program and reduce the amount of the government guarantee.

Specifically, the budget proposal would impose a user fee of 0.5 percent per annum, and would lower the government guarantee on SBA loans from 81 percent to 75 percent.

On May 26, the House approved HR 2118, the $1.8 billion fiscal 1993 supplemental appropriations bill, which will provide $181 million to support an additional $3.3 billion in SBA loan guarantees and carry the program through the year. The Senate has not yet acted on this legislation.

"Until this issue is finally resolved, small businesses will continue to be denied critical resources," Committee Chairman John LaFalce (D-NY) said. "I will continue to press for the earliest possible action."

LaFalce explained that as part of the administration's deficit reduction package, the SBA is being asked to come up with $169 million in savings. "No one would be suggesting a fee or the other program changes that are now on the table if our government did not need the resources to reduce the deficit," he said.

"This Committee understands that no bank will want to pay a fee if it doesn't have to; nor would any bank prefer a 75 percent guarantee to a larger one," LaFalce said. "But it is not unreasonable to charge a fee for service; and some would argue that there are substantial incentives to participate in the SBA loan guarantee program, even with the recommended changes."

LaFalce pointed out that there is also a totally new regulatory climate, in which Comptroller of the Currency Eugene Ludwig is "hellbent on making loans."

LaFalce also said that President Clinton will probably soon appoint Christopher Gallagher to the Federal Deposit Insurance Corp. chairman's post because of his anti-credit crunch efforts. Gallagher is a partner at his Concord, N.H., law firm, Gallagher, Callahan, and Gartrell, and serves as counsel to the New Hampshire Bankers Association.

Trade Groups Oppose Budget Provisions

Tony Wilkinson, president of the National Association of Government Guaranteed Lenders Inc., said that NAGGL is disappointed because the administration's budget request "outlines proposals that serve only to heighten the effects of the credit crunch on the small business sector."

"Reductions in the guaranty percentage will simply serve to reduce capital availability to small business," he said. "Bank and other lenders simply have limited resources that can be placed in a portfolio of long-term loans, the kinds of loans needed by small businesses."

The budget initiative to charge a user fee of 0.5 percent per annum "runs contrary to the reason the secondary market was established," Wilkinson said. "Ironically Mr. Chairman, while you and other members of Congress search for ways to expand secondary market capital accessibility for small business, the administration has brought forth a proposal that could constrict a secondary market that is working quite well."

The American Bankers Association argued that reducing the loan guarantee amount for SBA loans could significantly curtail credit to many marginal and undercapitalized small business borrowers.

"Bankers currently look to the SBA to help them assist marginal small business borrowers who are not presently creditworthy but, with proper assistance, have the potential to succeed," said Scott Wilfong, vice chairman of ABA's small business banking committee. "For basic safety and soundness reasons, increasing the amount of risk a lender must assume on a marginal small business loan could well mean that a new start-up business loan that would have been made today with the help of an SBA guarantee may not get made in the future."

John Shivers, president-elect of the Independent Bankers Association of America, told the committee that reducing SBA funding is merely a short-term deficit-reduction ploy that would prove to be costly in the long run.

"While overregulation of banks has forced caution on the banking industry, the SBA guaranteed loan program has allowed a considerable number of banks to continue making job-creating loans," Shivers said. "It is ironic that, now that there is widespread recognition that small businesses are the primary source for job creation, one of the most accessible and efficient sources of small business funding has been shut down."

Shivers also opposed reducing the loan guarantee from 81 to 75 percent, as well as the proposed user fee.

"The SBA loan program has been successful and should be an integral part of the administration's proposed community development and empowerment zone initiatives," said Douglas P. Kadison, who appeared before the panel on behalf of the Savings and Community Bankers of America. "There seems little rationale to handicapping a program that could be an essential element of these new proposals."

Kadison also opposed the proposals to reduce the federal guarantee and to impose a user fee.

Other witnesses who testified at the hearing were: Kenneth I. Lueckenotte, president of the National Association of Development Companies; Francis R. Carroll, president of the Small Business Service Bureau Inc.; Lewis A. Shattuck, who appeared on behalf of National Small Business United; JoAnn Price, who appeared on behalf of the National Association of Investment Companies; James A. Parsons, chairman of the National Association of Small Business Investment Companies; and Janet S. Holloway, president of the National Association of Small Business Development Centers.

International Trade

EC COMMISSION WILL SEEK GATT PANEL ON U.S. COUNTERVAILING DUTIES ON STEEL

The European Community Commission announced May 27 it is asking for a General Agreement on Tariffs and Trade panel on cases involving U.S. countervailing duties on lead and bismuth carbon steel products from three EC member countries.

The EC is protesting duties imposed Jan. 19 by the Commerce Department against products originating in France, Germany, and the United Kingdom, according to the Commission statement released in Washington (See related report in this Section).

The EC asked the GATT Subsidies Committee to establish the panel after "several rounds" of consultations with the United States, as well as a conciliation meeting in the Subsidies Committee April 26, the Commission said.

The EC is charging, among other things, that the United States has countervailed subsidies that were granted as long as 15 years ago to EC steel companies, during which time a voluntary restraint agreement limited EC exports to the United States, the Commission statement said.

The EC said it also would like a GATT panel to consider its claim that the United States has recalculated the amount of government subsidies--leading to countervailing duties two to three times the amount of any subsidy--"in order to determine a presumed 'stream of benefits' a company would receive due to such subsidization."

Last September, Commerce's International Trade Administration found in a preliminary determination that imports of lead and bismuth carbon steel products were being sold at less than fair value from France (64.55 percent weighted-average dumping margin), Germany (49.30 percent), and the United Kingdom (32.02 percent). The petition was originally filed on behalf of the U.S. industry by Inland Steel Industries and the Bar, Rod and Wire Division of Bethlehem Steel Corp.

EPA

HOUSE PANEL MARKS UP EPA BUDGET; MATERIALS EMBARGOED, HILL AIDE SAYS

A House Appropriations subcommittee May 27 marked up fiscal 1994 appropriations for the Environmental Protection Agency and several other agencies.

The Subcommittee on the Departments of Veterans Affairs, Housing and Urban Development, and Independent Agencies considered the appropriations in closed session and have embargoed the materials discussed, a committee aide told BNA May 27.

The Clinton administration requested a $6.4 billion fiscal 1994 budget for EPA.

Environment

EPA RULE SAID TO COMPLICATE DOE EFFORT TO RECYCLE RADIOACTIVE MATERIALS

The Department of Energy's recycling efforts are hampered, in part, by the Environmental Protection Agency's "derived from" rule, a DOE official said May 27.

According to Clyde W. Frank, deputy assistant secretary for technology development, the rule, issued under the Resource Conservation and Recovery Act, could significantly increase the cost and time spent to recycle millions of cubic yards of steel and concrete.

Frank made his comments during a hearing on recycling contaminated materials held by the House Science, Space, and Technology Subcommittee on Energy.

The RCRA rule requires that materials that are mixed with or derived from hazardous wastes be treated as hazardous waste.

Frank said the rule means that huge amounts of decommissioned material that came in contact with mixed waste, both radioactive and hazardous, could have to be treated as toxic waste, even if it has been radioactively decontaminated. He said the money and time that would be required to test the material to prove it is not contaminated with toxics could render recycling uneconomical.

"When one is talking about millions of cubic yards of steel and concrete, this could massively increase the cost of cleanup and potentially limit the pay back to the taxpayer in terms of receiving payment for recycled materials," Frank said.

Standards on what level of decontamination is necessary to allow material to be used without any restrictions by the general public are also lacking, according to Frank. This is another deterrent to recycling of DOE scrap, he said.

Frank gave an illustration of the need for a decontamination standard. "Currently, slightly contaminated nickel scrap cannot be released to industry in the U.S., because we have no 'de minimis' standard. DOE has proposed to sell the decontaminated nickel to Spain where it would be incorporated into nickel alloy stainless steels, and the stainless steels would then be sold back to the U.S. and legally imported."

In this scenario, Frank said, the product created from the waste would be returned to the general public anyway. And the United States would lose billions of dollars because it did not manufacture the final product.

About 400,000 tons of scrap metal, with a potential value of more than $300 million, along with about 400,000 tons of spent uranium and hundreds of millions of tons of concrete and other materials are available for recycling through decommissioning at DOE facilities, Frank said.

He told the congressional panel that recycling of spent materials at DOE facilities could net up to $50 billion. Each step of the recycling and reuse process makes money and provides jobs, he said.

Frank said these issues need to be resolved before a national decontaminating and decommissioning program is instituted. "It does not make sense to tear down buildings if we are forced to store the materials as wastes."

Recycling Materials

Also testifying were representatives from three companies that decontaminate materials for restricted reuse. All three firms are licensed by Tennessee, which was given the authority by the Nuclear Regulatory Commission to oversee the companies' decontamination activities.

Dewey E. Large, a manager with Scientific Ecology Group Inc., testified that materials that are not decontaminated to a level that would allow unrestricted use by the general public could still be recycled.

Large said it is possible to use the slightly radioactive material for shields, metal boxes, canisters, and drums for DOE and commercial radioactive waste; target material and armor plate for the Department of Defense; and reinforcing rebar and mats for use in nuclear enterprise. Using virgin metals for these products is senseless, Large said, because in most cases it would wind up contaminated anyway.

Alan L. Liby, president of Manufacturing Sciences Corp., also urged DOE to look towards restricted use. Liby said the department has focused too much on unrestricted uses of recycled material.

Liby urged DOE to implement a recycling policy that would allow recycled scrap metal in certain restricted applications where the use of virgin metal would result in the contamination of that metal. He said his company "believes that the department can immediately proceed to recycle most of these metals by placing them in restricted-use within the complex."

William B. Derrickson, chairman and CEO of Quadrex Corp., told the House panel that the recycling of DOE's materials should start immediately. "We don't have a choice," he said. "We have to recycle everything." Because virgin resources are finite, attempts eventually will have to be made to dig up and use discarded or landfilled metals and other substances, Derrickson said.

Finally, Michael Mariotte, executive director of the Nuclear Information and Resource Service, an environmental group, testified in support of recycling the materials, but said the decontamination standards must be stringent. "The recycling and/or reuse of radioactively contaminated materials is absolutely unacceptable," he testified.

International Trade

U.S. IMPOSING SANCTIONS AGAINST EC IN DISPUTE OVER TELECOM PROCUREMENT

The United States will impose trade sanctions against the European Community beginning today in response to the EC's alleged failure to open up its telecommunications market to U.S. firms, U.S. officials said May 27.

The officials, who declined to be identified, said that the sanctions would cost EC-based companies about $20 million per year in lost sales of various goods and services in the United States.

EC External Economic Affairs Commissioner Sir Leon Brittan, in a written statement released in Brussels, said that the sanctions were "neither justified, wise nor necessary." He said he would begin consultations immediately on the "appropriate reaction" from the Community.

Another EC official said that the EC would not rule out counter-retaliation.

"We are not going to allow this issue to delay or frustrate the progress we are making in the Uruguay Round [of multilateral trade talks], nor let it poison the atmosphere," Brittan said. "But the United States cannot expect us to ignore wholly unjustified action of this kind."

U.S. officials said that a notice detailing the U.S. sanctions would be published in the Federal Register today.

The sanctions, according to a copy of the notice obtained from the office of the Federal Register, will prohibit companies in nine of the 12 EC members states from bidding on goods contracts worth less $450,000 and on all services contracts tendered by federally owned electrical utilities, including the Tennessee Valley Authority and the Power Marketing Administrations of the U.S. Department of Energy.

Three of the 12 EC member countries--Greece, Spain, and Portugal--will be exempted from the sanctions because they have not been discriminating against imports of U.S. telecommunications equipment, U.S. officials said.

The sanctions will also ban companies in the nine EC states from bidding on goods contracts with a value of less than $176,000 awarded by all U.S. federal agencies except the Defense Department.

All construction contracts with a value of less than $6.5 million will also be covered under the new sanctions, as will contracts for a wide range of services, including transportation, dredging, airport concessions, hotels, and restaurants, being awarded by all U.S. federal agencies, with the exception of the Defense Department.

On April 21, U.S. Trade Representative Mickey Kantor said the United States would impose the sanctions under Title VII of the Omnibus Trade and Competitiveness Act of 1988 after U.S. and EC negotiators failed to conclude an agreement that would have removed existing restrictions on U.S. bidding on government contracts for telecommunications equipment in the EC (76 DER A-11, 4/22/93). A partial agreement was reached at that time opening up government procurement markets for heavy electrical equipment.

Earlier this year, Kantor said that it would retaliate against the EC by denying EC firms access to public contracts worth an estimated $50 million a year if no solution to the trans-Atlantic dispute over access to public procurement markets was found.

The partial agreement reached in April succeeded in eliminating discrimination in access to heavy electrical equipment contracts and set in motion mechanisms designed to resolve similar disputes over access to public contracts in the urban transport, airport, ports, and water sectors. The two sides, however, failed to make any significant progress on resolving the key access dispute regarding telecommunications tenders. The failure prompted the U.S. sanctions being imposed this week.

Consumer Credit

SENATE FAIR CREDIT REPORTING BILL WOULD IMPOSE LIABILITIES ON BANKS

Sen. Richard Bryan (D-Nev) clarified an ambiguity in his fair credit reporting bill (S 783) May 27, saying that banks and other credit originators would be subject to civil penalties up to $1,000 for failing to correct a single mistake in an individual's credit record after they have been notified of an error.

Current law subjects credit reporting bureaus and users of credit reports to certain civil liability. Bryan's bill, and a similar bill introduced in the House (HR 1015) by Rep. Esteban Torres (D-Calif), would extend civil liability for the first time to furnishers of information.

Bryan's bill, co-sponsored by Sen. Christopher Bond (R-Mo) and Senate Banking Committee Chairman Donald Riegle (D-Mich), would still allow credit grantors immunity from penalties if they inadvertently report information that they know, or should know, is wrong. It is only after being notified of an error that they would be liable.

Also, the bill gives the Federal Trade Commission and state attorneys general the authority to pursue credit information suppliers who have a "pattern or practice" of supplying incomplete or inaccurate information.

The maximum penalty for a violation of this kind would be $10,000. However, David Medine, associate director for credit practices at the FTC's bureau of consumer protection, told the Banking Committee at a hearing on the bill that the FTC's policy is not to go too far with fines, but to tailor them to the severity of the violation and size of the corporation.

At the hearing on the Consumer Reporting Reform Act of 1993, Riegle explained that the bill differs in two ways from the one offered by Bond and Bryan last year. It would not pre-empt state laws that are more protective of consumers, and it would not require credit bureaus to furnish consumers with free reports every other year.

Both of these changes were made to address concerns raised in last year's debate, he said.

Provisions of the Bill

S 783 would require that credit reports sought for employment purposes can only be accessed if the prospective or existing employees are notified and authorizes their use.

Credit bureaus would be permitted to sell reports to marketing agencies for pre-screening purposes, but only if consumers were given the opportunity to opt-out, or remove their names from the list.

Credit grantors and direct marketers also must tell the consumer how to opt out of their solicitation lists.

The bill also would require reinvestigations of disputed information to be completed within 30 days, and a free report following either the finding of an error, or an adverse action--such as job loss or credit card rejection--resulting from a credit report.

During that 30-day period, the information supplier, or credit grantor, would have 20 days to investigate the disputed information and report back to the credit bureau or consumer.

. Credit report users must notify consumers of an adverse action based on a credit report, and the consumer's rights under the law.

If a consumer disputes information held by an information supplier, then a statement explaining the dispute must be attached to the information sent to credit bureaus. The supplier must also notify credit bureaus if a consumer closes an account, and they must notify consumers that they supply information to credit bureaus.

Accuracy and Privacy Protection

Bryan, in commenting on the legislation, said that it should greatly reduce the frequency of inaccuracies in credit reports, and abuses of privacy rights.

Industry representatives, however, told the committee that the more restrictive law, with new operational costs and potential liabilities, could inhibit the flow of information to credit bureaus from credit grantors.

Increased costs from the heightened risk of penalties could be passed on to consumers, Sen. Lauch Faircloth (R-NC) pointed out.

Robert Hunter, executive vice president at The Chase Manhattan Bank, N.A., said that the proposed legislation could result in creditors restricting information, charging customers, or even no longer supplying the information to credit bureaus.

Hunter spoke to the committee on behalf of the American Bankers Association, the American Financial Services Association, the Consumer Bankers Association, Mastercard International Inc. and Visa U.S.A. Inc.

"Costly operational problems would be created by the new bill," he said.

The retail industry also opposed the bill. Ronald Prill, vice president of credit at Mervyn's, on behalf of the National Retail Federation, said "every delinquent customer would have a new cause of action."

The new procedures would be expensive, and incompatible with the online systems most retailers use, he said.

FTC's Medine defended the proposal, saying that even with the consent agreements signed last year with the large credit bureaus to improve the accuracy and privacy of reporting, "there is no question the law could be more effective than it is."

Consent agreements can only go as far as current law permits, he said, and many smaller affiliates of the major credit bureaus, and specialty companies, are not subject to any of those agreements.

If he could change the legislation, Medine told Bond he would require that federal precedents be set by a federal agency, developing a national focus, so that individual state preferences for interpreting the law are not applied nationally. "There should be one enforcement agency for a federal standard," for consistency, he explained.

Bond, an advocate of federal pre-emption of state law in this area, said that Medine's statement was a strong argument for pre-emption.

"I cannot say that there are not some benefits of uniformity," Medine said.

Communications

'GRAND ALLIANCE' ON HDTV DEFENDS ITS EFFORTS BEFORE HOUSE SUBCOMMITTEE

Three members of the so-called grand alliance, a consortium formed by four sponsors of high-definition television technology, May 27 defended their efforts before a House Energy and Commerce subcommittee.

The session before the Subcommittee on Telecommunications and Finance focused on the proposed combination of 'interlaced' scanning techniques and 'progressive' scanning. Critics have said such a plan would restrain U.S. technology and marketability (101 DER A-25, 5/27/93).

Under the proposed plan, which requires a progressive scan display mode for televisions larger than 34 inches diagonally but allows for the receipt of interlaced or progressive scanning on other units, the United States will not produce a sufficient number of interoperable systems, Richard Cohen, a fellow of the Economic Strategy Institute told the

The initial inclusion of one interlaced format satisfies the concerns of broadcasters and cable operators, although in the long term, use of the progressive scanning will dominate, said Robert Graves, AT & T video technology and infrastructure vice president and one of the Alliance representatives. According to another representative of the alliance, James E. Carnes, David Sarnoff Research Center president and CEO, the interlaced system -- favored by broadcasters because it produces better video images -- is currently the only way to deliver the targeted goal of 1,000 lines to homes at 60 fields per second, which accounts for the high definition of the new technology.

The progressive format, which is the final goal HDTV manufacturers, is favored by the computer industry because it allows for greater clarity of computer images.

Japanese and European television manufacturers may capitalize on the compromise and sell their interlaced systems to the U.S., reducing revenue and jobs created by the HDTV industry, Cohen said. A study conducted by Cohen indicates an innovative, interoperable HDTV system would produce 300,000 to 500,000 U.S. jobs over a ten-year period. At least 80 to 90 percent of these would be in computer and semi-conductor industries, while about 5 percent would be in televisions.

Subcommittee chairman, Edward J. Markey (D-Mass) also questioned the security of U.S. job creation under HDTV systems allowing interlacing.

The debate must move beyond the two systems, which are only variables that can both be accomodated by a flexible digital system, said two other panelists, Nicholas Negroponte, MIT Media Lab director and Wayne Rosing, president of Sun Microsystems Laboratories.

The grand alliance representatives estimated a HDTV system would be operable in 1996, and would become affordable to someone who would now buy a large screen TV by 2000.

Two others, Negroponte and Rosing, said the technology is now available, only under differently named systems, such as studio quality television.

Negroponte also challenged the formation May 24 of the grand alliance, which he called "a lawyer's delight," more concerned with royalty sharing and avoidance of lawsuits than the advancement of technology.

Transportation

HOUSE SUBCOMMITTEE APPROVES BILL FOR HIGH-SPEED RAIL DEVELOPMENT

The Clinton administration's plan to invest $1.3 billion on high-speed rail development easily won the endorsement of a House Energy and Commerce subcommittee May 27, with the panel voting to report authorizing legislation (HR 1919) on voice vote.

The five-year investment plan, introduced in April, generated little opposition before being approved by the Transportation and Hazardous Materials Subcommittee. It now is expected to be the subject of a full committee markup in June, an aide to subcommittee Chairman Al Swift (D-Wash) said.

However, the bill, which was introduced by Energy and Commerce Chairman John Dingell (D-Mich) on the administration's behalf, reflected significant fine-tuning during the past few weeks. Aides said that although the bill still would provide about $1.3 billion for high-speed rail development, it structures that funding quite differently than the administration originally proposed.

The changes were offered by Rep. Lynn Schenk (D-Calif) as a substitute for the original bill and were approved with little discussion. However, an aide told BNA that the revised authorizations were agreed to by administration officials during negotiations with subcommittee members during the month.

Under the administration's original plan, about $900 million would be spent over the next five years for upgrading existing rail corridors for high-speed service. The balance of its plan--about $300 million--was to be invested in technology development, including magnetic levitation systems.

However, Dingell's original bill left the authorizations open-ended, the aide said, giving the panel more leeway over the past month to fine-tune the administration's proposal. Under the amended version offered by Schenk, the corridor development program now would receive $1.21 billion over the next five years, with only $75 million left over for technology development.

The substitute, which Swift said reflected a variety of "compromises," also included a "buy America" provision.

Swift and other subcommittee members indicated at the markup that the high-speed rail change faces other alterations before being readied for floor action later this year. Among other things, Swift said the panel may try to address concerns raised by freight railroads about their potential liability for accidents involving high-speed rail operators.

Rep. Michael Oxley (R-Ohio), the subcommittee's ranking minority member, offered but then withdrew an amendment to resolve the liability issue. Oxley, who said he also has concerns about the bill's cost and approach, said he would continue to seek a provision to ensure that freight railroads are indemnified against liability for accidents involving passenger services.

While supportive of the bill, Rep. Fred Upton (R-Mich) said safety issues also need to be addressed before it can be enacted. Again, freight railroads have testified that strict safeguards are necessary if high-speed service is to be provided on their rights-of-way.

International Trade

BUSINESS, LABOR OPPOSE ADMINISTRATION PLAN TO ELIMINATE TRADE ADJUSTMENT ASSISTANCE

President Clinton's plan to eliminate a program designed to help small- and medium-sized firms adversely affected by foreign competition ran into strong opposition at a May 27 hearing of the House Ways and Means Trade Subcommittee.

Business representatives lauded the trade adjustment assistance program for firms during the hearing, saying it has strengthened the industrial competitiveness of U.S. firms and created jobs in the manufacturing sector. They were joined by an AFL-CIO economist who said that while the program is "not even a finger in the dike" given the magnitude of job losses in the manufacturing sector, it is a "welcome lifeline" for those whose jobs it has helped preserve.

The administration is not planning to seek reauthorization of the program, which expires Sept. 30, 1993. Its elimination is estimated to save $30 million between 1994 and 1997. The TAA program for firms was established under the Trade Expansion Act of 1962 to provide technical expertise to small-and mid-sized businesses harmed by foreign trade. Participants in the program are required to pay for a portion of the assistance they receive.

Better To Reduce The Deficit

Jonathan Sallet, an adviser to Commerce Secretary Ron Brown, said that funds previously devoted to the program could be better used to reduce the budget deficit given the availability of other government programs that provide similar assistance. "As should be evident from the President's budget request for the Economic Development Administration, the proposal to eliminate the trade adjustment program for firms does not indicate any lack of commitment to use the resources of the agency to help get the economy growing again," Sallet said.

However, a representative of the 12 trade adjustment assistance centers that carry out the program disagreed with Sallet's assessment. Speaking for the centers, Robert Hallenbeck, president of the MidAtlantic Employers Association, said the results of a survey of firms assisted by the program testify to its merit.

Since 1988, Hallenbeck said, 379 firms have received some form of assistance under the program. A survey of those firms shows that the program has saved and created 41,257 jobs nationwide. It also shows that the participating companies reversed economic declines to maintain and create sales of $3.4 billion.

Hallenbeck also cited a study by the Chamber of Commerce National Center for Manufacturing showing that the program has retained 267,000 manufacturing jobs since 1978, resulting in a "$7.3 billion impact on the economy, including saving $534 million in personal income, $4.5 billion in weekly payroll, $1.1 billion in unemployment benefits, $113 million in unemployment compensation, $638 million in FICA wages, and $427 million in bank deposits." These savings came at the cost of a $204 million investment by the federal government during a 15-year period, Hallenbeck said.

Richard McLaughlin, executive director of the New England Trade Adjustment Center, said the program is the only one of its kind "that allows services to be custom-designed for the unique situation of the individual manufacturer." Urging the subcommittee to seek reauthorization of the program, McLaughlin said it will help the United States retain and expand its manufacturing base at a time of increasing global competitiveness.

TAA For Workers

Sheldon Friedman of the AFL-CIO's economic research department advised the panel it would be a mistake to dismantle the TAA program for firms until new programs, such as the president's proposed industrial extension services, are in place. "Even then, unless the services provided by these new programs will include services now provided uniquely by TAA, and unless the resources devoted to them will be so abundant that there is no need to target help to trade-injured firms for which the federal government bears special responsibility, the TAA program for firms will still be needed and should be continued."

Friedman also voiced resistance to the administration's plan to consolidate the TAA program for workers into a comprehensive program for displaced workers that provides the same benefits regardless of the reason for joblessness. The program provides additional unemployment insurance benefits to workers whose job loss is related to increased imports and who are enrolled in training.

If TAA is "eliminated as a distinct entitlement, it is probable that all spending for dislocated worker assistance would become discretionary rather than an entitlement, and will therefore have to be appropriated every year," Friedman said. Not only is there no assurance that the fund would actually be appropriated, but the "important principle that the federal government owes a special obligation to assist trade-injured workers would be lost."

The TAA program for workers also was due to expire Sept. 30, 1993. However, a provision reauthorizing the program for three years, until Sept. 30, 1996, was included in HR 2264 the fiscal 1994 omnibus budget reconciliation bill (See related report in Section G) during markup by the Ways and Means Committee.

Pesticides

NACA RELEASES INDUSTRY PROFILE; COMMENTS ON DELANEY CLAUSE, OTHER ISSUES

Total dollar sales of agricultural chemicals increased by 3.9 percent in 1992, according to an industry profile released by the National Agricultural Chemical Association May 27.

Export sales decreased by 1 percent in 1992, according to NACA. This decrease is paralleled by a decline in pesticide use in the European market, the largest pesticide market worldwide; a similar decrease in use is expected in 1993, Jay Vroom, president of NACA, said. No single reason accounts for this, he said, but the massive changes in agricultural subsidies certainly play a role.

Also, Eastern European pesticide products that were stockpiled in the past have been sold back to Western European countries for hard currency. This has decreased the market, for U.S. products, he explained.

More than 60 percent of U.S. pesticide sales were comprised of herbicides; insecticides were the next largest category, and then fungicides, according to the report.

Ernst & Young prepared the report for NACA. NACA officials discussed the report at a media briefing.

Delaney Clause Action

While several aspects of the Delaney Clause decision under Les v. Reilly will affect the use of fungicides, companies are not holding back on research and development to see how new policies are implemented, Vroom said. In fact, little technology is left to be developed in the areas of fungicides or insecticides, he said.

The Delaney Clause prohibits EPA from setting legal limits on food for pesticides found to cause cancer and that concentrate in processed food.

NACA has put its support behind a bill to modify the Delaney Clause--the Food Quality Protection Act, which was introduced April 1 by Reps. Richard Lehman (D-Calif), Thomas Bliley (R-Va), and J. Roy Rowland (D-Ga).

The bill, HR 1627, calls for a negligible risk standard and allows EPA to use its discretion in determining risk. The proposal currently has 83 sponsors in the House, but the first subcommittee with jurisdiction over the issue is chaired by Rep. Henry Waxman (D-Calif), who has introduced a proposal with a more stringent definition of negligible risk, a congressional source told BNA May 27.

Little Known About New Administration

Because so few people are in place at EPA, little is known about the new administration's plans for pesticides--specifically the "open-ended" Delaney Clause issue, Vroom said.

EPA Administrator Carol Browner is swamped now, and has had little opportunity to work on Delaney issues, according to NACA officials. Browner has too much to do with the everyday affairs of the agency, coupled with working around a reduction in appropriated funds, they explained.

The cost of regulatory compliance is the greatest growing cost to the agricultural chemical industry, NACA officials said. In the past, animal toxicology testing was the greatest cost to manufacturers; now environmental fate and ecological effects studies are running much higher costs, John McCarthy, vice president of science and regulatory affairs at NACA, said.

But management at EPA has been using a more "value-added" perspective on regulations; essentially, regulators are weighing the degree of value added by regulating particular actions, McCarthy said.

Studds' Bill Should Exempt Ag Chemical Industry

A bill introduced by Rep. Gerry Studds (D-Mass) May 20 would levy a tax of 24.27 cents per pound of active ingredients in pesticides; farm operations, however, would be exempt from the tax (97 DEN A-10, 5/21/93). The revenue would go toward water pollution control projects.

But agricultural chemicals already are regulated by the federal government, and when used according to label instructions, do not pollute water and sewer systems, Vroom said. Therefore, NACA believes the industry should be exempt from the tax, he said.

The idea is generally not a good one, Vroom continued. When efforts to reduce the deficit already have affected agricultural subsidies, taxing one of the industry's most important inputs is unfair, he said.

Hazardous Waste

INDUSTRY CONCERNED THAT MINIMIZATION GUIDANCE MAY BE REQUIRED IN RCRA PERMITS

The interim final guidance to hazardous waste generators on waste minimization could be enforceable, and therefore, counterproductive to innovation, a manufacturing industry source told BNA May 27.

The Environmental Protection Agency's interim final guidance, which is published in today's Federal Register, was released with the draft strategy for hazardous waste incineration that calls for a temporary capacity freeze.

Some industry officials who have spoken recently to EPA officials about the guidance document told BNA that EPA indicated to them the waste minimization elements could be enforceable and required on permits.

The interim final guidance marks the first effort by EPA to define how hazardous waste generators and owners and operators of hazardous waste treatment, storage, and disposal facilities can legally certify they have waste minimization programs in place. The waste minimization certification was mandated by the 1984 amendments to the Resource Conservation and Recovery Act.

EPA outlined six elements that should be included in a waste minimization program: top management support; characterization of waste generation and waste management cost; periodic waste minimization assessment; cost allocation system; technology transfer; and program implementation and evaluation.

The purpose of a waste minimization program is for generators and TSD facilities to use the six elements to design multimedia pollution prevention programs directed at preventing or reducing wastes, substances, discharges, and emissions to all environmental media. EPA followed the congressional hierarchy of management options in descending order of preference: prevention, environmentally sound recycling; environmentally sound treatment; and environmentally sound disposal, according to the guidance. The agency said waste minimization includes source reduction and recycling--not treatment, storage and disposal of waste.

While hazardous waste generators in general support the goals of waste minimization, they oppose mandatory initiatives, an industry source, who asked not to be named, told BNA May 27.

Making waste minimization elements enforceable will stymie innovation, the industry source said. "People are going to put as conservative things as possible [on the permits] to avoid fines." Waste minimization "is a risky business." When "risky things" are enforced, industry tends to scale back, he said.

Comments On 1989 Proposed Guidance

EPA officials could not be contacted by press time on whether the interim final guidance is intended to be enforced. But EPA addressed the issue in response to comments to the 1989 proposed guidance on waste minimization, included in an appendix to the interim final guidance.

One commenter to the 1989 proposal objected to the nonbinding approach of the guidance, while others urged EPA to take a voluntary approach to encourage flexibility.

"[T]he agency does not believe it is necessary to describe the approach in the interim final guidance text as 'nonbinding' because such a term would be redundant; the guidance is nonbinding by being guidance," EPA said in the attachment. "However, while the specific elements are guidance, the certification requirements of Sections 3002(b) and 3005(h) are mandatory. The nature of the guidance does not reduce in any way those mandatory certification requirements."

Scope Of Guidance

Another concern is that the waste minimization guidance appears to apply only to prevent incineration, not other types of treatment, the industry official said.

"This is in conjunction with combustion units. Waste minimization ought to be waste minimization across the board," the industry representative said. "It's funny they would single out combustion units."

The hazardous waste generator industry plans to formulate a letter to EPA Administrator Carol Browner next week to voice these and other concerns. It may also form an ad hoc group to develop formal comments that will be accepted by the agency in a 60-day comment period.

The Hazardous Waste Treatment Council, representing the waste treatment industry, is meeting today to formulate its response, BNA was told May 27. In the past the treatment industry has opposed a waste minimization policy that does not recognize better treatment and proper disposal as an option. According to the guidance, EPA's position is that treatment and disposal are last resort alternatives.

Health Care

CLINTON SAYS HEALTH REFORM PLAN EXPECTED TO INCLUDE ABORTION ACCESS

President Clinton said May 27 that abortion coverage likely will be included in the universal health care package he and his health care task force are developing.

However, he suggested the White House may try to work around congressional objections to federal funding of abortions by channeling funding for the uninsured "outside the government and the taxpayers."

During a two-hour Rose Garden town meeting broadcast live on "CBS Morning News," the president said his task force is not inclined to "take away from people some right they now have in their health insurance plans." Noting that no final recommendation had been made to him, and no decisions made, Clinton said he expected the reform plan to at least affirm patients' rights to "at least access what they've got now in their health insurance plan if they're private citizens."

Noting that "the Congress has historically not permitted public funds to be spent for abortion except to save the life of the mother," the president said access to abortion under the plan may be preserved "because what we're trying to do is not run this money for the uninsured through the government anyway. We want it to be operating outside the government and the taxpayers."

Under the reform plan envisioned by the Clinton administration, all Americans would have health insurance coverage. Those who currently are uninsured would have access to health care through new health care alliances. As envisioned by the administration, the costs of the program would involve a combination of savings realized through the phase-in of the new reforms, payments by employers and employees, and possibly from new taxes.

Members of Congress have warned the administration that inclusion of abortion services among the health care benefits under the reform plan could torpedo support on Capitol Hill for the entire program (101 DER A-24, 5/27/92).

Clinton assured the Rose Garden audience that under his proposed plan, small businesses that currently provide health insurance would be required to pay about the national average of what such businesses currently pay to provide health care benefits to their employees. He did not address the costs to those companies that do not currently provide such coverage.

"The requirement that [the task force is] working on in terms of financial contribution would not be a tax over and above what people are paying now," Clinton said. "They're trying to hit the national average, maybe even a little below the national average of what employers are paying now."

Referring to the reform plan's emphasis on a national budget for health care, the president said, "you have to have some sort of national standard for what the contribution will be by employers, but it's not going to be over and above what people are paying now. . . . They're trying to work out what that number."

The task force has been studying the idea of an employer-paid premium for health care, with discussion of 6 or 7 percent. Administration officials have said publicly that such a premium would be less than 10 or 12 percent.

The president is expected to announce his health care plan in June.

International Finance

MORE ECONOMIC 'ACTION' TAKING PLACE IN THE DEVELOPING WORLD, SUMMERS SAYS

Declaring that a growing portion of the world's "economic action" is taking place in the developing world, Treasury Undersecretary Lawrence Summers May 27 said the United States has an "enormous stake" in the developing countries.

Summers noted that new statistics from the International Monetary Fund now estimate that the developing countries' share of world output is 34 percent, up from 18 percent under the old method of measuring gross domestic product (97 DER A-9, 5/21/93). The new method takes into account international differences in prices. This also makes China the third largest economy in absolute terms, Summers remarked.

Summers, who testified before the Senate Foreign Relations Subcommittee on International Economic Policy, noted that developing countries last year took $177 billion in U.S. exports, or an increase, in real terms, of 62 percent over 1987. Exports to the developing world created or sustained more than 3 million U.S. jobs, according to the Treasury official.

Summers and Joan Spero, undersecretary of state for economic and agricultural affairs, detailed the Clinton administration's budget requests for the multilateral aid banks, and for the Eximbank and Overseas Private Investment Corporation. President Clinton is also seeking $78 million in appropriations for debt restructuring, most of which would go to continue the U.S. initiative in support of economic reform in Latin America.

A new request for $7 million needs both an authorization and appropriation to extend debt relief to the poorest countries, mostly in Sub-Saharan Africa (86 DER A-17, 3/6/93). Over a two-year period, $14 million would eliminate $228 million in debt that 18 poor countries owe the United States, Summers said.

The Treasury official also told the hearing that the United States is currently some $374 million in arrears to the multilateral banks, a large portion of that to the Asian Development Bank and Asian Development Fund. Summers said the president's fiscal 1994 request will enable the United States to "tread water" but if Congress provides less than requested, the arrears will rise.

Transportation

DOT OFFICIAL SAYS U.S., JAPAN LIKELY TO ENTER AGREEMENT ON MAGLEV

The United States and Japan are expected to develop a cooperative project on magnetic levitation rail development as the first of several agreements in the transportation arena, a high-level Transportation Department official said May 27.

The project on maglev will be the first brought about as a result of the proposed memorandum of understanding, which has been proposed to Japan's Ministry of Transport, Patrick Murphy, DOT's acting assistant administrator for policy and international affairs, said at a conference on U.S.-Japan cooperative agreements in transportation.

"[W]e are nearing the final stages of informal negotiations with the Ministry of Transport" on the proposal, Murphy said at the conference, which was sponsored by Japanese Ambassador Takakazu Kuriyama. He said it grew out of a joint meeting between the two countries earlier this month on science and technology issues.

Murphy said the meeting has "set the stage for renewal of the U.S.-Japan science and technology agreement." The two countries face many of the same challenges in transportation, he said, including the need to maintain and rebuild infrastructure and make systems more fuel efficient.

Under the proposed memorandum of understanding, Murphy said, cooperative agreements are sought in several areas, including:

* Surface transportation management and technology;
* Environmental protection measures;
* Transportation safety and technology;
* Vessel traffic management;
* Transportation for handicapped and elderly people; and
* Intermodal transportation.

"We anticipate that magnetic levitation technology will be the area in which we develop the first project agreement under the MOU," Murphy said.

Murphy said U.S.-Japanese cooperation on high-speed ground transportation dates back to 1969, when experts from the two countries met annually to exchange information on a broad range of transportation topics, including high-speed rail. In the 1970s, he said, the two countries exchanged research data on maglev.

New opportunities for cooperation on high-speed rail have emerged with the Clinton administration's plan to invest $1.3 billion on these systems over the next five years, Murphy said. "We believe there are a number of areas where it would be beneficial for us to work together on high-speed ground transportation," he added.

By sharing research results in certain areas, Murphy said, scare resources can be saved and duplication avoided. "For example, the U.S. has done much work on the noise generated by maglev and high speed rail, while Japan has considerable experience with the behavior of superconducting magnets in the fluctuating fields and forces experienced on a maglev vehicle," he said.

Appropriations

HOUSE PASSES $931.5 MILLION JOBS BILL BUT BYRD SAYS SENATE WILL DELAY ACTION

The House, by a 287-140 vote late May 26, passed a $931.5 million fiscal 1993 supplemental appropriations bill (HR 2244) designed to create new jobs.

But, the Senate will not consider the jobs package and a second general supplemental appropriations bill (HR 2118) before a congressional Memorial Day recess due to last until the week of June 7, Senate Appropriations Committee Chairman Robert Byrd (D-WVa) said May 27.

Supporters of the jobs measure had said earlier it needed to be enacted by Memorial Day to provide funding for summer jobs.

But, Byrd said, "I have been assured that this delay will not cause undue hardship to programs funded by these supplementals."

The jobs package approved by the House would provide $290 million for Environmental Protection Agency waste water state revolving loan funds.

In addition, the bill would provide: $320 million for summer youth employment; $200 million for Justice Department Department grants to rehire police officers laid during the recession; and $51 million for Amtrak capital equipment overhauls and operating expenses.

The package also includes $35.5 million to subsidize certain U.S. Department of Agriculture rural water and sewer loans and $35 million USDA rural water and sewer grants.

A rule regarding consideration of the bill effectively increased EPA waste water funding from $200 million to $290 million. The rule (H Res 183) incorporated an amendment offered by Reps. Nita Lowey (D-NY) and Rosa DeLauro (D-Conn) into the text of the bill.

The amendment sought to provide the additional $90 million for the waste water state revolving fund. The increase would be offset through a $49 million rescission of Labor Department clean air transition assistance, and use of $41 million in unobligated budget authority in the jobs bill.

The House Appropriations Committee approved a bill that would have provided $200 million in waste water funds.

The House, by a 246-175 vote, rejected an amendment that would have deleted the language dealing with the additional waste water funding. The amendment offered by Rep. Dan Burton (R-Ind) also would have required states to provide a 20 percent matching grant to qualify for the supplemental loan funds.

Burton said during floor debate that "the extra $90 million was stuck in under the cover of darkness by the Rules Committee, and we believe probably for some pork barrel projects."

House Appropriations Committee Chairman William Natcher (D-Ky) opposed the Burton amendment. "Currently the unfunded need for water infrastructure is approximately $80 [billion] to $100 billion," Natcher said.

"These funds are necessary for the improvement of our water," he added.

Other Amendments Rejected

The House rejected two other amendments to the bill.
An amendment offered by Rep. Jim Kolbe (R-Az) that would have reduced a rescission for a low-income home ownership grant program by $150 million was defeated by a 279 to 150 vote.
Rep. Scott McInnis (R-Colo) offered an amendment that would have eliminated $14 million in the bill for a tree planting program. The measure was rejected by a 218 to 209 vote.
A point of order was sustained against a provision offered by Rep. John Conyers (D-Mich) that would have provided an additional $680 million for training and employment services, and $760 million for the Job Training Partnership Act.
A point of order was also raised against an amendment offered by Burton that would have cut $11.8 million for economic development assistance programs from the bill.

Environment

REPORT DETAILING CWA COMPLIANCE ISSUED, HILL LAWMAKERS UNVEIL ENFORCEMENT BILL

Enforcement provisions of the Clean Water Act have so little deterrent effect that polluters feel "it pays to pollute," Carolyn Hartmann, an attorney with the U.S. Public Interest Research Group, told reporters May 27.
Hartmann joined Sen. Frank Lautenberg (D-NJ) and Rep. Frank Pallone (D-NJ) at a press conference to release a US PIRG report, Permit to Pollute: Violations of the Clean Water Act by the Nation's Largest Facilities, and to announce legislation on Clean Water Act enforcement.
The report found that one in five major industrial, municipal, and federal facilities violated the Clean Water Act in 1990.
Lautenberg and Pallone said they would introduce bills in June to enhance CWA enforcement provisions.
"The Clean Water Act simply is not being enforced adequately," Lautenberg said.
Pallone said "the evidence coming from studies from both within the government and from non-government organizations is that the system does not work, and that it is far too convenient to go with business as usual."
The Clean Water Compliance and Enforcement Improvement Bill would toughen penalties on polluters, increase oversight of permitted facilities and those that discharge into sewer systems, and provide public with information about violators.
The bill would impose mandatory minimum penalties of $1,000 per violation per day for "serious" violators, and $5,000 per day for "significant non-compliance." The maximum penalty for violations would be increased, as well.
The measure would also enable citizens to file suits to challenge National Pollutant Discharge Elimination System permit applications.
Other provisions would:

* Require EPA to inspect a facility at least once within 180 days after being identified as a significant non-complier.
* Ensure that civil penalties be no less than the value of an economic benefit gained as a result of noncompliance.
* Grant publicly owned treatment works the authority to inspect industrial facilities that discharge into sewer systems and to collect penalties where necessary.

"We're going to work hard to have this bill considered as part of the Clean Water Act reauthorization package," Lautenberg said.

He added that the Senate Environment and Public Works Committee is expected to mark up a CWA reauthorization proposal this fall.

Report Findings

Of major facilities who discharge directly to surface waters, 21 percent have reported "significant noncompliance" (SNC) data and 40 percent have submitted "reportable noncompliance" data, according to EPA data included in a report by U.S. PIRG May 27.

The focus of the report was "primarily on the failure of the Clean Water Act to stop illegal discharges to our waterways and the need for strengthening enforcement."

"Facilities considered SNC are serious and chronic violators of the Clean Water Act." Reportable noncompliance facilities commit other types of notable violations of the permit requirements, the report said.

Nineteen percent of the SNC facilities are industrial, 22 percent are municipal, and 23 percent are federal, whereas 35 percent of RNC facilities are industrial, 44 percent are municipal, and 37 percent are federal, according to the report.

The report included detailed recommendations from US PIRG for improving accountability and enforcement of the Clean Water Act. Government accountability should be improved by setting mandatory minimum penalties, prohibiting companies from profiting from pollution, and improving discharge reporting and inspections.

In addition, the group said, current obstacles to citizen suits should be removed by giving citizens the ability to sue for past violations, for violations that are already being acted on by states, by clarifying the definition of "citizen standing," and by giving courts greater flexibility in determining the disposition of penalties and settlement funds. Citizen's right-to-know also should be increased through postings at waterways that do not meet quality standards.

US PIRG also offered general recommendations on preventing toxic pollution and protecting wetlands.

Environment

BROWNER CALLS POLLUTION PREVENTION POLICY KEY TO CONTINUED GROWTH OF U.S. ECONOMY

LOUISVILLE, Ky.--Pollution prevention is the environmental wave of the future, the link between safeguarding the planet and building a robust economy, Environmental Protection Agency Administrator Carol Browner said May 27.

In an address to a national conference on sustainable development, Browner said America's long-term economic growth depends upon finding ways to merge "green activism with green eye shades."

Stressing education and conservation in her speech, Browner said EPA has spent the last 23 years identifying end-of-process contaminants and the means of controlling them. Now, however, the agency must put its efforts into persuading industry to modify up-stream activities in order to prevent pollutants from forming in the first place, she said.

There is a wealth of economic opportunities associated with pollution prevention, Browner told the conference, entitled From Rio to the Capitols: State Strategies for Sustainable Development. Skilled American workers will be needed to build and run control technologies, she said, noting that these technologies will enable industries to run more efficiently and with less waste. And, in time, these emerging technologies will prove a lucrative export for the United States, she added.

President Clinton wants to move the United States beyond the traditional environmental antagonisms of government, industry, and individual citizens, Browner said. The administration is committed to making government a partner not a bureaucratic obstruction, she said.

To illustrate this new partnership, Browner told the conference that 50 Atlanta, Ga., companies have signed on to EPA's "Green Lights" program as of May 26. Through this voluntary program companies agree to use energy efficient lighting. This may not seem like a big deal, but it could significantly reduce pollution if it were adopted nationwide, she said. Roughly 25 percent of the United State's total electricity consumption is used for lighting, Browner said.

EPA estimates that if energy efficient lighting was installed everywhere in the United States, it could reduce carbon dioxide emissions by 202 million metric tons, she said, the equivalent of removing 44 million cars from American highways. It would also mean similar reductions in sulfur dioxide and nitrogen oxide emissions, she said, plus the average electric bill would be cut in half.

For too long the American people were told they would have to choose between a healthy economy and a healthy environment, but, Browner said, "protecting the environment is absolutely the best way to build the economy." Following her speech Browner told reporters that after 12 years of administrations that did not care about the environment, EPA is going to be more responsive. In the past, EPA has had disagreements with the White House, she said, but the agency is considering changes that will allow it to move more quickly on issues of interest to the public.

When asked if this type of conference, designed as a follow-up to last year's Earth Summit in Rio, serves any real purpose, Browner said it does. The only way the Rio agenda will be realized, she said, is through local action--the type being considered here by state and community leaders. The Rio summit raised the hopes of billions of people, she said, but it will take all kinds of grass-roots involvement to see these hopes realized.

Environment

SENATORS PUSH TO MATCH CLEANUP LEVELS TO INTENDED USE AT CLOSED MILITARY BASES

The need to "tailor" environmental cleanups of polluted, closed military bases to their eventual use by the community and to speed the overall cleanup and transfer process were major themes at a Senate hearing May 27.

During the two-hour hearing, the Senate Environment and Public Works Committee fielded complaints from committee members of mismanaged and delayed cleanup operations in their states, bringing their demands to the attention of Department of Defense and Environmental Protection Agency officials appearing before the committee.

The hearing was chaired by Sen. Barbara Boxer (D-Calif), siting in for committee chairman Sen. Max S. Baucus (D-Mont) who was in Montana.

Boxer began questioning witnesses by discussing her experience with Hamilton Air Force Base in Northern California, which was shut down 20 years ago when she said she was a Marin County supervisor. Boxer called the process a "nightmare," and although Hamilton had been sold, she said, DOD never provided adequate funds to clean up the base and it remained unused.

A similar point was made by Sen. George J. Mitchell (D-Maine), Senate majority leader, concerning Loring Air Force Base in northern Maine. Mitchell termed the closing a "disaster" and said the Air Force chose to spend funds to clean up active sites rather than focusing its resources on Loring and other closed sites.

New Cooperation

However, officials from DOD, EPA, and the various services appearing before the committee noted a new cooperative attitude among the agency, DOD, and communities.

As an example, Sherri Wasserman Goodman, deputy under secretary of defense for environmental security, read what she said was the first joint statement to a congressional committee from both EPA and DOD. Goodman's DOD position is also quite new, she noted.

On May 19, DOD announced the creation of this new office to "increase the awareness and emphasis on environmental issues throughout the department," according to a DOD statement. In her testimony, Goodman said she had only been on the job for a few weeks.

Speaking for EPA, Thomas L. McCall Jr., acting deputy assistant administrator for federal facilities enforcement, told the senators that superfund cleanups were "not designed to be prompt" and substantial time would be involved in cleaning these site completely.

Meanwhile, he said, DOD and EPA would look to leasing clean sections or selling clean parcels, while major cleanup operations are going on at contaminated sites.

Also he and others advocated setting cleanup standards that are consistent with the desires of nearby community for the use of the sites.

Both Goodman and McCall said they strongly advocated great public involvement in this decision process, especially as use and cleanup levels are set. However, several senators said community involvement had not been adequately practiced by the services in the past.

54 Installations

Some 54 military installations have been designated for closure in the first two round of national base closings. All may have some pollution problems, according to testimony at the hearing, and 15 are on superfund's National Priorities List.

In the third round, another 31 major installations have been proposed for closing and 12 for realignment, DOD said. Of those, four proposed for closure are on the NPL and six realignments are on the superfund list.

By next January, DOD is required to complete an inventory of all clean parcels in the 54 bases under the Community Environmental Response Facilitation Act passed October 1992. By April 1994, EPA is to review the determinations.

The program is intended to encourage quicker release of clean parcels, and witnesses assured the committee that they were well underway in this process.

Following the hearing, an EPA staff member told BNA that approximately eight leases have already been let at several closed sites. The leases have been for warehouse and other operations, the aide said.

Senators strongly approve of the new law, they said, and urged witnesses to comply. Several questioned, however, if cleanup level could be legally limited to match use.

EPA and some DOD officials said they were unsure if the cleanup level could be lowered to reflect use. However, Gary Vest, deputy assistant secretary for the Air Force told the committee, nothing in the law forbid them from doing this, adding "In our view, we can do it."

Boxer supported his view and said that "common sense" had to be injected into these decision.

"We can't keep a standard based on kids in a day-care center eating sand. We want the land's use to be considered during cleanups."

Demonstration Projects

Several senators urged that the various branches of the armed services set aside more bases as technology demonstration projects.

John Dunlap, deputy director for external affairs for the California Environmental Protection Agency, identified several technological cleanup problems that he felt should be especially address.

Among them, he said, was the need to develop a technology to remove solvents and light fuels from aquifers. He noted that "pump and treat" technologies at best contain solvents but no technology had been developed to actually clean ground water, despite the large number of polluted sites.

He also said more research was needed to develop methods to remove explosives and on technologies that address soil contamination.

CORRECTION

A report in 101 DER A-14, 5/27/93, should have stated that the Federal Reserve Board approved new procedures to help set up same-day check settlement.

ECONOMIC STATISTICS

Employment

INITIAL CLAIMS FOR STATE BENEFITS UNCHANGED AT 340,000 IN MAY 22 WEEK

New claims filed with state agencies for unemployment insurance benefits were unchanged from their revised level of 340,000 for the week ended May 22, the Labor Department' Employment and Training Administration said May 27.

The four-week moving average, which smooths out the week-to-week fluctuations in the data, was 339,750 for the period ended May 22, down by 1,500 from the previous week's revised average of 341,250. The most recent four-week average is down significantly from the year-earlier figure of 411,750.

Before adjustment for seasonal variation, the actual number of initial claims filed under regular state UI programs came to 287,284 in the week ended May 22, an increase of only 31 from the prior week. In the comparable week last year there were 343,432 initial claims.

ETA pointed out that in addition to the claimants filing under the regular UI program, there were 25,468 new claims filed in 52 jurisdictions under the Emergency Unemployment Compensation program during the week ended May 15. There were a total of 1.4 million persons who had filed under the emergency program in the week ended May 8.

Data from other weeks showed that the seasonally adjusted insured unemployment rate edged down 0.1 percentage point to 2.6 percent in the week ending May 15. Before seasonal adjustment, the rate was 2.5 percent that week.

The highest insured jobless rates for the week ended May 8 were reported in: Alaska (6.2 percent); California (4.0); Oregon (3.9); Rhode Island (3.9); Washington (3.8); Vermont (3.7); Connecticut (3.4); Idaho (3.2); Maine (3.2); New Jersey (3.2); and Pennsylvania (3.2).

The following ETA tables show the latest data:

UNEMPLOYMENT INSURANCE DATA FOR REGULAR STATE PROGRAMS

Not available on line; see print publication.

special projects division, BNA PLUS, 1-800-452-7773, or 202-452-4323 if calling in the Washington, D. C. metropolitan area.

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Creator: Stephen Willson WILLSON_S OMB

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SUBJECT: WH Bulletin 6/8/1993

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TEXT:
THE WHITE HOUSE BULLETIN
MONDAY, JUNE 7, 1993
SINCE THE MORNING PAPERS:

- o Armed rebels today seized Azerbaijan's second-largest city, Gyandzha, after heavy fighting, leaving 40 people dead and 40 wounded. The rebels are reportedly holding three government officials hostage. The rebels are led by Surat Huseynov, a local military leader who was demoted by the Azerbaijani government last February after a string of military defeats against Armenian forces in the area.
- o Ukrainian President Leonid Kravchuk said today after a meeting with Secretary of Defense Les Aspin that his government remained committed to getting rid of its nuclear weapons and the parliament had begun hearings to ratify the START I and Nuclear Non-Proliferation Treaties. Prior to today's meeting, Aspin met for two days with Russian Defense Minister Pavel Grachev to try out specific proposals aimed at satisfying the Russians and compelling Ukraine to give up the nearly 2,000 nuclear weapons that remain on its soil.
- o Iraq is exporting more than 100,000 barrels of oil a day to Jordan, Iran and Turkey, in defiance of UN sanctions, the Middle East Economic Survey said today. Iraq is permitted by the UN to truck up to 50,000 barrels of crude oil and 20,000 barrels of fuel oil a day to Jordan, but is prohibited from exporting oil to Iran and Turkey. According to the oil industry newsletter, Iraq boosted its oil production to 500,000 barrels a day last month, an increase of 50,000 barrels a day over April, indicating Iraq's oil trade is being conducted on a regular basis.
- o Somali leaders loyal to General Mohamed Farrah Aidid today handed over five missing Pakistani soldiers, part of the UN peace-keeping mission, who had been missing since Saturday when 22 Pakistani soldiers were killed in an ambush in Mogadishu. Aidid loyalists have repeatedly clashed with UN forces, who Aidid believes are biased against him. He has repeatedly warned the United Nations to steer clear of domestic politics.
- o Gonzalo Sanchez de Lozada, a mining executive raised in

the US, claimed victory in Bolivia's presidential election held yesterday. The election was widely considered the most peaceful and open in the country's history.

o Actress Mia Farrow was today awarded custody of the three children she shared with Woody Allen, according to Allen's attorney Eleanor Alter. Allen was also barred from visiting his daughter Dylan, who he was accused of abusing, for at least six months.

IN THE WHITE HOUSE AND AROUND TOWN:

o The White House appears to be preparing the announcement that Bruce Babbitt will be chosen for the Supreme Court. According to officials, part of this strategy includes consulting with those in the Senate, while another part includes leaking the probability to those in the media. "If we get word out now, it helps avoid any surprises after the selection is official," said one in the White House. Meanwhile, the AP quotes Keven Sweeney, the director of communications at the Interior Department, as saying: "I think it's going to happen." Sweeney said, however, that he did not know specifically if President Clinton had offered the job to Babbitt, but Babbitt did talk to the President a number of times during the week by telephone, said Sweeney. Asked Babbitt's attitude toward leaving a post he relishes, Sweeney said, "He believes that when the President asks you to do something, you do it. He'll do what the President wants."

o With Bruce Babbitt apparently on his way to the Supreme Court, speculation is focusing on who his replacement will be at the Interior Department. One potential candidate likely to be on the short list is Democratic Congressman Bill Richardson of New Mexico. Richardson is thought to have been under serious consideration for the slot in December, and his recent work to see the President's budget pass in the House -- which included public speeches and the arm twisting of reluctant colleagues -- apparently did not go unnoticed in the White House. Another person likely to be considered for the slot is former Colorado Senator Tim Wirth. Wirth was considered for a Cabinet-level nomination in December, and was instead appointed to a senior Department of State position. Wirth would likely be more popular with environmentalists than would be Richardson. According to another school of thought, however, President Clinton might choose a less visible candidate from the pool of confirmed officials already at Interior. According to this theory, by picking a lower-profile Secretary, the current team at Interior would not be disrupted to the same degree that would occur under an outsider's transition.

o President Clinton and Senators Mitchell and Moynihan will meet with the President today to discuss Senate action on the President's budget. According to a Democratic source, the three "will talk about moving the bill through the Senate" and "some numbers." While the White House and Democrats in the Senate are trying to develop some sort of compromise to see the legislation passed, a few insiders believe the level of cuts in Medicare spending proposed by Senator Moynihan over the weekend is part of a strategy to build countervailing pressure to "tax-cut fever." A congressional budget expert told the Bulletin this morning: "This is just the preliminaries before the main bout begins. Moynihan is throwing out this large number, $35 billion in Medicare cuts, for two reasons. One is to see how strong the opposition can be from the elderly and other groups. Up until now the Medicare cuts have been on the provider side -- hospitals and doctors -- so the beneficiaries have not been affected. But with the suggestion of raising premiums, the elderly will start screaming. With such opposition, they can scale back on the cuts and push for holding the line on BTU tax reductions. Taking more than $20 billion off the BTU makes the tax not worth doing, given the administrative complexities." The other purpose of Moynihan's tough stance "is to show the Boren and Breaux crowd that he is trying to accommodate them. He is saying that he is not trying to nickel and dime them. Then, when they sit down to come up with a compromise, both sides will have shown that they are willing to take some heat." As to the reputation of Moynihan during this first test of his chairmanship, this source indicated the results will affect Clinton's political standing as much as Moynihan's: "The jury is still out. If the Administration is successful in the Senate, Moynihan will get a lot of high marks. If the reconciliation blows up, Clinton will be criticized for taking Bentsen out of the Senate and losing the Texas race."

o Space station and supercollider supporters can not be pleased with Senate Finance Chairman Patrick Moynihan's remarks yesterday. Moynihan was asked by Sam Donaldson on ABC yesterday morning, "[Y]ou said at the beginning that we could find cuts in Texas. How about the supercollider? There's $10 billion." Moynihan responded: "It would be -- it's a great idea for the next century. We can't

afford it. ... And the space station never was a great idea in the first place." When asked how much the Senate would cut from the two programs, Moynihan responded: "As much as necessary to make people feel that we're cutting spending."

o Senate Majority Leader George Mitchell predicted this morning that President Clinton's budget will pass both the Finance Committee and the full Senate. Asked on NBC's "Today" show what compromises should be expected in the upcoming budget negotiations, Mitchell said: "I think there will be less in the way of tax increases, more in the way of spending cuts, a modification of the broad-based energy tax. I think the President's basic program will be intact, and that is about $500 billion in deficit reduction. That's the key, a broad-based energy tax and a tax program that is fair and progressive; that is, is based upon ability to pay."

Asked how difficult it will be to cut programs like Medicare, Mitchell replied: "Very difficult, as will any course of action be. But I'm confident that in the Senate we will pass the President's program -- I've said that all along; I'm more than ever convinced of it now -- and that the final result will be the President's program passed largely intact, faster than ever before." Asked about Senator Boren's (D-OK) opposition to the BTU tax, Mitchell said: "I think that we'll have all of the votes on the Finance Committee among the Democrats and will pass it in the Senate in the very near future."

o Mark Gearan will likely be announced later today as the White House's new communications director. Gearan would succeed George Stephanopoulos, who will concentrate more on advising President Clinton and others in the White House on policy and message. Reportedly, reports that chief of staff Mack McLarty was considering bringing in an outsider for the communications slot, and possibly someone to assume Dee Dee Myer's position as spokesperson as well, did not go over too well with a number of other White House officials who were concerned about a fragile team morale. Reportedly, Gearan will conduct afternoon press briefings as needed -- probably a few times a week -- while Myers will continue her current duties. Gearan has experience with briefing reporters, having played the role during the Dukakis presidential campaign in 1988. While the move should soothe things in the White House for a while, the fix is, according to one insider, "temporary -- until we figure out how to improve the whole picture."

o The Supreme Court today ruled that religious groups must be allowed to use public schools after hours if non-religious groups are given such permission. The Court unanimously struck down a New York school district's policy that excluded religious activities from the list of approved after-hour uses of public school property. Writing for the Court, Justice Byron R. White said school districts are free to bar all groups from using school facilities. But once such access is given to some groups, school officials may not discriminate against religious groups. The decision added that giving the same access to religious groups does not violate the constitutionally required separation of church and state.

o The Supreme Court today ruled that some national banks may continue to sell insurance. In a unanimous decision, the Court ruled a lower court erred when it said that Congress repealed nationally chartered banks' authority to sell insurance 75 years ago. Congress made a punctuation error when it enacted the 1916 law letting some national banks sell insurance, but that is not enough to require the law to be repealed, Justice David H. Souter wrote for the court. "Against the overwhelming evidence from the structure, language and subject matter of the 1916 act there stands only the evidence from the act's punctuation, too weak to trump the rest," Souter wrote. "The true meaning of the act is clear beyond question, and so we repunctuate." National banks generally are forbidden to sell insurance. But in 1916, Congress provided an exception for banks in towns of 5,000 or fewer residents. In 1986, the comptroller of the currency ruled that banks in such small towns could "export" their insurance and sell it nationwide.

- The Supreme Court today let stand a ruling that allows student-led prayers at public school graduation ceremonies in three states. The Court, without comment, refused to review a Federal appeals court ruling that allowed such school prayers in Texas, Louisiana and Mississippi. The Court last June strengthened its 30-year ban on officially sponsored worship in public schools by prohibiting prayers at a Rhode Island high school's graduation ceremonies. Those prayers had been led by clergy members. The 5th U.S. Circuit Court of Appeals ruled last November in a Texas case that the June ruling does not apply to graduation ceremony prayers that are planned and led by graduating students.
- President Clinton is getting some Republican support for his plan to move from the present guaranteed student loan program to one that offers student loans directly from the government. Countering some of the harsh criticism President Clinton has received from the Student Loan Marketing Association (Sallie Mae) and other critics, a group of Republicans, including former RNC Chairman Rich Bond; Bush White House domestic policy advisors James Pinkerton and Charles Kolb; and top Education Department officials from the Bush Administration have signed a letter supporting the Administration's direct loan proposal. The letter has been sent to Senators Kennedy (D-MA) and Kassebaum (R-KS) of the Senate Labor and Human Resources Committee and Congressmen Ford (D-MI) and Goodling (R-PA) of the House Education and Labor Committee. Asserting that "the Clinton Administration has taken the correct position on this issue," the Republican signatories write: "Over the years, the guaranteed student loan program has developed a degree of regulatory and administrative complexity that now undermines its fundamental integrity and effectiveness. Replacing the GSL structure with a streamlined structure will mean not only enhanced accountability, and budget savings, but also a more rational delivery system that will particularly benefit students and educational

institutions. In particular, we believe direct loans will also ensure greater responsibility and accountability by participating educational institutions."

- o Despite Kay Bailey Hutchison's impressive win on Saturday, Democratic analysts are predicting that Hutchison faces a tough struggle if she plans to hold on to the seat for longer than 17 months. Noted one hopeful Democratic Senate strategist this morning: "This campaign doesn't end. Hutchison is up again in November, 1994, and she'll very likely get a primary challenge since this is the only prize around for Republicans in the state. No one wants to take on Richards [for Governor] and the prospects of a Republican Senate challenge [to Hutchison] actually get stronger if Democratic prospects dim...." Democratic sources also point out that "Krueger was obviously not the strongest candidate that Richards could have picked." Democratic sources expect Texas Comptroller John Sharp and former Attorney General Jim Maddux, two Democrats passed over by Ann Richards, to take a close look at the race for 1994.

POLL WATCH

- o A poll of 1,347 people conducted by CBS News/New York Times June 1-3 shows:
  - -- 38 percent approve of President Clinton's handling of his job, while 47 percent disapprove.
  - -- 38 percent approve of Clinton's handling of foreign policy, while 42 percent disapprove.
  - -- 31 percent approve of Clinton's handling of the economy, while 57 percent disapprove.
  - -- 27 percent approve of the way Congress is handling its job, while 60 percent disapprove.
  - -- 46 percent think Clinton's economic plan relies too much on tax increases; 7 percent think it relies too much on spending cuts; and 37 percent think it is balanced about right.
  - -- 21 percent think Clinton did the right thing in nominating Lani Guinier in the first place, while 65 percent think he shouldn't have nominated her.

IN THIS WEEK'S WEEKLIES:

- o Clinton criticized for withdrawing Guinier. President Clinton's decision to withdraw Lani Guinier's nomination to serve as Assistant Attorney General for Civil Rights is raising questions about his decision-making process according to this week's weeklies. A US NEWS article repeats Clinton's words about not agreeing with Guinier's views on civil rights, but then asks: "Fair enough. But what are his views, and what direction will civil rights policy take now?" Another US NEWS article is headlined: "A Question Of Competence: The Lani Guinier Fiasco Raises Distressing Questions About How Clinton Makes Decisions." TIME's headline on the affair reads: "As Bill Clinton dumps another nominee and scrambles for the political middle, he raises new questions about his true convictions." The TIME article reports that two questions are raised by this sort of incident -- whether the President is up to the job and what are his convictions? (US NEWS, TIME, 6/14/93)

- o "A Hard Right Turn" is the title of a news article to appear in this week's Newsweek by Eleanor Clift which claims the pulling of the Guinier nomination and the President's changed rhetoric means the Administration has become more conservative. "Facing dismal approval ratings, Bill Clinton realizes his own political health is in danger if he doesn't move his Administration, or at least it's image, to the right," writes Clift, who adds: "Indeed, the revamped Clinton strategy can be summed up in three phrases: please white middle-class men; kiss off liberals; court Perot voters." (Newsweek, 6/14/93)
- o Former Defense Secretary Dick Cheney may run for the US Senate, this week's Time will report. According to the item, Wyoming Senator Malcolm Wallop may leave the Senate to run for governor, which in turn would allow Cheney to warm up for a '96 presidential run by campaigning for the Senate. (Time, 6/14/93)
- o Bush to forgo Japanese honoraria. Fearing a controversy similar to the one Ronald Reagan stirred up by accepting two million dollars for a speaking tour of Japan in 1989, George Bush has passed up a seven-figure offer from a Japanese corporation to go on a Japanese speaking tour, according to an item appearing in this week's US NEWS. (US NEWS, 6/14/92)
- o Clinton should look to Eisenhower. When putting together a winning coalition on Capitol Hill, President Clinton should look to the presidency of Dwight Eisenhower, who successfully turned his Republican majority in Congress in the domestic and international direction he was looking, according to an article by Michael Barone appearing in this week's US NEWS. According to the article: "With clearer convictions about what he wanted and a clearer view of public opinion, Eisenhower set out to build a from-the-center governing coalition. His chief goal, as his Attorney General Herbert Brownell recalls, was `a lasting bipartisan international approach to world affairs' embodied in the NATO treaty." To accomplish this, according to the article, Ike had to challenge his party's isolationism to win on international and domestic issues. "Eisenhower prevailed because he had a sense of command," according to the article. "Clinton, in contrast, has shown not a sense of command but an aptitude for the bonding style of Phil Donahue and Oprah Winfrey: `I feel your pain.'" The article concludes that Clinton, and Clinton alone, must establish himself in the role of commander and forge a from-the-center coalition to succeed. (US NEWS, 6/14/93)

- o CEA Chairman Tyson profiled. Laura D'Andrea Tyson, President Clinton's Chairman of the Council of Economic

Advisors (CEA) is profiled in this week's US NEWS. According to the article, Tyson's "greatest qualification may turn out to be the pedagogical skills she polished during a decade of teaching economics at the University of California at Berkeley. Her new job requires her to spend a lot of time explaining economics to everybody from the President on down. Yet at the same time, she's had to go back to school in perhaps the world's grittiest classroom to learn about politics." (US NEWS, 6/14/93)

- o Babbitt Is Clinton's Choice For Supreme Court. According to an item to appear in this week's Newsweek, Interior Secretary Bruce Babbitt is Clinton's choice for the Court, with one condition: the White House first has to find a suitable successor for Babbitt. According to Newsweek: "The former Arizona attorney general and governor had been on Clinton's short-list since Byron White announced his retirement in March, White House aides said. Babbitt has the legal and consensus-building skills Clinton wants, and his moderate image should ease Senate confirmation. Chief of staff Mack McLarty was leading the search for Babbitt's replacement. Given Clinton's desire to keep the Western states that gave him a third of his electoral vote, the White House's ideal was a Westerner who would satisfy environmentalists but not distress business interests." (Newsweek, 6/14/93)
- o The FBI And CIA Conclude Iraq Behind Bush Assassination Attempt. According to Newsweek, the FBI and CIA have "concluded Iraq did plot to assassinate George Bush and his entire entourage -- including Barbara Bush and former secretary of state James Baker -- on their April trip to Kuwait." NSC Advisor Anthony Lake is discussing with other experts what, if any retaliatory measures should be taken, but, according to Newsweek, few significant military targets are left to attack in Iraq without endangering civilians. (Newsweek, 6/14/93)
- o Leading Candidates to Replace Colin Powell as chairman of the Joint Chiefs of staff include Air Force Gen. Lee Butler and Marine Gen. Joseph Hoar, reports this week's Newsweek. (Newsweek, 6/14/93)
- o Conventional Wisdom: White House Staff Edition. According to Newsweek's "Conventional Wisdom" section: David Gergen's arrow is up. Bernie Nussbaum's is down -- "White House counsel vetted Zoe, Kimba and Lani. That's strike 3, Bernie." George Stephanopoulos's is even -- "Old: Smug press-hater gets comeuppance. New: Smug press-hater gets power office." Mack McLarty's is down. Hillary Clinton's is even -- "Why didn't the saint go marching in? Health care can't be that important." And Bruce Lindsey's is down -- "Personnel chief or personal valet? It's June, and only 95 of 400 slots are filled." (Newsweek, 6/14/93)

LAST LAUGHS:

- o Jay Leno: "Canadian Prime Minister Brian Mulroney met with Bill Clinton. He told the President to `keep doing what you're doing.' Of course he wants him to keep doing what he's doing. He keeps sending our jobs to Canada." (NBC The Tonight Show)

o Jay Leno: "Bill Clinton said he was sent to Washington to fight brain-dead politics. So what happened? Do you think maybe he got captured and now he's a prisoner of war?" (NBC The Tonight Show)

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