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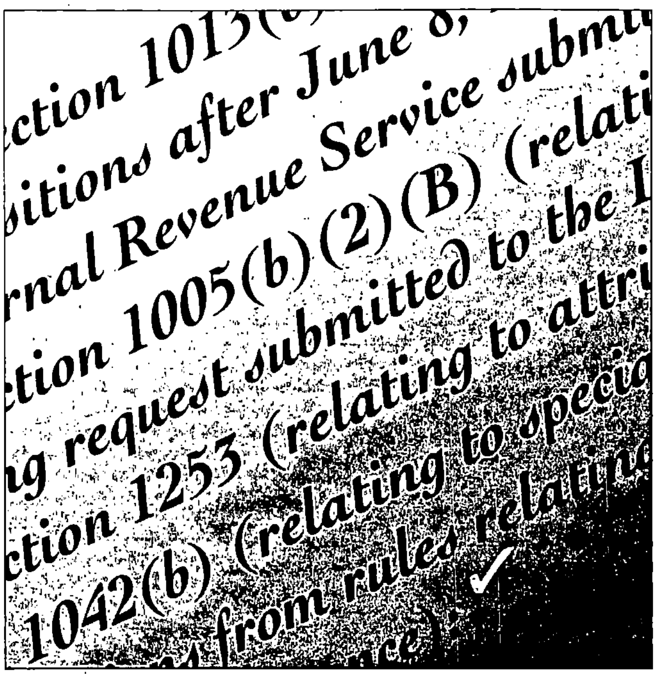

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ENVIRONMENT

Tuna-Labeling Provision Opens a Can of Worms

Canning industry fears environmentalists will use 'dolphin safe' labeling as a tool to push for tougher protections

Supporters of a bill to devise a new "dolphin safe" label for tuna cans patted themselves on the back recently after crafting a decisive compromise. The agreement broke a months-long legislative logjam and sent the bill to President Clinton's desk for his expected signature.

But tuna canners are not doing a lot of celebrating. They believe that the bill (HR 408), cleared by the House on July 31, could give environmental groups leverage to roil the marketplace by demanding that canners meet stronger protection standards for dolphins than those required in the bill.

"It just opens up the floodgates for the environmental groups that are never going to accept this 'dolphin unsafe' tuna from coming in," said David G. Burney, executive director of the U.S. Tuna Foundation, which represents domestic canners and tuna fishermen.

SCOTT J. FERRELL

An environmental group markets the "Flipper Seal of Approval" to signify dolphin protection but says the seal is not a money maker.

For the canners, history may be about to repeat itself. They ended a public relations nightmare in 1990 by signing a truce with environmental groups over applying a "dolphin safe" label to tuna cans, but only after a consumer boycott boosted by startling footage of dolphins being savagely killed on tuna boats.

Under the agreement, canners consented to sell tuna that met dolphin protection standards supported by the environmental groups and followed up by affixing a "dolphin safe" label on cans.

The standard for the dolphin-safe label barred tuna caught with encircling nets, which capture tuna much like pulling the drawstring of a purse, but also can injure or kill dolphins that often swim above tuna schools. Congress gave the definition the force of law that same year.

By Allan Freedman

But the 1990 peace could be broken under the bill cleared last month by Congress.

First, it would implement a 1995 international agreement, known as the Declaration of Panama, to lift the U.S. embargo in effect since the 1980s on tuna imports from Latin American countries whose fishermen used encircling nets.

Second, it would relax the standard for applying the dolphin-safe label to tuna cans as early as 1999, pending the preliminary findings of a scientific study, mandated by HR 408, on the effects that encircling nets have on dolphins' health and safety.

The altered standard would allow encircling nets to be used, though only if tuna is caught without killing or seriously injuring dolphins.

That change angered some environmentalist organizations, particularly those that fought hard for the current definition. In response, they prevailed on lawmakers to amend HR 408 to allow multiple labels, and this is the provision that is particularly troubling to the canners.

The government would be directed to develop a single official label. But canners would be free to affix it or any of a variety of alternative labels to tuna cans. Some of those labels could signify that the tuna in the cans had been caught by fishermen who adhere to a more stringent dolphin-safe standard.

Supporters of multiple labels defend the amendment as a way to protect freedom of expression. Opponents say multiple labels would confuse consumers and perhaps open the way for environmental groups to challenge the federal standard in the future.

"Let us not fool ourselves that there are some people who will oppose this [label] change at all costs," said Democratic Sen. John B. Breaux of Louisiana, a proponent of the single-label definition.

A Delicate Balance?

The bill would allow tuna canners to use the label of their choice, as long as the tuna met protection standards as strong as those in the bill, as well as other requirements, such as not making misleading claims as defined by the Federal Trade Commission Act.

Under the multiple-label provision, the Commerce Department would be directed to design an official dolphin-safe label, but the tuna canners would not be required to use it and could attach any design to their cans. Only one label design could be attached to an individual can.

Mark J. Robertson, a consultant to the Mexican fishing industry, said the provision strikes a good balance between protecting First Amendment rights and guarding against abuses of the label standard that would undercut conservation goals in the bill.

"It's about as tight as you can get without infringing on freedom of speech," he said.

But tuna canners are worried that the provision could open them to pressure from environmental groups. Canners fear that if they use any label that does not have the support of environmental groups, environmentalists will lead a boycott of their product.

Burney said canners are "constantly receiving requests from special interest groups to use their label." For the most part, he said, these are groups that represent themselves as "environmentally concerned."

These groups could push canners to accept stronger protections for dolphins than the law required, Burney said. "We're concerned that they will pressure [retailers] in what products they will accept or will not accept," he added.

Keeping to the no-encirclement definition might win plaudits from environmental groups and some consumers, but canners worry that it could also cede a competitive advantage to companies that are marketing lower-priced tuna caught by Latin fishermen with encircling nets.

Dave C. Phillips, executive director of the environmental group Earth Island Institute, predicted that the big tuna canners would keep the old label definition, rather than risk a flare-up over the new, less stringent definition in HR 408.

"I think that our hope is that we can avoid consumer boycotts and everything else by sticking to the dolphin-safe label that works," Phillips said.

But Phillips, whose organization was involved in the consumer campaign to impose the original dolphin-safe definition in 1990, warned that environmental groups would take aim at companies marketing Latin American tuna that the groups say is not dolphin-safe.

"We have our sights trained on the first company that tries to sell unsafe tuna on the market," he said. "The wrath of God and Earth Island will come down on that company."

Green for Greens?

A big question is whether an environmental group should advocate a tougher label standard while pushing tuna canning companies to accept and pay for use of a label developed by that group.

"We have our sights trained on the first company that tries to sell unsafe tuna on the market. The wrath of God and Earth Island will come down on that company."

—Dave C. Phillips, executive director, Earth Island Institute

For example, Earthtrust, a Hawaii-based environmental research and educational group, markets a tuna-can label called the Flipper Seal of Approval. Companies that use the label pay a licensing fee to fund a dolphin monitoring program.

The label includes a drawing based on the intelligent dolphin that starred in the 1960s television show "Flipper," and according to Earthtrust signifies a definition of "dolphin safe" that is stricter than the one under current federal law. *(Photo of label, p. 1924)*

Earthtrust officials say the label provides a market-based approach to encouraging the sale of dolphin-safe tuna. But critics contend that groups such as Earthtrust have a financial interest in the multiple-labeling provision and are not simply looking out for the dolphins.

"In the case of Earthtrust, you cannot question that, regardless of what the intent of the label is, it is a moneymaking business," said Robertson.

Don White, president of Earthtrust, disputes this, saying that the Flipper label has hardly been a bonanza.

The label is licensed to one relatively small tuna canning company, White said.

He asserted that fees from use of the label amount to a few hundred dollars a year and do not come close to covering his organization's overhead. "The whole theory of getting industry revenues just hasn't happened," White said.

He said that proponents of changing the dolphin-safe definition attack his group to deflect attention away from efforts to loosen the standard.

"What they're concerned about is the truth will come out and the public will boycott tuna that's not dolphin-safe," White said.

Earthtrust has ties to the Earth Island Institute, which has threatened to boycott tuna caught under the relaxed definition. Earth Island's executive director, Phillips, sits on the board that oversees the Flipper label.

But White stressed that Earthtrust would not participate in a boycott organized by Earth Island, which might raise conflict of interest questions.

"The scenario being talked about, with a boycott [to pressure for use of] the Flipper Seal of Approval, is not going to happen with our participation," White said.

Trade Matters

The dolphin-safe tuna bill was closely watched as it moved through Congress; for many, it was an example of how the United States balances its pursuit of free trade with its goals for environmental protection.

The legislation divided the environmental community.

Some activists hailed it for implementing the Panama Agreement, which for the first time would bring many countries into a compact to protect dolphins and the ecosystem as a whole.

Others, however, viewed the legislation as a weakening of the dolphin-safe standard that constituted a U.S. sellout to its trading partners.

Trade was doubtlessly an issue. The Latin American fishing industry argued that it should be allowed access to the $1.4 billion U.S. tuna market, and most trade experts said international law backed their claim under the General Agreement on Tariffs and Trade (GATT).

However, critics argued that revisions in the dolphin-safe label should not have been part of trade discussions. They said that the United States should not alter its domestic environmental standards at the behest of trading partners.

They said international trade law speaks to the issue of open markets but does not compel a change in domestic environmental standards. ■

LABOR

Possible Pension Crisis Sparks Calls for System Overhaul

With about 50 million workers lacking coverage, lawmakers focus on issues such as portability, small businesses

Not since Gerald R. Ford occupied the White House and Watergate loomed large as a gripping scandal has Congress produced sweeping legislation to shore up the nation's pension system.

Today, more than two decades later, the statistics and trends are sobering: More than 50 million workers — about half the work force — have no pension coverage whatsoever, neither a traditional, employer-run pension plan to provide monthly checks after retirement, nor a personal tax-deferred savings account such as an Individual Retirement Account (IRA) or a 401(k) plan.

The absence of coverage is particularly acute at small businesses, where, according to Labor Department figures, only about 25 percent of workers are covered by some type of retirement savings plan.

Moreover, workers are uncertain about whether Social Security can handle the increased demand as Baby Boomers reach retirement age beginning in about 2010. These are members of the same group whom analysts expect to retire early and live longer, and the same group that got married and had children later in life, which means money that might have been saved for retirement will go to college tuition.

Then there are horror stories like the recent bankruptcy of Color Tile Inc., a Fort Worth, Texas, company that had 774 stores in 48 states. Eighty-three percent of the company's 401(k) assets had been invested in Color Tile itself. The failure nearly wiped out many employees' retirement savings.

The statistics and the stories have convinced several lawmakers that the time is right to push legislation that will avert what may be a major crisis. They are focusing their efforts on encouraging employers to establish traditional pension plans, as well as fostering the growth of IRAs and 401(k) plans. They will be watching upcoming tax and appropriations bills as possible vehicles for their proposals.

By Donna Cassata

SCOTT J. FERRELL

Lynn Dudley, vice president for an association that lobbies Congress on retirement issues, predicts that next year's tax bill "will have quite a bit of pension in it."

IRAs allow workers of modest income who do not have an employer-sponsored retirement plan to deduct up to $2,000 a year from their taxable income and put the money in a retirement account. Tax-deferred 401(k) plans are savings accounts funded mainly by employee contributions, with a partial employer match. The money is then invested in stocks, bonds or a mix of both.

One proposal introduced in the 105th Congress by Sens. James M. Jeffords, R-Vt., and Jeff Bingaman, D-N.M., would create a privately run pension clearinghouse that would manage and invest employee retirement accounts for employers. Jeffords, chairman of the Labor and Human Resources Committee, plans to hold hearings on the plan in the fall.

Other lawmakers have introduced proposals that may become part of a new tax cut bill in 1998. They deal with issues such as the portability of pensions as workers move from job to job, and the financial and administrative difficulty that small businesses have in establishing savings plans for their employees.

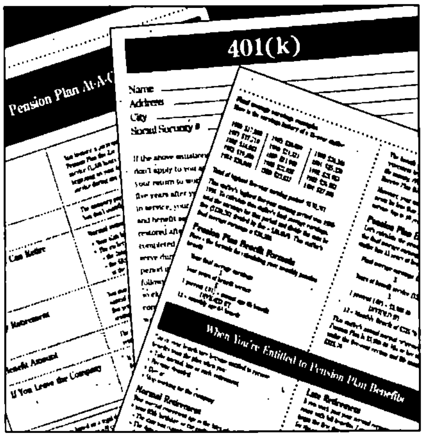
"Next year's tax bill will have quite a bit of pension in it," predicted Lynn Dudley, vice president for retirement policy at the Association of Private Pension and Welfare Plans, which lobbies Congress on retirement issues.

Sen. Judd Gregg, R-N.H., has introduced a bill (S 883) to create a new voluntary pension plan for companies with 100 employees or less, eliminate some restrictions on transferring retirement benefits as workers change jobs, and establish a fully deductible IRA for every American.

The Gregg proposal seeks to build on the step Congress took in 1996 toward helping small businesses create pension plans. The law (PL 104-188), which combined $10.1 billion in business tax breaks with an increase in the minimum wage, included the creation of the SIMPLE (Savings Incentive Match Plan for Employees) retirement plan, which allows businesses of 100 workers or less to create a 401(k) plan eligible for various tax advantages. *(1996 Almanac, 2-34)*

In an early sign of Congress' intent to get more workers to save for retirement, lawmakers included several pension-related provisions in the tax cut bill (HR 2014) that President Clinton signed Aug. 5. *(Weekly Report, p. 1859)*

Pension Proposals Offer More Variety



Lawmakers are seeking to act on several bills dealing with pensions before the 105th Congress adjourns in 1998. A plan sponsored by Sens. James M. Jeffords, R-Vt., and Jeff Bingaman, D-N.M., for example, would establish a government-chartered, privately managed retirement security program to administer retirement accounts. Other measures deal with increased access to such accounts, incentives for small businesses to offer pensions, and increased protection for women. Senate Minority Leader Tom Daschle, D-S.D., introduced a retirement security bill (S 14) in January with those aims in mind. Following is a sample of pending legislation:

Pension ProSave

The Jeffords-Bingaman bill (S 957) would create a program called Pension ProSave, under which employers would open retirement accounts for employees, but the accounts would be maintained by a separate, private company. Bingaman, a leading proponent of shoring up the pension system, says he is concerned about the 51 million private sector employees who have no retirement plan.

Under the proposal, first introduced in the 104th Congress, companies would enter an agreement voluntarily to contribute a minimum of 1 percent of employee salaries to the account. Above that, employers could adjust their contribution annually, in accordance with profits and losses. Workers could contribute up to twice as much as their employer, up to $6,000, and they could maintain their accounts when they changed jobs. The funds would be vested immediately, so employees would be entitled to accrued benefits no matter when they left a company.

Graham Plan

Sen. Bob Graham, D-Fla., has introduced a pension overhaul bill (S 889), cosponsored by Sen. Charles E. Grassley, R-Iowa, that Graham says would update laws "written in an era that didn't anticipate this modern mobility of the work force." Like the Jeffords-Bingaman proposal, it would allow for expanded pension portability, including government workers moving into private sector jobs. Several provisions would encourage workers who left their jobs to transfer their pension or their retirement account to a new employer, if the employer agreed.

The bill would make it easier for small businesses to set up retirement plans. It proposes an employee payroll deduction that would go toward financing an Individual Retirement Account (IRA) that would be administered by a third party, such as a bank, rather than by the company.

Several provisions from Graham's bill were included in the tax bill (HR 2014) that President Clinton signed Aug. 5. Conferees accepted a provision assuring that a qualified retirement plan would not lose tax advantages if it accepted rollover contributions from a previous employer's plan that turned out to be tainted, or disqualified for tax breaks. The tax bill also repeals the requirement that businesses file a report with the Labor Department when they make major changes to their pension plans. *(Weekly Report, p. 1831)*

Protecting Women

Sens. Carol Moseley-Braun, D-Ill., and Patty Murray, D-Wash., have introduced legislation (S 320) focusing on pension protection for women. Barbara B. Kennelly, D-Conn., has introduced companion legislation (HR 766) in the House. One provision of S 320, a proposal to require a spouse's consent to cash out the money in a tax-deferred savings plan known as a 401(k), was included in the Senate version of the tax bill, but was dropped in conference.

The bill calls for an end to the process called integration, in which employers can reduce employees' pension benefits by a portion of that employee's income from Social Security. The bill also stipulates that in cases of divorce, benefits accrued during marriage would be evenly divided if the couple was married at least five years.

Also in the House, Nancy L. Johnson, R-Conn., has proposed bipartisan legislation (HR 1656) cosponsored by Earl Pomeroy, D-N.D., aimed at encouraging small businesses to offer pension plans. Such businesses often do not have the resources to offer a plan. The bill would limit the regulations that deter small businesses from setting up pension plans. Under the plan, employees could set up Individual Retirement Accounts, which would be fully funded by a set amount contributed annually by the employer. The accounts, like the ones in the Bingaman plan, would be portable.

Further Protections

Sen. Barbara Boxer, D-Calif., has introduced a series of bills (S 106, S 107, S 108) aimed at protecting pensions. One (S 106) was included in the final version of the tax bill (HR 2014). It stipulates that companies can invest no more than 10 percent of employee contributions into the company's stock or real estate. The bill was spurred in part by high-profile bankruptcies and pension losses such as the 1991 bankruptcy of the California-based Carter Hawley Hales stores, which had more than 50 percent of assets invested in its own stock.

The second bill (S 107) would assure equal benefits to either spouse if one of them (presumably the plan participant) died. Under current law, the survivor who was not in the plan receives half the pension of the participant.

The third bill (S 108) would require 401(k) plans, which allow employees to contribute a portion of their income to a tax-deferred fund, to disclose their investments to plan participants. Federal law dictates that investment reports be made available to participants upon request, but Boxer wants that done automatically.

— ***Elana Mintz***

Pension History

Pension legislation is seldom quick or easy. It took seven years of congressional tries, accompanied by tragic tales of pension benefits wiped out by bankruptcies, mergers and unsavory business practices, before the law commonly known as ERISA established federal standards for private pension plans. *(1974 Almanac, p. 244)*

The Employee Retirement Income Security Act (PL 93-406), which Ford signed in 1974, stipulates that companies with pension plans have to follow certain rules. For example, they have to enroll all employees age 25 and older in the plan after they have been with the company one year. Also, companies must contribute enough money to ensure payment of workers' pensions. The law also allowed individuals who were not in a traditional pension plan to set up their own retirement savings accounts with special tax benefits. That marked the beginning of IRAs.

Congress has difficulty enacting pension laws because most of them include provisions to defer taxes, and this results in lost government revenues. That and other factors could delay legislation in 1998. Pension analysts say several lawmakers want to see if the 1996 legislation aimed at small businesses (the SIMPLE plan) helps them provide more retirement security for their employees before embarking on a sweeping bill. And despite the dire forecast for Social Security, many lawmakers have little sense of urgency.

They think "the retirement crisis is still 20 years away," said Bill Pierron, a public affairs associate with the Employee Benefits Research Institute, a nonprofit, nonpartisan think tank that examines employee benefits and economic security issues.

Pension Proposals

Sponsors of this year's pension bills are hoping to begin the congressional dialogue on what steps are needed to avert a retirement security crisis. The hope next year is that the lure of an election-year accomplishment will transform some of those ideas into reality.

Gregg chaired a Republicans-only task force on retirement security earlier this year and came out with his bill, which aims at increasing the national pension savings rate. A few of his provisions made it into the tax bill (HR 2014), including an IRA for homemakers and simplification of employer paperwork.

Gregg's legislation would make all Americans eligible for fully tax-deductible individual retirement accounts by 2001. "The IRA is becoming the cornerstone of national retirement policy," Gregg said, "and the federal government should not deter anyone from participating by limiting or eliminating the tax deductibility of the option."

Jeffords

Gregg

Gregg's bill also would create a voluntary pension plan allowing employers to pay workers a minimum guaranteed benefit of 1 percent to 3 percent of pay for each year of service. This would apply to all employees making at least $5,000.

Gregg said his plan, in which employers also could provide retroactive benefits for up to 10 years of prior service, would provide larger retirement benefits than the current 401(k) plan for small businesses (the SIMPLE plan).

Under that plan, which went into effect Dec. 31, employees can contribute up to $6,000 annually into a retirement account. Employers have to match that amount up to 3 percent of the worker's salary, and that contribution is tax-deductible for the employer.

Sen. Bob Graham, D-Fla., has proposed legislation with Sen. Charles E. Grassley, R-Iowa, aimed at expanding coverage for small businesses and increasing the portability of pension plans.

Several provisions would encourage workers who change jobs to transfer their traditional pension plan or IRA to the plan of a new employer, if the employer concurs.

Graham said his legislation responds to recent statistics showing that people change jobs an average of seven times in a lifetime, and to the general feeling among many middle-aged Americans that Social Security will not be available when they retire.

"Americans are changing jobs more frequently and are less likely to be vested," Graham said. Employees typically have to stay at a company five years to be "vested," or entitled to employer-paid pension money. "The mobile status is a particular problem for women."

In the House, Nancy L. Johnson, R-Conn., and Earl Pomeroy, D-N.D., have sponsored similar legislation (HR 1656) that would provide portable pensions and limit the regulations that deter small businesses from establishing pension plans.

Pension ProSave

The Jeffords-Bingaman proposal would create a government-chartered but privately run pension clearinghouse that would oversee retirement accounts and provide the types of investment options often available to employees with 401(k) plans.

Under the voluntary program, known as "Pension ProSave," an employer would start an account and contribute any amount each year, but not less than 1 percent of a worker's salary per year. An employee would contribute up to two times what the employer provided. If an employee left, the employer would have no responsibility for the pension coverage; the clearinghouse would continue to oversee and invest the account.

"You look at the different laws and regulations on the book and nothing privately available provides a hassle-free way for employers to help employees," Bingaman said.

The legislation has the backing of Republican Sens. Connie Mack of Florida, Alfonse M. D'Amato of New York and Christopher S. Bond of Missouri. Bingaman had introduced a similar version in the 104th Congress, but no action was taken on it.

Pierron of the Employee Benefits Research Institute said the Jeffords-Bingaman plan contains some of the same proposals that were offered by a special commission appointed by former President Jimmy Carter to examine retirement policy. That plan, known as the Minimum Universal Pension System, would have been mandatory. It was never more than a commission proposal, however, and it died in 1981 after Republican Ronald Reagan replaced Carter in the White House.

Already Accomplished

Congress also addressed some pension issues in the tax cut bill (HR 2014). For example, Gregg and Graham pushed for a change in the so-called homemaker rule to provide more retirement protection for women who do not work outside the home. Under existing law at the time, if a husband had a traditional pension plan at work and the couple's income exceeded $40,000, a wife who stayed at home could not make a $2,000 tax-deductible contribution to an IRA. In essence, a homemaker would have had no tax incentive to establish an IRA.

The new law allows a stay-at-home spouse to contribute to an IRA even if a partner has an employer-sponsored plan at work.

The law also increases the amount in an employee's pension fund that triggers an involuntary cash-out of benefits. Currently, an individual must take out the money in a lump sum if the pension plan is worth $3,500 or less. If it is worth more, payments are made periodically (usually monthly) — resulting in more paperwork and responsibility for employers maintaining the accounts. The legislation would increase the cash-out payment to $5,000.

And in response to the Color Tile case, Congress and the Clinton administration accepted a provision by Sen. Barbara Boxer, D-Calif., to prevent employers from requiring employees to place more than 10 percent of their 401(k) contributions into company stock or assets, unless the employee agrees. The provision will go into effect in 1999.

Conferees on the tax bill dropped a provision, sponsored by Sen. Carol Moseley-Braun, D-Ill., that would have required workers with 401(k) plans who plan to cash out their benefits to get permission from their spouses on whether the money would be withdrawn in a lump sum or in periodic payments. Current law says consent of a spouse is required only on distribution of traditional pension plans that provide automatic survivor benefits.

Moseley-Braun argued that the increased variety in pension plans has exceeded the protections and that it was only fair to extend the consent requirement to 401(k) plans.

Employers and their representatives lobbied furiously to persuade negotiators to drop the provision, contending it would increase their paperwork and harm working women who would have to get their husbands' permission for access to their own money. (Moseley-Braun argued that homemakers needed the protection.)

"From the standpoint of women, it offers little support and does substantial harm," said Mark Ugoretz, president of the ERISA Industry Committee, a group representing employer benefits plans.

Employer groups succeeded in keeping the provision out of the final bill, but they say the fight is not over. The provision is expected to be the subject of hearings in the fall and could be attached to one of the must-do spending bills or emerge in legislation in the second half of the 105th Congress. ■

APPROPRIATIONS

Resignation of Fund Officials May Smooth Way on Spending

Two Treasury Department officials in charge of a community lending program have resigned amid reports that $11 million in grants were awarded to companies with ties to the Clintons and that documents supporting the selections were written only when a House panel began investigating.

Kirsten Moy, director of the Community Development Financial Institutions Fund, will step down in October following the second round of the program's application process, Treasury Secretary Robert E. Rubin told Congress in an Aug. 6 letter. Moy's deputy, Steve Rohde, will depart Aug. 30.

Congressional investigators and the department's inspector general, Valerie Lau, found that in April, Moy instructed Rohde to write undated, after-the-fact evaluation documents on four of the grant recipients and insert the documents in the program's files just hours before staff employees from the House Banking and Financial Services Subcommittee on General Oversight and Investigations arrived. The grant recipients had been selected in July 1996. *(Weekly Report, p. 1873)*

"Let me state unequivocally that this action was a serious error of judgment and inconsistent with the standards that should govern our relationship with the Congress," Rubin said in a letter to Rep. Spencer Bachus, R-Ala., subcommittee chairman. "I deeply regret this incident."

Four of the grant recipients had some ties to President Clinton and Hillary Rodham Clinton, according to a committee source. But Rubin said there was no political favoritism in the selections and the award decisions were "based solely on merit."

In a statement, Bachus, who had indicated that the program's credibility would suffer as long as Moy and Rohde were in their positions, commended Rubin for his action. "The Treasury Department needed to take strong action, and this was a necessary step," Bachus said.

In announcing the resignations, the department also said it has moved to strengthen its internal procedures and controls, including a conflict of interest policy for reviewers of applications, a numeric worksheet in making assessments of potential recipients and a two-day training session for reviewers.

The fund is a government corporation created by a 1994 community development lending law (PL 103-325) to provide federal grants and aid to local banks, credit unions and other organizations that make loans in inner cities and poor rural areas. *(1994 Almanac, p. 100)*

In the first round of grants in July 1996, the program awarded $37 million in grants, loans and other financial assistance to 32 entities. The losing applicants complained to lawmakers about suspected political preference, prompting the House panel's investigation.

Angered by the subcommittee's discovery, the Senate provided no funds for the program in the fiscal 1998 spending bill (HR 2158) for veterans, housing (VA-HUD) and community development programs, even though the administration had sought $125 million. Sen. Christopher S. Bond, R-Mo., chairman of the Appropriations subcommittee that oversees funding for the program, had sharply criticized the project as "totally without controls." *(Weekly Report, p. 1792)*

The House, when considering the VA-HUD spending bill, struggled with an amendment that would have cut the program's $125 million budget request to the current level of $50 million. Sponsors of the measure abandoned the effort after receiving assurances from senior lawmakers that they would discuss the program with Treasury Department officials.

The departure of Moy and Rohde strengthens the hand of the program's proponents as they seek full funding in House and Senate negotiations on the spending bill, which are scheduled for September. ■

By Donna Cassata

Status of Major Legislation

105th Congress

(as of Aug. 8, 1997)

Bill and Background	House	Senate	Final
Abortion Procedure Ban. (HR 1122, substitute for HR 929; S 6) The bills would ban a controversial abortion procedure that opponents call a "partial birth" abortion, except when the procedure was needed to save the woman's life. Doctors who performed the procedure could be fined and sentenced to up to two years in prison. The woman would be exempt from criminal penalties. *(Weekly Report, p. 1196)*	HR 1122 passed 3/20/97.	HR 1122 amended and passed 5/20/97	
Budget Reconciliation for Fiscal 1998. Two bills were used to implement the plan to balance the budget by fiscal 2002 that President Clinton and congressional negotiators agreed to May 2. The outline was adopted June 5 as the fiscal 1998 budget resolution (H Con Res 84 — conference report: H Rept 105-116). Changes in entitlements and other federal spending programs (HR 2015 — conference report: H Rept 105-217) would save about $263 billion over five years, including $115 billion in cuts from projected growth in Medicare costs. Revenue legislation (HR 2014 — conference report: H Rept 105-220) would make $95 billion in net tax cuts over five years by providing a $500-per-child tax credit, reducing capital gains tax rates, increasing estate tax exemptions and offering tax credits for college costs. Those cuts and others would be partially offset by increases in airline ticket taxes ($33 billion over five years) and other adjustments. *(Story, p. 1916)*	HR 2015 passed 6/25/97 Conference report on HR 2015 approved 7/30/97 HR 2014 passed 6/26/97 Conference report on HR 2014 approved 7/31/97	HR 2015 amended, passed 6/25/97 Conference report on HR 2015 cleared 7/31/97 HR 2014 amended, passed 6/27/97 Conference report on HR 2014 cleared 7/31/97	President signed 8/5/97 PL 105-33 President signed 8/5/97 PL 105-34
Defense Authorization. (HR 1119 — H Rept 105-132; S 936; formerly S 924 — S Rept 105-29) Both House and Senate bills would authorize about $268 billion for fiscal 1998 programs, $2.6 billion more than the president requested. Neither bill would authorize the new round of base closings the administration has requested. The House bill would continue production of the B-2 bomber; the Senate bill would not. *(Weekly Report, p. 1882)*	HR 1119 passed 6/25/97	S 936 passed as HR 1119 7/11/97	
Housing Overhaul. (HR 2 — H Rept 105-76; S 462 — S Rept 105-21) The House bill would decontrol public housing, send more authority to local housing officials, repeal the 1937 law that established the framework for the nation's housing authorities and require more community involvement from public housing residents. It would establish block grants to local housing agencies, giving them more control over how they spend their money. The Senate bill would give local officials more authority and require tenants to take more active roles. It would amend rather than repeal the 1937 law. *(Weekly Report, p. 1318)*	HR 2 passed 5/14/97	Banking, Housing and Urban Affairs Committee approved S 462 5/8/97	
Juvenile Crime. (HR 3 — H Rept 105-86; HR 1818 — H Rept 105-155; S 10) HR 3 and S 10 would require the federal government, and encourage states, to try the most violent youth offenders as adults and to adopt measures to curb juvenile crime. HR 3 would authorize $1.5 billion in grants to states in exchange for state efforts to send more juveniles to adult court for trial. HR 1818 would combine several crime prevention programs into a block grant to states. S 10 would authorize $3.6 billion and would expand the federal role in prosecuting juvenile gangs. It also would restructure the Office of Juvenile Justice and Delinquency Prevention, which funds crime prevention programs. *(Weekly Report, p. 1795)*	HR 3 passed 5/8/97 HR 1818 passed 7/15/97	Judiciary Committee approved S 10 7/24/97	
Transportation Law Reauthorization. The main federal law authorizing transportation spending programs, the 1991 Intermodal Surface Transportation Efficiency Act (PL 102-240), expires Sept. 30, setting the stage for battles over policy priorities and states' shares of federal spending. Among bills introduced are bills by President Clinton (S 468; HR 1268); Sen. John W. Warner, R-Va., and Rep. Tom DeLay, R-Texas, (S 335; HR 674); Sen. Max Baucus, D-Mont. (S 532); and Sen. John H. Chafee, R-R.I. (S 586). A proposal calling for a big increase in spending is expected from House Transportation and Infrastructure Committee Chairman Bud Shuster, R-Pa. *(Weekly Report, p. 1868)*			

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August 2, 1997

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DEPARTMENTS

MAJOR LEGISLATIVE ACTION

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BUDGET

A Balanced-Budget Deal Won, A Defining Issue Lost

Without the deficit as a rallying point, parties may be impelled to rethink their agendas and political rhetoric

DOUGLAS GRAHAM

Clinton announces the balanced-budget agreement at the White House on July 29 as Gore, left, and Democratic lawmakers applaud.

Congress has decamped for its August recess having cleared legislation to balance the federal budget by 2002 and provide the first broad-based tax cut since 1981. Members will face a daunting question upon their return in September: What's left to fight over?

Republican majorities first elected in 1994 have achieved the centerpiece of their fiscal agenda — a balanced budget — and added their "crown jewel" of a $95 billion net tax cut over five years as well. They can tout a $500-per-child tax credit, a cut in the top individual tax rate on profits from the sale of stocks and other assets, and a significant increase in the estate tax exemption.

At the same time, President Clinton has what may be his greatest legislative triumph — perhaps his monument. Not only can he claim to have "set the nation's fiscal house in order," as he said July 29, but he can say he negotiated a winning deal in the bargain.

Clinton's team left the table with what he wanted on more of the details — the scope of the child tax credit, a new children's health initiative, restoration of welfare benefits for disabled legal immigrants and a score of other issues — than most in Congress expected when the overall compromise was roughed out in May. *(Weekly Report, p. 993)*

It is difficult to overestimate the psychological importance of bringing the budget towards balance for the first time in three decades, both for politicians in Washington and the nation at large. Economists may debate its significance in the overall economy, but deficit reduction has been the foremost political and policy challenge of the past decade.

This deal will doubtless be amended over the next five years of budget resolutions and reconciliation, and appropriations bills. If it retains a recognizable shape, today's dealmakers will have been vindicated. And if the deficit stays in its cage through the next recession or national emergency, policy will have shown its mastery of circumstance.

But while Washington awaits history's judgment of these questions, Congress must decide how to order its calendar and its priorities without the perennial preoccupation with the deficit.

From the standpoint of partisan politics, who will miss deficit spending more: those who wish they had more money to spend or those who wish they still had the deficit as an issue?

"It's going to be kind of tough to be a Republican, in a way," says former Rep. Fred Grandy (1987-95), an Iowa Republican who now heads Goodwill Industries International. "We stand to lose a major shibboleth in the 'tax-and-spend' issue."

Coupled with the end of the Cold War, which leaves few opportunities to hammer on foreign affairs, party-defining issues are getting harder to find. "It's been years now since the Berlin Wall has fallen," Grandy said. "That means going more into the social agenda for issues. It means going into local and personal issues that are by nature divisive."

Gerald Pomper, a professor of political science at Rutgers University's Eagleton Institute, sees a bipartisan paradox in the aftermath of a successful budget deal.

"It makes it tough to run a campaign for both parties," said Pomper. "It's hard to do the usual line about 'liberal big spenders,' and it's hard for the Democrats to talk about 'oppressors of the poor and the middle class' when, if anything, they've helped in the oppressing."

In the short run, Pomper said, the deal should help Republicans divert attention from recent leadership

By Ronald D. Elving and Andrew Taylor

BUDGET COVERAGE

Scouting Out the Final Deal

On the day that Republican leaders gathered on the Capitol's East Steps to celebrate the balanced-budget agreement, one man in the crowd who declined to give his immediate endorsement was Bill Kabel, a scoutmaster and government worker visiting from Georgia.

But as a constituent of House Speaker Newt Gingrich, R-Ga., Kabel agreed to line up his 23 Boy Scouts for the picture-perfect, live-TV announcement July 29. One of the legislators' themes: The budget deal will benefit millions of Americans, especially children.

"We wanted the boys to see the government in action," said Kabel, who adjudicates education funding requests for the Department of Veterans Affairs. But Kabel's enthusiasm did not necessarily extend to the budget deal; he said he needed "to look at all the details" before supporting it.

Kabel's caution contrasted with the jubilation of many in Congress, Democrats and Republicans alike. One day after a tentative agreement was announced, House Majority Leader Dick Armey, R-Texas, described it as "pennies from heaven" and said he had no need to "sell it" to the rank and file.

An exuberant House Budget Committee Chairman John R. Kasich, R-Ohio, dismissing questions about potential opposition on the House floor, declared: "I'm beyond the vote count."

And buses took many congressional Democrats to a victory party at the South Lawn of the White House, where President Clinton declared that the agreement would make the nation "stronger, more vibrant, more united than ever."

The deal drew support from across much of the political spectrum because it would cut taxes and create new spending programs, including expanded health care coverage for children.

But some fiscal conservatives grumbled that it would do little for the deficit, and some liberals worried that benefits would accrue mostly for the wealthy.

"Unfortunately, this agreement sacrifices tomorrow's hopes for today's headlines," said the most prominent dissenter, House Minority Leader Richard A. Gephardt, D-Mo.

And in the Senate, Republican Phil Gramm of Texas worried that the agreement would do little to contain the burgeoning costs of entitlement programs such as Medicare, but would spur a new round of spending on social programs. "We start a lot of programs that are like baby elephants," he said.

Last-Minute Dealing

After months of budget-balancing negotiations, officials closed the gap with intense talks in the Capitol, including discussion over the July 26-27 weekend. Gingrich and Senate Majority Leader Trent Lott, R-Miss., faced a White House team headed by Chief of Staff Erskine Bowles, Treasury Secretary Robert E. Rubin and others.

Negotiators made early progress on the spending bill (HR 2015), though snags emerged on such issues as how much money to dedicate to the new children's health initiative and a Clinton demand to give so-called workfare recipients the same rights under the Fair Labor Standards Act as regular workers. Clinton carried the day on both subjects, winning $24 billion over five years for children's health care and forcing Republicans to back down on welfare — although Armey and others pledged to revisit the issue in coming months.

After closing gaps in the tax bill (HR 2014), Lott emerged from his office on Monday, July 28, to declare a tentative agreement. "We gave ground, and the administration gave ground, and we found common ground," Lott said.

The news reached Clinton at a golf course in Las Vegas, where he was attending a meeting of the National Governors' Association. Although the president withheld public comment before returning to Washington, Bowles said, "We couldn't be more pleased with the outcome."

Still, smaller issues proved nettlesome. For example, Clinton issued an 11th-hour threat to veto the tax bill over a provision by Sen. Paul Coverdell, R-Ga., that would have permitted withdrawals from Individual Retirement Accounts to pay for private school tuition. The provision was quickly stripped.

Meanwhile, an attempt by the White House in the final hours to include a free-trade provision called the Caribbean Basin Initiative fell through. It would have given parity to island nations that must compete with Mexican exports favored under the North American Free Trade Agreement. And Senate Finance Committee Chairman William V. Roth Jr., R-Del., failed to get the White House to sign off on language that would have revamped Amtrak operations.

After the 2-1/2-year partisan standoff over cutting the budget, final passage in the House and Senate took place with remarkable ease.

One day after their balloon-festooned announcement with Kabel's Boy Scouts, GOP leaders brought the spending bill to the House floor. Members rose in a standing ovation as Kasich declared this "the dawning of a new era, an era where we recognize the limits of government."

The House passed the measure, 346-85, after a 90-minute debate, with much of the opposition coming from liberal Democrats, as well as tobacco-state lawmakers opposed to a higher cigarette tax. *(Vote 345, p. 1894)*

Moving with rare dispatch, the Senate passed the spending bill July 31, 85-15, with liberals such as Edward M. Kennedy, D-Mass., and conservatives such as Majority Whip Don Nickles, R-Okla., joining in support. *(Vote 209, p. 1898)*

Lott was so caught up in the goodwill of the moment that he told his colleagues he was ready to hum "Hail to the Chief."

—David Hosansky

BOXSCORE

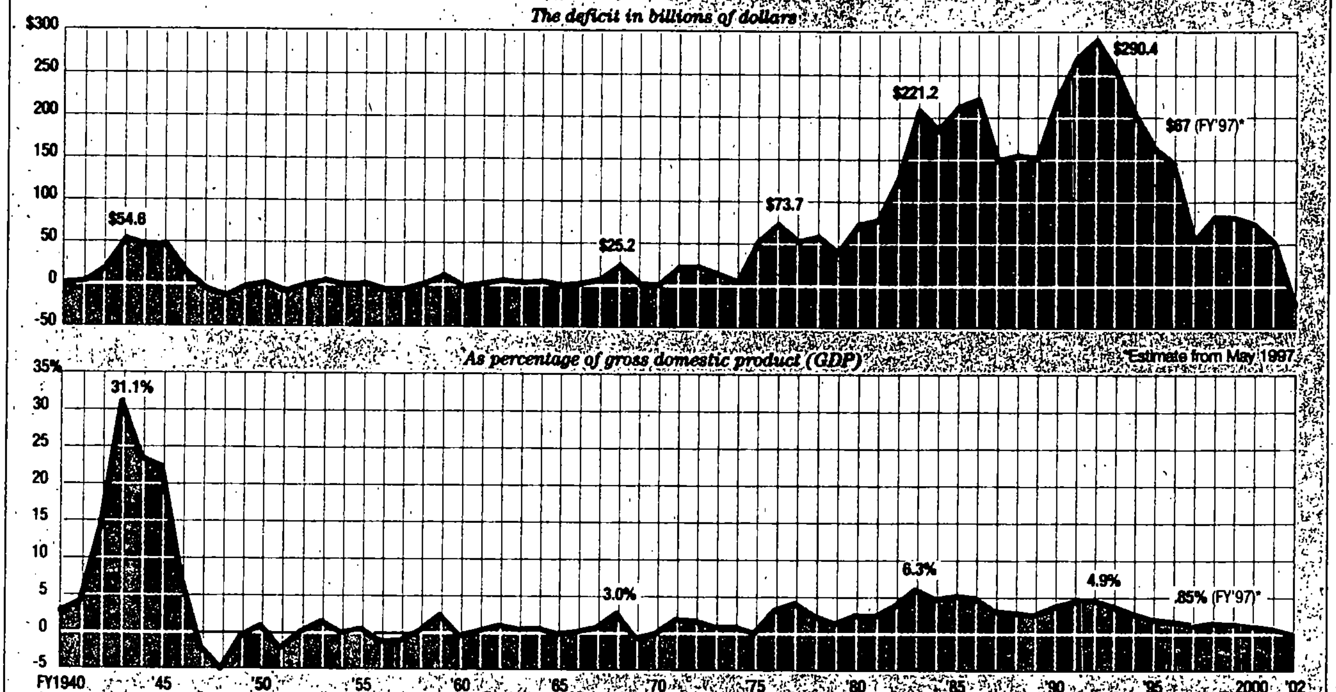
Bill: HR 2015 (Conference report: H Rept 105-217) — Spending portion of budget reconciliation.

Latest action: Senate cleared bill, 85-15, on July 31, a day after the House adopted the conference report, 346-85.

Next likely action: President Clinton is expected to sign the bill the week of Aug. 4.

Background: Weekly Report, pp. 1763, 1681, 1609, 1492, 1423, 1304, 1179, 1117, 1047, 993.

The Deficit Over the Years



If the balanced-budget deal succeeds in eliminating the federal deficit in 2002, it will be the end of an ignominious era. Since the first in 1792, the federal government has generated more than 100 deficits. But deficits have appeared much more frequently since the 1930s; as the top chart shows, the nation spent unprecedented amounts on defense during World War II.

Deficits soared in the 1980s as the government cut taxes and boosted defense spending. Also, the recession of the early 1980s reduced revenues and forced debt to be serviced at higher interest rates.

As the lower chart shows, the deficit as a percentage of gross domestic product (GDP) has fluctuated over the years. That measure reflects the economy's ability to absorb the effects of deficit spending.

SOURCES: Congressional Budget Office, CQ calculations

struggles and refocus their drive for more seats in the House in 1998.

"But for the long run it may be good for the Democratic Party," he added, "because what Clinton's been doing is taking away major issues for Republicans to run on — crime, welfare, wasteful spending."

Differences Among Democrats?

Certainly that is the way Vice President Al Gore will want to read the portents, having bet his political future in 2000 on Clinton's success. But there well may be other Democratic views on this score, including those of House Minority Leader Richard A. Gephardt, D-Mo., who has been conspicuously absent in the celebrations of the budget deal.

Gephardt, and perhaps other potential bidders for the 2000 presidential nomination, well may contend that Clinton and Gore purchased peace with the GOP at the expense of traditional Democratic constituencies.

GOP leaders, too, dispute the notion that Clinton stole their clothes. And they vow to unveil a substantial agenda in the coming months that will address issues of education and the workplace, as well as tax simplification, in hopes of appealing to families and owners of small businesses.

But it may be difficult in either the short-term or the long to arrive at anything as momentous as a balanced budget or as consensus-building as a tax cut.

"I'm not sure there is any overriding issue at this point," said James Campbell, a professor of political science at Louisiana State University. "This would have been the time for Jimmy Carter's 'malaise' speech. People are tuning out completely."

Well, not everyone. Among those who have not tuned out are the many social-conservative activists who have languished for years in the shadow of the fiscal issue. Ralph Reed, the former executive director of the Christian Coalition, often warned that while religious conservatives supported a balanced budget and tax cuts, they expected reciprocal attention to their own agenda once the money matters were resolved.

Meanwhile, more secular conservatives who regard the budget deal as a sellout on principle will not sit idly by while the discussion moves on to other issues they find less compelling.

Stephen Moore, director of fiscal policy studies at the libertarian Cato Institute, has objected in the National Review to "the ludicrous statements by [Senate Majority Leader Trent] Lott and [Speaker Newt] Gingrich that 'Now that the budget is behind us we can move on to other issues.' " Moore compares this to a couple rushing through lovemaking so they can watch late-night television.

Highlights of the Agreement

The twin reconciliation bills cleared by Congress (HR 2014, HR 2015) are supposed to balance the budget by fiscal 2002 while offering a net of $95 billion in tax cuts.

Here are highlights of the package:

• **Tax cuts.** Net tax cuts of $95 billion over five years, $275 billion over 10 years.

The most costly tax break is the per-child tax credit targeted at the middle class, which starts at $400 per child under age 17 in 1998 and goes to $500 in 1999. Single taxpayers are eligible for the full credit if they have adjusted gross annual incomes of less than $75,000; it would phase out for couples with incomes of more than $110,000, with the top threshold about $130,000. Its estimated cost is $85 billion over five years.

There are 11 types of tax cuts and credits to help make higher education more affordable to lower- and middle-income families. They include President Clinton's HOPE scholarship, which is really a tax credit of as much as $1,500 for each of the first two years of college. The credit could be applied to up to $1,000 of the full cost of tuition and fees, and 50 percent of the next $1,000 in expenses.

SCOTT J. FERRELL

John R. Kasich, R-Ohio, second from left, talks to Bill Archer, R-Texas, at the budget conference July 10. Democrat John M. Spratt Jr. of South Carolina is at left, and Republican E. Clay Shaw Jr. of Florida is at right.

Other broad tax breaks include a reduction to 20 percent, from the current 28 percent, in the top individual tax rate on profits made from the sales of stocks and other assets held for more than 18 months; expansions of tax-deferred individual retirement accounts; and an increase to $1 million, up from the current $600,000, in the exemption from federal estate taxes.

There are dozens of smaller provisions that would benefit special interests; the Joint Committee on Taxation has identified 80 provisions in the two bills that are subject to the president's new line-item veto authority. *(Story, p. 1839)*

The biggest revenue raiser — $33.2 billion over five years — is a package of additional levies on air travel.

Also, the current federal tax on cigarettes of 24 cents a pack will increase by 10 cents in 2000 and 5 cents more in 2002. But tobacco companies won a last-minute provision that would reduce the penalty they negotiated with state attorneys general to settle a rash of liability lawsuits by the amount raised by the increased cigarette tax — roughly $75 billion over 25 years. *(Tax details, p. 1840; tobacco tax, p. 1869)*

• **Spending.** Drops below projected levels by about $263 billion over five years, with the most savings — $115 billion — coming from reductions in the growth of Medicare, the government-subsidized health insurance program for the elderly.

• **Medicare.** While most of the savings are going to come from reductions in payments to health care providers, Part B premiums (for doctors' visits and other outpatient services) are to increase from the current $43.80 a month to $67 a month by 2002.

At the same time, Medicare will cover more preventive tests, including prostate screenings for eligible men, bone-density tests for women at risk for osteoporosis, and blood testing and diet counseling for diabetics.

Negotiators dropped Senate-passed provisions that would have gradually increased the Medicare eligibility age from 65 to 67, increased premiums for higher-income beneficiaries and introduced a $5 co-payment for home health care visits.

The plan includes a pilot project that will allow about 390,000 people to purchase "medical savings accounts" for catastrophic-care coverage — with annual deductibles as high as $6,000 — instead of traditional Medicare. *(Medicare details, p. 1843)*

• **Children's health initiative.** $24 billion to states to provide health care to children of low-income, uninsured parents. States will be required to offer benefits similar to those the government gives its workers or those offered in the private sector.

Some of the money will go to hospitals and other health care providers, but most of the money must pay for insurance. States will have the option of expanding their Medicaid programs, but most are expected to expand other programs already in place or to create new ones.

• **Medicaid.** $10 billion in savings from the government-backed health insurance program for the poor, mostly by cutting payments to hospitals and by giving states more flexibility to find efficiencies in their programs.

• **Welfare.** Legal immigrants who were in the United States when President Clinton signed the welfare overhaul bill (PL 104-193) on Aug. 22, 1996, would be eligible for cash benefits for the disabled, whether they were disabled then or became disabled later.

And Medicaid coverage would be continued for disabled children who lose their Supplemental Security Income benefits because of changes in eligibility contained in the welfare law.

Also, a fund worth $3 billion would be created to help states place long-term welfare recipients into the work force in fiscal 1998 and 1999. *(Welfare details, p. 1848)*

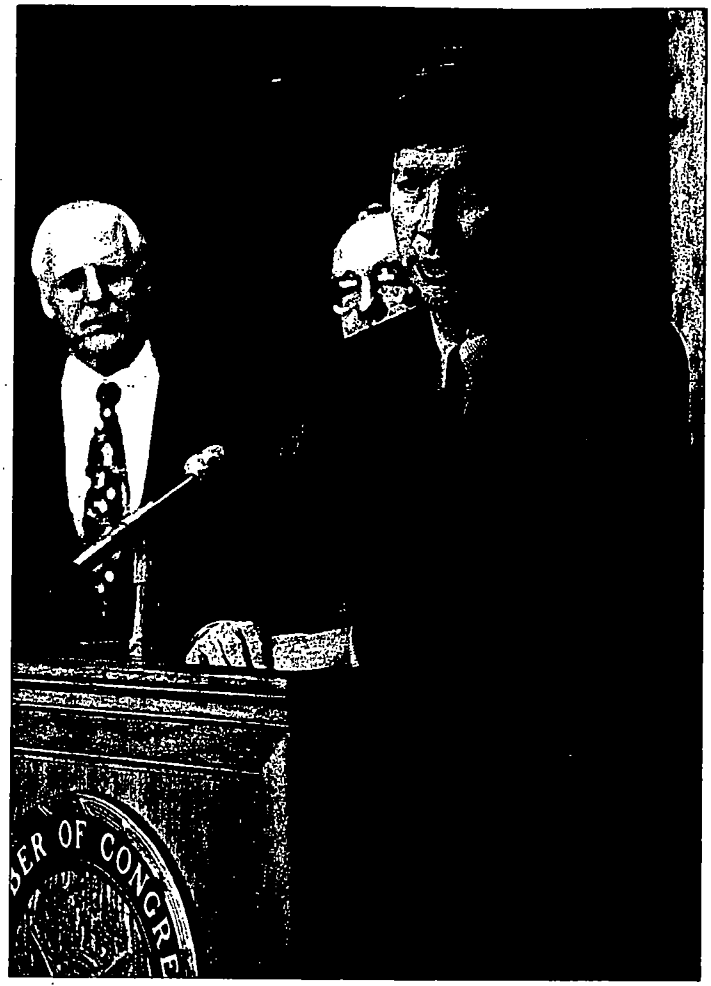
Campbell reads the "lesson of the 1990s elections" as a warning against overreaching or overpromising on the part of either party. Given this national mood, Campbell sees obvious risk in either party pressing its wish list.

"Of course, there are people who are not willing to lie low until things get clarified, people who don't want to bide their time," said Campbell. "But Newt realizes that is not a winning strategy. The party ought to be stronger after 1998, and maybe after 2000 it will have a president who will be more sympathetic."

Looking to 2000 is a recurrent theme in some GOP leaders' public statements. Gingrich, R-Ga., has called for a comprehensive debate on ways to reduce the role of the federal government and to overhaul its tax system as part of the 2000 presidential campaign.

But defining the party's direction by means of a debate has its dangers too.

"There is peril in success," said Grandy. "To some degree we are victims of our own success right now. Without a major cause to champion, the factions of a party tend to fight among themselves."



DOUGLAS GRAHAM

Ohio Republican John R. Kasich, chairman of the House Budget Committee, talks about passage of the budget deal at a news conference July 30.

The Foundation of Success

The relative ease with which Clinton and Congress produced the final piece of the balanced-budget effort makes it easy to forget the tortuous path that brought them to this point.

The budgeteers of 1997 were able only to draft a plan that satisfies staunch conservatives such as House Ways and Means Chairman Bill Archer, R-Texas, and liberals such as Sen. Edward M. Kennedy, D-Mass., because of the groundwork laid by the politically wrenching anti-deficit battles of 1990 and 1993.

And without a roaring economy churning out revenue greater than anyone expected, the separate, back-to-back celebrations by Democrats at the White House and by Republicans on the steps of the Capitol on July 29 would not have been possible. (A bipartisan signing ceremony is expected the week of Aug. 4.)

"The true hero is this stupendous economy. . . . The economy has done more to reduce the deficit than the politicians have," said Martha Phillips, executive director of the Concord Coalition, a balanced-budget advocacy group. Referring to the 1990 and 1993 packages, she adds, "This is probably No. 3 in terms of size and momentousness, but it's the last little piece."

For budget purists, the final product puts off until tomorrow the tough choices needed to address the crisis that will occur when the Baby Boomers begin to retire and claim Social Security and health care benefits. (While the Senate had voted to increase from 65 to 67 the eligibility age for Medicare coverage and take other dramatic cost-saving steps, the final bill does none of that, deferring to a bipartisan study commission.)

But for the overwhelming majority in Congress, which has been obsessed with the deficit since the 1980s, such long-term concerns were secondary to getting the deficit monkey off its back.

"When this administration took office, America's budget deficit was $290 billion and rising. We put in place a comprehensive economic strategy to cut the deficit and invest in our people," Clinton told the cheering gathering of Democrats on the White House's sunny lawn. "The budget plan adopted in 1993 made a large contribution to today's conditions in America: a strong economy, low inflation and a deficit that has already shrunk by more than 80 percent."

For Republicans, the agreement caps a balanced-budget and tax-cutting drive that has consumed them since they took over Congress in 1995, though it came through incremental change, not revolution.

"We are reversing the decades-old trend of bigger government, bigger taxes and bigger spending," said Senate Finance Committee Chairman William V. Roth Jr., R-Del. "Balancing the budget and cutting taxes are Republican ideas — make no mistake about that."

Banking on Economic Projections

This budget pact, like many preceding it, is facing criticism for relying on economic predictions that there will not be a recession in the next five years, savings from discretionary appropriations that really do not bite until after the 2000 elections and one-time (and perhaps illusory) savings from auctions of the electromagnetic spectrum. The agreement will produce projected savings of $263 billion through 2002.

The real credit for bringing the budget near balance, say budget gurus of all stripes, rests with earlier efforts, including the much-maligned 1990 deal that helped send President George Bush home to Houston and the Democrats-only effort of 1993 that led to the GOP takeover of Congress. *(1990 Almanac, p. 111; 1993 Almanac, p. 85)*

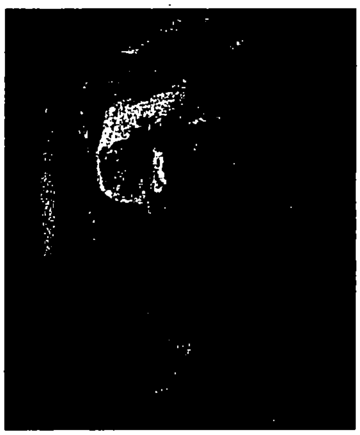
When a Republican majority stormed the Capitol in 1995, the deficit stood at about $200 billion. To reach balance, they proposed to cut projected spending by $894 billion and cut taxes by $245 billion over seven years. At the end of the landmark 104th Congress, Republicans could point to two principal areas of savings: $49 billion from reduced domestic appropriations and another $55 billion estimated to flow from the welfare overhaul law (PL 104-193). About $16 billion in those welfare savings would be restored under this year's spending bill. *(1996 Almanac, p. 6-3)*

When Clinton and Congress returned to the budget after the 1996 election, they confronted an easier job, as well as a better sense of each other's boundaries. When 1997 began, the Office of Management and Budget (OMB) estimated the deficit for the current fiscal year at $126 billion. Now, the deficit could dip below $40 billion, fueled by an economy on overdrive.

Simply put, the final deal comes at a juncture in deficit politics at which it is possible to balance the budget with relatively little pain. And, at a critical juncture just before negotiators closed out their talks May 2, the Congressional Budget Office (CBO) adjusted its revenue estimates to make negotiators' jobs easier by assuming $225 billion more in revenues over five years than under prior estimates.

Ironically, among the politicians who stand to benefit most from the deal is Gingrich, who ascended through the GOP ranks in part by vilifying the politically wrenching 1990 and 1993 budget bills.

While those earlier deals did much of the heavy lifting, the GOP revolution changed the political dialogue. Clinton vetoed their balanced-budget bills and adroitly exploited their admitted over-aggressiveness, but Republicans clearly pulled him in their direction.



"It is a quick fix for the next few years, not a reliable blueprint for our nation's future."

— Richard A. Gephardt, D-Mo., House minority leader

Satisfaction on Both Sides

In the end, both sides could claim significant victories. For Republicans, their list included:

- **Taxes.** Just getting a tax-cut bill signed by Clinton represents a major win for Republicans. But as Clinton noted, this tax package is small in comparison to President Ronald Reagan's 1981 tax cut, about one-tenth of the size after adjusting for inflation. But Republicans are able to reward key elements of their constituency. The pro-family wing gets the lion's share, the $500-per-child tax credit for families with adjusted gross incomes of up to $110,000 per year, estimated to cost $84 billion over five years.

Supply-siders received the crown jewel of the GOP agenda, a cut from 28 percent to 20 percent in the top individual rate for capital gains. While Republicans had to give up their proposal for discounting long-term profits to account for inflation while the asset was held, they won an even lower rate of 18 percent for assets held for five years.

Republicans also prevailed on provisions to ease inheritance taxes, a critical demand of small businesses and family farmers who have complained that estate taxes make it difficult to pass their businesses on to their heirs.

- **Medicare.** Republicans came under withering political attacks for their 1995 Medicare plan, which, among other things, would have capped total Medicare spending. This year's agreement takes a more gradual approach — but still represents some of the most important changes since the program started in 1965. Republicans retained many of the elements of their vetoed 1995 plan, such as opportunities for the elderly to establish "medical savings accounts." Most of the $115 billion in Medicare-related savings would come from reducing payments to hospitals and other health care providers and by integrating more managed care into the program.

For Clinton and congressional Democrats, the biggest victories included:

- **Taxes.** As expected, Clinton succeeded in killing a House drive to exempt from tax the portion of capital gains attributable to inflation. And he also succeeded in extending the $500-per-child tax credit to low-income workers who pay no federal income tax because of generous Earned Income Tax Credit benefits. They will be able to claim it against their payroll taxes for Social Security.
- **Children's health.** This expansion of health coverage for the children of low-income, uninsured parents was not included in Clinton's budget. But it was pushed hard by Kennedy, Senate Minority Leader Tom Daschle, D-S.D., and prominent Republicans such as Sen. Orrin G. Hatch, R-Utah. The May 2 budget agreement called for a $16 billion initiative, but the final spending bill will provide $24 billion, financed by a 10 to 15-cents-per-pack increase in the cigarette tax.

Unfinished Business

Even as lawmakers raced to go home and tout their accomplishments to their constituents, there were a few skunks at the picnic.

Gephardt attacked the final bills as unfairly tilted towards the wealthy and insufficiently aggressive on the deficit. "It is a quick fix for the next few years, not a reliable blueprint for our nation's future," Gephardt said July 29.

A handful of deficit hawks attacked the end result as a missed opportunity to address demographic and generational problems that loom when Baby Boomers start to retire. Three controversial Senate Medicare provisions — to gradually raise the eligibility age from 65 to 67, increase premiums for wealthier beneficiaries and impose a $5-per-visit co-payment on certain home health care benefits — all were dropped. Instead, Congress and Clinton agreed on a 17-member bipartisan commission to recommend the changes required to prepare Medicare for the next generation.

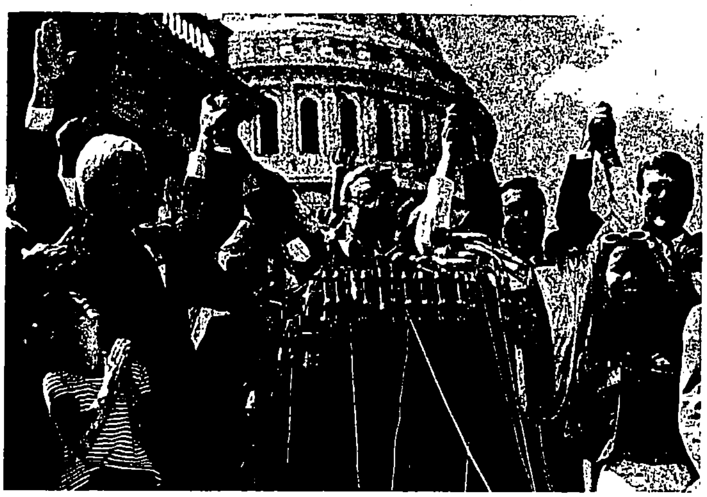
At the end of the day, however, the final measures were shaped by the politics of 1997: a Democratic president at the height of his popularity and a chastened Republican Congress that reads the split decision of last year's election as a mandate for incremental change. ■

Desire To Spread the Benefits Leads to More Complexity

The tax-cutting plan that brought together congressional Republicans, Democrats and President Clinton will be remembered less for its size — it is relatively small — than for its complexity, which is considerable.

The conference reports on the budget reconciliation bills (HR 2014, HR 2015) are chock full of extraordinarily complicated tax provisions designed to constrain short-term costs and push the revenue losses into future years. Those who fill out tax forms will feel the impact for years to come.

Over five years — during which the federal deficit is to be erased — the net tax cut is $95 billion. Over 10 years, it grows to $275 billion.



SCOTT J. FERRELL

Congressional Republicans celebrate the budget and tax deal July 29 on the steps of the House. Raising their arms in celebration are, from left, Gingrich, Archer, Roth, Pete Domenici of New Mexico and Lott.

Still, this is a modest bill compared with the tax cuts that Republicans crusaded for in 1995. They would have taken at least $600 billion from the Treasury over 10 years. Indeed, this bill is not a lot more generous than the five-year, roughly $75 billion net tax cut that Clinton offered shortly before the budget deal blew up at the end of 1995.

But if this tax cut's near-term total suggests a Democratic victory, the bill's diverse provisions actually bear the mark of both parties and include several of the highest tax-cut priorities of Republicans.

Republicans can point to the largest reduction in capital gains tax rates since 1981, a $500-per-child tax credit, a significant increase in the tax exemption for estates and an expansion of tax-preferred individual retirement account savings plans.

Clinton and his Democratic allies can boast of creating hefty new education tax credits, as well as shaping the $500-per-child tax credit so that it is available to most working poor families, including some too poor to owe any income taxes.

"For the mainstream majority in this country . . . this is a day of coming together," said Rep. Bill Archer, R-Texas, chairman of the House Ways and Means Committee, as he spoke to the House before its July 31 vote.

In announcing the deal on the White House's South lawn on July 29, Clinton thanked the GOP leadership for "work[ing] with us across the lines of substantial philosophical and practical differences to reach a good faith agreement that is an honorable and principled compromise."

Following Clinton, Rep. Charles B. Rangel of New York, top Democrat on the Ways and Means Committee, expressed partisan relief: "We have now shattered the myth that we are spending Democrats and taxing Democrats."

Both parties backed a 15-cent-per-pack increase in the cigarette tax. However, tobacco firms ultimately added the only note of controversy to final debate on the bill by successfully persuading GOP leaders — with the apparent acquiescence of the White House — to reduce the amount of the proposed tobacco settlement ($368.5 billion over 25 years) by the amount raised by the higher cigarette tax. Some anti-tobacco lawmakers complained that the provision, which was quietly inserted literally just hours before the bill was printed, might subtract as much as $50 billion from the settlement's total. *(Tax details, p. 1840)*

Lawmakers in both parties and both chambers voted for the conference report on the tax bill on July 31 by overwhelming margins. In the House, the vote was 389-43, with just one Republican, Tom Campbell of California, opposing it. In the Senate, the vote was 92-8; all the "nay" votes came from Democrats. *(House vote 350, p. 1896; Senate vote 211, p. 1898)*

By Alissa J. Rubin

BOXSCORE

Bill: HR 2014 (Conference report: H Rept 105-220) — Tax portion of budget reconciliation.

Latest action: Senate cleared, 92-8, on July 31, just hours after the House adopted the conference report, 389-43.

Next likely action: President Clinton is expected to sign the bill week of Aug. 4.

Background: Weekly Report, pp. 1766, 1682, 1609, 1495, 1426.

Close to the Deal

The price of comity on the bill was the insertion of more tax cuts than there was room for within the parameters of the budget agreement struck in May. That agreement called for a net five-year tax cut of $85 billion and a net 10-year tax cut of $250 billion.

Even though the net cuts grew slightly in the final days, negotiators adopted convoluted constraints to keep the cost of the bill close to the agreement. That is ironic, given that broad tax reform — such as the institution of a flat tax or a national sales tax — has long been the mantra of GOP leaders, especially Archer and House Majority Leader Dick Armey, R-Texas.

One side effect of trying to shoehorn

In Tax Cut Glow, GOP Rediscovers Unity

There's nothing like a big tax cut to bring Republicans back to the fold.

If the giant spending and tax cut bills the House approved July 30-31 were a test of leadership for embattled Speaker Newt Gingrich, R-Ga. — and many of his critics said they were — the Speaker passed. And then some.

Republicans flocked to the House floor to cast "yes" votes for the twin budget bills, the fruit of negotiations between Gingrich, Senate Majority Leader Trent Lott, R-Miss., and President Clinton. In the House, Gingrich lost just one Republican on the tax cut measure, and just 32 out of 228 House Republicans on the spending bill.

Not bad for a guy who two weeks earlier was the target of an attempt to cast him from power by a band of GOP rebels chronically unhappy with his job performance.

"Looking at the votes, I would suggest the Speaker wins, big time," said Rep. Sherwood Boehlert, R-N.Y., a moderate who has defended Gingrich.

"We were much more supportive of him this week than we have been all year," said Rep. Matt Salmon of Arizona, one of the conservative Republicans who for a time considered a plan to oust the Speaker.

Now the question is whether Gingrich can build on the euphoria flowing from the Republicans' budget victory in the political dog days of September, when the absence of a follow-up act to his "Contract With America" policy agenda creates a void he has yet to figure out how to fill.

"There will be a lot of discussion about what the picture is going to look like, and how we describe it for members," said GOP Conference Chairman John A. Boehner, R-Ohio, of the fall period after the monthlong recess in August. "At this juncture, we have finished the first phase. Now we are going to have to begin laying out a second phase."

The new agenda, at least in the House, may include education issues, such as Republican proposals to turn over federal education dollars to local school districts. It also may include GOP plans to overhaul the federal tax system. It certainly will focus on the 13 must-do appropriations bills, which are bound to spark fights between the parties over spending levels and conservative "riders" that affect abortion policy and other issues.

But the next phase is mostly up in the air. Little thought was given to it during the long quest to pass the budget-balancing legislation. The leadership was preoccupied with the budget and the routine chaos that surrounds the passage of major legislation with the support of both political parties. But another contributor was the leadership's tendency to lurch from one crisis to the next, say House GOP leaders and their aides.

SCOTT J. FERRELL

Rep. David M. McIntosh, R-Ind., and Gingrich after a GOP celebration of the budget and tax deal.

"Today's fire always made it impossible to anticipate tomorrow's fire," said one GOP leader.

Rep. Mark Souder, R-Ind., said: "We still don't have a long-term strategy that tells us where we're headed."

Role of the Speaker

When Democrats ruled the House, not every Speaker had either the stature or the vision to set long-term agendas. But the problem for Gingrich is that he is expected to do that. Having come to power campaigning on the Gingrich-driven contract and its well-defined terms in 1994, many Republicans feel unmoored without it, particularly the 73 newcomers who arrived that year and know no other way of operating in Congress.

Not coincidentally, Gingrich's harshest critics belong to the class of '94, and they dominate the group of 15 to 20 dissidents who have demanded improvement in his performance.

The rebels on July 10 held a late-night meeting with Whip Tom DeLay, R-Texas, to discuss a strategy — ultimately scrapped — for toppling Gingrich. DeLay also discussed a possible ouster with other top GOP leaders in the House, including Majority Leader Dick Armey of Texas. Although the plot was doomed from the beginning for lack of a clear-cut successor, the plotting exposed Gingrich's weaknesses within the ranks and focused attention on his erratic, up-again-down-again stewardship of the House. *(Weekly Report, p. 1671)*

Concerns about the Speaker's future were set aside in the outburst of party unity July 30 and 31, when, in back-to-back budget votes, Republicans claimed for their fledgling majority bragging rights not only for setting the national agenda but for having the political savvy to enact it.

Faith in Gingrich, who was outmaneuvered by Clinton in earlier attempts to get a budget deal with the White House, was restored, at least temporarily.

"We think he did a very good job with the negotiations, particularly on the tax bill, which was important to us," said Rep. Joe Scarborough, R-Fla., one of the dissidents.

In the two weeks following the ouster attempt, Gingrich has lavished attention on the dissidents, meeting with them to discuss their concerns about upcoming bills and reassuring them that he intends no recriminations.

Salmon said that when some of the dissidents objected to a drug-addict needle-exchange program and other Democratic initiatives in the Labor-HHS appropriations bill, the Speaker agreed to delay further action on the bill until their concerns were resolved.

"In the past, we would have just been rolled," Salmon said. "But we weren't rolled. I feel we've been treated in a very even-handed and decent way."

— Jackie Koszczuk

Line-Item Veto Comes Into Play

Seventy-nine provisions in the tax bill (HR 2014) and one in the spending bill (HR 2015) are subject to the president's new line-item veto authority, according to the Joint Committee on Taxation.

In a July 29 memo to top members of the Senate Finance and House Ways and Means committees and others, Kenneth J. Kies, the Joint Tax Committee's chief of staff, said each of the targeted provisions qualifies as a "limited tax benefit."

Under the line-item veto act (PL 104-130), any tax break given to 100 or fewer beneficiaries can be canceled by the president. The law charged the Joint Tax panel with identifying the provisions — or, if it finds none, certifying that to be the case.

Kies noted in his memo that the president "may cancel one or more of those, but only those, provisions that have been identified." Had the committee not included its list in the conference reports, President Clinton would have been free to scour the bills for provisions to ax.

Clinton has five days after he signs the bills to propose rescissions of the targetted items.

The provisions range from the notorious — at least among tax lobbyists — to the arcane.

The groups they affect range from high-tech firms (the research tax credit) to pharmaceutical manufacturers (the "orphan drug" tax credit, which gives incentives to companies that make medicines to treat rare diseases) — even the clergy (a rule relating to church retirement plans).

Other provisions include issuing tax-exempt economic development bonds for the District of Columbia, advance refunding of bonds for the Virgin Islands, filing requirements with the Securities and Exchange Commission, and taxing hard cider at the same rate as beer instead of the higher rate imposed on wine.

The single provision in the spending bill is actually a tax issue. It would clarify that prisoners who are paid to work while incarcerated are exempt from unemployment taxes under the bill's revisions to the so-called "workfare" rules.

In a challenge brought by six members of Congress, a U.S. District Court judge had ruled the line-item veto law was unconstitutional. But the Supreme Court, in a 7-2 ruling issued June 26, reversed that decision. The high court's majority didn't address the substance of the argument over the constitutionality of the law; it simply said a challenge should not have been brought until Clinton exercised the veto. *(Weekly Report, 1498)*

additional tax cuts into the bill might be to increase the number of taxpayers who will favor the current tax code over the possibility of a tax system overhaul.

In addition to the basics of giving tax relief to families with children and investors making record profits from the stock market, this bill puts extra dollars into the pockets of folks like family farmers and ministers, oil company employees working overseas and millions who use a portion of their home as an office.

Under almost every tax-code overhaul plan, these tax preferences and the scores of other deductions, exemptions and credits that the current bill does much to augment would be wiped out and replaced by lower overall tax rates. But such sweeping reform was never a serious option this year. And some tax experts say it now looks even less likely in the foreseeable future.

"This tax bill is a step away from tax reform," said William Beach, a tax analyst with the conservative Heritage Foundation. "It makes it a little harder to go forward with tax reform."

Sen. Phil Gramm, R-Texas, who made a tax overhaul the centerpiece of his unsuccessful 1996 presidential campaign, said, "The only way you can simplify the tax code is with a broad, across-the-board reduction in taxes, and we're talking in this bill about a very, very modest change in taxes — about 1 percent of total tax revenues, or $17 billion per year. You can't simplify the tax code with that; it's not possible."

Tax experts say this tax cut — although it is the first net tax cut since President Ronald Reagan's legendary 1981 income tax rate reduction — is indeed small. It is just about one-tenth the size of the 1981 tax cut. And it is much more complicated.

Tobacco Tax Tradeoff

A controversial provision added to the tax bill at the last hour would reduce the size of the tobacco settlement agreement by the amount of the increased cigarette tax. *Story, p. 1869.*

"The middle class is going to enjoy the same complexity that previously we restricted to the wealthy. . . . This is the H&R Block support bill," said former Congressional Budget Office Director Robert D. Reischauer, a senior fellow at the Brookings Institution.

"You're going to have to be a masochist to do your tax return yourself," agreed economist Rudolph G. Penner, another former CBO director.

Wading Through Provisions

Virtually every one of the major provisions that will affect millions of Americans — such as the per-child tax credit, the capital gains tax cut, the expanded Individual Retirement Accounts (IRAs) and the education tax cuts — have phase-ups, phase-downs, differing income eligibility limits and pieces that go into effect at varying times.

For example, the capital gains tax used to have just two rates for individual long-term capital gains — a 28 percent top rate and a 15 percent rate for all taxpayers in the 15 percent income tax bracket. It will soon have at least six rates: two rates for those who hold assets for 12 months to 18 months, two rates for those who hold assets for more than 18 months, and two rates for those who hold assets for more than five years after 2000. In addition, gains on collectibles such as art, antiques and jewelry are taxed at different rates from stock, and real estate has its own special rate.

IRAs, which used to be a relatively simple way for lower- and lower-middle income taxpayers to save pre-tax dollars for retirement, are going to blossom into a complex system in which there are tax-deferred savings accounts available to all but the top 3 to 4 percent of taxpayers, as well as education savings accounts and accounts for after-tax dollars from which

Key Cuts and Revenue Raisers . . .

The conference reports on the budget reconciliation bills (HR 2014, HR 2015), adopted by Congress on July 30-31, include a five-year net tax cut of $95 billion and a 10-year net tax cut of $275 billion.

The gross tax cut is $152 billion over five years and $401 billion over 10 years, according to estimates by the Joint Committee on Taxation. Offsetting the gross tax cut are tax increases of $56 billion over the first five years and $126 billion over 10 years.

Here are highlights of the package:

Tax Cuts

• **Child Credit:** A $400-per-child tax credit starting in 1998, rising to $500-per-child in 1999, for families with children under the age of 17. Single taxpayers are eligible for the full credit if they have adjusted gross annual incomes of less than $75,000; it would phase out for couples with incomes of more than $110,000, with the top threshold about $130,000. Families eligible for the earned-income tax credit (generally those with incomes of $30,000 a year or less) may take the child credit before they figure out their earned income credit. The child credit may offset the balance of the employee portion of the payroll tax for low-income families with three or more children who pay no income tax, and whose earned-income credit is less than the employee portion of their payroll tax. Estimated cost: $85 billion over five years and $183.4 billion over 10 years.

• **Education:** There are 11 types of education tax cuts. These are the six most costly in losses of revenue to the government:

• A HOPE tax credit, which would give taxpayers a credit of up to $1,500 for each of the first two years of college. The credit could be applied to up to $1,000 for the full cost of tuition and fees, and 50 percent of the next $1,000 in costs.

For the second two years of college and for graduate and post-graduate education, the credit would be equal to 20 percent of up to $5,000 in tuition and related school expenses; after 2002, the credit would be 20 percent of up to $10,000. Taxpayers would be eligible for the full credit if their adjusted gross annual incomes were less than $40,000 for single filers and $80,000 for joint filers. Eligible expenses for the HOPE credit are indexed starting in 2001, and income limits for both credits are indexed in 2001. Estimated cost: $31.6 billion over five years and $76 billion over 10 years.

• Education savings accounts, which would allow taxpayers to make an after-tax contribution of up to $500 per year for each child under age 18 in a savings account similar to an individual retirement account. The principal and interest could be withdrawn tax free to help pay for a child's college or graduate education. Virtually all taxpayers — except those with incomes in the top 3 percent or so — would be eligible to make tax-preferred contributions to the a counts. The adjusted gross annual income limit for sing filers is $95,000; for couples, $150,000. Estimated cost: $9 billion over five years and $14.2 billion over 10 years.

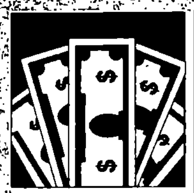
• A deduction for interest payments on student loa of up to $1,000 starting in 1998, rising to $2,500 in 2001. In dividual taxpayers with adjusted gross annual incomes o up to $40,000 are eligible for the deduction, as are couple with incomes of up to $60,000. Estimated cost: $690 millio over five years and $2.4 billion over 10 years.

• Penalty-free withdrawals from all individual retireme accounts for undergraduate, post-secondary vocation and graduate education expenses. Estimated cost: $81 million over five years and $1.7 billion over 10 years.

• Expansion of deductions for state-sponsored prepaid tu ition progams and state savings programs to include the costs of room and board. Estimated cost: $533 million over five years and $1.5 billion over 10 years.

• Extension through May 31, 2000, of the exemption from taxation of employer-provided educational assistance for undergraduates. Estimated cost: $1.2 billion over five years.

• **Capital Gains:** There is a new rate structure for capital gains taxes that gives progressively lower rates for gains on assets held for longer periods of time. Under current law, the top individual tax rate on profits from the sale of stocks or other investments is 28 percent; for taxpayers in the 15 percent income tax bracket, the rate is 15 percent.



Retroactive to May 7, 1997, this bill would:

• Tax the gain on assets held for less than 12 months at ordinary income tax rates with a top rate of 39.6 percent — as is the case under current law.

• Tax gains on assets held for at least 12 months but for not more than 18 months at the current top rate of 15 percent for individuals in the 15 percent income tax bracket and at 28 percent for all other taxpayers. Collectibles such as art and antiques would continue to be taxed at this rate.

• Tax gains on assets held for more than 18 months at 10 percent for individuals in the 15 percent tax bracket and 20 percent for all other taxpayers. That is a cut of a little less than a third in the top capital gains tax rate for long-term gains.

• Gains on assets bought after 2000 and held for at least five years would be taxed at a top rate of 18 percent. Taxpayers with assets bought before 2000 would have to pay a "tollgate tax" at the 20 percent rate on the gain on their assets up until 2000 and then could take advantage of the 18 percent rate.

• Real estate profits subject to the capital gains tax would be taxed at a 25 percent rate.

Estimated cost: $123 million increase in revenues over five years, but a loss of $21.2 billion over 10 years.

The bill also eliminates capital gains taxes on profits from the sale of primary residences that sold for less than $250,000 for individual taxpayers and less than $500,000 for

. . . In Tax Cut Package

couples. The revenue effect is negligible.

• **Individual Retirement Accounts (IRAs):** Under current law, tax-deferred IRAs are available only to single taxpayers with adjusted gross annual incomes of less than $25,000 and couples with adjusted gross annual incomes of less than $40,000. Up to $2,000 a year in pre-tax dollars can be put into a savings account and withdrawn at retirement.

Under the bill, income limits would be raised by $5,000 for single filers and by $10,000 for joint filers in 1998, and by $1,000 each year thereafter through 2002. After that, the limits would gradually rise to $50,000 for single filers and $80,000 for joint filers.

In addition to permitting withdrawals at retirement, penalty-free withdrawals could also be made to finance a first-time home purchase or for educational purposes.

A new type of IRA would also be created, to be known as a "back-loaded IRA." All but the wealthiest taxpayers (single filers with adjusted gross annual incomes of more than $95,000, joint filers with incomes of more than $150,000) would be able to make after-tax contributions of up to $2,000 a year to a savings account and withdraw the interest and principal tax-free.

Contributions to both the tax-deferred and back-loaded IRAs may not exceed $2,000 per year per taxpayer.

Estimated cost: $1.8 billion over five years and $20.2 billion over 10 years.

• **Estate Tax:** Under current law, the unified estate and gift credit allows taxpayers to exempt up to $600,000 of an estate from taxes. Under the bill, that will increase gradually to $1 million in 2006. For family farms and small businesses, there would be an exemption of $1.3 million in 1998, and the exemption would remain at that level. Estimated cost: $5.9 billion over five years and $33.1 billion over 10 years.

• **Alternative Minimum Tax:** The bill sharply reduces the alternative minimum tax, which is paid by corporations that do not owe corporate income tax. Estimated cost: $6.8 billion over five years and $18.3 billion over 10 years. The provision also would exempt most small businesses — those with gross receipts of $5 million a year or less — from paying any alternative minimum tax. Estimated cost: $577 million over five years and $762 million over 10 years.

• **District of Columbia:** The bill would create special economic development zones in impoverished neighborhoods so that employers who move there would be eligible for a 20 percent wage credit, increased expensing and expanded tax-exempt financing. Capital gains on sales of business property in such neighborhoods would be reduced to zero if the property were held for at least five years. First-time home buyers would get a $5,000 credit if their adjusted gross annual income were less than $70,000 for single filers and less than $110,000 for joint filers. Estimated cost: $686 million over five years and $1.2 billion over 10 years.

• **Amtrak bailout:** The imperiled passenger railroad system would receive a refund — known as a net operating loss carryback — on taxes paid by the predecessor railroad lines that merged in 1971 to form Amtrak. However, the tax break is contingent on the company embracing management changes which would have to be ratified by a separate bill in Congress, and Congress and the White House have not been able to agree on them. Estimated cost: $2.3 billion over five years.

• **Miscellaneous:**

• Increased deductibility of health-insurance premiums for the self-employed to 100 percent by 2007. Estimated cost: $383 million over five years and $3.5 billion over 10 years.

• Expanded urban empowerment zones, which allow employers to take advantage of tax incentives for employment and investments in impoverished neighborhoods, such as tax-favored municipal bonds. Estimated cost: $717 million over five years and $1.2 billion over 10 years.

• Wage credit for employers who hire former welfare recipients. The credit would be worth 35 percent of the first $10,000 in wages in the first year of employment, and 50 percent on $10,000 of wages in the second year of employment. Estimated cost: $99 million over five years and $106 million over 10 years.

Revenue Raisers

• **Airline Ticket Tax:** The current 10 percent tax on domestic airline tickets would be reduced to 9 percent in fiscal 1998, 8 percent in fiscal 1999 and 7.5 percent in 2000. A new per-passenger tax would be imposed on each segment of a domestic flight, beginning at $1 in fiscal 1998, gradually increasing to $3 in fiscal 2002 and then changing according to the Consumer Price Index (CPI). Flights to small airports in isolated rural areas are exempt from the segment tax.

The tax on international departures will increase from $6 to $12, and a new $12 tax will be imposed on international arrivals, with the taxes indexed to the CPI beginning in January 1999. The bill keeps the $6 tax on flights to Alaska and Hawaii, but indexes it to the CPI beginning in 1999.

It also imposes a 7.5 percent tax on purchases of frequent-flier miles by credit card companies and others. Taxes on air cargo and aviation fuel are extended. Estimated revenue: $33.2 billion over five years and $79.7 billion over 10 years.

• **Tobacco Tax:** (Technically part of the spending bill, HR 2015) The current 24-cent-per-pack tax on cigarettes would rise by 10 cents per pack in 2000 and another nickel per pack in 2002. Taxes on other tobacco products, including "roll-your-own" leaf tobacco, would also increase. If Congress agrees to a proposed settlement between tobacco companies and states — hearings on the settlement are ongoing in Congress — the money raised by the tax would reduce the size of the settlement on a dollar-for-dollar basis. Estimated revenue: $5.2 billion over five years and $16.7 billion over 10 years.

—Alissa J. Rubin

the principal and interest may be withdrawn tax free.

While lawmakers boast that this is a tax bill that has something for everyone at every stage of life, in fact there are many taxpayers who get nothing. For taxpayers who have finished their education, have no children and have no investments to speak of, there is little in the bill to relieve their tax burden.

Similarly, retirees get little out of the bill unless they choose to sell their home. So long as its value was less than $500,000 for a couple or $250,000 for an individual, they would not pay a capital gains tax.

Asked what was in the tax bill for people who have no children, are not players in the stock market and have finished their schooling, Gene Sperling, director of Clinton's National Economic Council, hesitated and looked slightly embarrassed: "Let's see. No kids, not married, not much in the stock market — I think you're describing me."

Sperling then noted the bill's expanded IRAs and the home office deduction. In addition, a single taxpayer with an adjusted gross annual income of less than $40,000 who is still paying off college loans would get a deduction of up to $1,000 for interest payments; that would rise to $2,500 in 2001.

But Sperling defended the bill's general approach, saying, "The theory of a targeted tax cut is to help people when there is the greatest burden on their income."

DOUGLAS GRAHAM

Rangel, shown at a June tax markup session of the Ways and Means Committe, expressed relief at reaching the deal during the White House announcement July 29: "We have now shattered the myth that we are spending Democrats and taxing Democrats."

Sealing the Deal

As late as midday on July 30 — less than 24 hours before Congress was slated to vote on the bill — lawmakers and the White House were still haggling over several provisions. A plan to bail out Amtrak, the financially ailing passenger railroad, was a top priority for Senate Finance Committee Chairman William V. Roth Jr., R-Del. White House aides were pushing for a reduction in tariffs on products made in Caribbean countries.

The tariff provision was dropped, but the Amtrak provision made it into the bill — although its implementation is contingent on the railway instituting an array of management reforms that look unlikely to ever occur.

The final stage of give and take started on July 25, when top administration officials began intensive meetings in the offices of Speaker Newt Gingrich, R-Ga., and Senate Majority leader Trent Lott, R-Miss. While it had been suggested that two of the most contentious players — Archer and Treasury Secretary Robert E. Rubin — might be left out of the final negotiations, both were involved in cutting the final deal.

The final tax bill bore the imprint of both men. The administration succeeded in persuading Republicans to drop a provision that in would have eliminated any tax on the portion of a capital gain due to inflation. But Archer, backed strongly by Gingrich, persuaded the White House to allow profits from the sale of an asset held for more than five years to be taxed at a lower rate.

As is often the case, it was not big-picture tax policy that held up the bill, but disagreements about finer points. At the last minute, the administration threatened to veto the entire bill over a provision inserted at the behest of Sen. Paul Coverdell, R-Ga., which would have allowed IRA savings to be used by families to pay tuition at parochial and private elementary and secondary schools. The administration claimed the provision would undermine public education; Republicans asserted that Clinton was undermining school choice by parents. It was dropped. *(Story, p. 1846)*

Another last-minute fight was on the income limits for IRAs. Roth fought for higher income limits, while the White House tried to tailor them to middle-income Americans. Roth won that round; all but the richest 3 to 4 percent of Americans will get a tax break for using the savings account. However, the administration insisted that annual caps be placed on the amounts that can be deposited in the accounts.

The Fairness Debate Goes On

Although dissenters on the final votes were few, the main argument against the bill — and the most oft-repeated theme of Democrats throughout the negotiations — was that it was tilted too far toward higher-income Americans.

While the tax package has many benefits for middle-income taxpayers, especially in the first five years, the final package also rewards the wealthy, according to economists. "Certainly this tax bill heaps benefits on the upper middle class and the upper class when private markets have rewarded them spectacularly," said Reischauer, who noted that even the largest of the so-called middle class tax benefits — the $500-per-child tax credit — goes to all but the wealthiest 10 percent of taxpayers.

Leading the charge on fairness was House Minority Leader Richard A. Gephardt, D-Mo., who lambasted Republicans for such provisions as the reduction in capital gains tax rates and deep cuts in the corporate alternative minimum tax, which is paid by some of the country's largest companies. Armed with charts and backed by much of the Democratic caucus when the bill first passed the House, Gephardt took a strong stand against the bill passed by the Ways and Means Committee, which was drafted almost entirely by Republicans. But at the end of the day, he parted ways with Clinton.

"I believe in building this economy from the bottom up, not the top down," Gephardt said. "Unfortunately, this tax bill will make the tax code less progressive."

In contrast, Rangel, whose district is centered in Harlem, drew laughter when he ribbed his Republican colleagues during the floor debate on their insistence on indexing capital gains for inflation — a provision ultimately dropped from the tax bill. "I do not know your districts as well as I know my own, but really, people do not run inside my [political] clubhouse asking, 'How did you do on indexing? And for God's sake, did you reduce capital gains?' "

The fairness debate looks likely to come back over and over in the coming years, especially since Republicans promise that this is just the first in a series of tax-cut bills.

"We're just warming up," said Archer. ■

MEDICARE

Long-Term Fixes Are Delayed, But Political Logjam Broken

The Medicare legislation that Congress cleared by a wide margin July 31 as part of the balanced-budget bill would provide several short-term fixes to buck up the ailing federal health insurance program for the elderly and disabled. But lawmakers fell short of making the comprehensive adjustments needed to sustain Medicare's long-term financial health.

To be sure, the spending reductions bill (HR 2015) would make key changes. It would broaden seniors' options in choosing health care plans, integrating into the program some of the insurance options that are increasingly available in the private sector, such as managed care plans and medical savings accounts. Some legislators hope the additional benefits that managed care plans provide would lure the elderly to such plans. Lawmakers also made deeper Medicare spending cuts than in 1993, the last time Congress cleared legislation to rein in spending. *(Weekly Report, p. 1787; 1993 Almanac, p. 366)*

SCOTT J. FERRELL

Sen. Bill Frist, R-Tenn., talks to a group of senior citizens July 29 about the anniversary of Medicare. With Frist are, from left, Republicans Dan Miller of Florida, House Speaker Newt Gingrich of Georgia and Deborah Pryce of Ohio.

The spending package would expand Medicare benefits to include coverage of preventive health care, such as cancer screening, and toughen anti-fraud measures to combat recent findings of Medicare overpayments to hospitals, doctors and other providers. The bill also would broaden Medicare's prospective payment, or fee schedule, system to the rapidly growing home health care and skilled nursing sectors in an effort to curb costs.

These changes represent some of the most dramatic alterations made to Medicare since its creation in 1965, and the bill's bipartisan backing signals that legislators can safely discuss further changes without fear of political damage. "We have broken the logjam," said House Ways and Means Health Subcommittee Chairman Bill Thomas, R-Calif., a key architect of the Medicare overhaul effort. "We can adjust Medicare."

The final package includes several provisions aimed at luring managed care providers to rural areas, such as a minimum $367 payment per month per beneficiary. Current payments are as low as $223 per month. Other provisions in the bill, however, would reduce payments to managed care providers. Budget conferees agreed to remove or "carve out" money from Medicare payments to managed care companies now designated for graduate medical education. That money will now go directly to teaching hospitals.

The bill includes two changes in Medicare that have drawn concern from advocates for seniors, who fear seniors could face higher out-of-pocket costs than they would under Medicare's traditional fee-for-service plan. One change would allow seniors to choose an unrestricted fee-for-service plan, in which they would choose their own doctors. Such plans do not have to follow the Medicare fee schedule. Doctors and other providers could charge patients up to 115 percent of what their insurance plan pays. There is also concern about private contracting, the ability of physicians who are not in the Medicare program to enter into private contracts with beneficiaries for services otherwise covered by Medicare.

By Mary Agnes Carey

New Commission

But some of the toughest questions in the Medicare debate, such as how to deal with the program's long-term financial problems, were left unanswered. Over the next 20 years, the number of workers supporting Medicare through payroll taxes is expected to decline, while the number of retirees explodes. Congress also avoided examining what benefits the program can afford to continue to provide and how to create the kind of price competition among health plans that some observers say could eventually drive down costs. Under Medicare, health plans are reimbursed based on a set formula.

"It was a clear failure of American government to act in a crisis," said Sen. Phil Gramm, R-Texas. "The disappointment is we had a golden opportunity here."

One gesture Congress did make toward the future was to create a 17-member bipartisan commission to address Medicare's long-term structural and financial problems.

The panel will wrestle with several issues that Congress considered and then passed on this time, such as raising Medicare's eligibility age to 67 from 65, asking some wealthier seniors to pay more for their Part B premiums that pay doctors' bills, and requiring a $5 co-payment on some home health care services.

Robert D. Reischauer, former director of the Congressional Budget Office and now a senior fellow at the Brookings Institution, said he was "guardedly optimistic" that a commission could produce results, in part because the recent congressional debate featured a thorough airing of options that previously had been thought untouchable.

Five years ago, for example, the idea of examining an increase in the Medicare eligibility age was considered "a ticket to political suicide," Reischauer said. In the 105th Congress, the idea not only was proposed, he said, but it also was embraced by lawmakers who have to answer to retirees. "You

Medicare Spending Changes

Most of the spending reductions in the balanced-budget bill (HR 2015), which seeks to reconcile spending policy with deficit-reduction goals, would come from changes in Medicare, the federal health insurance program for the elderly and disabled. The conference agreement would reduce growth in Medicare spending by 12 percent, or $115 billion over five years.

It also would reduce spending on Medicaid, the federal-state health insurance program for the poor, by about $10.4 billion over five years. It would increase cigarette taxes to help fund a $23.4 billion grant program to the states to provide health insurance for about 3.4 million of the nation's 10 million uninsured children.

Medicare

Conferees dropped Senate provisions that would have raised the Medicare eligibility age from 65 to 67, required wealthier seniors to pay a higher Medicare premium and required beneficiaries to pay a $5 copayment for each home health care visit. As adopted by the House and Senate, the agreement would:

• **Spending reductions.** Cut spending growth by $115 billion over five years, mostly through reductions in Medicare payments to hospitals, doctors and other health care providers. Under existing law, the basic payment to hospitals for inpatient care increases each year by the rate of growth in the "hospital market basket," a measure of the goods and services that hospitals purchase. The market basket is projected to increase by 3 percent in fiscal 1998 and by 3.5 percent in subsequent years. But the legislation would freeze 1998 payments at 1997 levels, and set the increase at 1.9 percent in fiscal 1999 and 1.8 percent in fiscal 2000 and thereafter.

The measure also would change the formula for determining payments to physicians and introduce prospective payment systems, or fee schedules, to pay skilled nursing facilities, rehabilitation hospitals, outpatient hospital services and home health services.

• **Trust fund.** Delay the projected depletion of the Medicare Part A trust fund, which pays for inpatient hospital care, until fiscal 2007. It was otherwise projected to run dry in fiscal 2001. Insolvency would be postponed primarily by transferring the payment of certain home health services from Part A, which is financed by a payroll tax, to Medicare Part B. Part B, which pays doctors bills, is financed by patient premiums and general revenues.

• **Expanded options.** Give beneficiaries the option of remaining in the traditional fee-for-service program, or enrolling in a managed care plan such as a health maintenance organization or provider sponsored organization. Some seniors also could choose to combine a tax-free medical savings account with a high-deductible insurance plan. *(Managed care plans, Weekly Report, p. 639)*

• **Medical savings accounts.** Allow 390,000 Medicare beneficiaries to set up a medical savings account to pay for qualified medical expenses. These seniors also would have to buy a high-deductible health insurance plan to pay for catastrophic illnesses. Under the plan, the government would deposit a part of the individual's Medicare benefit into a medical savings account. Interest accrued and withdrawals to pay medical expenses would not be taxable. The insurance plan would pay benefits after the beneficiary paid the deductible, which could not exceed $6,000.

• **Premium increases.** Increase Part B premiums, now $43.80 a month, enough to continue to cover 25 percent of Part B program costs (the other 75 percent comes from general revenues). Under current law, the Part B premium was going to be indexed to the cost of living increase for Social Security benefits beginning in 1999. This increase generally is lower than the increase in Part B costs, so the Part B premium would have covered a declining share of costs after 1999. Part B also will have to absorb the cost of transferring home health care costs to Part B from Part A. By 2002, premiums will be $67 a month, as opposed to $51.50 in 2002 under current law.

• **Prevention benefits.** Increase Medicare spending by $4 billion over five years to provide expanded benefits aimed at preventing seniors from getting sick. These would include mammography, Pap smears, screening for prostate and colorectal cancer, and diagnosis of osteoporosis.

• **Medicare commission.** Establish a 17-member National Bipartisan Commission on the Future of Medicare. It would report in 1999 on the financial impact on Medicare of the pending retirement of the Baby Boomers and make recommendations on structural changes to Medicare.

Medicaid and Children's Health Care

The measure would reduce Medicaid spending by about $10.4 billion over five years, mostly by reducing payments to states for hospitals that serve a disproportionate share of low-income patients. The legislation would repeal the so-called Boren Amendment, which requires state Medicaid programs to pay hospitals and nursing homes a "reasonable and adequate" rate. States would have more flexibility in setting provider payment levels.

The agreement would establish a $1.5 billion block grant to states to assist Medicaid enrollees with incomes between 120 percent and 150 percent of the federal poverty level to pay their Part B premiums. States are now required to pay premiums for beneficiaries with incomes between 100 percent and 120 percent of the poverty level.

The agreement would provide $23.4 billion to expand health coverage to uninsured children, with costs partially offset by a 15-cent-per-pack increase in cigarette taxes.

The measure would give states flexibility to determine eligibility for the program, while generally limiting eligibility to children from families with incomes up to 200 percent of the poverty level. States could decide to increase their Medicaid spending, provide health insurance programs for these children, use up to 10 percent of their funds for direct services to children, or some combination of these options.

had two senators from Florida vote for it," he said of Republican Connie Mack and Democrat Bob Graham.

Still, such open debate may not portend substantive results from a bipartisan Medicare commission. Congressional panels often are an excuse for "delay, diversion and denial," said Martha Phillips, executive director of the Concord Coalition, a non-partisan group advocating deficit reduction. Gramm also was pessimistic. "We had an entitlement commission; it reported nothing," he said of the Bipartisan Commission on Entitlement and Tax Reform, chaired by Sen. Bob Kerrey, D-Neb., and former Sen. John Danforth, R-Mo. (1977-1995). The 32-member panel met for several months in 1994 and issued a report in early 1995. But panel members could not agree on details of a plan to curb the costs of mandatory spending programs. "That was entirely a function of the election of '94," Kerrey said of the election that gave Republicans control of both chambers of Congress for the first time in 40 years. "After the November election, the landscape was radically altered."

"It was a clear failure of American government to act in a crisis. The disappointment is we had a golden opportunity here."

— Sen. Phil Gramm, R-Texas

The new commission's effort also could be undercut by its timing. The trustees' report is due March 1, 1999, after the 1998 mid-term elections, but with findings made public just as candidates are organizing their campaigns for the 2000 presidential and congressional races — not exactly the time to embrace dramatic policy changes in a major middle-class entitlement program. The new president may not be eager to take on such a daunting task in a first term, pushing any substantive change off until 2005 or later.

Even if the Medicare commission finds answers to the program's most perplexing problems, legislators may be in no hurry to adopt them. With the balanced-budget deal enacted — a package that includes $115 billion in Medicare cuts over the next five years — legislators likely will not feel any pressure to reduce Medicare spending again.

Moreover, the bill would fix Medicare's immediate money problem: The Medicare Part A trust fund, which pays hospital costs, was expected to run dry in 2001, but the bill would stave off insolvency until fiscal 2007. It does that mostly by shifting home health care costs — the fastest growing element of Medicare spending — from Part A to Part B. Part B funds come from general Treasury revenues and patient premiums. The shift will increase Part B premiums, which cover doctors' services, from the current $43.80 per month to $67 in fiscal 2002.

Relief about taking those two steps plus the usual "period of policy exhaustion," as Reischauer put it, that often follows mammoth undertakings such as this one — which also includes changes in Medicaid and children's health care, among other areas — may not make legislators too eager to look at entitlement spending again any time soon. "Why do something unpopular if you don't have to?" Reischauer asked.

Still, lawmakers have not put the issues aside. "We have to have a further wave of reform in the future," said House Speaker Newt Gingrich, R-Ga. "We knew the most we could do in one jump was save Medicare for a decade." Gingrich said the Senate demonstrated "courage" in passing legislation to raise the Medicare eligibility age and increase premiums for wealthier seniors, even though the House did not follow the Senate's lead.

"In the end, we reached the conclusion it was better to do none of them in isolation," Gingrich told a gathering of senior citizens July 29. "There's a point here where every reasonable person knows this is something that has to be rethought."

Medicaid and Children's Health Care

The Medicare adjustments were part of an overall package that also would reduce federal spending on Medicaid, the federal-state health insurance program for the poor, by about $10.4 billion over five years. The legislation would increase cigarette taxes to help fund a $23.4 billion grant program to the states to provide health insurance to about 3.4 million children, about 2 million of whom did not have insurance previously.

Under changes to Medicaid, states would have more flexibility to put enrollees into managed care plans because they no longer would have to seek a federal waiver to do so. The legislation also would reduce so-called disproportionate share payments, which help states provide medical care for the poor and uninsured. However, $600 million was added back to aid states, such as Texas and New York, which have many low-income and uninsured residents. No state's reimbursement would be reduced more than 3.5 percent below its fiscal 1995 Medicaid funding.

The Medicaid package also includes medical coverage for disabled children who are no longer eligible for Supplemental Security Income disability payments under the 1996 welfare law (PL 104-193), and $1.5 billion to finance a Medicaid program that pays the Medicare Part B premiums for some low-income beneficiaries. Some Republicans sought to keep those two provisions out of the final legislation, but Democrats and the White House argued they were both included in the budget deal (H Con Res 84) that Clinton and Congress agreed to in May.

Provisions to expand children's health care resulted from a striking compromise: Governors received the flexibility they sought to design coverage packages while children's health advocates generally were pleased with the overall deal.

States can choose from several options, such as broadening their current Medicaid coverage or enrolling uninsured children in private health plans. Benefits packages must be equivalent to one of several benchmark plans, such as the standard Blue Cross/Blue Shield preferred provider option offered under the Federal Employees Health Benefits plan.

States also could develop their own plans as long as they were similar financially to a benchmark package and included a specific list of services. Existing children's health programs in New York, Pennsylvania and Florida could continue as they are.

Only 10 percent of the federal grant money may be spent on so-called direct services such as community outreach programs or administration.

Dr. Irwin Redlener, president of the Children's Health Fund, said monitoring by federal health officials as well as by state and local children's advocacy groups will ensure the children's initiative is administered properly. Sen. Orrin G. Hatch, R-Utah, an author of the plan, said Congress will be watching as well. "It's a block grant but everyone knows it's for children. We'll be monitoring it very closely," he said.

The children's health initiative, which would serve young people up to age 18, is to be governed by the so-called Hyde Amendment, named for its author, Rep. Henry J. Hyde, R-Ill. The amendment, a perennial appropriations rider, prohibits

Tax Incentives Aimed at Education

Tax credits, scholarships and student loan interest deductions make up the hefty education portion of the tax package (HR 2014) worked out between President Clinton and the Republican-controlled Congress.

Notably absent from the final bill is a provision that would have allowed parents to establish special savings accounts to finance their children's elementary and high school education, presumably at private schools.

Clinton, fearing that the measure would harm public education, threatened to veto the whole tax package if it were included. His threat came hours after Democrats and Republicans publicly hailed the spending and tax bills July 29.

Republican negotiators, intent on avoiding a showdown with the White House, abandoned the provision — at the same time lambasting the president for caving in to "powerful teachers' union bosses" and vowing to push the measure separately.

The provision, sponsored by Sen. Paul Coverdell, R-Ga., would have allowed taxpayers of any income level to open an education account similar to an Individual Retirement Account. They could have made after-tax contributions of up to $2,000 a year. Withdrawals would be tax-free if the money were used for tuition and other elementary or secondary school expenses. (A related provision applied to postsecondary school expenses survived.)

In a July 29 letter to House Speaker Newt Gingrich, R-Ga., Clinton stated his strong opposition to the Coverdell amendment, saying he "would veto any tax package that would undermine public education by providing tax benefits for private and parochial school expenses."

Gingrich said Clinton once again had "chosen to place the interests of the powerful teachers' union bosses over those of America's schoolchildren."

The Speaker called the Coverdell amendment "a common-sense way to give parents the financial freedom to choose the best school for their children without taking a penny from the public school system," adding that he would work "to see that Sen. Coverdell's legislation becomes law, thereby ensuring every American child will receive a quality education."

The tax bill embraces several education tax incentives, primarily aimed at postsecondary students. The legislation includes:

- A version of Clinton's HOPE Scholarship, in which parents of students in the first two years of postsecondary education would receive a tax credit of 100 percent on the first $1,000 of tuition and fees, and 50 percent on the second $1,000 of tuition and fees.
- A tax credit for students in their last two years of college and in graduate school set at 20 percent of the first $5,000 of tuition and fees through 2002, and 20 percent of the first $10,000 after 2002.
- Penalty-free withdrawals from existing Individual Retirement Accounts to pay for postsecondary and graduate education.
- An education savings account, similar to an Individual Retirement Account, in which taxpayers could make after-tax contributions of up to $500 a year to pay for their child's postsecondary education. Withdrawals would be tax-free.
- A three-year extension of the exclusion from taxable income of $5,250 of employer-provided undergraduate education benefits.
- A student loan interest deduction of $1,000 for college students in 1998, rising to $2,500 in 2001 and thereafter.

The accompanying legislation (HR 2015), aimed at cutting projected entitlement spending by $122 billion over five years, would modify federal student loan programs for a savings of about $1.8 billion, according to the Congressional Budget Office. The provisions would:

- Require guarantee agencies, which guarantee student loans, to return $1 billion in reserve funds to the federal government in fiscal 2002. The amount is about half of what the agencies held in reserve as of Sept. 30, 1996.
- Reduce funds provided to the secretary of Education for administrative expenses associated with the direct and guaranteed student loan programs. The estimated savings are about $600 million over five years.
- Eliminate the $10 loan-origination fee that the federal government gives to schools or agencies for each direct student loan that they make. The fiscal 1996 and fiscal 1997 spending bills (PL 104-134; PL 104-208) for the Department of Education prohibited the payment of this fee. This change would save about $160 million over five years.

The legislation also would repeal the 1917 Smith-Hughes Act (PL 64-347), which created the Federal Board of Vocational Education and provided federal aid to support the teaching of agriculture, industrial arts and home economics in public schools. Under the law, states have received a small amount of vocational education funding each year.

—Donna Cassata

federal funding of abortions except in cases of rape or incest or to save the woman's life. However, in the children's health measure, states can spend their own money to pay for abortions, as long as the funds are not mingled with federal funds.

Medicare: The Next Chapter

As attention turns to the bipartisan Medicare commission, observers see the focus shifting away from Capitol Hill toward the public, which must be educated about the long-term dangers to the Medicare program. "Clearly, we've got to start to figure out how to contain the costs," said Phillips of the Concord Coalition. Phillips and others say it is critical for citizens and Congress to understand that the sooner the tougher solutions are enacted, the better it will be for future generations.

"The beneficiary pays for the price of the delay, not the politician," Kerrey said. But it is the politicians who cannot seem to fix the program, Gramm said. "We know what to do about Medicare," he said. "The problem is doing it." ■

Worker Protections Remain For Welfare Recipients

The budget and tax bills are full of provisions hailed by most Democrats and Republicans. But a lack of language on how to treat welfare recipients who are required to work has raised the ire of Republicans as well as governors from both parties.

By not acting on the matter, Congress let stand a recent Clinton administration directive applying a wide variety of federal labor laws to welfare recipients. That includes minimum wage requirements, civil rights laws, and health and safety standards.

House Republicans had warned that this directive would essentially erase the work requirement that was integral to last year's welfare overhaul law (PL 104-193). That law requires welfare recipients to work within two years of receiving benefits. And it requires states to ensure that an increasing percentage of their welfare caseload is engaged in work activities. *(1996 Almanac, p. 6-3)*

Republicans said that Clinton's directive would make it too expensive for states to subsidize jobs for welfare recipients who could not otherwise find work. They sought to overturn the administration's directive with a provision in the budget spending bill (HR 2015).

DOUGLAS GRAHAM

Subcommittee Chairman Shaw says he is not optimistic about changing the administration's position on Labor Department guidelines.

But President Clinton insisted that the provision be removed. And he prevailed, as he did on many welfare matters in the legislation. *(Welfare, Weekly Report, pp. 1530, 1450)*

"This has the potential for gutting the welfare bill," lamented Rep. James M. Talent, R-Mo., who has pushed for stricter work requirements.

"I think we're in the process of not only undoing welfare reform, but destroying the incentive of getting people into the labor market," said Sen. Phil Gramm, R-Texas, a strong conservative on welfare issues.

Welfare administrators said the outcome made it less likely that states would help welfare recipients with the fewest skills and the least work experience get jobs. Leaders of the National Governors' Association called on Congress and the White House to revise the law this fall.

But Democrats insisted that determining how welfare recipients are treated in the workplace was a matter of principle not subject to compromise.

"People who move from welfare to work who are employees should be treated as employees and not as second-class citizens," said Rep. Sander M. Levin of Michigan, ranking Democrat on the Ways and Means Human Resources Subcommittee.

By Jeffrey L. Katz

Overall, Democrats prevailed on many of the welfare-related provisions raised in the budget bill. *(Highlights, p. 1848)*

Clinton had vowed to "fix" the new welfare law more to his liking in his second term. He did not seek to restore the federal guarantee of welfare aid. And he had no luck in restoring most of the cuts in eligibility or allotments for food stamps.

But beyond the wage and worker protection issue, he and other Democrats ensured that all legal immigrants who were in the United States as of Aug. 22, 1996, would be eligible for Supplemental Security Income (SSI) — which provides cash to the low-income aged and disabled — regardless of when they became disabled.

Republicans who were active on welfare matters tried to console themselves by noting that the GOP had prevailed on other issues debated in the bills.

"We got the Republican tax bill, the Republican Medicare bill and the Democratic welfare provisions," said Rep. E. Clay Shaw Jr., R-Fla., chairman of the Ways and Means Human Resources Subcommittee.

Labor Department Guidelines

The welfare dispute began May 22 when the Department of Labor released guidelines on how workplace laws ought to apply to welfare recipients.

It said most welfare recipients who are required to work would be subject to the Fair Labor Standards Act, which sets federal minimum wage, overtime pay, child labor and recordkeeping requirements. Other laws that would apply were the Occupational Safety and Health Act, unemployment insurance measures and such anti-discrimination laws as the Civil Rights Act and the Americans with Disabilities Act.

A previous welfare law (PL 100-485) enacted in 1988 spelled out how welfare recipients would be compensated and protected when working for their benefits. It generally gave these so-called workfare participants fewer protections and benefits than other employees. *(1988 Almanac, p. 349)*

But the 1996 overhaul law was largely silent on these issues. "It was assumed that the previous distinction in statutes and case law between workfare and employment would continue to be recognized," said Shaw, a leader in the GOP welfare overhaul.

The stakes are much higher now because the 1996 law was the first to mandate a broad-based work requirement for virtually all welfare recipients.

House Republicans responded to the Labor Department directive through the budget spending bill. One matter concerned wages. The directive said food stamps could be considered compensation in certain circumstances in determining whether welfare recipients were being paid the minimum wage.

House Republicans initially sought to allow states to also count the value of Medicaid, child care and housing benefits as compensation for those placed in public or nonprofit private sector jobs. They later modified the provision so that only food stamps and benefits provided under the cash welfare block grant could be counted.

In another issue related to workplace protections, House Republicans wanted states to be responsible for enforcing health, safety and other protections, while Democrats insisted that welfare recipients were entitled to the same federal protections as other employees.

Clinton prevailed, despite a last-ditch GOP appeal.

Republicans said they would try again in September, though Shaw was not optimistic about swaying administration officials. "If they dug in their heels on this bill," he said, "who's to say they won't dig in their heels on the next bill?"

As it stands, the Labor Department's guidelines may inhibit states from trying to help welfare recipients with the least experience, said Elaine Ryan, director of governmental affairs at the American Public Welfare Association, which represents state and local welfare administrators.

"The impact is profound," she said. "States may find it just too big a risk and too great a cost to afford those welfare clients most in need with access to critical basic skills training."

Ryan noted that Republicans had limited how many welfare recipients could be engaged in education and training activities and still count toward the state's work participation requirement. And now Democrats had effectively limited workfare programs.

That leaves states with few options on how to handle welfare recipients with little work experience, she said. "You could give them want ads or give them a private sector job and watch them fail."

Republican and Democratic leaders of the governors' association, which met in Las Vegas, appealed July 30 to Congress and the White House to revise the administration directive. The governors indicated that they could accept the minimum wage requirements, but objected to giving welfare recipients other benefits, such as unemployment insurance.

It was unclear whether welfare recipients who were required to work for their benefits would be entitled to other programs, such as Social Security coverage.

GOP Points to Labor's Clout

Gramm and other Republicans blamed Clinton's intransigence on the sway of labor interests.

David Smith, the AFL-CIO's director of public policy, said the administration's position had less to do with labor's clout than with the principle of the issue. "They insisted we were not going to have two classes of workers and repeal, bit by bit, fundamental worker protection laws," he said.

Smith acknowledged that states would have trouble moving long-term welfare recipients who lack job skills into the work force. "I don't disagree with the governors," he said. "This is going to be difficult. But the solution is not to make work cheaper or less protected."

Mark Greenberg, a senior staff attorney at the Center for Law and Social Policy, a liberal public policy research group, said that GOP arguments could be used to undercut minimum wage laws. "If there's going to be a minimum wage," he said, "it's important that it applies to everyone who is working."

Greenberg also said that the need for workfare programs may be overstated, considering the number of people who are leaving the welfare rolls.

The welfare law requires states to have at least 30 percent of their welfare caseload in prescribed work activities in fiscal 1998. Depending on the circumstances, states can count caseload reductions toward this rate. Based on declining welfare rolls during the first six months of fiscal 1997, already 30 states would have an effective work participation requirement of 15 percent or less, he said.

"It's not clear how many states will actually wind up running large-scale work-for-welfare programs," Greenberg said. ■

Welfare Highlights

Under the welfare provisions of the budget spending bill (HR 2015) that Congress cleared July 31:

- Legal immigrants who were in the United States when President Clinton signed the welfare overhaul bill (PL 104-193) on Aug. 22, 1996, would be eligible for Supplemental Security Income (SSI), which provides cash benefits to the low-income aged and disabled.

  The House version would have covered legal immigrants receiving SSI as of last August — regardless of whether the aid was based on being elderly or disabled. But it would not have covered those who were in the country last August but later became disabled.

  Clinton insisted on the Senate version. It covers all legal immigrants who were on SSI as of last August, as well as those who were in the country then and later became disabled.
- A fund worth $3 billion would be created to help states place long-term welfare recipients into the work force. The grants are to be administered by the Labor Department and distributed in fiscal 1998 and 1999. Seventy-five percent of the money will be distributed by formula and 25 percent through competitive grants. The money will be targeted to areas with high poverty rates and long-term welfare recipients.
- Medicaid coverage would be continued for disabled children who lose their SSI benefits because of changes in SSI eligibility contained in the welfare overhaul law.
- States would be permitted to exempt from work requirements up to 15 percent of able-bodied food stamp recipients between the ages of 18 and 50 who do not have dependents.
- States that supplement the federal SSI payment will not be permitted to reduce their supplement below existing levels. The House version would have permitted states to lower the state supplement; the Senate version contained no such provision.
- Private entities will not be permitted to determine eligibility for food stamps and Medicaid. The Clinton administration recently turned down Texas' request to let private companies run its Medicaid and food stamps programs. Clinton prevailed in persuading lawmakers to drop the House provision, which would have let any state do so.

— *Jeffrey L. Katz*

APPROPRIATIONS

Small Legislative Spending Bill Could Present Big Problems

The stakes may be small compared with the megabucks in most other federal spending legislation, but a $2.2 billion appropriations bill for the legislative branch could present House and Senate conferees with a disproportionately large headache.

Congress' internal appropriations bill has become a lightning rod for House conservatives testing their leaders' commitment to shrinking government and cutting Congress' spending on itself. But the legislation has taken on no such added meaning in the Senate, where a more generous bill sailed through committee and floor action on workmanlike voice votes. *(Weekly Report, p. 1679)*

Now it is up to conferees to reconcile the two versions: the House bill, with its politically sensitive reduction in spending of $10 million below last year's House-passed measure, vs. the Senate bill, which boosts total spending for Congress and related agencies by $51.6 million over last year's version. Conferees are expected to meet in September.

The Senate will not be naturally inclined to go along with spending cuts whose deficit-reduction value strikes some senators as more symbolic than real. But House leaders, especially Speaker Newt Gingrich, R-Ga., are under pressure to make good on a promise to a group of conservative Republican rebels for a freeze on legislative branch spending.

There are no major differences in the way money for the legislative branch is distributed between the two bills. But there are scores of minor differences in the amounts assigned to various agencies, reflecting the Senate's interest in boosting spending and the House's interest in freezing.

For example, the Senate allocates $130.3 million to the Architect of the Capitol for maintenance of buildings and grounds, but the House grants only $111 million. In another instance, the Senate gives the General Accounting Office $354 million while the House gives the agency $323.5 million.

Adding to its woes, the bill faces opposition from House Democrats, who have seized it as a hostage in fights over issues with only a tangential connection to the legislation itself. Chief among these is the lingering dispute over the contested 1996 election between Rep. Loretta Sanchez, D-Calif., and former Rep. Robert K. Dornan, R-Calif.

By Jackie Koszczuk

FY98
LEGISLATIVE BRANCH

BOXSCORE

Bill: HR 2209 (H Rept 105-196, S Rept 105-47) — fiscal 1998 legislative branch appropriations.

Latest action: House passed, 214-203, on July 28.

Next likely action: House-Senate conference in September.

Background: The bill funds the operations of Congress and related offices.

Reference: Weekly Report, p. 1679.

That means that House Republicans, with their slender 10-vote majority, cannot count on Democrats to make up for GOP defections on final passage, making it all the more crucial for GOP leaders to calm their restive forces on the right.

Together, the House and Senate versions of the bill would provide a total of about $2.2 billion for legislative branch operations, including related agencies such as the Library of Congress, the Congressional Budget Office and the General Accounting Office. (By tradition, each body determines its own housekeeping, so the House bill does not appropriate money for Senate office operations and the Senate bill does not allocate money for House members' staff and offices.)

Action So Far

The House bill was approved on a close, 214-203 vote on July 28 with all but one Democrat— James A. Traficant Jr. of Ohio — voting no. Seven Republicans also voted no: Tom Coburn of Oklahoma, John Ensign of Nevada, Rick Hill of Montana, Kenny Hulshof of Missouri, Ron Paul of Texas, Mark Sanford of South Carolina, and Linda Smith of Washington.

Although Legislative Branch Subcommittee Chairman James T. Walsh, R-N.Y., had hoped for bipartisan support, Democrats were angered by the Rules Committee's rejection of two amendments they had hoped to offer. One involved funding for the investigation of former Rep. Dornan's defeat in November by Sanchez.

Democrats charged that the 9-month-old investigation had become a political witch hunt that unfairly targeted Hispanic voters in California's 46th District. Rep. Vernon J. Ehlers, R-Mich., defended the work of the House Oversight Committee task force he chairs that is investigating possible vote fraud. "We are simply trying to determine whether non-citizens voted in the election, and that would be illegal if they did," he said.

Labor Investigation

Democrats were also angry at the rejection of an amendment that would have stopped Republicans from spending $1.4 million to investigate labor union activity. Gingrich has approved disbursing the money from a special fund established this year to bolster the oversight role of House committees. *(Weekly Report, p. 1607)*

Rep. Glenn Poshard, D-Ill., called it "an egregious waste of taxpayer money to fund investigative hearings designed to attack and intimidate organized labor."

The Democrats claimed one victory from the Rules Committee, which is controlled by the House GOP leadership. They were allowed an amendment to stop Republicans from increasing the staff of the Joint Tax Committee by five full-time aides. But the amendment by Rep. Vic Fazio, D-Calif., failed, 199-213, and the funding for the extra staff remained in the bill.

Democrats contended that the majority is trying to stack Joint Tax with experts sympathetic to the GOP's goal of overhauling the tax code. "Our precious committee resources should not be going to highly politicized staff operations that will merely be used to advance a partisan agenda," Fazio said.

Walsh noted that Republicans had already reduced the staff expansion from 12 to five positions in deference to objections from Democrats and a few cost-conscious Republicans as well. ■

ENVIRONMENT

After Compromise, Dolphin Deal Sails Through Senate, House

Proponents hail measure as model for balancing trade, environment; critics win delay in changing 'dolphin safe' label

Legislation to implement an international pact to protect dolphins from deadly tuna nets sailed through the Senate on July 30 after a late-breaking compromise averted a floor fight, and the House cleared the measure for the president a day later.

The bill, which had appeared to be stalled, moved quickly toward enactment after the Senate resolved a prickly dispute over how best to balance promoting free trade and maintaining U.S. environmental standards.

The measure, which was passed 99-0 in the Senate and cleared by voice vote in the House, would implement a 1995 international agreement, known as the Declaration of Panama, that would lift the ongoing U.S. embargo on tuna caught by Latin American fishing boats in the eastern tropical Pacific Ocean.

Mexico, Venezuela and other nations have been barred since the 1980s, under a 1972 U.S. law, from access to the $1.4 billion U.S. canned tuna market because their fishermen have used encircling nets that snag and kill dolphins.

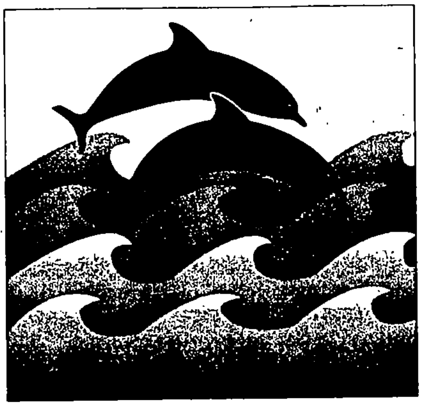
The countries insist they have revised the fishing technique to protect dolphins and consider the embargo unfair.

As part of the compromise included in the bill, the current U.S. legal definition of the dolphin-safe label for canned tuna, established under a 1990 law, initially would be tightened by both prohibiting the use of encircling nets and the killing or seriously injuring of dolphins using other fishing techniques.

But as early as March 1999, the commerce secretary could change the definition to allow use of encircling nets, as long as no dolphins were killed or seriously injured. *(Bill highlights, box, p. 1863)*

The Senate initially voted on July 30 to pass its version of the legislation, S 39. The Senate then took up the House version (HR 408), replaced its text with that of S 39, and passed it by voice vote.

By Allan Freedman



BOXSCORE

Bill: HR 408 (H Rept 105-74, Parts 1 & 2) — revise definition of "dolphin safe" tuna and end U.S. embargo on tuna imports from certain Latin American nations.

Latest action: House cleared HR 408 by voice vote on July 31.

Reference: Senate agreement, Weekly Report, p. 1785; House passage, p. 1192.

The House then cleared HR 408 as amended by the Senate.

Defining Dolphin-Safe

The outcome was the culmination of weeks of behind-the-scenes maneuvering aimed at averting an anticipated filibuster by some environmentalist members in the Senate. Both sides were mindful that the threat of a filibuster had torpedoed similar legislation in the last weeks of the 104th Congress.

The measure had been dogged by criticism that it would relax domestic environmental laws in order to satisfy U.S. trading partners.

Proponents of the bill countered that it was a model for balancing trade and environmental concerns.

The bill drew the strong support of the White House, but provoked the ire of many congressional Democrats. And it created an unusually deep division among environmental groups.

Supporters of S 39 said that, in effect, they had agreed to an 18-month delay in implementing the label change. At the end of that period, the Commerce secretary would make a determination — based in part on the preliminary results of a three-year scientific study ordered by the bill — on how encircling nets affect dolphins.

Supporters of the bill voiced confidence that evidence produced by the study would vindicate them and convince Commerce to change the label to a definition that they favor.

Mark J. Robertson, a consultant to the Mexican fishing industry, said he and his clients are not happy with the delay in changing the label, but support the bill nonetheless. "Due to politics, an 18-month delay will be necessary to bring this into place," he said.

Barbara Boxer, D-Calif., a leading Senate opponent of the original version of S 39, noted that the opposition had at the very least secured the delay in implementing a label change and a scientific study they potentially could use to bolster their case.

John Kerry, D-Mass., added that the study provision was a big element of the compromise. "I fought for the compromise because it includes the critical element missing from the original bill: enhanced protection for depleted dolphin stocks on the basis of sound science before any changes are made to U.S. law," he said. "This was my key concern, sound science first."

Meanwhile, the House seemed largely resigned to swallowing the Senate compromise. After more than a year of fighting the issue, proponents said they had struck the best deal possible.

"There's an end to this," observed Wayne T. Gilchrest, R-Md., a sponsor of HR 408, in explaining his support for the compromise. "That's what we want."

Dolphin-Safe Tuna Bill Highlights

Following are the key provisions of HR 408, the bill to lift a U.S. embargo on tuna imports from certain Latin American countries and change the definition of "dolphin safe" tuna to potentially allow certain fishing techniques that are now prohibited.

• **Study.** The Commerce secretary would have to conduct a three-year study of the effects in the eastern tropical Pacific Ocean of the use of encircling fishing nets, which capture tuna but can also trap and kill dolphins swimming above tuna schools. The provision was inserted to satisfy the bill's opponents. Proponents of the bill say fishermen have revised the technique to minimize dolphin deaths, but others say the nets could still injure dolphins. The study would start Oct. 1 and would include an examination of stress that dolphins experience when encircled. It would also call for an "experiment involving the repeated chasing and capturing of dolphins by means of intentional encirclement."

• **Defining "dolphin safe."** The bill would redefine the "dolphin safe" label affixed to tuna cans. Under the current definition, tuna is dolphin-safe if it is caught without using encircling nets. The bill initially would tighten the definition: Encircling nets could not be used during an entire trip (as is now the case), but when other fishing techniques are used, tuna would be considered dolphin-safe if no dolphins were killed or seriously injured.

However, there are two opportunities for the definition to change. First, the definition could be loosened as early as March 1999, if the Commerce secretary makes a preliminary finding, based on the study and "any other relevant information," that encircling nets do not have a "significant adverse impact on any depleted dolphin stock." Encircling nets then would be allowed, but only if tuna are caught without killing or seriously injuring dolphins. The definition could be revised again after July 1, 2001, based on the final outcome of the study.

• **Label.** Only one dolphin-safe label could be attached to each tuna can. The Commerce secretary would be directed to develop an official dolphin-safe label, but tuna canners would be free to use the label of their choice, including, for example, a label developed by an environmental group. The bill would provide that the definition for any label be at least as strong as that embodied in the bill. Tuna canners had been worried that allowing more than one label would open them to pressure exerted by environmental groups to choose a more restrictive label. To help allay these concerns, a provision was inserted that it would be a violation of the Federal Trade Commission Act to "willingly or knowingly" use a label "to mislead or deceive consumers" about the protections for dolphins under the bill.

• **Limits.** As many as 5,000 dolphins could be killed each year in the eastern tropical Pacific Ocean, with the objective of entirely eliminating dolphin deaths through the setting of annual limits. An overall annual mortality limit would be set through 2000 at between 0.1 percent and 0.2 percent of the estimated minimum dolphin populations. The level in 2001 would drop to 0.1 percent. Rights to fish for tuna with dolphins swimming in close proximity would be suspended if the limits are breached.

• **Bycatch.** The secretary of state would be directed to seek an international agreement for a program in the eastern tropical Pacific Ocean to reduce the incidental killing of sea turtles, sharks and other species during tuna fishing. The bycatch reduction program would include measures to release threatened and endangered species alive and minimize overall mortality.

—*Allan Freedman*

Trade Dispute

At the heart of the debate over the bill was a controversial and broadly applicable question about trade and environmental policies. Would U.S. environmental standards, namely the dolphin-safe tuna label, be sacrificed in the name of free trade?

Boxer said a big issue was the right of the United States to establish its own laws and standards free from international pressure. In particular, she objected to the argument that the Panama agreement called on the United States to change the legal definition of dolphin-safe tuna. "I think Americans should make American law," she said.

William Snape, legal director for Defenders of Wildlife, agreed. He contended that in signing the Panama accord the Clinton administration was going too far to satisfy trading partners and was selling out environmental protections. He said the final bill represents an acceptable middle ground.

The compromise recognizes that scientists rather than trade bureaucrats or politicians should set the standards, Snape said. "I think the compromise seems reasonable on its face," he said.

Robertson said the Panama accord should be seen as a model for resolving trade disputes.

He said the Panama agreement actually would strengthen protections of the environment and do so with international cooperation. S 39 is not just protective of dolphins but would implement a better regime for protecting the ecosystem as a whole, he said.

"International fisheries need to be managed on an international basis," said Robertson. "And terms should not be dictated on an international basis, and not dictated by one country, especially when it's not on the basis of sound science."

Annie Petsonk, an international counsel for the Environmental Defense Fund, also called S 39 a model for balancing trade and the environment.

"I think it takes a very important step forward," she said. "It's quite unusual for countries to back an international agreement with trade provisions."

Nina Young, a marine mammal scientist with the Center for Marine Conservation, said that S 39 would afford greater protection for the entire fishery. She said environmentalist opponents of S 39 had been focused on protecting dolphins to the exclusion of other marine life. She said the bill illustrates that "we can make this whole trade-and-the-environment issue work."

Boxer warned that she planned to keep a close eye on the results of the study and that bill proponents should not take anything for granted.

"We have won 18 months of the status quo," she said. "Eighteen months when consumers know that the dolphin-safe label means just that. And after that, we will live to see the preliminary results of the study." ■

APPROPRIATIONS

Senate Passes Transportation Bill, Assuring Higher Spending Levels

To bipartisan applause, the Senate on July 30 easily passed a record-setting fiscal 1998 transportation spending bill that leaves only one real question for House and Senate conferees: How much money should they lavish on highways?

Both the House and Senate versions of the appropriations bill would set record levels for transportation spending. The bills would allow about $42 billion in overall fiscal 1998 spending, and most of that would come from the federal Highway Trust Fund.

The House bill (HR 2169), passed 424-5 on July 23, would allow $23.2 billion for highways. The Senate version, which passed 98-1, would be even more generous, allowing $23.6 billion for highways, $1.6 billion more than the White House requested and $2.6 billion more than provided for fiscal 1997.

For all programs combined, the Senate bill would provide $3.8 billion more than fiscal 1997 transportation spending and $1.6 billion more than President Clinton requested. Of the total, $12.6 billion would come from the Treasury, with the remainder coming from federal transportation trust funds financed by dedicated taxes on items such as gasoline.

Both chambers' versions would increase spending for virtually everything in their purview, from the Coast Guard to the Federal Aviation Administration to highway safety programs. Only Amtrak funding would take something of a hit, prompting William V. Roth Jr., R-Del., an ardent passenger rail supporter, to cast the only negative Senate vote.

Concern for the ailing passenger rail service prompted senators to increase Amtrak operations grants to the president's requested level, $344 million, before the bill reached the Senate floor. However, the Senate rejected the $222 million request by the White House for Amtrak capital expenditures.

Instead, it would rely on $2.3 billion in subsidies that Roth, the chairman of the Senate Finance Committee, included in the balanced-budget package. That money would be released upon enactment of unspecified Amtrak management reforms. *(Amtrak, p. 1866)*

By Jonathan Weisman

FY 98 TRANSPORTATION

BOXSCORE

Bill: HR 2169 (H Rept 105-188; S Rept 105-55) — fiscal 1998 transportation appropriations.

Latest action: Senate passed its version of HR 2169, 98-1, on July 30.

Next likely action: House-Senate conference on HR 2169, after August recess.

Reference: House passage, Weekly Report, p. 1783.

The House-Senate conference on the spending bill is expected to be routine. While the Clinton administration has expressed minor concerns about the bill, there is no veto threat looming.

To pave the way for the conference, the Senate had called up HR 2169 and replaced its text with that of its own version (S 1048), which it then passed.

More To Spend?

It is a measure of Congress' support for highway spending — and its slaked thirst for budget-cutting — that Richard C. Shelby, R-Ala., in his first year as chairman of the Senate Transportation Appropriations Subcommittee, could boast of record spending levels in his bill. He predicted it would raise highway spending by an average of 18 percent in each state.

Frank R. Lautenberg, D-N.J., called the bill "the culmination of a very long and arduous effort to re-establish transportation" as a federal budget priority.

The struggle to reauthorize the nation's main transportation law, the Intermodal Surface Transportation Efficiency Act, this year is coloring all efforts to deal with transportation.

Not only are federal appropriations reaching record levels, but budget negotiators the week of July 28 granted highway advocates a goal that they have cherished since 1993. The final budget deal shifted the receipts from a 4.3 cent per gallon gas tax enacted in 1993 from deficit reduction to the Highway Trust Fund, increasing the fund's balance by about $6.5 billion a year.

The provision would not automatically increase transportation spending. Appropriators have to include the expenditure of trust fund money in the spending bill for that to happen. In addition, cash balances in the trust fund already total $23.9 billion, which is counted on the federal ledger as an asset, thus offsetting spending elsewhere and paring the annual deficit.

Pete V. Domenici, R-N.M., chairman of the Senate Budget Committee and an ardent opponent of moving receipts from the 4.3 cent tax to the trust fund, dismissed it as an inconsequential accounting change. Under the budget agreement, any expenditures from the trust fund that exceed an annual $22 billion cap would have to be offset by cuts elsewhere.

"It's still as it was. It's in the trust fund, but it can't be spent," he said of the $6.5 billion in gas tax receipts.

But for highway advocates, the money is already filling potholes. They have long held that adding $6.5 billion to the bulging surplus would create enough political pressure on appropriators to loosen the purse strings. That is why Domenici and other budget hawks opposed the move in the first place.

"It is a tempting morsel," said John H. Chafee, R-R.I., chairman of the Senate Environment and Public Works Committee, which has jurisdiction over highway policy.

Shelby's efforts to boost highway funding aside, he did assure one significant change in how Congress divides the money: He left out highway "demonstration projects," specifically designated for members' home states. Such projects have been derided by critics as pork-barrel spending.

Shelby said before the bill reached the floor that he is not philosophically opposed to demonstration projects, but senators declined to amend the bill with home state earmarks. The House version also contains no demonstration projects. ■

TRANSPORTATION

In a Challenge to GOP Leaders, Shuster Wants More for Roads

Buoyed by record amounts of highway money in the fiscal 1998 transportation appropriations bill and the prospect of billions more dollars in coming years, House Transportation and Infrastructure Committee Chairman Bud Shuster on July 30 unveiled the outlines of legislation that would authorize dramatic spending increases for the nation's roads and transit systems.

The powerful and persistent Pennsylvania Republican envisions raising highway spending to as much as $33 billion a year, a level that would shatter the $22 billion annual spending cap incorporated in the budget-reconciliation legislation cleared by the House and Senate the week of July 28. *(Reconciliation bill, p. 1831)*

Shuster's announcement was his latest in a series of challenges to the Republican leadership, which has tried to parry his demands for large funding increases.

"It's just going to set up another big fight," said John R. Kasich, R-Ohio, chairman of the House Budget Committee.

By Jonathan Weisman

Although the nation's main transportation law, the 1991 Intermodal Surface Transportation Efficiency Act, will expire Sept. 30, Congress' reauthorization effort has been stalled by disputes over money and policy. *(Background, Weekly Report, p. 1703)*

But Shuster was prodded into action by the budget negotiators' agreement to transfer 4.3 cents per gallon of the federal gas tax from deficit reduction accounts to the Highway Trust Fund.

Appropriators would first have to agree to spend the money, but Shuster appears confident that the added billions in the trust fund will force budget writers to boost infrastructure spending.

Shuster outlined his vision for the reauthorization bill during and after a speech to the U.S. Chamber of Commerce. He says he plans to have his bill to members of his committee by the last week of August, then mark it up in the full committee during the second week of September.

To succeed the current six-year, $157 billion law, Shuster will propose a five-year bill that is "front loaded," so that all money would be spent in the first three years. The idea is to force Congress to come up with more money for the last two years of the bill, lest federal highway programs die for lack of funds.

Shuster's plan would raise highway spending from the current level of $21 billion to $26 billion for fiscal 1998, $28 billion for fiscal 1999 and $33 billion for 2000. Shuster said he would then seek another three years of funding authorization in 2000, when he hopes an expanding economy will force congressional leaders to revisit the balanced-budget deal.

In contrast, a version (S 586) offered by John H. Chafee, R-R.I., chairman of the Senate Environment and Public Works Committee, would provide about $24.3 billion a year for highways. Bills based on President Clinton's proposal (S 468; HR 1268) would set funding at $20 billion annually. *(Comparison, Weekly Report, p. 1067)*

Shuster said that if he does not get funding at the level he is seeking, he will pull his bill from the floor and offer a one-year extension of the existing law. He would bring his version back up in 1998, when a looming election will add more pressure on lawmakers to increase highway spending, which is generally popular with voters back home. ■

ANTITRUST

Panel Votes To Partially Lift Baseball's Exemption

The Senate Judiciary Committee approved a bill July 31 that would remove part of major-league baseball's antitrust exemption for the first time since the Supreme Court recognized the exemption in 1922.

The bill (S 53), approved 11-6, would lift baseball's antitrust exemption as it applies to labor talks, though allowing the exemption on such issues as team franchise relocations, the ties between the major and minor leagues, and broadcasting rights.

Major-league players and owners — whose adversarial relationship resulted in a strike that forced cancellation of the 1994 World Series and delayed the 1995 season — concurred in a 1996 collective bargaining agreement to seek legislation providing a limited rollback of the antitrust exemption.

By Pherabe Kolb

A markup of S 53 had been scheduled and postponed several times to give major-league team owners and players a chance to agree on bill provisions. *(Background, Weekly Report, p. 1443)*

Although those parties reached a compromise, the owners drew back, expressing concerns about the legislation's effects on the minor leagues.

Senate Judiciary Committee Chairman Orrin G. Hatch, R-Utah, made it clear at the markup that he had run out of patience. "I am rather strongly disappointed at the owners' failure to come forth to endorse and work for the passage of this legislation," Hatch said.

Hatch noted that team owners had expressed concern that the bill would not protect sufficiently the system under which major-league clubs subsidize and transfer players among their minor-league "farm teams."

This viewpoint had some support among Judiciary Committee members. Joseph R. Biden Jr., D-Del. — whose home city of Wilmington hosts a minor-league affiliate of the Kansas City Royals — said the bill was "paving the road to hell" because it could weaken the binding relationship between major-league and minor-league teams.

Hatch disagreed, citing his amendment to the bill, approved by the committee by voice vote, which he said addressed the concerns about the minor leagues, "and then some."

The antitrust exemption dates from a 1922 Supreme Court decision that baseball is a sport and not a business. It prevents players from suing on antitrust grounds if the owners impose unilateral conditions, such as a salary cap. ■

REGULATION

'Surprise' Provision in Tax-Cut Bill Casts Doubt on Tobacco Deal

A provision attached to the tax-cut bill at the behest of the tobacco industry has further clouded prospects for congressional approval of a $368.5 billion tobacco legal settlement.

The provision stipulates that any money raised by a tobacco tax increase included in the budget-reconciliation legislation would be applied toward total payments that the tobacco industry agreed to in its settlement with 40 state attorneys general, announced June 20.

Arizona Attorney General Grant Woods, a Republican, called the tax offset provision "totally unacceptable." He said that if it is enforced, the attorneys general might walk away from the deal.

Added to the tax bill (HR 2014) at the last minute, the provision — if followed — would reduce the amount of penalties owed by the tobacco companies to $318.5 billion. That is because the tax is expected to raise $5.2 billion over five years and roughly $50 billion over the 25-year life of the settlement.

Some lawmakers dismissed the provision as minor. In order to take effect, the legal settlement must still be codified into law by Congress, which could repeal the provision or possibly add $50 billion to the tobacco companies' liability, bringing the total back to the original $368.5 billion.

Sen. Daniel Patrick Moynihan, D-N.Y., called the tax bill's tobacco language "a meaningless provision with no binding effect."

But anti-tobacco industry members worry that it will be difficult to ignore the provision's intent, now that most members approved it when they voted for the tax legislation — even though most of them had no idea that the provision had been inserted.

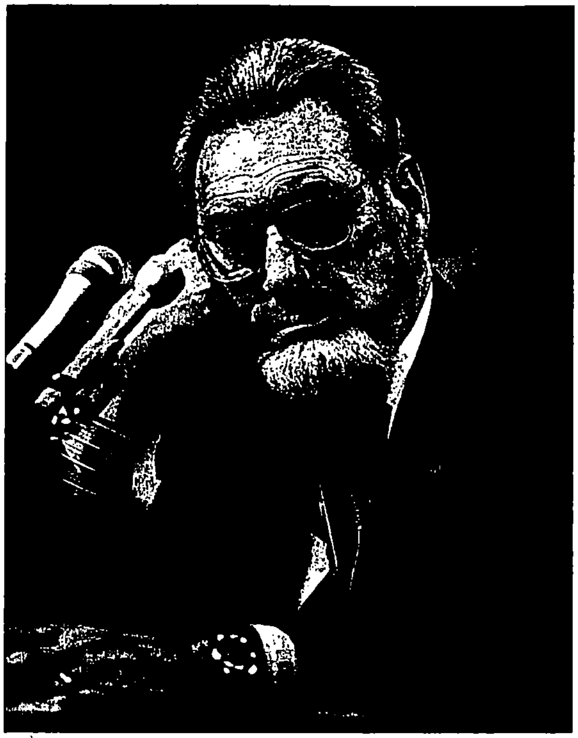
"Certainly Congress can override it with subsequent legislation," said Sen. Richard J. Durbin, D-Ill., a tobacco industry foe. "But you know what the tobacco companies and their supporters will say. They'll say, 'You all voted for the bill by overwhelming margins.'"

The provision was greeted with disbelief and anger by anti-tobacco industry lawmakers and the attorneys general who hammered out the settlement in months of intensive negotiation. *(Settlement terms, Weekly Report, p. 1508)*

"The first reaction we have is that this is precisely why the attorneys general had such tremendous fears about what would happen to this settlement when it got to Congress," said Ed Cafasso, a spokesman for Democrat Scott Harshbarger, Massachusetts' attorney general.

"No. 2," he added, "a stunt like this should cause serious second thoughts among those inside and outside Congress who say, 'Trust Congress to make the settlement tougher.'"

Even a lawmaker from one of the tobacco states said the provision could violate constitutional prohibitions against the federal government's tampering with private contracts.



DOUGLAS GRAHAM

Koop told a Senate committee hearing July 29 to toughen the pending tobacco settlement or scrap it and pass a new anti-tobacco law.

The provision only heightened worries of anti-tobacco lawmakers, who expect the powerful tobacco industry to turn legislation on the settlement to its favor.

"I don't think they'll succeed when we do the legislation, but it does confirm our worst suspicion," said Philip M. Schiliro, chief of staff for Rep. Henry A. Waxman, D-Calif., a leading adversary of the tobacco industry.

Said Waxman: "Obviously someone is looking out for the tobacco companies, and they don't want to pay any more than the minimum they can get away with."

Softening the Blow

John A. Boehner of Ohio, chairman of the House Republican Conference, said the provision was inserted at the request of tobacco-state members who vehemently oppose the tobacco tax increase. Under the tax legislation, the federal tax on a pack of cigarettes would increase by 10 cents in 2000, to 34 cents, and five cents more in 2002.

"It was a very sensitive negotiation about what the companies could and couldn't afford, and members from tobacco-growing regions said [the tax] would undermine the agreement," Boehner said.

No tobacco-state legislator has come forward to claim authorship of the provision, and tobacco industry representatives declined to comment on it.

But aides to tobacco-state members defended it as a "down payment" on the settlement's monetary provisions.

One aide said the provision would simply ensure that billions of dollars the industry promised in the settlement would not go toward the fees owed to trial lawyers representing the attorneys general. Instead, the money would go directly to the budget bill's program to expand health insurance coverage for needy children.

The aide said the attorneys general have no reason to complain, since the child health initiative channels $20.3 billion directly to the states through 2002.

But according to budget accounting

By Jonathan Weisman and Alissa J. Rubin procedures, the tobacco tax increase is also to be used to offset other tax cuts that bear no relation to health care, including reductions in estate taxes, airline ticket taxes and capital gains taxes on real estate holdings.

During final budget talks, Senate Majority Leader Trent Lott, R-Miss., contended Congress should not enact a cigarette tax increase while the settlement is pending before Congress. Although Lott lost that fight, some in the tobacco industry regard the provision to use the tax increase to offset some of the settlement payments as the best consolation prize.

But others said the tobacco industry may have seriously miscalculated. To protect their industry from the uncertainty of pending lawsuits, tobacco officials want the settlement to be written into law. By inserting the tax write-off in what looks like a back room deal, the industry may make its foes even more wary of the settlement. One tobacco state member, speaking on condition of anonymity, called the move "inartful and unconstitutional." *(Background, Weekly Report, p. 1059)*

Smoke and Fire

The week of July 28 saw the gloves come off over the tobacco settlement — not just in closed-door budget talks but also in congressional oversight hearings.

Not all the words were discouraging. After a July 30 Senate Judiciary Committee hearing, Chairman Orrin G. Hatch, R-Utah, was upbeat about the settlement's prospects. "Lines of consensus are starting to emerge," he said.

But that assessment was at odds with the performances during a July 29 hearing by the Senate Commerce, Science and Transportation Committee. After weeks of quiet diplomacy, tobacco state senators clashed openly with prominent public health officials.

Former Surgeon General C. Everett Koop and former Food and Drug Administration Director David A. Kessler challenged senators to stiffen the terms of the tobacco legal settlement or scrap it and pass a tough, new anti-tobacco law.

"The Congress is at a crossroads," Koop said. "You have three choices. You can stay at this crossroads and do nothing. You can accept the industry blueprint and tinker with it, improving it here and there but leaving its framework intact. Or . . . you can take clear steps to reduce smoking in America and to protect the next generations from the spread of this addiction."

The tobacco industry, Kessler told the panel, "has had powerful control over this nation and its elected representatives" for too long. If Congress approves the deal unchanged, he said, "history will not look kindly on your timidness."

In a prosecutorial tone, Sen. Wendell H. Ford of Kentucky, the Democratic whip and a leading defender of tobacco companies and farmers, snapped back that Koop and Kessler's prescriptions were "nothing more than a backdoor prohibition."

Sen. Slade Gorton, R-Wash., warned, "We must resist the temptation to pile on so much that we end up with an unenforceable prohibition or no settlement at all."

When Commerce Committee Chairman John McCain, R-Ariz., implored committee members to be brief with their opening remarks, Ford responded, "I'm the one everyone's after here, and by damned, I'm going to take my time."

The Senate GOP leadership has begun dividing up responsibilities for legislation on the settlement to various committees, including Judiciary, Commerce, Finance, Labor and Human Resources, and Indian Affairs. McCain said the leadership will meet with committee chairmen in early October to decide how to proceed with legislation. ■

LANDS

Wilderness Bill OK'd by Panel

The Senate Energy and Natural Resources Committee on July 30 pushed through a bill (S 783) to alter management of a Minnesota wilderness and a second bill (S 360) to change activities allowed in a federal recreation area on the Oregon-Idaho border.

Both bills, approved on 11-9 party line votes, have sparked opposition from Democrats and environmental groups.

The first bill would affect the Boundary Waters Canoe Area Wilderness in northern Minnesota. It would ease restrictions motorboat use by deleting a provision in the 1978 Boundary Waters Act (PL 95-495) that phases out motorboats on part of Sea Gull Lake, located within the wilderness.

S 783, sponsored by Rod Grams, R-Minn., would also allow use of motors in transporting boats over land between lakes. The provision would apply to three portage areas. Grams said the expanded access would benefit senior citizens and northern Minnesota families. He argued that his bill would not open the area to greater motorboat use, which environmentalists fear could be destructive.

Dale Bumpers of Arkansas, the ranking Democrat on the panel, said he was troubled that one of the portages runs four miles, raising questions about whether it would harm surrounding wilderness.

He added that environmental groups worry that deleting the motorboat phase-out is a "kind of nose under the tent approach" that would lead to more motorboats in the area. Paul Wellstone, D-Minn., opposes the bill.

The other bill would affect the use of non-motorized river boats, such as rafts, and jetboats on the Snake River inside the Hells Canyon National Recreation Area in Oregon and Idaho. The river rafters and jetboat users are facing off over use of the river.

Under a Forest Service management plan, jetboats are not allowed on the river on certain summer days. S 360 would lift the restriction, allowing jetboats to use the river at any time.

Larry E. Craig, R-Idaho, the chief sponsor of S 360, said the restrictions "would wipe out an entire industry. . . . I'm willing to limit jetboating, but I'm not willing to take them off the river."

Ron Wyden, D-Ore., said the restrictions are not putting jetboaters out of business and that limits are necessary to protect the river ecosystem as well as commercial floaters who run rafting trips on the river.

"You have two industries here who are at odds over the use of a natural resource," said Gordon H. Smith, R-Ore. ■

By Allan Freedman

BOXSCORE

Bills: S 783 — Boundary Wilderness boat restrictions; S 360 — Hells Canyon boat restrictions.

Latest action: Senate Energy and Natural Resources approved each bill, 11-9, on July 30.

Next likely action: Floor debate not scheduled.

Reference: 1978 Almanac, p. 742.

APPROPRIATIONS

Community Fund Recipients Have Ties to the Clintons

House panel reports evaluation documents added to some files just before visit from congressional investigators

Republicans became suspicious about a fledgling community lending program earlier this year when they discovered that several grant recipients had close ties to President Clinton and Hillary Rodham Clinton.

Downright distrustful was the reaction several weeks ago when congressional investigators found that their sleuthing had forced the program's deputy director to pull an all-nighter writing undated, after-the-fact evaluation documents for selected recipients.

"It just stinks to high heaven," said Rep. Mark Foley, R-Fla., a member of the House Banking and Financial Services Committee.

"This is an effort to set up a new giveaway program."

—Sen. Christopher S. Bond, R-Mo.

"We're trying to see what Treasury is going to do in correcting this."

—Rep. Louis Stokes, D-Ohio

Indeed, as details unfold, this story is proving to be yet another instance — similar to Whitewater and the fundraising activities of John Huang — in which old relationships are embarrassing for the Clintons.

Under scrutiny is the Community Development Financial Institutions Fund, a government corporation created by a 1994 community development lending law (PL 103-325) to provide federal grants and aid to local banks, credit unions and other organizations that make loans in inner cities and poor rural areas. *(1994 Almanac, p. 100)*

As a presidential candidate, Bill Clinton touted the program in his 1992 campaign as a first-term must. He wrote in his campaign treatise, "Putting People First," that community development aid would be used to "rebuild America's urban roads, bridges, water and sewage-treatment plants, and low-income housing stock, stressing 'ready-to-go' projects."

GOP lawmakers take a different view: "This is an effort to set up a new giveaway program," said Senate appropriator Christopher S. Bond, R-Mo.

By Donna Cassata

The findings by the House Banking Subcommittee on General Oversight and Investigations have raised doubts about the future of the program, whose fate now appears to depend on whether Treasury Secretary Robert E. Rubin acts decisively — and to Congress' satisfaction — to restore the project's credibility. That means shoring up the evaluation process and dealing with the program's managers.

Wrath of Congress

Meanwhile, Congress has shown its wrath as only it can: The Senate provided no funds for the program in the fiscal 1998 spending bill (HR 2158) for veterans, housing and community development programs, even though the Clinton administration had sought $125 million.

"It's totally without controls," said Bond, chairman of the Appropriations subcommittee that oversees funding for the departments of Veterans Affairs and Housing and Urban Development (VA-HUD) and other agencies.

The House on July 16 struggled with an amendment that would have cut the program's $125 million to the current level of $50 million, but sponsors abandoned the effort in response to pleas from the project's backers and assurances that senior lawmakers would discuss the issue with the administration. *(Weekly Report, pp. 1792, 1709)*

House and Senate negotiators who will craft the final version of the spending bill in September will decide if they should eliminate the program, freeze its spending or give Clinton the $125 million he wants.

Clinton Ties

For the first round of grant awards in July 1996, the program received more than 200 applications for federal aid; administrators awarded $37 million in grants, loans and other financial assistance to 32 entities. The numerous losers were not happy. They complained to their House members about suspected political preference, prompting the Banking subcommittee to investigate. "It was enough where it raised the issue on our radar screen," said subcommittee Chairman Spencer Bachus, R-Ala.

When the panel began its investigation in March, it found that evaluation memos had been written by fund employees or outside contractors, assessing strengths and weaknesses of 28 out of 32 recipients. No documentation existed for four recipients who received close to $11 million: Shorebank Corporation of Chicago; Southern Development Bancorporation of Arkadelphia, Ark.; Louisville Development Bancorp of Louisville, Ky.; and Douglass Bancorp of Kansas City, Kan.

According to a subcommittee source, a college roommate of Hillary Rodham Clinton's had served as senior vice president at Shorebank; Mrs. Clinton was once on the board at Southern Development; and her former law firm, the Rose Law Firm of Little Rock, Ark., was a counsel for Southern Development. The ties of the other two, Louisville and Douglass, are indirect. Shorebank, which has a financial interest in the two, prepared their applications for the fund.

Undated Memos

On April 17, with congressional investigators poised to visit the fund's office and review its files, fund Director Kirsten Moy — who was at a conference in Paris — called her deputy, Steve Rohde, and told him to write the memos on the four recipients.

In preparing the memos, Rohde spoke to the fund's general counsel, Maurice Jones, about leaving them undated, an idea Jones rejected. Nevertheless, Rohde wrote the evaluation memos, left them undated and had an agency clerk place them in the files within hours of the arrival of congressional investigators the morning of April 18. These findings were detailed in a July 15 letter to Rubin from seven Republicans on the Banking Committee, who based their account on a report by Treasury's inspector general, Valerie Lau.

The lawmakers wrote: "Reduced to their essence, the findings suggest that the top management at CDFI Fund agreed between themselves to mislead congressional investigators, by creating in April 1997 'evaluation memos' purporting to memorialize an April 1996 analysis of four successful applications for funding.

"There appears to be no plausible explanation for the decision to leave the documents undated other than the desire to foster a false impression that they had been prepared contemporaneous with the grant decisions."

In an interview Aug. 1, Moy declined to address the issue of after-the-fact memos, but said the selection process was "absolutely not done politically." She said fund administrators removed congressional letters of support accompanying some applications to ensure against favoritism.

Rohde told Lau that the memos were not misleading because they reflected the evaluation made by fund employees and outside contractors in April 1996, shortly before the first round. Treasury Under Secretary John D. Hawke Jr., in a July 14 letter to Bachus, said the recipients were chosen solely on the merits.

Aftermath

In the aftermath, Bachus says that the subcommittee has no evidence of any wrongdoing by the White House or Mrs. Clinton. As for Moy and Rohde, he said: "What is very clear is there was a pretty adventurous ruse perpetrated on our investigators to disguise the fact that the awards had not gone through the same process."

What baffles some lawmakers is that with ethical questions raised about the Clintons on other fronts, the managers of this small program, whom Congress at this stage believes acted alone, lacked the political sensitivity to ensure that the fund was above reproach.

"You want to make sure no aspersions are cast on you, and you protect the White House," said Foley, who sponsored, and then withdrew, the amendment that would have frozen the program at current spending levels.

He expressed some remorse about failing to push his amendment and believes he would have won the vote, but he said, "I have to trust my chairman and Mr. Stokes."

Rep. Jerry Lewis, R-Calif., chairman of the VA-HUD Appropriations Subcommittee, and Rep. Louis Stokes of Ohio, the ranking Democrat, vowed after a nearly three-hour House debate to pursue it with the administration; in the meantime, the House bill would fund the program at $125 million.

"We're trying to see what Treasury is going to do in correcting this whole problem," Stokes said a few days after the debate. "We'll see what's done to satisfy concerns."

Republicans and Democrats, who believe they have delivered a clear message to Treasury, are closely watching what steps the department takes with regard to Moy and Rohde. "The credibility of the fund suffers as long as they're there," Bachus said.

Another member of the Banking Committee, Rep. Jesse L. Jackson Jr., D-Ill., said he had urged Hawke to take the "strongest possible action" against officials who misled a congressional investigation. Jackson declined to spell out the details of his conversation, but said, "I don't think my recommendation to Mr. Hawke fell on deaf ears." ■

INDIAN AFFAIRS

Panel Endorses Adoption Bill

A bill aimed at hastening the process for adopting American Indian children was endorsed by the Senate Indian Affairs Committee by voice vote July 30.

The legislation (S 569), sponsored by John McCain, R-Ariz., seeks to create some certainty in the adoption process, which has been called into question by a few high-profile cases in which tribes attempted to intervene after children were placed with adoptive families. American Indians, concerned about the viability of their culture, often prefer that children remain in the tribe rather than be adopted by non-Indians.

The bill would require that tribes be notified of all voluntary adoption proceedings involving children of those tribes. The law now requires notification only for children who are put up for adoption because of abuse or neglect.

The bill also would limit how and when a tribe could intervene in an adoption proceeding. Any waiver of tribal rights would be considered final. A tribe seeking to intervene would have to prove that the child is eligible to become a member of the tribe.

The bill is considered a compromise between adoption-rights advocates and tribal leaders. Some Christian groups are concerned that the language might make adoption more difficult and less attractive to the biological mother. Abortion foes also fear the bill would encourage Indian women to abort their fetuses.

Most tribal groups support the bill, but they remain wary of time limits on their opportunity to intervene.

A similar measure passed the Senate last year but did not make it to the House floor. *(1996 Almanac, p. 6-27)*

Rep. Deborah Pryce, R-Ohio, said she opposes the legislation and a companion House bill (HR 1082) because they would give Indian tribes too much authority over the placement of children. She wants to bar tribes from involvement in the adoption of Indian children by non-Indians unless at least one birth parent has maintained "significant" tribal ties.

Orrin G. Hatch, R-Utah, said he plans to offer an amendment on the Senate floor that would ensure that the tribe's wishes do not supersede those of the birth parent during the voluntary adoption process. ■

By Andrea Foster

for cloning a human. Yet no scientific organization endorsed Ehlers' bill, Morella pointed out.

Ludlam said that notwithstanding the appearance of Dolly, human cloning will not be possible any time soon, if ever. Even then, he said, scientists have no desire to pursue it.

No Answers

Ehlers, a physicist, counters that it is the biotechnology companies that want to take the government in a new direction. He said the Rivers amendment, which these companies helped write, would specifically allow research on embryos despite widespread opposition to it. He also said that biotechnology companies could not answer the question of how the bill's language would affect future research.

"The point is: No one can answer that," says Ehlers. "They can't answer it. And I can't answer it."

Ehlers' support is hard to gauge. The version of HR 922 approved by the Science Committee was produced just hours before the panel met. The issue engendered lively discussion, but the markup served little more than to introduce the issue. No roll call vote was requested, and Sensenbrenner made clear that he wanted the panel to approve the bill and to leave much of the debate for the Commerce Committee or the House floor.

Morella said the issue is so new and complex that many Science panel members have not given it much thought. And Ehlers said he has no idea how members of the Commerce Committee feel about the cloning language.

Ehlers' approach in both HR 922 and HR 923 differs substantially from that advocated by the National Bioethics Advisory Commission. President Clinton ordered the panel to study the ramifications of cloning after Dolly's arrival last winter.

The commission studiously avoided addressing questions of embryonic research, saying that that issue had been dealt with in the Labor-HHS spending bill. In a June report, it endorsed a legislative ban on cloning to create a human being. It also suggested that such legislation should automatically sunset after several years, so it could be revisited in the wake of scientific developments.

The panel concluded: "It is notoriously difficult to draft legislation at any particular moment that can serve to both exploit and govern the rapid and unpredictable advances of science." ■

APPROPRIATIONS

In Senate Commerce-Justice Bill, Crime Fighting Gets Spotlight

Rushing to clear the decks for consideration of budget and tax bills before the August recess, the Senate on July 29 passed legislation (S 1022) funding the departments of Commerce, Justice and State and the federal judiciary and related agencies. The vote was 99-0. *(Vote 206, p. 1898)*

The House could not match the Senate's pace. Floor debate on its spending bill (HR 2267) was put off until after the recess, in part because of questions over a provision that would allow members of Congress and their staffs to be reimbursed for legal expenses if they were unsuccessfully prosecuted by the Justice Department.

The Senate bill would provide $31.6 billion for the departments and agencies in fiscal 1998, with the focus squarely on crime-fighting efforts. The FBI would get a $238 million funding increase to $3.1 billion. The Drug Enforcement Administration would get a $90 million increase to $1.1 billion. President Clinton's cops on the beat program would receive $1.4 billion, the same as last year, and Republicans' law enforcement block grants program would get last year's $503 million. Spending on juvenile justice programs would more than double to $380 million.

As approved by the Senate Appropriations Committee, the bill also would split the 9th judicial circuit, severing California, Nevada and two Pacific territories from seven other Western states.

About four dozen amendments were rolled into an en bloc measure July 29 and approved by voice vote. They included a measure stripping language that Paul S. Sarbanes, D-Md., said could be interpreted to require a withdrawal from the United Nations under certain conditions, and an amendment from Paul Wellstone, D-Minn., saying that in cases of domestic abuse, a husband's income could not be used to disqualify his wife from being represented by Legal Services.

The most controversial debate on the bill took place July 24, when members defeated an amendment to strip the language splitting the 9th circuit. *(Previous floor debate, Weekly Report, p. 1797)*

That same day, the Senate defeated an amendment that would have prohibited companies with annual revenues of $2.5

By Dan Carney

> 1998
>
> COMMERCE, JUSTICE, STATE
>
> **BOXSCORE**
>
> **Bills:** HR 2267 (H Rept 105-207), S 1022 (S Rept 105-48) — Fiscal 1998 Commerce, Justice, State appropriations.
>
> **Latest action:** Senate passed S 1022, 99-0, on July 29.
>
> **Next likely action:** House debates HR 2267 in September.
>
> **Reference:** House committee, Weekly Report, p. 1797; Senate committee, p. 1712; subcommittees, p. 1633.

billion or more from getting grants from the Advanced Technology Program, which helps private companies develop new technologies. Sam Brownback, R-Kan., said the program had become a corporate welfare handout for companies with enough money to do their own research. His amendment was defeated, 42-57. *(Vote 202, p. 1809)*

More successful was Richard G. Lugar's bid to restore funding for the National Endowment for Democracy, which promotes democracy abroad. The committee bill eliminated its funding. The Indiana Republican's amendment to transfer $30 million from a State Department account was approved by voice vote after a tabling motion was defeated, 27-72. *(Vote 203, p. 1809)*

The House postponed action on HR 2267 as members of several committees, including Judiciary and ethics, expressed concern about an amendment approved July 22 that would provide for reimbursement of legal fees for members of Congress and their staffs who are sued by the Justice Department and acquitted.

No hearings have been held on the matter. Judiciary and ethics panel members told appropriators they were reluctant to carve out a privilege for members without extending it to other federal employees, or to all citizens. ■

MEMORANDUM

TO: TOM FREEDMAN, MARY L. SMITH

FROM: DREW HANSEN

RE: ISSUES FROM WEEKLY AND MONTHLY MAGAZINES

DATE: AUGUST 5, 1997

MAGAZINES CONSULTED: *The American Prospect* (Sept.-Oct.), *Business Week* (August 4), *The Economist* (August 2), *Forbes* (August 11), *The Nation* (August 11/18), *The New Republic* (August 11/18), *The New Yorker* (August 4), *Newsweek* (August 11), *Time* (August 11), *U.S. News & World Report* (August 11).

ATTACHMENTS: tables of contents for all of the above.

CITIES

"The New Urban Gamble," *The American Prospect,* Sept.-Oct., pp. 28-34.

- The "carnival city" model (revitalizing cities with casinos, stadiums, and other tourist attractions) has shown little economic benefit for most cities.

- Subsidized stadiums are almost always profitable for team owners, and almost never profitable for the cities. Some reasons: 1.) they just shift leisure spending from one area of the economy to another, 2.) the public investment in them diverts funds from other public investments, and 3.) most jobs created by stadiums are low-wage.

- Casinos have helped cities in small, targeted ways: through direct sales taxes and through voluntary gifts to the community. At the same time, corruption of local government officials is common.

- Market saturation also threatens expansion of casinos -- only the larger operations are consistently successful, while many of the smaller ones are failing.

- Casinos also often are isolated from the community:a casino riverboat in East St. Louis is served by commuter trains that bypass the city and is separated from the city by a security fence and two watchtowers.

"Supermarket Solutions," *Newsweek,* August 11, p. 45.

- Local nonprofit corporations are using land gifts and tax breaks from city governments to attract large supermarkets to urban areas (examples: Newark, Chicago, Harlem, Kansas City).

ENVIRONMENT

"Tiny Particles, Big Dilemma," *Business Week,* August 4, pp. 82-83.

- Many scientists challenge the science behind the EPA's new particulate regulations. Yet there seems to be a clear link between bad air and mortality, even though we can't identify the particular particles responsible.

"Shear Madness," *U.S. News & World Report,* August 11, pp. 28-36.

- 15% of the mountaintops in south-central West Virginia have been "sheared" off in an effort to mine the coal inside.

- While these efforts create jobs (with average weekly pay of $922), they also create environmental hazards: the regions are more vulnerable to floods and more polluted. "Shearing" also harms nearby communities.

- "Reclamation" efforts by mining companies to clean up the damage are often minimal.

- West Virginia's Division of Environmental Protection rarely enforces regulations, and levies only minimal fines.

"A Political Casserole of Tuna and Greens," *U.S. News & World Report,* pp. 52-53.

- Recent legislation regarding "dolphin-safe" tuna has attracted criticism from some environmental groups, who charge that the "by-catch" argument for removing the label is specious (the "by-catch" argument is that nets that catch dolphins also catch dolphin predators, who would have killed more dolphins than the nets do had they been left alive) and that Latin American fishermen lie about the dead dolphin toll (two Venezuelan biologists had to flee the country recently after being charged for treason because they reported that Venezuelan shark fishermen killed 3,000 to 5,000 dolphins per year for bait).

HEALTH CARE

- A number of articles this week on Columbia/HCA.

"The Neglected Remedy: Strengthening Consumer Voice in Managed Care," *The American Prospect,* Sept.-Oct., pp. 45-50.

- Critique of health insurance reform plans that focus on the possibility of switching from one plan to another.

- Most corporations offer employees little choice of health plans, and most employer-sponsored health insurance plans forbid switching more than once per year.

- Managed care plans also provide a variety of reasons not to switch providers or plans: similar restrictions on all physicians makes switching meaningless, switching severs a provider-patient relationship, switching is difficult for families with multiple health problems, and switching actually benefits the health plan if high-cost patients switch out.

- Managed care plans need more ways for physicians and patients to provide feedback on the plan: better grievance procedures, more openness about plan information, consumer participation in plan governance.

"My Dad's Harrowing Trip Through A Medicare HMO," *Business Week,* August 4, p. 34.

- Seniors on managed care plans now make up 12% of the Medicare population.

- Many managed care plans do not deliver adequate care to patients, especially when the patients become seriously ill: a recent study by John E. Ware of the New England Medical Center found that chronically ill patients in HMOs were twice as likely to suffer physical decline as those in traditional Medicare.

"Unto Him That Hath . . . ," *The Economist,* August 2, p. 20.

- A recent study by Mark McClellan of Stanford and Jonathan Skinner of Dartmouth found that richer Americans get more out of Medicare than poorer ones.

- Among Americans born in 1925, the richest 10% will collect $10,000 more in net Medicare benefits than the poorest 10%, because wealthy Americans live longer and use the Medicare system more extensively.

"Bad Practices," *Newsweek,* August 11, pp. 42-43.

- Common types of Medicare fraud: "upcoding" (pressing hospitals to bill for more expensive procedures than are justified or performed), "unbundling," (billing separately for tests and treatment that are part of the same diagnosis), more lab tests than are necessary.

- Home health care is also a significant source of fraud -- an HHS audit of New York, California, Texas, and Illinois suggested that 40% of home-care visits claimed under Medicare were unjustified.

- Solutions: FBI has increased probes for health care fraud from 365 cases in 1991 to 2,200 last year; criminal prosecutions have increased from 83 in 1992 to 246 last year. Kennedy-Kassenbaum mandated $500 million for Medicare "integrity" probes.

"Who Is the Victim?," *U.S. News & World Report,* August 11, pp. 18-20.

- Home care fraud huge: 40% fraud rate (above), one in four home health agencies receiving funds from Medicare has defrauded the program, home care costs in Medicare have gone from $2.6 billion in 1989 to $17.7 billion in 1996, could reach $26 billion by 2000.

- Main problem is provision of unnecessary services, not billing for services that weren't performed. But it is often difficult to determine exactly which services are "necessary" and which are not.

- Absence of copayment leads many seniors to think that home health services are "free."

HOUSING

"An Invisible Community: Inside Chicago's Public Housing," *The American Prospect,* Sept.-Oct., pp. 35-40.

- A critique of Chicago's plan to restructure public housing, which includes destruction of some public housing developments. The general point is that residents of public housing might not fare well in the private housing market.

- Although Robert Taylor Homes as an unemployment rate of around 90% and 84% of its residents earn under $10,000 per year, unemployment rates and median incomes are not much better in the areas surrounding public housing developments (67% unemployment and $8,951 median income in Washington Park, 75% unemployed and $7,907 median income in Grand Boulevard).

- Public housing communities provide significant social support networks for residents: peer and kin networks provide child care and temporary shelter, tenant patrols and floor watches maintain safety. They also offer affordable goods and services to residents (cheap clothes, car repair).

- Crime rates are higher in public housing then in surrounding areas, but often not by much (homicide rates are higher, but rates for other types of assault and robbery are close to the city's rate).

- The highly praised Gautreaux program coupled assistance in moving to private housing with an array of social services (day care, job placement, training), but the current redevelopment program appears unlikely to offer such services.

INTERNET

"Censor's Sensibility," *Time,* August 11, pp. 48-49.

- Many off-the-shelf Internet sentinel programs block out large amounts of material that is neither obscene nor violent: America Online once banned the word "breast" (locking breast cancer sufferers out of their bulletin boards), CyberSitter blocks access to NOW, CyerPatrol blocks the Queer Resources Directory, SurfWatch blocks Reuters articles about AIDS and HIV.

"The Press Muzzles Itself," *Time,* August 11, p. 49.

- A self-appointed council of industry representatives (*Wall Street Journal,* Newspaper Association of America, Microsoft, *Wired*) is debating appointing a subcommittee to decide what is "news" and what is not -- anything that isn't "news" would have to submit to a rating system or risk being blocked by software browsers.

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A JOURNAL FOR THE LIBERAL IMAGINATION

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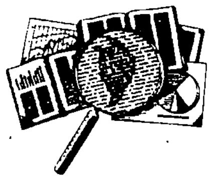

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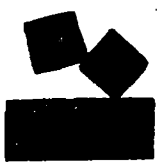

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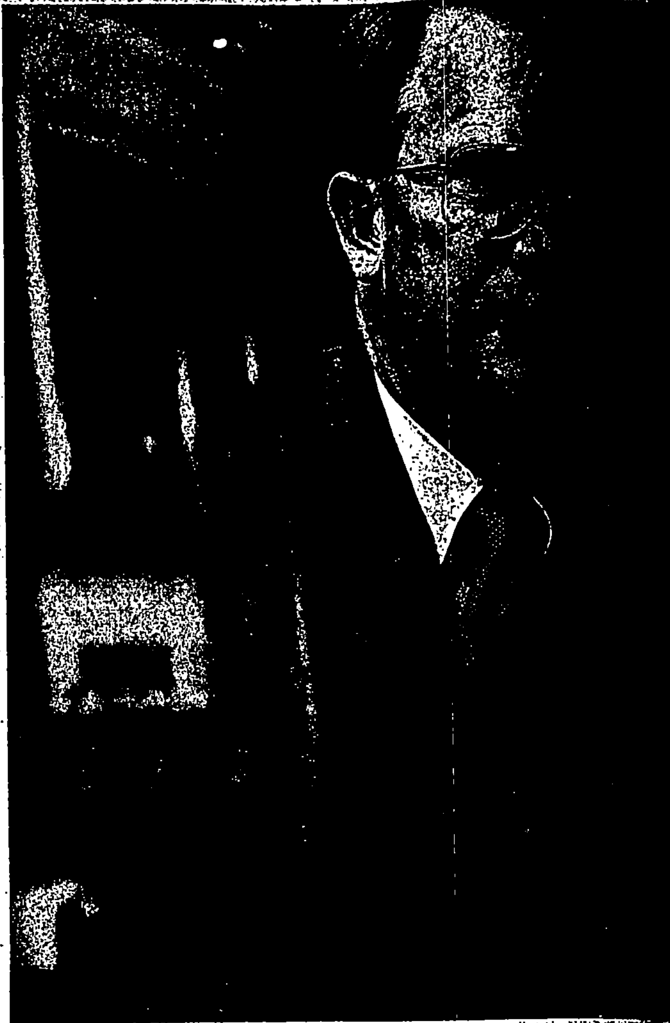
Kodak's stock takes a beating as its recovery plan falters page 30



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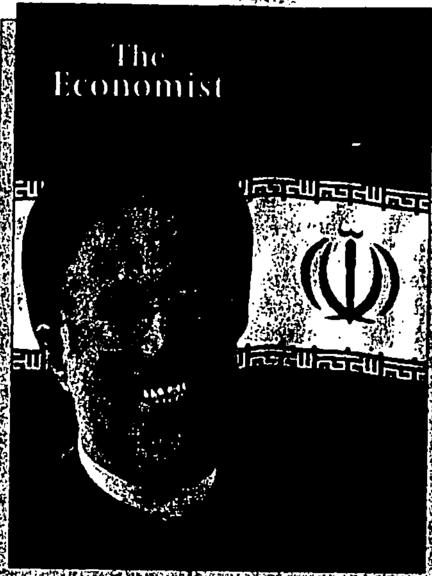

ON THE COVER
This week Muhammed Khatami took office as Iran's new president. Is he the moderate Iranian the West has been searching for? Leader, page 13; a highly political gas pipeline, connecting Iran and Turkey, page 30; suicide bombs in Jerusalem, page 27

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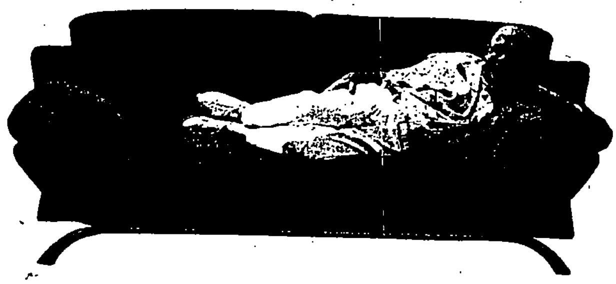
BY SUSAN WERNER



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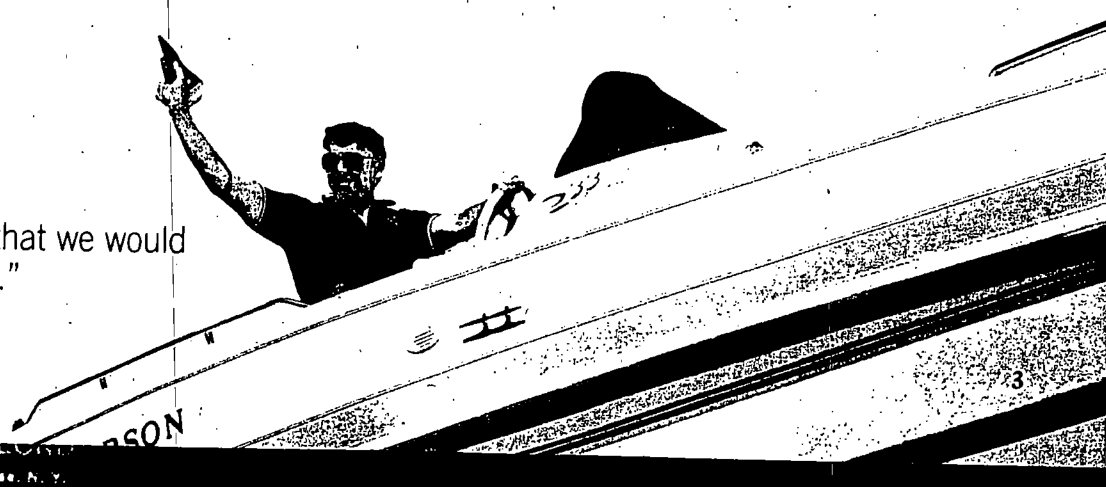

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EDITORIALS

Beyond the Crisis

Two years ago, the N.A.A.C.P. was a wreck: its leaders corrupt, its finances in jeopardy, its local chapters in revolt. A very different organization held its annual convention in July. That the central controversy in Pittsburgh was over an important political principle—school desegregation—is itself a newsworthy statement of the N.A.A.C.P.'s recovery.

School desegregation loomed so large in the press coverage of the Pittsburgh meeting largely because of slipshod reporting. The N.A.A.C.P. "is rethinking one of its fundamental principles: advocacy of public school integration," *The New York Times* trumpeted on June 23, conflating the broad principle of social integration with the tactic of school busing and setting the tone for alarmist convention coverage. "The leadership of the N.A.A.C.P. has capitulated to the forces of black nationalism," declared Michael Meyers of the conservative-funded New York Civil Rights Coalition, the main source of "perspective" in most news accounts.

But rank-and-file N.A.A.C.P. members have argued over busing and other strategies for years. What executive director (and former Congressman) Kweisi Mfume and chairman Myrlie Evers-Williams promised to change was not the N.A.A.C.P.'s integrationist stance but its willingness to air internal differences; for years, any local N.A.A.C.P. official who questioned the national's policies was summarily dismissed. The issue isn't separatism; it's democratization in an organization notorious for intolerant, top-down leadership.

At the same time, there are good reasons for the N.A.A.C.P. and the civil rights movement as a whole to question the tactical pursuit of court-ordered "school desegregation" in the absence of a more wide-ranging campaign concerned with public school funding equity, housing patterns and related issues. The latest round of public school civil rights suits in New Jersey, Connecticut and elsewhere has produced impressive legal victories subsequently sabotaged by legislators and governors. In New Jersey, for example, Governor Christine Todd Whitman has proposed to "equalize" school spending by capping it, which will drive even more middle-class families from the public school system. The majority of African-American children attend all-black schools, and as Mfume has suggested, the quality of those schools is a here-and-now problem.

This is not to place the resuscitated N.A.A.C.P. and its leaders above reproach. Don King may have donated millions to historically black colleges, but surely there are better ways of acknowledging the corrupt boxing promoter than with an N.A.A.C.P. President's Award. On a more substantive level, there is a challenging generation gap in the organization between the elders of the civil rights era and younger activists, for whom community violence, police brutality and racism in the justice system are more important than integration.

But most of the news out of Pittsburgh was good. The average age in the organization has fallen from 50 to 40, a step in the right direction. Convention registration was the largest in years, and Mfume has wiped out a $3.2 million deficit. The N.A.A.C.P. has resumed publication of *The Crisis*, once edited by W.E.B. Du Bois. The new *Crisis* is a bimonthly journal under the stewardship of Julian Bond and journalist Paul Ruffins (subscriptions are $15 from *The Crisis*, 4805 Mt. Hope Drive, Baltimore, MD 21215).

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AUGUST 4, 1997

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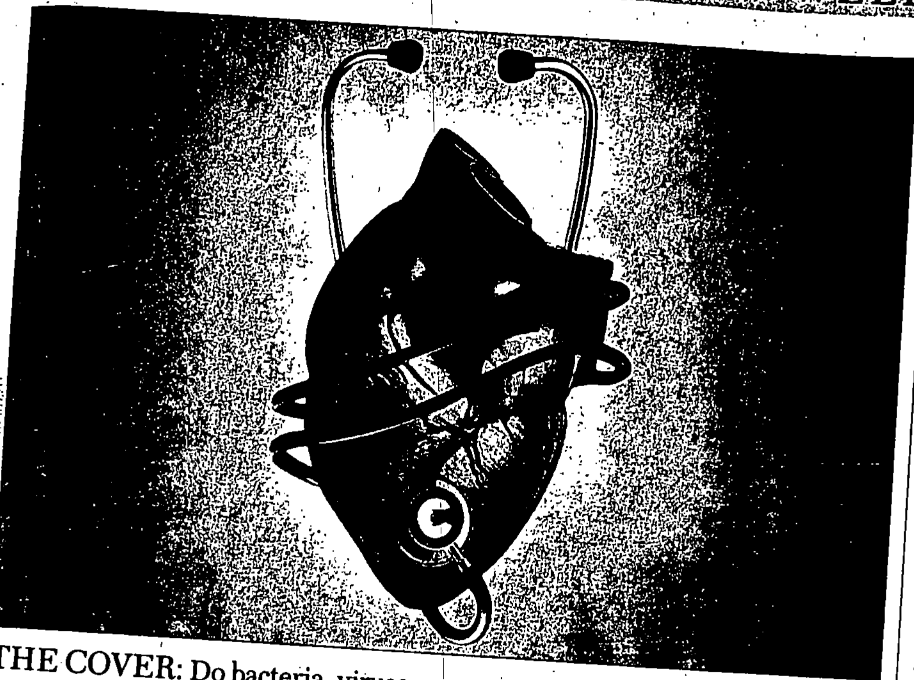
TOP OF THE WEEK



THE COVER: Do bacteria, viruses, even an amino acid you've probably never heard of really cause heart disease? A new way of looking at America's No. 1 killer—and how you can protect yourself. **Page 54**

NATIONAL AFFAIRS: Inside the budget deal—and what it means for your bottom line. **Page 24**

INTERNATIONAL: Albright has charmed foes so far, but will her wiles work in the Middle East? **Page 34**

FRANS LANTING—MINDEN PICTURES

SOCIETY: Warmer weather at the South Pole puts the hardy Antarctic penguin in hot water. **Page 62**

COVER: *Photo illustration by Everard Williams Jr.*

Newsweek

Letters to the Editor should be sent to NEWSWEEK, *251 West 57th Street, New York, N.Y. 10019-1894. In the U.S. send subscription inquiries to* NEWSWEEK, *P.O. Box 59967, Boulder, CO 80322-9967.* NEWSWEEK **(ISSN 0028-9604)**, *August 11, 1997, Volume CXXX, No. 6. In Canada send subscription inquiries to* NEWSWEEK, *Inc., P.O. Box 4012, Postal Station A. Toronto, Ontario M5W2K1. Canada Post International Publications Mail (Canadian Distribution) Sales Agreement No. 546593. Canadian GST No. 123-321-309. For all changes of address call 1-800-634-6850. For all other inquiries call 1-800-631-1040. Unless otherwise indicated by source or currency designation, all terms and prices are applicable in the U.S. only and may not apply in Canada.* NEWSWEEK *is published weekly, except for 2 issues combined into one at year-end, for $41.08 US a year and $61.88 Canadian a year, by* NEWSWEEK, *Inc., 251 West 57th Street, New York, N.Y. 10019-1894. Richard M. Smith, Editor-in-Chief and President; Stephen Fuzesi Jr., Chief Counsel and Secretary. Periodicals postage paid at New York, N.Y., and at additional mailing offices. To order reprints (minimum required: order 500 copies) or request permission to publish a* NEWSWEEK *article, please call (212) 445-4870 or fax (212) 445-4929.* **POSTMASTERS: send address changes to NEWSWEEK, P.O. Box 59968, Boulder, CO 80328-9968.** *Printed in U.S.A.*

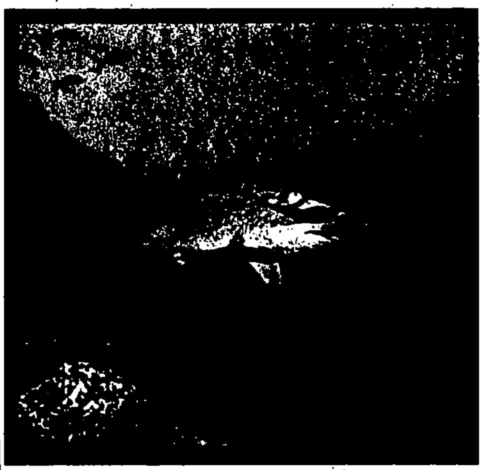
AUGUST 11, 1997

VOL. 150 NO. 6

TIME

THE WEEKLY NEWSMAGAZINE

DIANA WALKER FOR TIME



MARY SNYDERMAN

SAM JONES FOR TIME

Budget Deal: The White House and Congress claim credit (*see* NATION)

Run Silent, Run Deep: A relentless slaughter endangers some species of sharks (*see* COVER)

Sly's Move: Stallone tiptoes toward modern maturity (*see* THE ARTS)

COVER: *Photograph by Ben Cropp—Innerspace Visions*

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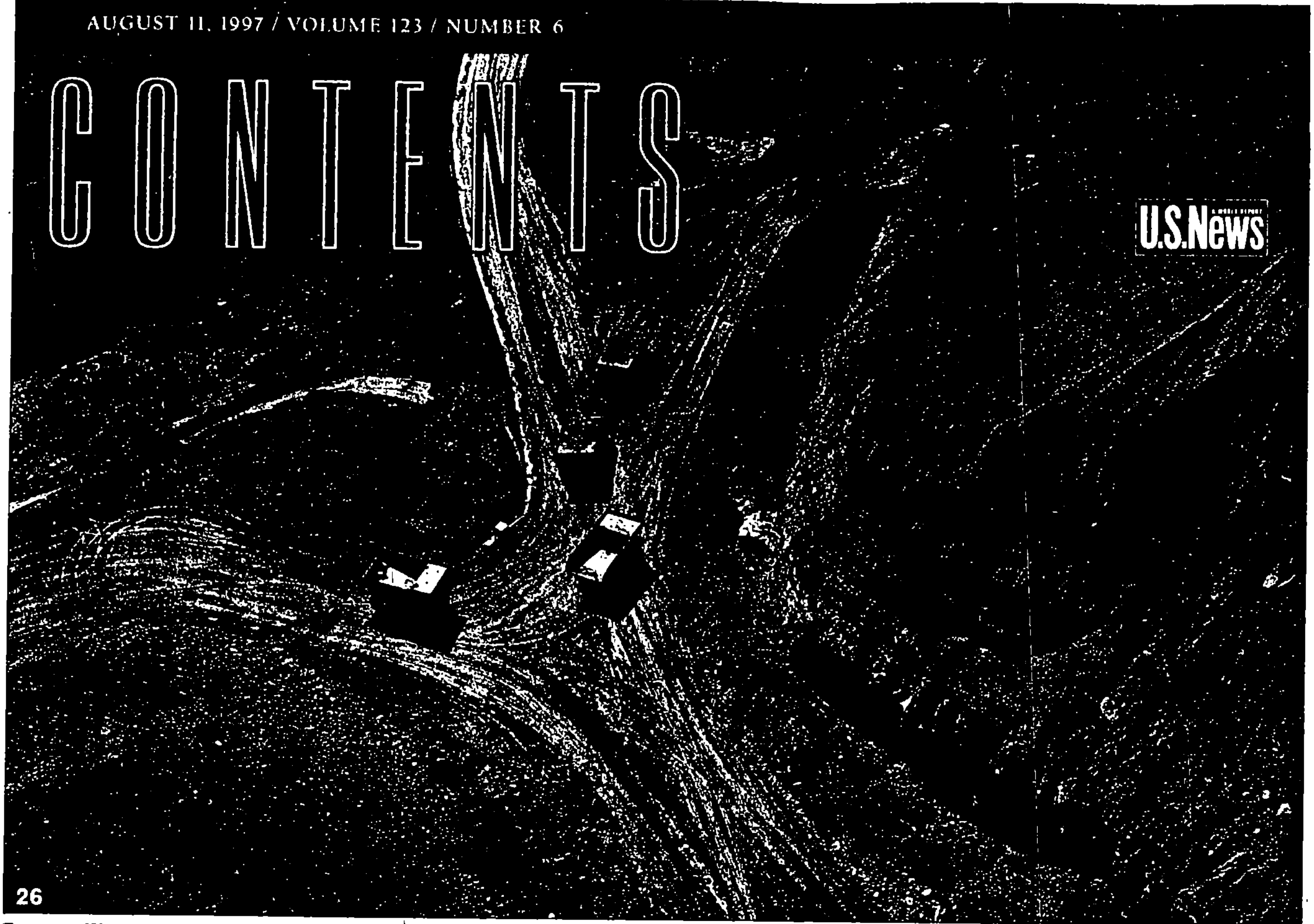

To get at West Virginia's rich coal seams, mining companies take the tops off whole mountains.

COVER: Photo illustration by Doug Stern—*USN&WR;* photograph by Chris Sanders for *USN&WR*

 U.S.News & World Report (ISSN 0041-5537) is published weekly, except for one combined issue mailed in August and a second combined issue mailed in December, $44.75 per year, by U.S.News & World Report Inc., 2400 N Street, N.W., Washington, DC 20037-1196. Periodicals postage paid at Washington, D.C., and at additional mailing offices. POSTMASTERS: Send address changes to U.S.News & World Report, PO Box 55929, Boulder, CO 80328-5929. *U.S. News* may allow others to use its mailing list. If you do not want your name included, please contact our Subscription Department by mail or phone. U.S NEWS & WORLD REPORT® U.S. NEWS® WORLD REPORT® NEWS YOU CAN USE® SCANDOMETER™ WASHINGTON WHISPERS® Canadian Post International Publications Mail (Canadian Distribution) Sales Agreement No. 545643. Canadian Goods and Service Tax No. R124481334
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CHARLIE ARCHAMBAULT FOR *USN&WR*

MEMORANDUM

TO: TOM FREEDMAN, MARY L. SMITH

FROM: DREW HANSEN

RE: ISSUES FROM WEEKLY AND MONTHLY MAGAZINES

DATE: JULY 29, 1997

MAGAZINES CONSULTED: *The American Prospect* (July-August), *Atlantic Monthly* (August), *Business Week* (July 28), *The Economist* (July 26), *Harper's* (August), *The New Republic* (August 4), *Newsweek* (August 4), *Time* (August 4), *U.S. News & World Report* (August 4).

ATTACHMENTS: tables of contents for all of the above; "Day-Care Dangers," *U.S. News & World Report,* August 4, pp. 31-37; "The Difference a Mayor Makes," *The Economist,* July 26, pp. 24-25; "Under the Underclass," *The New Republic,* August 4, pp. 20-24.

CHILD CARE

"Day-Care Dangers," *U.S. News & World Report,* August 4, pp. 31-37 (cover story).
***article attached**

- 76 deaths in child care in 1996, yet this could be underreported; real numbers might be between 240 and 320.

- Few regulations on child care providers: minimal requirements of training and oversight, training is often inadequate, in general easier to be certified as a daycare provider than to get a driver's license.

- Few state sanctions for inadequate providers: centers rarely shut down, few inspections, little coordination between state agencies responsible.

- Possible solution: Colorado's recent initiative to get on-disk information from providers and increase inspections.

EDUCATION

"Back to Boy's School," *The American Prospect,* July-August, pp. 83-85.

- Growing movement in favor of single-sex academies for boys (Pete Wilson has advanced a proposal allowing ten school districts to establish all-male magnet academies).

- Early research showed that single-sex schools worked best for women and for African-American and Latino men.

- Yet most evidence of success anecdotal, and ignores obvious downsides of some all-male schools (misogyny, gay-bashing).

"The Difference a Mayor Makes," *The Economist*, July 26, pp. 24-25. ***article attached.**

- Review of Chicago school reforms: after a near-collapse in 1995, the Republican-controlled legislature made it easier to fire teachers, gave principals more control over schools, consolidated separate funding into block grants, and put system under direct control of Mayor Daley.

- Daley's reforms include the imposition of higher standards for students, the end of automatic grade-to-grade promotions, and the targeted reform of failing schools.

- Results: better test scores, better financial status for the school system.

ENVIRONMENT

"Noisy Highways," *Atlantic Monthly,* August, pp. 26-35.

- Noise barriers on federal highways cut noise pollution, boost well-being of surrounding neighborhoods.

- New designs for barriers makes them more attractive (brick, ivy, Native American patterns).

HEALTH CARE

"Are Drive-Through Deliveries So Bad?," *Newsweek,* August 4, p. 65.

- Two recent studies show that the length of a newborn's hospital stay has little effect on his or her health.

- Instead, the crucial factor in infant health appears to be the experience of the mother in child-rearing. Mothers can be assisted by following the American Academy of Pediatrics recommendation that babies sent home in the first two days of life be seen by a health professional within 48hrs of discharge.

"Cold Comfort for Working Moms, " *U.S. News & World Report,* August 4, p. 8.

- A new study finds that working mothers with children have more stress than working mothers without children.

IMMIGRATION

Several articles this week about the deaf Mexican immigrants rescued in New York and North Carolina.

PRISONS

"On the Block," *Newsweek*, August 4, pp. 60-61.

- Evaluation of prison privatization programs in the light of the Washington, D.C. sale of the Central Treatment Facility to the Nashville-based Corrections Corporation of America (CCA).

- CCA has spent more money on drug treatment programs and jumpsuits for inmates, and has saved money from cutting the workforce and decreasing overtime.

- But critics allege that services have been cut as well: sick inmates, it is reported, are having difficulty getting their medicine on time.

- Other prison privatization programs have been less than successful: CCA had to pull out of South Carolina amidst allegations of mistreatment of inmates. The Supreme Court has recently ruled that guards at private prisons can be sued by inmates for mistreatment.

SPACE

"They're Going Space Crazy," *Business Week*, July 28, pp. 89-92.

- Last year, private revenues from space exploration exceeded government spending on space exploration for the first time.

- Some proposals for private exploration of space: asteroid mining, the use of private launch systems, s lunar explorer armed with a TV camera to be used in amusement parks and space museums.

- This fall, NASA will launch a Lunar Prospector mission, sending a probe to orbit the moon and evaluate resources on the surface.

WELFARE

"How She Got a Job," *The American Prospect*, July-August, pp. 25-29.

- One-to-One, a Boston non-profit offering foreign-born and Puerto Rican adults training in ESL, office skills, and job-hunting, has a near-100% success rate.

- Keys to the program's success is that it is long-term (not the short-term programs in vogue nationwide), focuses on putting recipients into jobs that offer opportunities for advancement (again, unlike most programs popular nationwide), and emphasizes instilling habits of punctuality, customer service, and time management.

"Spinning the Poor Into Gold," Barbara Ehrenreich, *Harper's Magazine,* August, pp. 44-52.

- A biting review of a recent Washington, D.C. conference on "welfare privatization."
- Corporations attending the conference appear to have absorbed the Murray/Gilder view of welfare (subsidizes illegitimacy, discourages work, encourages dependency, etc.).
- Unclear how privatizing welfare service delivery will simultaneously save the government money and make profits for corporations.
- In addition, high potential for abuse by for-profit corporations.

"About Face," *The New Republic,* August 4, pp. 16-19.

- Analysis of STRIVE, a job-training program operating in New York, Boston, Philadelphia, and Chicago. The program has an 81% placement rate and an average graduate salary of $7.45/hr.
- But the program's success comes at least in part from a.) rejecting some applicants early in the process ("creaming"), and b.) the personality of the unique, charismatic leader of the Boston program.

"Under the Underclass," *The New Republic,* August 4, pp. 20-24. ***copy attached.**

- Marriott's much-touted welfare to work program has failed to reach the long-term, hardcore welfare recipients.
- The success rate of Marriott's program for even the most competent portion of this hardcore group is under 50%.
- Between one-third and one-half of welfare caseloads are members of this group, who need much more than most welfare-to-work programs provide because of their multiple problems (such as drug abuse, domestic violence, and inconsistent housing and transportation).

OTHER

"Is Legalized Gambling Becoming Unsinkable?," *U.S. News & World Report,* August 4, p.

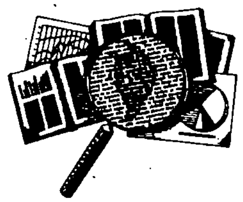
24.

- Seven of eight state referendums to expand gambling were defeated last fall.
- But states reluctant to close existing casinos, and in fact usually only close existing ones so that new, more profitable casinos can move in.

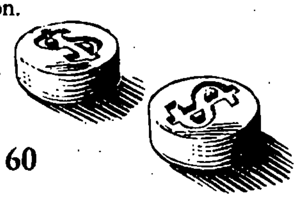
THE AMERICAN PROSPECT

A JOURNAL FOR THE LIBERAL IMAGINATION

DEPARTMENTS



FEATURES



CRITICISM