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EXECUTIVE OFFICE OF THE PRESIDENT
COUNCIL OF ECONOMIC ADVISERS

December 19, 1991

copy

TO: Secretary Skinner
FROM: Michael J. Boskin *mp*

Apparently, an early draft of this memo you requested was sent over last night. It did not include Chairman Greenspan's statements or my assessments of the probability of a double-dip. This is the correct version of the memo which should have been sent over last night. If you have not read that draft, read this instead. If you did, just read points 3 and 5 on the final version enclosed.

Attachment

Mike
Very helpful

12/20

[Signature]
Michael J. Boskin
Chairman



THE CHAIRMAN

EXECUTIVE OFFICE OF THE PRESIDENT
COUNCIL OF ECONOMIC ADVISERS
WASHINGTON, D.C. 20500

December 17, 1991

MEMORANDUM FOR SAMUEL SKINNER
CHIEF OF STAFF

FROM: CHAIRMAN MICHAEL BOSKIN *mb*

RE: What Was Being Said When About the Economy

Per your request following our conversation last week, here is a summary of who was saying what, when about the economy.

1. Last year (Autumn 1990), as we were preparing the budget to be released early in the new year, we forecast (the first time any Administration, Republican or Democrat has done so) two consecutive negative quarters of GNP growth, the commonly accepted rule of thumb defining a recession (although not the actual definition used in dating business cycles). In doing so, we gave Congress the opportunity to suspend the budget law for two fiscal years. They voted not to do so. Our forecast at that time was for the economy to turn around in the middle of the year, and then grow at about a 2.4 percent rate in the second half of 1991. This was below the Congressional Budget Office (which was above 3 percent) and virtually identical to the consensus/average of the 52 Blue Chip private forecasters. It was also a rate of recovery about half the average rate in the early stages of post-war recoveries. The post-war average rate for the first year of recoveries is around 6 percent. For some reason, the political implications of a slow recovery with very little decline in unemployment never much penetrated our guys.
2. Last summer, over 80 percent of the members of the National Association of Business Economists said the recession ended in the spring, when the economy did pick up from May through July (industrial production grew at an annual rate of 9 percent, real consumer spending grew at an annual rate of 3.8 percent, etc.). In short, it looked like a recovery had begun and the recession had ended.
3. In testimony in July, Fed Chairman Greenspan said "We are well on the path ...to a solid recovery with the unemployment rate moving down to its lowest sustainable long-term rate with growth at or close to its maximum long-term sustainable pace."

4. A bad error was made in not doing a better job of explaining that even if the recession had ended, that did not mean that economic good times were here, or would soon occur. I did so in my testimony and media interviews, but that part of them was largely ignored. The phrases "recession" or "recovery" refer to the direction in which the economy is moving. At a very modest pace of economic growth such as we were forecasting, it would take quite some time to get GNP and employment back to their pre-recession levels.
5. I also said privately to the President and some Republican Congressional leaders in July that there was still a 20 percent chance of a so-called "double-dip" recession. I repeated this in September, and raised the probability to 30 percent in October. It is now higher.
6. However, unfortunately, what appeared to be the beginning of a recovery completely petered out. The economy went flat as a pancake in August, stayed flat for several months, and is probably declining currently. While we have not made a public official forecast, I have said several times in testimony that the Blue Chip average is too high (they were at 1.9 percent for the fourth quarter in November, and reduced it to 1.3 percent in December. I expect them to reduce it further in January). Our own budget forecast is currently carrying 0.5 percent for the fourth quarter and 1.0 percent for the first quarter of 1992. This is being done purely as a temporary place holder sent out to the agencies for the purpose of calculations necessary to do the budget. The forecast is subject to revision. In fact, there is a substantial chance there will be two consecutive negative quarters; it is very likely that there will be two consecutive quarters under 1 percent, and at least one negative quarter. Our current forecast is that the unemployment rate next year will average its current level.
7. The usual comparison of our original forecast to the 52 private Blue Chip forecasters reveals that we will be by the end of the year more accurate than about 70 percent of them, less accurate than about 20 percent, and tied with about 10 percent. That is small comfort, since virtually all of them, and us, did not predict a flattening out and likely decline, or even double dip as the most likely scenario. However, I do believe it was a quite credible forecast at the time.
8. The big problem was that once the economy flattened out, it took far too long to get everyone on the wave length of speaking credibly about what was really going on in the economy. It was one thing to be optimistic about the future, quite another to be out of touch with what was actually going on currently. We should have changed the Administration language 6 to 8 weeks

earlier than we did. On several occasions I tried to do so, through the speechwriters, through constant complaining at Senior Staff, through a couple of statements to the President, and through factual documentation to anyone whose attention I could get in the Administration. It was not until I demanded, on threat of resignation, to see the President and make a strong case for the fact that our discussion of the economy was out of touch with reality, that a more balanced tone was adopted. Since then, the speechwriters have once again gone back to taking my edits and suggestions, etc. I must say, during this period I was often accused of being "too pessimistic." I was told to stay off television and out of the media unless I could be more optimistic and more of a cheerleader for the position that talking up the economy would turn around consumer confidence and improve the economy's performance. Whoever decided to adopt that strategy was well above my pay grade. Out of deference to the President, and in order not to appear at odds with him, I did refrain from media discussion of the economy at this time. It is also important to understand that more and more evidence was accumulating at this time that the economy was flattening out or perhaps declining. Statements made in August or early September reflecting where the economy was, say in July when it was improving, weren't nearly as absurd as they were by late September and October, let alone early November.

0. I certainly bear my pro-rata share of the responsibility. I should have threatened to resign sooner and gone straight to the President earlier. I thought that working through the Chief of Staff and my colleagues would do the trick. It did not.

EXECUTIVE OFFICE OF THE PRESIDENT
COUNCIL OF ECONOMIC ADVISERS

December 13, 1991

To: The President

91 DEC 13 P7:58

From: Mike Boskin *MB*

Re: Industrial Production and
Capacity Utilization

Industrial production fell 0.4 percent in November, after three months of virtually no change. The decline was led by a sharp reduction in auto production. Capacity utilization decreased correspondingly.

Repeating my overall diagnosis, after a very modest beginning of a recovery in May through July, the economy went flat as a pancake for several months. October and November show signs of slight deterioration. As I said earlier, the probability of a double dip recession has risen to at least 30 percent. Because of further production cutbacks in autos, the economy will be sluggish at best, and perhaps down slightly, through the first quarter of 1992.

I am pleased to see that the speeches and remarks have been much more balanced for the past three weeks or so. The overwhelming response, as conveyed to me, is that people are much happier hearing straight talk than what many believed was a sugar-coating.

Michael J. Boskin
Chairman



EXECUTIVE OFFICE OF THE PRESIDENT
COUNCIL OF ECONOMIC ADVISERS

WASHINGTON, D.C. 20500

December 13, 1991

31 DEC 13 P7:58

THE CHAIRMAN

MEMORANDUM FOR THE PRESIDENT

FROM: MICHAEL J. BOSKIN *MB*

SUBJECT: Industrial Production and Capacity Utilization in November, Federal Reserve Release, Monday Morning, 9:15 a.m.

Industrial production--the output of the Nation's factories, mines, and utilities--fell 0.4 percent in November, the largest decline since March. Private analysts had expected a 0.1 percent decline in November.

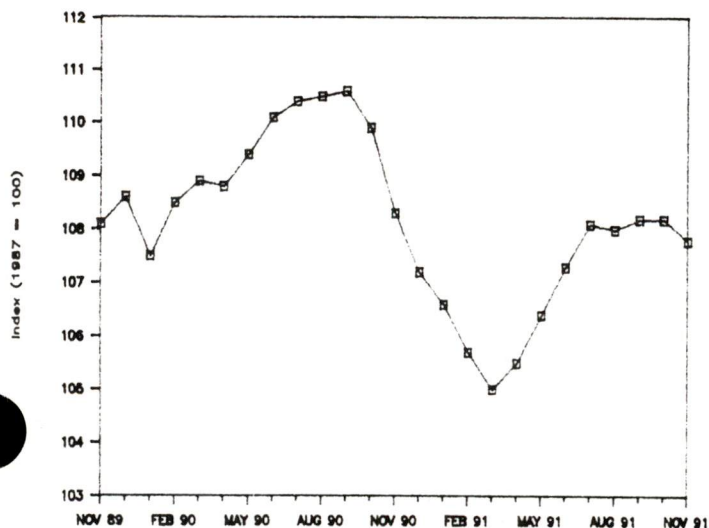
Manufacturing production declined 0.5 percent, with the output of motor vehicles and parts falling 4.7 percent. The decline in auto production and a strike at a major producer of construction and mining equipment accounted for much of the decline in November. Excluding motor vehicles and parts, industrial production declined 0.2 percent.

Mining output was unchanged in November, and production at utilities rose 0.9 percent. The increase at utilities had only a small effect on the total index since utilities have a weight of less than 8 percent in the total index.

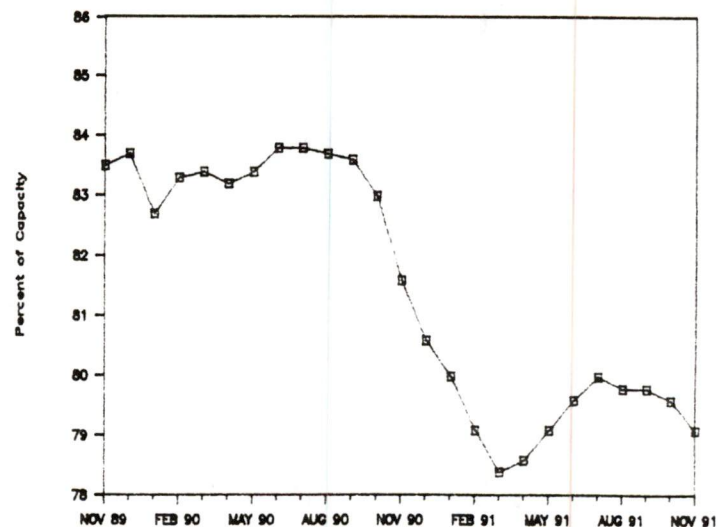
For all industry, capacity utilization fell 0.5 percentage point to a level of 79.1 percent. In manufacturing, capacity utilization fell 0.6 percentage point to 78 percent.

The first graph below shows that the decline in industrial production in November followed 3 months of little or no change. The second graph shows that capacity utilization has been on a downward trend over the past 4 months.

TOTAL INDUSTRIAL PRODUCTION



TOTAL CAPACITY UTILIZATION



EXECUTIVE OFFICE OF THE PRESIDENT
COUNCIL OF ECONOMIC ADVISERS

December 18, 1991

To: The President
From: Mike Boskin *MB*
Re: Merchandise Trade for October

First, the decent news. The October merchandise trade deficit was almost exactly as expected, slightly improved from September at \$6.7 billion. Both exports and imports increased by over \$1 billion. Good export performance is very important to preventing a further deterioration of the economy and a subsequent improvement.

The weekly initial claims for state unemployment insurance shot up the week ending December 7, following the substantial decline Thanksgiving week. Particularly hard hit were California and Pennsylvania, and textiles, autos and other manufacturers. The Pan Am situation was one of the major contributors to the big increase in California.

I was very pleased at the additional change in tone in public statements about the economy. I thought you handled the "are we still in a recession" question exactly right: That is a semantic/technical issue for economists; the economy is struggling and it needs to do much better.

Michael J. Boskin
Chairman



EXECUTIVE OFFICE OF THE PRESIDENT
COUNCIL OF ECONOMIC ADVISERS
WASHINGTON, D.C. 20500

THE CHAIRMAN

December 18, 1991

MEMORANDUM FOR THE PRESIDENT

FROM: MICHAEL J. BOSKIN *mb*

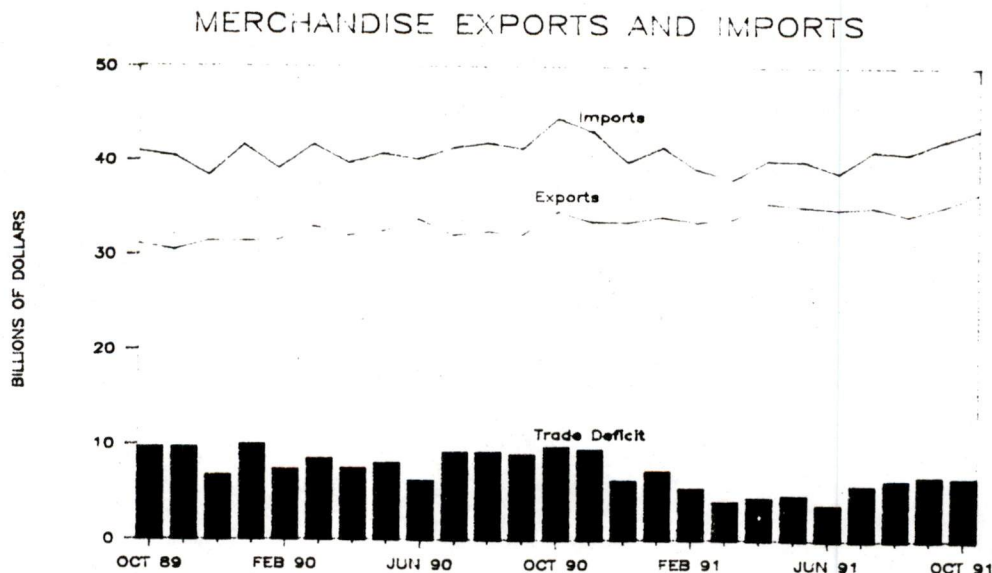
SUBJECT: Merchandise Exports and Imports in October,
Commerce Department Release, Tomorrow, 8:30 a.m.

The merchandise trade deficit fell in October to \$6.7 billion from \$6.9 billion in September. Private analysts had expected a deficit of \$6.8 billion for October.

Merchandise exports increased 3.9 percent in October, after increasing 2.8 percent in September. Exports rose for all principal categories, with industrial supplies and materials registering the largest gain.

Imports rose 2.8 percent in October, after increasing 3.4 percent in September. Imports rose for all principal categories except foods, feeds, and beverages. By category, the largest increase in imports occurred for nonfood, nonautomotive consumer goods.

On a constant-dollar basis that values exports and imports in terms of 1987 dollars, the trade deficit fell to \$5.8 billion in October from \$6.3 billion in September. These constant dollar figures are used in the calculation of real gross domestic product (GDP). The deficit in October was lower than its third-quarter average, indicating that trade could contribute to real economic growth in the fourth quarter.





UNITED STATES DEPARTMENT OF EDUCATION

THE SECRETARY

DCF HAS SEEN

file

August 4, 1992

MEMORANDUM FOR EDE HOLIDAY

FROM: LAMAR ALEXANDER *LA*

Governor Ben Nelson, of Nebraska, has been named the new chairman of the Education Goals Panel by Governor Roy Romer. This is good for us because Governor Nelson, although a Democrat, was one of the first governors to embrace AMERICA 2000 and works with us in a very bipartisan way on the President's education program. Five of us Cabinet Members went to Omaha to help kick off OMAHA 2000 a year ago.

Governor Nelson joked with me this week that the Cabinet Members don't call him as often now when they come to town because it is a political season. My suggestion would be that Cabinet Members should still call Democratic governors when they go to town. All of them understand politics and none of them mind the courtesy. We are working with 46 of the governors on AMERICA 2000 and about half of them are Democrats.

cc: Sam Skinner

THE WHITE HOUSE

WASHINGTON

April 14, 1992

02 APR 15 P1:42

MEMORANDUM FOR THE PRESIDENT

FROM: NICHOLAS E. CALIO *NEC*
ROGER B. PORTER *RBP*

SUBJECT: AMERICA 2000 Legislative Strategy

Background

In May 1991, you submitted legislation to Congress to dramatically reform America's schools. The legislation called for: (1) increased flexibility for educators; (2) break-the-mold New American Schools; (3) world class standards and voluntary testing; and (4) parental choice of schools.

In January, the Senate passed S. 2 by a vote of 92 to 6. S.2 contains modest movement toward your proposals in the first three areas. A choice amendment by Senator Hatch failed by a vote of 36 to 57. A Senate Statement of Administration Policy called for a senior advisors veto.

In October 1991, the House reported H.R. 3320 which included modest reforms and a provision on choice. A letter from Governor Sununu to Chairman Bill Ford approved of the choice provision. Subsequently, Ford reneged on the agreement. After the Easter break, he intends to mark up a new bill excluding choice, and likely containing little in the other areas of importance to us.

The education establishment has not promoted either bill, but has been active in opposing school choice. Conservative groups believe that neither the Senate nor House bills will produce demonstrable reform, and that you should not accept a bill that does not include school choice.

Options

Secretary Alexander has outlined two realistic options.

Option 1: "Noisy Diplomacy" Publicly define our objectives but accept the best bill we can get.

This would involve a high profile, public relations effort aimed at pressuring the House to include our reforms. This might include a veto threat to be used as leverage, but it does not assume that we are locked into an ultimate veto. We would retain the option to veto, depending on what is in the bill, but would work to fashion a reasonable compromise.

- This would help define you as favoring revolutionary reform of our education system rather than the business-as-usual approach of Congressional Democrats.
- At the same time, it recognizes that while we are unlikely to secure major reforms in this Congress, we can work with the committees to get as much as possible in the areas of flexibility, New American Schools, and standards and testing.
- It would avoid a difficult veto override battle.
- In signing a compromise bill, you would reiterate your commitment to seeking comprehensive reform legislation, including school choice.

Option 2: "Draw the Line" Define and veto the business-as-usual legislation likely to emerge from Congress.

This would involve articulating the philosophical differences between your approach and that advanced by Congressional Democrats and sending a clear signal that your advisers will recommend you veto business-as-usual legislation.

- To be successful, you must immediately draw the line on what you will accept from the Congress. This would involve highlighting the school choice issue.
- Our allies on the Hill tell us that sustaining a veto on this bill will be difficult on school choice alone, but could be more successful based on the broader notion of rejecting a "business as usual" bill.
- It would require a major time-commitment on your part.

Decision

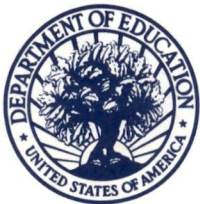
Option 1 _____ "Noisy Diplomacy" Publicly define our objectives but accept the best bill we can get.

Supported by: Department of Education and White House Offices of Policy Development and Legislative Affairs.

Option 2 _____ "Draw the Line" Define and veto the business-as-usual legislation likely to emerge from Congress.

Supported by: White House Office of Political Affairs

You may wish to have a brief discussion with key participants before deciding which strategy to pursue.



UNITED STATES DEPARTMENT OF EDUCATION

THE SECRETARY

April 22, 1992

1) Can
2) SLS

DCF HAS SEEN
Shawnick at
LSG
meeting

MEMORANDUM FOR SAM SKINNER

FROM: LAMAR ALEXANDER *LA*

SUBJECT: Short-term Strategy on Education

If education is going to be the President's:

- "top domestic priority," -- and,
- "The first thing I hope Americans looking back on my Administration will remember" --

then, the following - all related to the "choice of schools" issue - needs to happen before April 29.

1. **A MEETING WITH GOP CONGRESSIONAL LEADERS** - about the AMERICA 2000 education bill, which will be marked up in the House during the first week in May (already passed Senate). We need GOP leaders' agreement to veto or not to veto.
2. **A DECISION ON THE CALIFORNIA CHOICE REFERENDUM**. The President will be asked about this when he travels to California the first week in May. It is red hot. Decision paper is enclosed.
3. **THE SCHEDULING OF THE ANNOUNCEMENT OF THE "STATE GI BILL FOR CHILDREN."** Milwaukee is the best place to do this, visiting with Polly Williams, Governor Thompson and parents who use choice. Schedule it now, to take place sometime in May. It's a half-billion-dollar item, submitted as a part of the budget, but never announced. Necessary to complete position on most visible education issue difference with Clinton.
4. **THE SCHEDULING OF A BRIEFING SESSION FOR THE PRESIDENT.** This would be the first of five 45-minute private Oval Office sessions on break-the-mold schools, choice, flexibility, standards and national tests, and money. This needs to happen now, not next fall.

Other:

1. Clinton will (reportedly) be making a major education speech next week.

ISSUE

What the President should say about the California Choice referendum, which may be on the ballot this Fall.

BACKGROUND

When the President is in Fresno and San Jose next week, he may be asked about a referendum that would create \$2500 scholarships that parents could spend at private as well as public schools. Timing is crucial: it will be decided within the next 2-3 weeks whether there are enough signatures to get it on the November ballot. The issue is red hot: public educators are violently against it, and things will get even hotter if it actually gets on the ballot. Vice President Quayle and Bill Bennett have already endorsed it. Governor Pete Wilson may oppose it.

RECOMMENDATION

The President say the following:

We must change the schools of this country--and we will. One principal agent of change must be the parents. That is why I favor giving them the chance to choose--which is both their option to improve their children's education and their muscle to improve their children's school.

Choice of schools is as fundamental to modern America as choice of leadership. Competition in business makes us better. Competition in politics makes us better. Competition among colleges makes us better. Competition among schools will make us much better.

Now only rich people have choices of all schools; middle and low income people must have more choices. That's why I've proposed federal scholarships that parents of middle and low income families can use to spend at any lawfully operating school. I call it federal support for a state G.I. Bill for children. It's the same idea as the G.I. Bill which veterans could spend at any college or university. It's the same as the federal college

grants and loans we have today. One out of every two college students has one. They can use it at Stanford, or Berkeley or Pomona, or a community college. This type of choice and federal money helped to build the best system of colleges and universities in the world. It can help build the best elementary and secondary schools in the world.

There's nothing easy about change. Genuine change, revolutionary change, is always difficult and awkward. That's not an argument against it. It's merely an argument in favor of local control. States and communities should decide for themselves how and when to move on choice.

I like the California initiative. If I lived here, I would vote for it. [But I respect Governor Wilson's views and,] as I said, Washington should not be dictating the timing and manner of your revolution. That's your decision.

CHAIR
ALFRED E. ALQUIST

Joint Legislative Budget Committee

VICE CHAIR
JOHN VASCONCELLOS

SENATE

ROBERT G. BEVERLY
BILL GREENE
MILTON MARKS
NICHOLAS C. PETRIS
ALAN ROBBINS
VACANCY

GOVERNMENT CODE SECTIONS 9140-9143

CALIFORNIA LEGISLATURE

LEGISLATIVE ANALYST
ELIZABETH G. HILL

925 L STREET, SUITE 650
SACRAMENTO, CALIFORNIA 95814
(916)445-4656

ASSEMBLY

WILLIAM BAKER
JOHN L. BURTON
ROBERT CAMPBELL
PAT NOLAN
VACANCY
VACANCY

December 13, 1991

Hon. Daniel E. Lungren
Attorney General
1515 K Street, Suite 511
Sacramento, California 95814

Attention: Mary Whitcomb
Initiative Coordinator

Dear Attorney General Lungren:

Pursuant to Elections Code Section 3504, we have reviewed the proposed initiative cited as the "Parental Choice in Education Initiative" (File No. SA 91 RF 0024, Amendment #1).

The Proposal

This measure would significantly change the way the state funds K-12 education in California. The initiative's major provisions would:

- Require the state to provide annual scholarships to all school-age children. These scholarships could be used only at schools that elect to become "scholarship-redeeming schools." The scholarship amount would have to be at least 50 percent of the average level of spending from federal, state, and local sources for public school students in California.
- Require that the Legislature establish a process by which public schools may become scholarship-redeeming schools.
- Require that public school districts establish mechanisms to "allocate enrollment capacity" primarily on the basis of "parental choice." Presumably, this would require establishment of inter- and intra-district open enrollment programs and policies.

- Authorize the State Board of Education to require public and scholarship-redeeming schools to administer tests measuring individual students' academic improvement.

The proposed initiative also contains language affecting "Proposition 98" minimum education funding requirements. This language could reduce the state's obligation under the minimum funding requirement, thereby giving the state greater flexibility in determining funding levels for education programs. The scholarships required by the proposed initiative would be a new constitutional guarantee, separate from, but coexisting with, the Proposition 98 guarantee. Unlike Proposition 98, the new guarantee could not be suspended.

Fiscal Effect

The fiscal effect of this proposed initiative is largely unknown, as it would depend on the legal interpretation of the measure, how the Legislature implemented the measure, and how people responded to those decisions. For instance, a key factor is the level of the scholarship provided. That, in turn, would affect the number of schools that opt to become scholarship-redeeming schools, and the movement of students between public, private, and scholarship-redeeming schools.

Scholarships. The primary fiscal impact of the measure would be through the scholarship provision. On the one hand, this requirement could result in added costs to provide scholarship payments to existing private schools (which currently receive virtually no public support) that chose to become scholarship-redeeming schools. On the other hand, the state would save money to the extent that students who otherwise would have attended public schools enroll in scholarship-redeeming schools (assuming the amount of support from state sources per public school student exceeds the scholarship amount). The actual impact would depend on the net effect of these factors and on whether the Legislature accommodated any net costs by reducing the amount school districts would otherwise receive under current law. The net impact, however, could be costs or savings in excess of \$1 billion.

Open Enrollment. We estimate that implementing the open enrollment policies could result in unknown costs or savings to the state, depending primarily on whether students attending schools outside their district of residence were entitled to higher or lower levels of state per-student funding in the district of attendance.

In addition, we estimate that school districts would incur costs to plan for and implement these policies. The magnitude of these costs to school districts is unknown but potentially in the tens of millions of dollars.

Testing. We estimate that, if the State Board of Education elected to do so, implementing a program of testing individual academic improvement would result in costs to the state and/or school districts and scholarship-redeeming schools in the tens of millions of dollars annually to develop, administer,

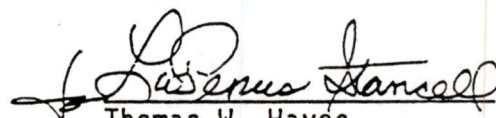
and score tests. These costs would vary depending on the breadth, frequency, and sophistication of the tests.

Summary. In summary, the initiative would have the following primary fiscal effects:

- Costs or savings to the state, potentially in excess of \$1 billion, due to the scholarship, open enrollment, and testing requirements.
- Costs to school districts, potentially in the tens of millions of dollars, due to the open enrollment and testing provisions.

Sincerely,


for Elizabeth G. Hill
Legislative Analyst


Thomas W. Hayes
Director of Finance

ANALYSIS OF
THE "PARENTAL CHOICE IN EDUCATION" INITIATIVE

Prepared By
Governor's Office of Child Development and Education

This proposed constitutional amendment, if approved by the voters, would establish a system of state-funded educational vouchers ("scholarships"). Key features include:

- o Beginning in 1993-94, all school-age children are eligible to receive a scholarship equal to *at least* 50 percent (approximately \$2,490 in 1993-94) of prior-year per-pupil government spending on K-12 education. (Children who were enrolled in private schools in October 1991, however, are not eligible to receive scholarships until 1995-96.)
- o Parents and students may add to the value of the scholarship, without limit.
- o The Legislature may provide supplemental funds, but *only* for (1) transportation of low-income students or (2) special needs related to physical or learning disabilities.
- o If the value of the scholarship exceeds charges imposed by a scholarship-redeeming school, the excess is held in trust by the state for later use at any scholarship-redeeming school or *any institution of higher education* in California. Any surplus remaining at a student's twenty-sixth birthday reverts to the state.
- o Scholarship-redeeming schools may be private or public. Such schools, however, may not (1) discriminate on the basis of race, ethnicity, color, or national origin; (2) advocate unlawful behavior or deliberately provide false or misleading information regarding the school; or (3) enroll fewer than 25 students.
- o Scholarship-redeeming schools are subject to regulation no more restrictive than the relatively minimal level applicable to private schools. Any additional government regulation of *all* private schools (whether scholarship-redeeming or not) beyond that in effect as of October 1991 is generally prohibited, unless approved by a three-fourths vote of the Legislature.
- o All public school districts must establish mechanisms for allocating district enrollment capacity "based primarily on parental choice." Public schools which choose not to redeem scholarships must open any remaining capacity to *inter-district* choice.
- o The State Board of Education may require public schools and scholarship-redeeming schools to administer tests "reflecting national standards" for the purpose of measuring individual students' academic improvement.

PROS AND CONS

PROS:

- o ***Increases Budgetary Flexibility.*** As shown in the fiscal analysis, this measure greatly reduces the protection of public schools' funding levels that would otherwise have been provided by Proposition 98. (Under the public schools' "best case" scenario noted above, the state would save \$4.7 billion in 1999-2000, relative to Proposition 98 requirements in the measure's absence.) This, in turn, would allow for greater flexibility in setting overall state budget priorities. (The Governor and the Legislature, of course, could *choose* to spend some or all of these actual savings on the schools.)
- o ***Creates Competition.*** Proponents of vouchers argue that competition will (1) break the bureaucratic structure resulting from the public schools' monopoly position, (2) encourage the creation of more alternatives to meet the educational needs and desires of parents, and (3) require under-performing schools to "shape up" or go out of business.
- o ***Mandates Public School "Choice."*** The measure requires *intra*-district choice for all public schools, and *inter*-district choice among those public schools which choose not to redeem scholarships.
- o ***Allows Freedom from State Regulation.*** Public schools that chose to become scholarship-redeeming would be subject to no more regulation than the relatively minimal level applicable to private schools. Among other things, scholarship-redeeming schools would not be subject to collective bargaining requirements.
- o ***A Simpler Funding System.*** In contrast to the existing system of school finance, with its myriad Byzantine formulas, this measure provides all children in a given grade level with a voucher of equal value (although the Legislature is authorized to provide supplemental funds for a limited number of special needs). Proponents argue that such a system, in addition to being simpler than the existing one, would also be fairer.
- o ***Could Make Everyone Better Off.*** If (1) the value of the voucher were set at a relatively *low* level, (2) relatively *high* numbers of pupils chose to leave the non-scholarship-redeeming public schools, and (3) the Governor and Legislature decided to provide public schools with funding *in excess* of the new Proposition 98 minimums, it is *possible* that the public schools could receive *slightly more* per pupil than they would have in the measure's absence, at *less* total cost to the state.

CONS:

- o ***The Rich Get Richer (I).*** Unlike some other voucher proposals, this measure imposes *no limitations* on the ability of parents to supplement the value of the voucher--nor does it allow the value of the voucher to vary according to a family's ability to pay. As a result, wealthy parents could use the scholarships to augment their already-substantial purchasing power and "outbid" poorer parents for the most desirable schools. Arguably, such an outcome would be directly violative of the *Serrano* decision requirement that the quality of publicly-supported education not be a function of wealth (in this case, family wealth).¹
- o ***The Rich Get Richer (II).*** According to the Associated Press, the average private school tuition (excluding Catholic parochial schools) in 1991 was \$6,400. A \$2,500 voucher will help make this option available to those families that can afford to come up with the additional \$3,900 per year; absent financial aid from some other source (or a significantly higher voucher value), however, such schools will remain out of reach of poorer families.
- o ***The Poor Get Poorer (I).*** If the Legislature is precluded from providing any supplemental assistance beyond (1) transportation for low-income students and (2) special needs related to physical impairment or learning disability, what will happen to students who have *other* special needs (e.g., limited English proficient, educationally disadvantaged)? Scholarship-redeeming schools would likely respond by (1) excluding such harder-to-educate students, (2) charging more to education them, and/or (3) attempting to cut costs (e.g., through larger class sizes). Should parents be expected to pay for these factors (which may be largely outside their control)? How will low-income parents come up with the resources to compensate for the well-documented educational disadvantages that accompany poverty?²
- o ***The Poor Get Poorer (II).*** The measure makes no explicit provision for transportation assistance to low-income students who remain within the non-scholarship-redeeming public school system, but who wish to attend a school other than their neighborhood school. Without transportation assistance, such

¹Coons and Sugarman, strong proponents of educational vouchers, nevertheless reject voucher systems in which the rich have an unlimited ability to augment the voucher's value:

"Unless the amount of the voucher were so large as to preempt all interest in further spending for education by all but an insignificant number of families (an outcome economically and politically unthinkable), the effect of [such a] proposal is plain. Families unable to add extra dollars would patronize those schools that charged no tuition above the voucher, while the wealthier would be free to distribute themselves among the more expensive schools. What is today merely a personal choice of the wealthy, secured entirely with private funds, would become an invidious privilege assisted by the government. Isolation and excellence would be purchased by the rich with public assistance. Both wealthier classmates and the schools they might prefer would be foreclosed to the poor--all with the help of the state. This offends a fundamental value commitment--that any choice plan must secure equal family opportunity to attend any participating school." (John E. Coons and Stephen D. Sugarman, *Education by Choice*, p. 191.)

²In their widely-cited study touting the benefits of parental choice in education, Chubb and Moe propose a voucher system in which students with special needs receive add-ons to their scholarships. "At-risk students would then be empowered with bigger scholarships than the others, making them attractive to all schools (and stimulating the emergence of new specialty schools)." (John E. Chubb and Terry M. Moe, *Politics, Markets, and America's Schools*, p. 220.) Chubb and Moe also recommend against allowing parents and students to supplement their vouchers with personal funds. (*Ibid.*)

students may find their only practical options to be (1) attending a poor-quality, but local, public school or (2) attending a second-rate scholarship-redeeming school.

- o **Public Schools Hit With "Triple Whammy."** Based on the foregoing discussion, in conjunction with the fiscal analysis presented earlier, it is not difficult to envision an outcome in which the remaining public (non-scholarship-redeeming) schools get stuck with the harder-to-educate (i.e., *more costly* to educate) kids, at the same time that per-pupil support for public schools is drastically reduced. Moreover, the public schools would still be subject to current statutes and regulations, while scholarship-redeeming schools would not. If public schools are unable to meet expectations for academic quality under these adverse conditions, more students may leave the system; as attendance decreases, per-pupil funding will drop further. The end result of such a downward spiral would be the demise of the public school system.
- o **Minimal Accountability Requirements.** The measure implicitly assumes that market forces will take care of most issues of financial and performance accountability. (With respect to academic accountability, it merely provides that the State Board of Education *may* require public schools and scholarship-redeeming schools to administer tests "reflecting national standards," with each school's composite results released to the public.) Given a very significant state financial commitment, do we really want to abandon *all* regulation? (What about sanctions on schools that are consistently low-performing or that otherwise "misuse" public funds? What about facilities structural integrity standards?)
- o **Could Lead to Undesirable Discrimination.** The measure only prohibits discrimination based on race/ethnicity, color, or national origin. Scholarship-redeeming schools could presumably discriminate based on sex, sexual orientation, religion, physical/mental handicap, and academic or athletic ability.
- o **Benefits of Competition Are Unproven.** While the potential benefits of competition sound fine in theory, they have yet to be proven in any large-scale demonstration of education vouchers. In light of the concerns noted, are the potential benefits worth gambling the public school system's existence?
- o **Overall, A Bad Voucher Plan.** Even opponents of vouchers concede that there is a wide continuum in voucher plans from "good" to "bad," depending upon the specifics. *This is a very bad voucher plan*, the intent of which appears to go far beyond providing "level playing field" competition for the public schools. Instead, it is structured so as to "stack the deck" against the public schools, with the apparent goal of destroying the public school system.

KNOWN PROPONENTS/OPPONENTS

Proponents:

Excellence through Choice in Education League (ExCEL)
Joseph Alibrandi, Whittaker Corporation CEO
Former US Secretary of Education William Bennett
Milton Friedman (Professor Emeritus of Economics, University of Chicago)
Former Governor George Deukmejian

Opponents:

Superintendent of Public Instruction Bill Honig
California School Boards Association
Association of California School Administrators
California Teachers Association
California Federation of Teachers
California State PTA
California School Employees Association
Service Employees International Union
United Teachers of Los Angeles
Californians for Community Colleges
Los Angeles Educational Alliance for Restructuring Now (LEARN):
Robert E. Wycoff, President, ARCO; Chairman, LEARN
Roy A. Anderson, Chairman, The 2000 Partnership
William R. Anton, Superintendent, Los Angeles Unified School Districts
Helen F. Bernstein, President, United Teachers of Los Angeles
John W. Mack, Urban League, Los Angeles; Black Leadership Coalition on Education
William G. Ouchi, UCLA School of Management; Leadership Education for Asian-Pacific
Richard J. Riordan, Riordan & McKenzie; Founder, Kids First
Virgil Roberts, Dick Griffey Productions; Solar Records; Chairman, Los Angeles Educational Partnership
John P. Singleton, Security Pacific Corp; Chairman, Workforce LA
Phillip L. Williams, Vice Chairman, Times Mirror Corp.; Chairman, California Chamber of Commerce Education Committee
Mike Roos, President and Chief Executive Officer, LEARN

Neutral:

California Business Roundtable*

* Has indicated intent to *oppose* measure, if it qualifies for ballot--provided that progress continues to be made towards implementing public school choice.

FISCAL ANALYSIS

It is not possible to predict precisely the fiscal effect of this measure. This is because the fiscal effect would depend on several interrelated factors, including:

- o *The number of students in private schools (currently not supported by the state) who chose to receive scholarships.*
- o *The number of students in public schools who chose to receive scholarships (potentially at lower cost to the state).*
- o *The value of the scholarship, as set by the Legislature.*
- o *The level of per-pupil spending on students who chose to remain in non-scholarship-redeeming public schools.*

A simplistic analysis predicts that, if *all* of the 500,000 or so students currently attending private schools chose to receive scholarships and *no* students left the public school system, the measure would result in net additional *costs* to the state. On the other hand, if many students were to leave the public school system and convert to less-costly scholarships, the measure could result in net *savings*.

Proposition 98 Interactions. A further complication, however, is provided by the interaction of these factors with the Proposition 98 minimum funding requirements. Under the terms of the measure, each student who left the non-scholarship-redeeming public schools would result in a corresponding reduction to Proposition 98 minimum funding requirements as determined by "Test 2" (the "maintenance of prior year's service levels" test). (The amount of the reduction in 1993-94 would be approximately \$4,230 per pupil.) This reduction would continue with the departure of additional pupils, until the "Test 2" funding dropped below the "Test 1" (percent of General Fund revenues) level--at which time "Test 1" would be controlling.

In addition, however, the measure provides that all spending for scholarships, *as well as any "savings" resulting from the granting of scholarships*, counts towards meeting Proposition 98 minimum funding requirements. "Savings" are defined as the difference between (1) the amount of the scholarship and (2) the average state and local spending per student in non-scholarship-redeeming public schools. Again using 1993-94 figures, each pupil receiving a scholarship would produce an *additional* \$4,230 in spending and "savings" counting towards Proposition 98 funding requirements.

The effect of these provisions would be to produce a "double hit" on the Proposition 98 guarantee for every pupil that leaves the public school system. The first "hit" occurs as the overall guarantee is--appropriately--reduced to reflect fewer students within the public school system. The second "hit" results from counting spending on scholarships and "savings" towards meeting Proposition 98 funding requirements.

A "Best Case" and "Worst Case" Analysis. While it is not possible to estimate precisely the value of each of the four factors noted above in all of the years in which the measure would be in effect, it is possible to develop alternative projections based on plausible "best case" and "worst case" scenarios--taking note of the fact that the number of students who chose to receive scholarships would, in all likelihood, be positively correlated with the value of the scholarship.

The attached charts summarize the results of such an analysis, in which the following two scenarios are contrasted:

- o **High Voucher, High Exodus.** In this scenario (a "worst case" from the public schools' perspective), the value of the voucher is set at *75 percent* of the prior year's total per-pupil spending on public schools. In the initial year of operation, 3 percent (164,000) of 1992-93 public school enrollment chooses to receive scholarships; this figure grows by 60 percent annually thereafter. In 1995-96, 112 percent (696,000) of the prior year's private school enrollment chooses to receive scholarships; this figure grows by 12 percent annually thereafter. We have further assumed that the Legislature chooses to provide the bare minimum level of funding needed to meet Proposition 98 funding requirements (including counting "savings" towards the guarantee); in no event, however, would per-pupil spending on either vouchers or public schools decline from year to year.
- o **Minimal Voucher, No Exodus.** In this scenario (a "best case" from the public schools' perspective), the value of the voucher is set at *50 percent* of the prior year's total per-pupil spending on public schools. *No* students attending public schools choose to receive scholarships; *all* students who would otherwise have attended private schools choose to do so. In contrast to the above, we assume that the Legislature chooses to fund Proposition 98 such that *actual* total public spending on public schools plus vouchers (*excluding* "savings") equals the guarantee; again, however, in no event would per-pupil spending on either vouchers or public schools be permitted to decline from year to year.

The charts also show projected "baseline" state and local spending for public schools under Proposition 98, in the absence of the initiative. (Economic assumptions are based on the Commission on State Finance Fall 1991 Long-Term General Fund Forecast.)

Chart 1 shows that, under the "high voucher, high exodus" scenario, total state and local spending for public education (excluding spending on vouchers) would drop from a level of \$22.5 billion in 1992-93 to \$18.1 billion in 1999-2000--*55 percent* below the projected "baseline" level of \$40.4 billion. Obviously, under these circumstances, tens of thousands of teachers would be laid off from the public schools; it is impossible to predict how many of these would find employment in scholarship-redeeming schools. The chart also shows that, under the "minimal voucher, no exodus" scenario, public education spending would be \$33.9 billion in 1999-2000--*16 percent* below the "baseline" level.

Chart 2 shows these same data, on a per-pupil basis. The chart shows that, on a per-pupil basis, the impact of the initiative on public education spending is *remarkably similar* under both scenarios. Specifically, under the "high voucher, high exodus" scenario, per-pupil spending in 1999-2000 is *19 percent* below the "baseline" level of \$5,633, while under the "minimal voucher, no exodus" scenario, it is *16 percent* below the "baseline" level.

This analysis therefore suggests that, *unless the Governor and the Legislature were to provide funding in excess of the Proposition 98-required minimum guarantee levels*, per-pupil funding for those students who remain in public schools would likely decrease significantly (that is, by 16 to 19 percent) below amounts needed to maintain 1992-93 current service levels. This, in turn, would require significantly increased class sizes, reductions in teacher compensation, or both.

Chart 1
Total State & Local Spending for Public Education
Excluding Spending on Vouchers

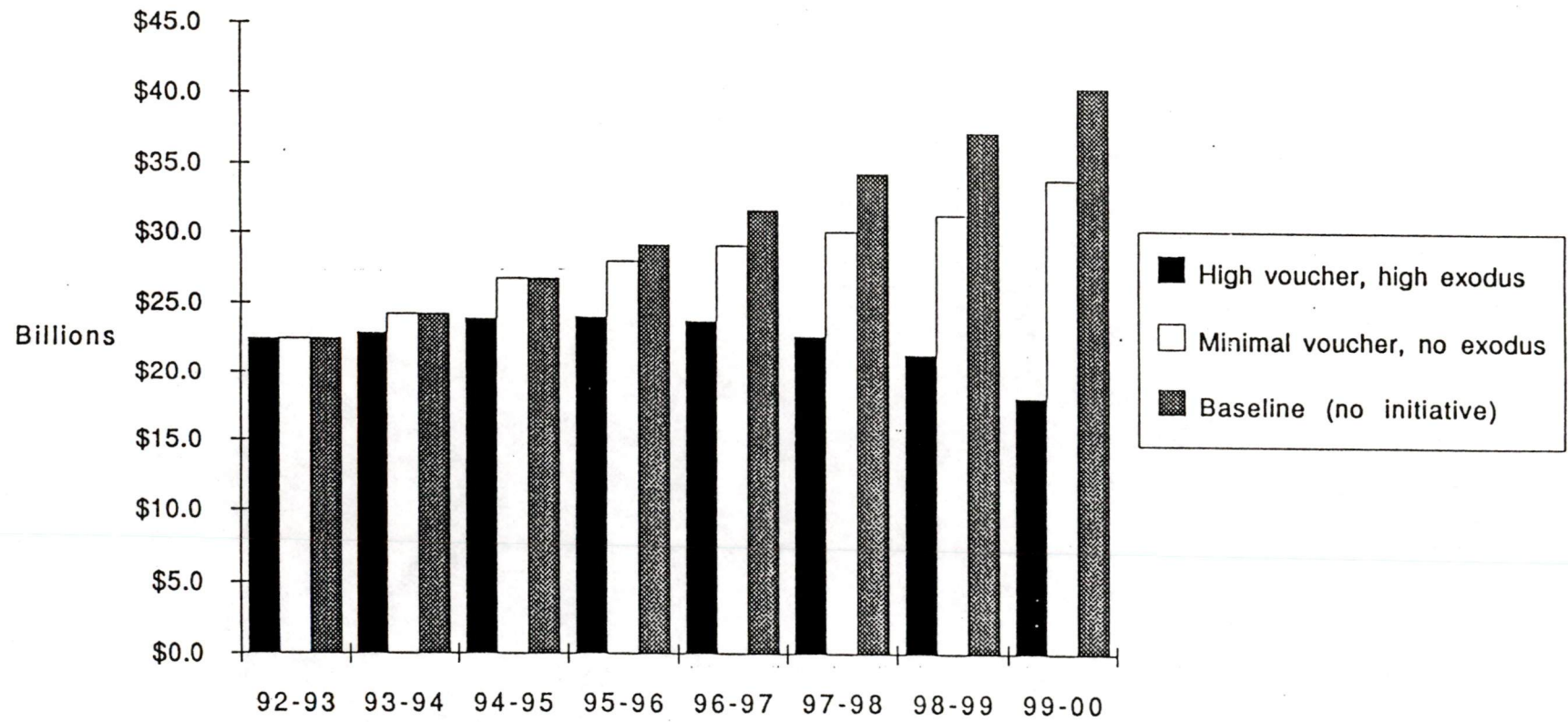
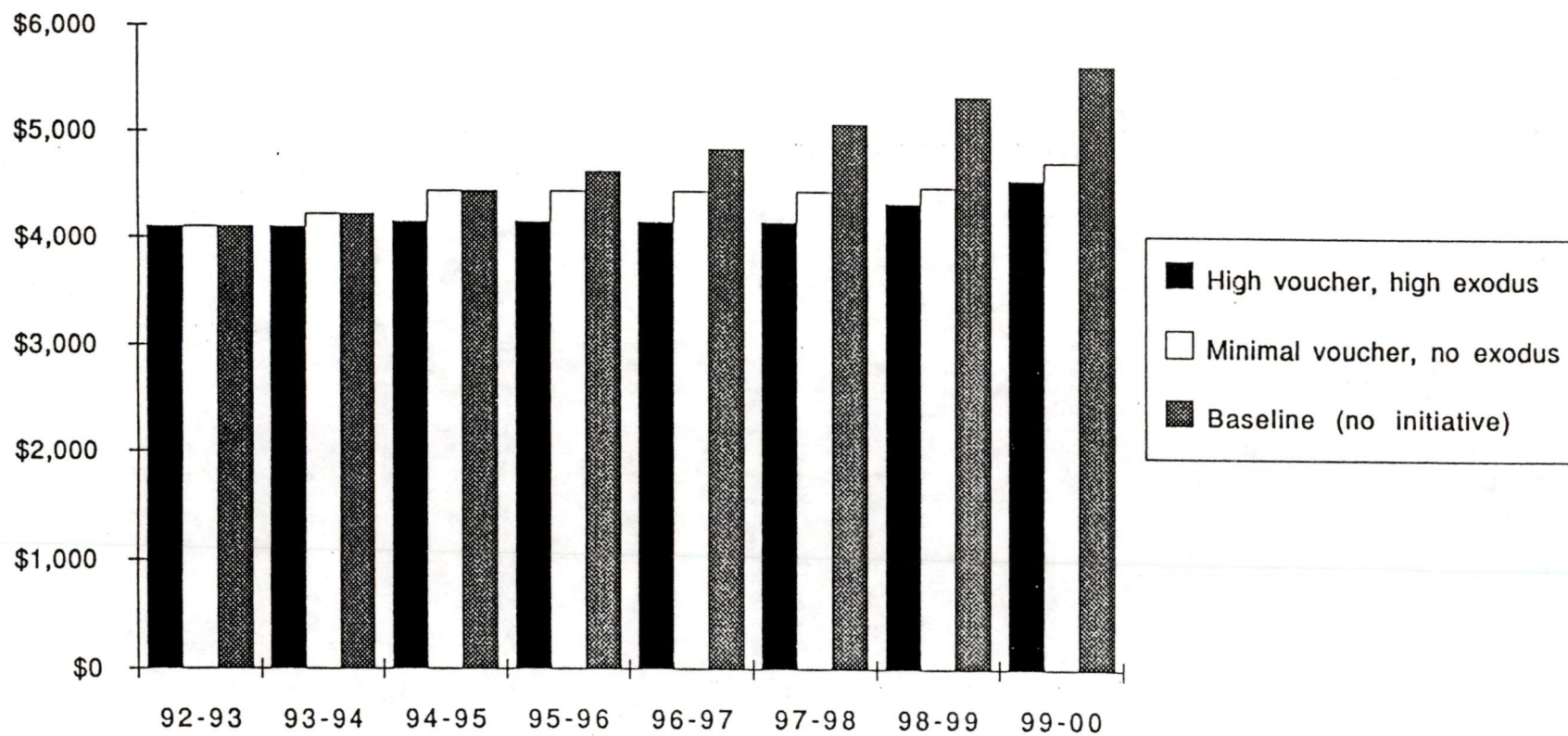


Chart 2
Per-Pupil State & Local Spending for Public Education
Excluding Spending on Vouchers



November 19, 1991

THE PARENTAL CHOICE IN EDUCATION INITIATIVE

The following Section, the "Parental Choice in Education Amendment," is hereby added to Article IX of the California Constitution:

Section 17. Purpose. The people of California, desiring to improve the quality of education available to all children, adopt this Section to: (1) enable parents to determine which schools best meet their children's needs; (2) empower parents to send their children to such schools; (3) establish academic accountability based on national standards; (4) reduce bureaucracy so that more educational dollars reach the classroom; (5) provide greater opportunities for teachers; and (6) mobilize the private sector to help accommodate our burgeoning school-age population.

Therefore: All parents are hereby empowered to choose any school, public or private, for the education of their children, as provided in this Section.

(a) **Empowerment of Parents; Granting of Scholarships.** The State shall annually provide a scholarship to every resident school-age child. Scholarships may be redeemed by the child's parent at any scholarship-redeeming school.

(1) The scholarship value for each child shall be at least fifty percent of the average amount of State and local government spending per public school student for education in kindergarten and grades one through twelve during the preceding fiscal year, calculated on a statewide basis, including every cost to the State, school districts, and county offices of education of maintaining kindergarten and elementary and secondary education, but excluding expenditures on scholarships granted pursuant to this Section and excluding any unfunded pension liability associated with the public school system.

(2) Scholarship value shall be equal for every child in any given grade. In case of student transfer, the scholarship shall be prorated. The Legislature may award supplemental funds for reasonable transportation needs for low-income children and special needs attributable to physical impairment or learning disability. Nothing in this Section shall prevent the use in any school of supplemental assistance from any source, public or private.

(3) If the scholarship amount exceeds the charges imposed by a scholarship-redeeming school for any year in which the student is in attendance,

the surplus shall become a credit held in trust by the state for the student for later application toward charges at any scholarship-redeeming school or any institution of higher education in California, public or private, which meets the requirements imposed on scholarship-redeeming schools in Section 17(b)(1) and (3). Any surplus remaining on the student's twenty-sixth birthday shall revert to the state treasury.

(4) Scholarships provided hereunder are grants of aid to children through their parents and not to the schools in which the children are enrolled. Such scholarships shall not constitute taxable income. The parent shall be free to choose any scholarship-redeeming school, and such selection shall not constitute a decision or act of the State or any of its subdivisions. No other provision of this Constitution shall prevent the implementation of this Section.

(5) Children enrolled in private schools on October 1, 1991, shall receive scholarships, if otherwise eligible, beginning with the 1995-96 fiscal year. All other children shall receive scholarships beginning with the 1993-94 fiscal year.

(6) The State Board of Education may require each public school and each scholarship-redeeming school to choose and administer tests reflecting national standards for the purpose of measuring individual academic improvement. Such tests shall be designed and scored by independent parties. Each school's composite results for each grade level shall be released to the public. Individual results shall be released only to the school and the child's parent.

(7) Governing boards of school districts shall establish a mechanism consistent with federal law to allocate enrollment capacity based primarily on parental choice. Any public school which chooses not to redeem scholarships shall, after district enrollment assignments based primarily on parental choice are complete, open its remaining enrollment capacity to children regardless of residence. For fiscal purposes, children shall be deemed residents of the school district in which they are enrolled.

(8) No child shall receive any scholarship under this Section or any credit under Section 17(a)(3) for any fiscal year in which the child enrolls in a non-scholarship-redeeming school, unless the Legislature provides otherwise.

(b) **Empowerment of Schools; Redemption of Scholarships.** A private school may become a scholarship-redeeming school by filing with the State Board of Education a statement indicating satisfaction of the legal requirements which applied to private schools on October 1, 1991, and the requirements of this Section.

(1) No school which discriminates on the basis of race, ethnicity, color, or national origin may redeem scholarships.

(2) To the extent permitted by this Constitution and the Constitution of the United States, the State shall prevent from redeeming scholarships any school which advocates unlawful behavior; teaches hatred of any person or group on the basis of race, ethnicity, color, national origin, religion, or gender; or deliberately provides false or misleading information respecting the school.

(3) No school with fewer than 25 students may redeem scholarships, unless the Legislature provides otherwise.

(4) Private schools, regardless of size, shall be accorded maximum flexibility to educate their students and shall be free from unnecessary, burdensome, or onerous regulation. No regulation of private schools, scholarship-redeeming or not, beyond that required by this Section and that which applied to private schools on October 1, 1991, shall be issued or enacted, unless approved by a three-fourths vote of the Legislature or, alternatively, as to any regulation pertaining to health, safety, or land use imposed by any county, city, district, or other subdivision of the State, a two-thirds vote of the governmental body issuing or enacting the regulation and a majority vote of qualified electors within the affected jurisdiction. In any legal proceeding challenging such a regulation as inconsistent with this Section, the governmental body issuing or enacting it shall have the burden of establishing that the regulation: (A) is essential to assure the health, safety, or education of students, or, as to any land use regulation, that the governmental body has a compelling interest in issuing or enacting it; (B) does not unduly burden or impede private schools or the parents of students therein; and (C) will not harass, injure, or suppress private schools.

(5) Notwithstanding Section 17(b)(4), the Legislature may (A) enact civil and criminal penalties for schools and persons who engage in fraudulent conduct in connection with the solicitation of students or the redemption of scholarships, and (B) restrict or prohibit individuals convicted of (i) any felony, (ii) any offense involving lewd or lascivious conduct, or (iii) any offense involving molestation or other abuse of a child, from owning, contracting with, or being employed by any school, public or private.

(6) Any school, public or private, may establish a code of conduct and discipline and enforce it with sanctions, including dismissal. A student who is deriving no substantial academic benefit or is responsible for serious or habitual misconduct related to the school may be dismissed.

(7) After the parent designates the enrolling school, the State shall disburse the student's scholarship funds, excepting funds held in trust pursuant to

Section 17(a)(3), in equal amounts monthly, directly to the school for credit to the parent's account. Monthly disbursements shall occur within 30 days of receipt of the school's statement of current enrollment.

(8) Expenditures for scholarships issued under this Section and savings resulting from the implementation of this Section shall count toward the minimum funding requirements for education established by Sections 8 and 8.5 of Article XVI. Students enrolled in scholarship-redeeming schools shall not be counted toward enrollment in public schools and community colleges for purposes of Sections 8 and 8.5 of Article XVI.

(c) **Empowerment of Teachers; Conversion of Schools.** Within one year after the people adopt this Section, the Legislature shall establish an expeditious process by which public schools may become independent scholarship-redeeming schools. Such schools shall be common schools under this Article, and Section 6 of this Article shall not limit their formation.

(1) Except as otherwise required by this Constitution and the Constitution of the United States, such schools shall operate under laws and regulations no more restrictive than those applicable to private schools under Section 17(b).

(2) Employees of such schools shall be permitted to continue and transfer their pension and health care programs on the same terms as other similarly situated participants employed by their school district so long as they remain in the employ of any such school.

(d) **Definitions.**

(1) "Charges" include tuition and fees for books, supplies, and other educational costs.

(2) A "child" is an individual eligible to attend kindergarten or grades one through twelve in the public school system.

(3) A "parent" is any person having legal or effective custody of a child.

(4) "Qualified electors" are persons registered to vote, whether or not they vote in any particular election. The alternative requirement in Section 17(b)(4) of approval by a majority vote of qualified electors within the affected jurisdiction shall be imposed only to the extent permitted by this Constitution and the Constitution of the United States.

(5) The Legislature may establish reasonable standards for determining the "residency" of children.

(6) "Savings resulting from the implementation of this Section" in each fiscal year shall be the total amount disbursed for scholarships during that fiscal year subtracted from the product of (A) the average enrollment in scholarship-redeeming schools during that fiscal year multiplied by (B) the average amount of State and local government spending per public school student for education in kindergarten and grades one through twelve, calculated on a statewide basis, during that fiscal year.

(7) A "scholarship-redeeming school" is any school, public or private, located within California, which meets the requirements of this Section. No school shall be compelled to become a scholarship-redeeming school. No school which meets the requirements of this Section shall be prevented from becoming a scholarship-redeeming school.

(8) "State and local government spending" in Section 17(a)(1) includes, but is not limited to, spending funded from all revenue sources, including the General Fund, federal funds, local property taxes, lottery funds, and local miscellaneous income such as developer fees, but excluding bond proceeds and charitable donations. Notwithstanding the inclusion of federal funds in the calculation of "state and local government spending," federal funds shall constitute no part of any scholarship provided under this Section.

(9) A "student" is a child attending school.

(e) **Implementation.** The Legislature shall implement this Section through legislation consistent with the purposes and provisions of this Section.

(f) **Limitation of actions.** Any action or proceeding contesting the validity of (1) this Section, (2) any provision of this Section, or (3) the adoption of this Section, shall be commenced within six months from the date of the election at which this Section is approved; otherwise this Section and all of its provisions shall be held valid, legal, and uncontestable. However, this limitation shall not of itself preclude an action or proceeding to challenge the application of this Section or any of its provisions to a particular person or circumstance.

(g) **Severability.** If any provision of this Section or the application thereof to any person or circumstance is held invalid, the remaining provisions or applications shall remain in force. To this end the provisions of this Section are severable.

THE WHITE HOUSE
WASHINGTON

July 8, 1992

MEMORANDUM FOR SAM SKINNER

FROM:

SCOTT COLLINS

SUBJECT:

Report on jobs supported by exports to Mexico

What this report means--unsurprisingly--is that as exports to Mexico have increased, so has the number of U.S. jobs supported by those exports. Merchandise (goods as opposed to services) exports to Mexico grew from an inflation-adjusted value of \$9.5B in 1983 to \$26.7B in 1990, and the number of U.S. jobs directly or indirectly supported by merchandise exports to Mexico grew from 225,000 in 1983 to 538,000 in 1990. The bulk of these jobs are in the manufacturing (mostly textiles and apparel) and service (largely wholesaling) sectors.

As Secretary Franklin suggests, this data is helpful to demonstrate the increasing importance of exports to Mexico to the U.S. economy. (However, there are two missing components necessary to complete the picture. The first is whether these jobs are new ones, created by the increase in exports, or old ones, simply shifted from domestic sectors that are contracting. Second, and related, is the number of U.S. jobs lost as the result of American companies shifting more operations to Mexico.)

The primary value of this report -- and its parent report "U.S. Jobs Supported by Merchandise Exports" -- is to provide the facts for the President's message that opening markets abroad means creating jobs at home.

****Example:** "Jobs and prosperity at home depends on selling more goods abroad. Most people don't realize that the goods we sell to Mexico alone account for over a half a million jobs in this country. We need to keep boosting our exports -- and that's why I'm fighting so hard for open markets and free trade."

555
"Hallel for
"NAFTA"
effort.
DCF HAS SEEN

THE SECRETARY OF COMMERCE
WASHINGTON, D.C. 20230

OCF HAS SEEN

June 17, 1992

MEMORANDUM FOR THE HONORABLE SAMUEL K. SKINNER
CHIEF OF STAFF

FROM: BARBARA HACKMAN FRANKLIN *Barbar*

SUBJECT: REPORT ON U.S. EXPORTS TO MEXICO

Sam, attached you'll find a copy of a report I've sent to Clayton Yuetter entitled U.S. Jobs Supported by U.S. Merchandise Exports and a supplement to that report relating specifically to our trade relationship with Mexico. This supplement underscores the importance of exports to Mexico in creating jobs and economic growth in the U.S. I thought you might find it interesting.

I will announce the release of this supplement tomorrow, June 18, at the Trade Promotion Coordinating Committee's National Export Initiative conference in Dallas.

Attachments

*To Scott
what does
This mean?
S*

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S
A

U.S. Jobs Supported by U.S. Merchandise Exports to Mexico

Supplement to Report--
"U.S. Jobs Supported by Merchandise Exports"



U.S. Department of Commerce
Economics and Statistics Administration
Office of the Chief Economist
May 1992

OMA
Research
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2-92

U.S. Jobs Supported by Merchandise Exports to Mexico

Supplement to Report--
"U.S. Jobs Supported by Merchandise Exports"

by

Lester A. Davis

**Office of Macroeconomic Analysis
in the
Office of the Chief Economist**

**Research Series OMA-2-92
May 1992**

**U.S. Department of Commerce
Economics and Statistics Administration**

This is an analytical report and should not be construed as a statement of U.S. Department of Commerce policy.

Available from the National Technical Information Service (NTIS); Ph: (703) 487-4650.
Request by order number: PB92-173517.

REPORT HIGHLIGHTS

Exports often are a vital source of growth in U.S. output and employment. The strong growth in U.S. merchandise exports over the last half of the 1980s and into 1990 has contributed to U.S. economic employment growth.

- In 1990, the total number of U.S. jobs supported by total U.S. merchandise exports to all foreign markets reached a record 7.2 million -- up 42 percent from 5.0 million in 1986.
- The rise in total U.S. merchandise exports to all foreign markets contributed 25 percent of the growth in U.S. civilian jobs between 1986 and 1990.

Merchandise exports to Mexico are an important source of growth in U.S. output and employment, particularly since 1986. The following briefly examines the increased importance of their contribution to U.S. employment between 1983 and 1990.

- Exports to Mexico rose faster than to most other major U.S. export markets during 1986-90, doubling in volume over that period. As a result, Mexico accounted for 13 percent of the rise in total U.S. export volume during this period.
- In 1990, U.S. merchandise exports to Mexico directly and indirectly accounted for a total of 538,000 U.S. jobs in goods and services producing industries. Obviously, the strong growth in real exports to Mexico in 1991 significantly increased the number of jobs from that in 1990.

- This total includes jobs **directly** required to produce the exported products, and the jobs **indirectly** required upstream to produce the intermediate inputs and capital goods used in producing the exports, and downstream to provide the transportation and other services used in moving the goods to the port of exportation.
- The number of these jobs doubled between 1986 and 1990, and contributed significantly to the surge in total U.S. jobs supported by U.S. merchandise exports to all foreign markets.
- The importance to U.S. jobs of exports to Mexico is highlighted by the average number of those jobs supported by each billion dollars of U.S. merchandise. The estimated average number in 1990 was 19,600 U.S. jobs.
- Manufactures exports support by far the majority of these jobs -- 85 percent of the total in 1990. However, in terms of the sectors where the jobs are located, nearly as many jobs in the services sector as in manufacturing benefit from merchandise exports.
- One-fifth of the U.S. manufacturing jobs supported by merchandise exports to Mexico are in high technology industries.
- The top goods-producing industries with the most number of jobs supported by merchandise exports to Mexico in 1990 are led by textile mill products, apparel & accessories, electronic components, rubber and plastics products, and motor vehicle equipment.

U.S. Jobs Supported by U.S. Merchandise Exports to Mexico

The U.S. Department of Commerce recently reported on the overall contribution to U.S. employment by U.S. merchandise exports to all foreign markets.¹ Briefly, this overall report indicated that total U.S. merchandise exports often are a vital source of growth in U.S. output and employment. The strong growth in total U.S. merchandise exports to all foreign markets over the last half of the 1980s and into 1990 has contributed to U.S. economic and employment growth.

- In 1990, the total number of U.S. jobs supported by total U.S. merchandise exports to all foreign markets reached a record 7.2 million -- up 42 percent from 5.0 million in 1986.
- Total U.S. merchandise exports to all foreign markets contributed 25 percent of the growth in U.S. civilian jobs between 1986 and 1990.

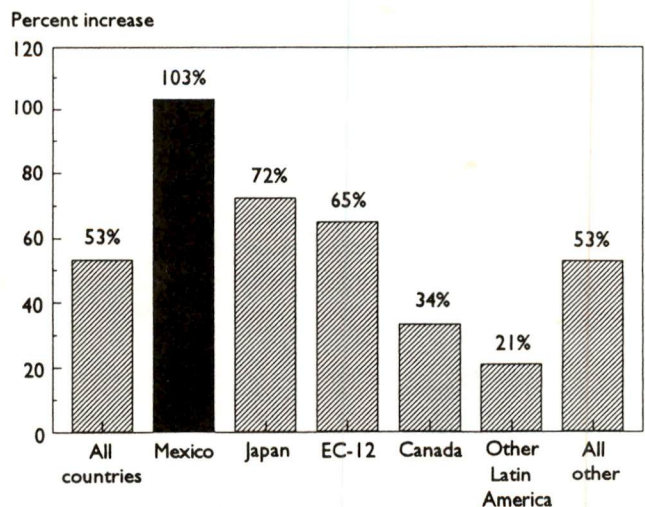
During this period, Mexico became the fastest growing major market for U.S. products, and ranks as the third largest export market after Canada and Japan (Figure 1). This growing importance of U.S. exports to Mexico is reflected in U.S. trade policies in general and in the current negotiations with Canada and Mexico on the proposed North American Free Trade Area (NAFTA). Mexico also has unilaterally undertaken sweeping liberalization of its economy and reduction of its barriers to foreign goods and investments.

The proposed NAFTA will create the world's

largest single trading area -- comprising over 360 million people and over \$6 trillion of gross domestic product. The NAFTA will combine the first and third largest foreign markets for U.S. merchandise exports -- Mexico and Canada jointly accounting for 28 percent of U.S. merchandise exports to the world.

The recent liberalization of the Mexican economy has considerably increased effective Mexican demand for imports, resulting in a surge in U.S. exports to that market. Moreover, most researchers' recent studies on the likely effects of the NAFTA point to increased U.S. exports to that market over and above the export growth that might otherwise have occurred.² These events have given considerable public attention to the NAFTA and its effects on the U.S. economy. Among the important effects is the support of U.S. jobs by U.S. exports to Mexico.

Figure 1
Volume of U.S. Merchandise Exports to Mexico
Rose Faster than to Most Other Foreign Markets,
1986-90*



¹ Lester A. Davis. *U.S. Jobs Supported by Merchandise Exports*, OMA Research Series 1-92. Washington, D.C., U.S. Department of Commerce, Economics & Statistics Administration, Office of the Chief Economist, April 1992.

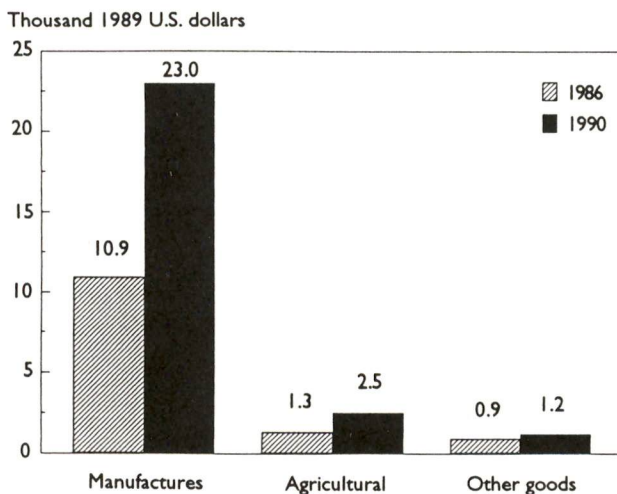
² See for example: U.S. International Trade Commission. *Economy-Wide Modeling of the Economic Implications of a FTA with Mexico and a NAFTA with Canada and Mexico*, (a compendium of external research papers submitted at a symposium on February 24 and 25, 1992, in conjunction with Investigation No. 332-317 under Section 332 of the Tariff Act of 1930). Washington, D.C. February 1992.

This report provides information on the rising number of those jobs that have been supported by U.S. merchandise exports during 1983-90, and particularly the surge in their number since 1986. The increase in these jobs is an important indicator of the rising importance of the Mexican market to the U.S. economy.

Merchandise Exports to Mexico Rise Strongly

Exports to Mexico rose faster than to most other major U.S. export markets during 1986-90, doubling in volume over that period (Figure 1). As a result, Mexico accounted for 13 percent of the rise in total U.S. export volume during this period. Virtually all of that U.S. export growth was in manufactured goods -- accounting for 89 percent of the 1986-90 rise in export volume (in terms of 1989 dollars) (Figure 2). This strong export growth reflected, among other factors, a recovery of Mexico's imports from unsustainable levels at the outset of the 1980s.

Figure 2
Manufactures Account for Most of Growth in Volume of U.S. Merchandise Exports to Mexico, 1986-90



Exports to Mexico Support Large U.S. Job Growth

Between 1986 and 1990, the 103 percent rise in the volume of U.S. merchandise exports to Mexico contributed a 96 percent rise in the total number of U.S. jobs supported by those exports--with the total of such jobs reaching 538 thousand in 1990 (Figure 3). That total covers jobs both directly and indirectly supported by U.S. exports, including the large number in the services sector that are supported indirectly by merchandise exports. Not covered by this study are the additional jobs in the services and goods sectors supported by services exports.

On average, 19,600 U.S. jobs were supported by each billion dollars of U.S. merchandise exports to Mexico in 1990 -- a slightly higher average rate than for U.S. exports to other foreign markets.

Exports Have Large Indirect Impact on Jobs

Many workers benefit from exports to Mexico in addition to those in the exporting industry. For every job directly supported by U.S. exports to Mexico, an additional two jobs are indirectly

Figure 3
Total U.S. Jobs Supported by Merchandise Exports to Mexico, 1983-90 (Full-time-equivalent jobs)

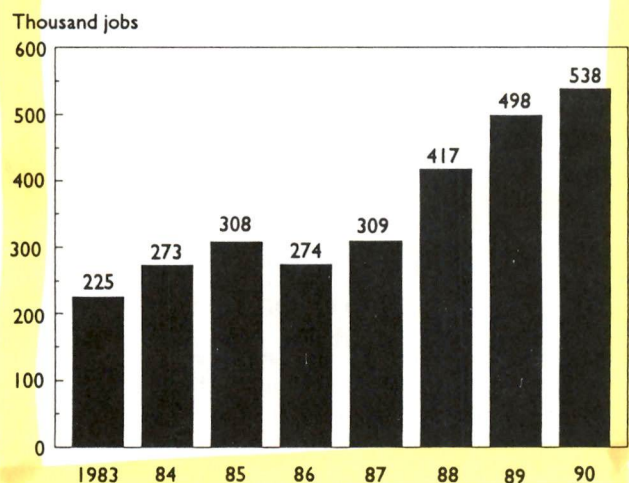
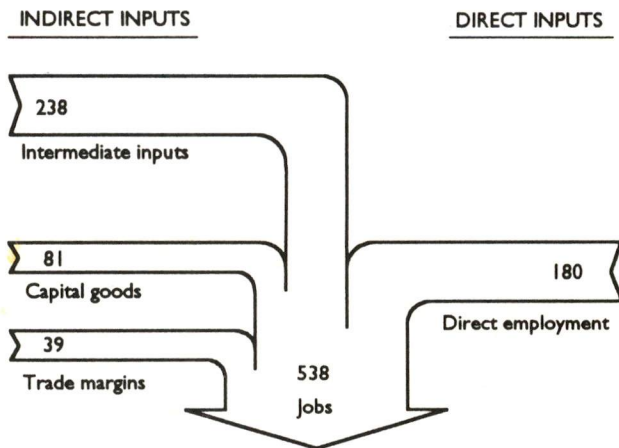


Figure 4
Sources of U.S. Jobs Supported by Merchandise Exports to Mexico in 1990
 (Thousand full-time-equivalent jobs)



supported in other U.S. industries. For example, in 1990, 180 thousand jobs were directly supported by exports to Mexico, and a total of 358 thousand were indirectly supported -- 238 thousand in upstream industries supplying intermediate inputs and 81 thousand upstream supplying capital goods, and 39 thousand downstream providing services to move the finished goods to the border (trade margin services) (Figure 4).

Most of Growth due to Exports of Manufactures

Most of the jobs supported by merchandise exports to Mexico, and the largest share of their increase between 1986 and 1990, were supported by exports of manufactured goods. In 1990, manufactures accounted for 85 percent of the total U.S. jobs supported by merchandise exports to Mexico (Figure 5), and a correspondingly large share of the sharp 4-year rise in that total.

Jobs in Manufacturing and Services Benefit Most

Most of the U.S. workers benefitting from total U.S. merchandise exports to Mexico are

primarily employed in manufacturing and services industries. By 1990, the total number of jobs in manufacturing directly and indirectly owed to merchandise exports to Mexico reached 260 thousand, while those in the services sector (all indirectly owed to merchandise exports) reached nearly as many -- 225 thousand (Figure 6). Jobs in agriculture and in other sectors were relatively small in number.

Figure 5
U.S. Jobs Supported by Merchandise Exports to Mexico, by Exporting Sector, in 1990
 (Full-time-equivalent jobs)

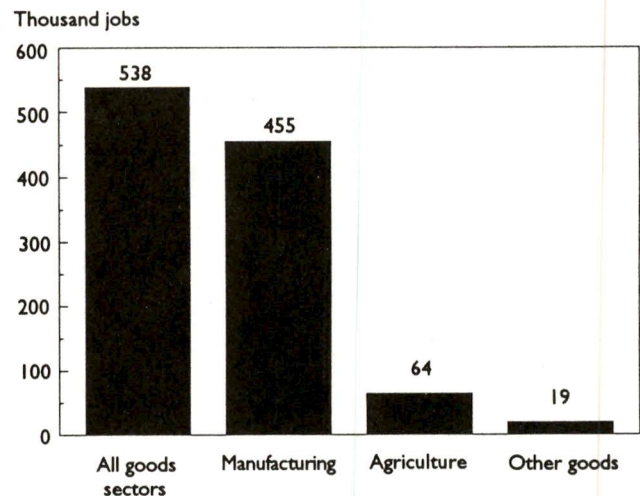
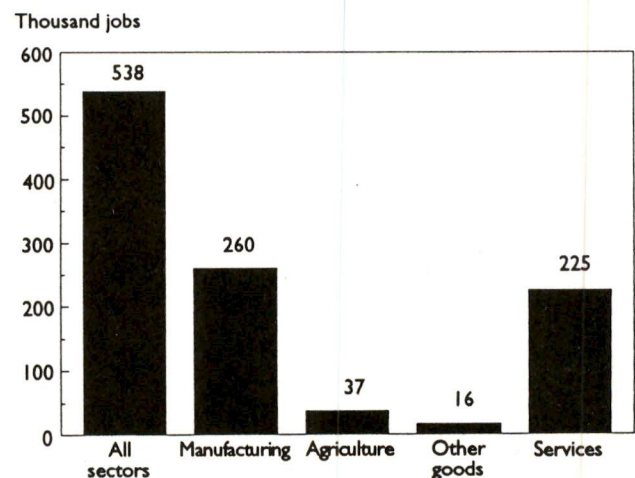


Figure 6
U.S. Jobs Supported by Merchandise Exports to Mexico, by Employing Sector, in 1990
 (Full-time-equivalent jobs)



The principal U.S. goods-producing industries that benefit in employment from merchandise exports to Mexico are widely dispersed across the manufacturing and agriculture sectors. They are led by jobs in the textiles and apparel industries (Table 1).

A number of key services industries -- led by wholesaling -- also substantially benefited from U.S. merchandise exports to Mexico in 1990. Table 2 shows the services industries with the largest number of jobs supported by merchandise exports to Mexico and for which separate estimates are available.

Jobs in high-technology industries accounted for over one-fifth of the total number of manufacturing jobs supported by U.S. exports to Mexico. In 1990, the number of jobs in these high-tech industries reached 54,000, and were led by jobs in

industries producing electronic components, industrial chemicals, computing equipment, and plastics, synthetics, and manmade fibers. See Table 4 in the statistical appendix for more detailed information on employment in individual industries.

Exports to Maquiladoras also Support U.S. jobs

About one-fourth of U.S. exports to Mexico go to Mexican maquiladora plants, which are located mainly along the the border. These U.S. products are assembled in the maquiladora plants and are mainly reexported for sale in the U.S. market.³ While it is true that these maquiladora products are mostly returned for use in the United States, nevertheless, all of the U.S.-made goods shipped to these plants do support U.S. jobs, just as much as any other U.S. output shipped directly for use or consumption in local U.S. markets or in other countries.

U.S. exports to maquiladora plants in 1990 supported about 135,000 U.S. jobs, or about one-fourth of the total number of jobs supported by all U.S. exports to Mexico. (This estimate is based on the rough share of U.S. goods embodied in U.S. imports from the Maquiladora plants in 1988).

Data and Methodology Notes

Because of the large tourist trade and the large cross-border trade between nearby areas in consumer and small commercial purchases, the data on U.S. exports to Mexico and on the U.S. jobs they support are probably somewhat understated, particularly the U.S. jobs in retailing and wholesaling.

Details on the methodology used in this report are presented in the basic report that covers jobs owed to U.S. merchandise exports to all

Table 1
Top Ten Manufacturing Industries, Ranked by Largest Number of Jobs Supported by Merchandise Exports in 1990

Employing Industry	No. of Jobs
Textile mill products	30,000
Apparel & accessories	26,000
Electronic components	18,000
"Other" rubber & plastics products	14,000
"Other" motor vehicle equipment	14,000
Soybeans & other oil bearing crops	10,000
Grains & products	9,000
Internal combustion engine electrical eq.	9,000
Industrial chemicals	8,000
Electronic computing equipment	6,000

Table 2
Top Five Services Industries, Ranked by Largest Number of Jobs Supported by Merchandise Exports in 1990

Employing Industry	No. of Jobs
Wholesaling	109,000
Construction	23,000
Trucking	12,000
Finance	7,000
Communication & other utilities	6,000

³ For an analysis of the extent of U.S. content in U.S. imports from Mexico mainly from Maquiladora plants, see: Gregory Schoepfle. "Implications for U.S. Employment of the Recent Growth in Mexican Maquiladoras," in *Frontier Norte*, Vol. 3, No. 5, January-June, 1991. Tijuana, Baja California: El Colegio de la Frontera Norte.

foreign markets: U.S. Department of Commerce,
Economics and Statistics Administration, Office
of the Chief Economist. *U.S. Jobs Supported by
Merchandise Exports*. April 1992.

APPENDIX A **STATISTICS**

Table 1
Volume of U.S. Domestic Exports to Mexico, by Exporting Sectors, 1983-90*
(Volume in terms of exports value in million 1989 dollars)

<u>Exporting Sector</u>				
	<u>All Sectors</u>	<u>Manufac- turing**</u>	<u>Agri- culture</u>	<u>Other Goods</u>
1983	9,485	7,044	1,950	491
1984	12,144	9,503	2,025	616
1985	14,128	11,327	1,925	877
1986	13,118	10,922	1,307	889
1987	15,082	12,757	1,344	981
1988	20,415	17,235	2,204	976
1989	24,117	20,193	2,716	1,209
1990	26,679	22,972	2,466	1,242

* Excludes volume of reexported foreign merchandise.

** Manufactures coverage is based on SITC 5-9.

Note: may not add due to rounding.

Table 2
U.S. Jobs Supported by Exports to Mexico, by Exporting and Employing Sectors, 1983-90
(Thousand full-time equivalent jobs)

	<u>All Sectors</u>	<u>Manufac- turing*</u>	<u>Agri- culture</u>	<u>Other Goods</u>	<u>Services</u>
<u>Jobs Supported in All U.S. Sectors, By Exporting Sectors:</u>					
1983	225	155	60	9	--
1984	273	203	60	10	--
1985	308	240	53	14	--
1986	274	225	36	13	--
1987	309	257	38	15	--
1988	417	336	65	15	--
1989	498	406	74	18	--
1990	538	455	64	19	--
<u>Jobs Supported by Total U.S. Exports, By Employing Sectors:</u>					
1983	225	98	33	9	85
1984	273	124	33	10	107
1985	308	145	30	11	121
1986	274	136	21	10	107
1987	309	152	22	11	124
1988	417	199	39	13	165
1989	498	237	43	15	203
1990	538	260	37	16	225

* Manufactures coverage is based on SITC 5-9.

Note: may not add due to rounding.

Table 3
U.S. Jobs Supported by Exports to Mexico, By Employment Demand Source, in 1990
(Thousand full-time equivalent jobs)

<u>Employment Demand Source</u>	<u>Exporting Sector</u>			
	<u>All Sectors</u>	<u>Manufac- turing**</u>	<u>Agri- culture</u>	<u>Other Goods</u>
Total	<u>538</u>	<u>455</u>	<u>64</u>	<u>19</u>
Direct output for export	180	157	20	4
Indirect demand (including indirect from own industry), total* . .	<u>358</u>	<u>298</u>	<u>44</u>	<u>16</u>
Upstream:				
Intermediate inputs	238	198	30	10
Capital goods	81	33	5	2
Downstream:				
Trade margins	39	67	9	4

* Demand by each type of indirect includes goods and services of export-related employment directly and indirectly required by that source, regardless whether from that source sector or others.

** Manufactures coverage is based on SITC 5-9.

Note: may not add due to rounding.

Table 4
Total U.S. Jobs Supported Directly and Indirectly by Total U.S. Exports to Mexico,
by Individual Employing Sector, 1983-90*
(Thousand full-time equivalent jobs)

<u>Employing Sector</u>	<u>1983</u>	<u>1990</u>	<u>1983-90 Change (Percent)</u>
Total, all sectors	225	538	101
<u>Agriculture, Total</u>	<u>33</u>	<u>37</u>	<u>12</u>
Grains & products	12	9	-25
Soybeans & other oil bearing crops	13	10	-23
Livestock, poultry & products	3	7	133
Prepared foods	3	6	100
<u>Other Nonmanufactured Goods, Total</u>	<u>9</u>	<u>16</u>	<u>78</u>
Forestry products	2	5	150
Crude oil & natural gas	3	5	67
<u>Manufactures, Total**</u>	<u>98</u>	<u>260</u>	<u>165</u>
<u>Apparel, shoes & textiles</u>	<u>5</u>	<u>40</u>	<u>700</u>
Textile mill products	2	30	1400
Apparel & accessories	3	26	767
<u>Chemicals</u>	<u>9</u>	<u>18</u>	<u>100</u>
Industrial chemicals	5	8	60
<u>Other non-durables</u>	<u>10</u>	<u>27</u>	<u>170</u>
Paper mill & paperboard products	2	7	250
"Other" rubber and plastics products . .	4	14	250
<u>Primary metals</u>	<u>8</u>	<u>18</u>	<u>125</u>
Primary iron & steel	3	7	133
<u>Fabricated metal products</u>	<u>6</u>	<u>16</u>	<u>167</u>
<u>Non-electrical machinery</u>	<u>22</u>	<u>46</u>	<u>109</u>
Machine tool, dies	4	8	100
Electronic computing equipment	3	6	100
<u>Electrical machinery</u>	<u>22</u>	<u>57</u>	<u>160</u>
Internal combustion engine equipment . .	2	9	350
Electrical industrial apparatus	2	5	150
Electronic components	10	18	80

(continued)

Table 4 (continued)
Total U.S. Jobs Supported Directly and Indirectly by Total U.S. Exports to Mexico,
by Individual Employing Sector, 1983-90*
(Thousand full-time equivalent jobs)

<u>Employing Sector</u>	<u>1983</u>	<u>1990</u>	<u>1983-90 Change (Percent)</u>
<u>Manufactures (continued):</u>			
<u>Transport equipment</u>	<u>7</u>	<u>22</u>	<u>214</u>
"Other" motor vehicle equipment	3	14	367
<u>Other durables</u>	<u>9</u>	<u>14</u>	<u>56</u>
<u>Services, Total</u>	<u>85</u>	<u>225</u>	<u>165</u>
<u>Transportation</u>	<u>9</u>	<u>21</u>	<u>133</u>
Trucking	5	12	140
<u>Wholesale & retail trade</u>	<u>41</u>	<u>113</u>	<u>176</u>
<u>Construction</u>	<u>8</u>	<u>23</u>	<u>188</u>
<u>Other services</u>	<u>26</u>	<u>70</u>	<u>169</u>
Communications & utilities	2	6	200
Financial	3	7	133
Other services	19	55	189

* Individual sectors do not add to sector subtotals due to absence from listing of other classes.

** Manufactures based on SITC 5-9.

THE WHITE HOUSE
WASHINGTON

SKS -

File 12/16

Attached is an overview memo from Michael Deland on environmental issues, as annotated by me. The biggies are:

- Wetlands
- Climate Change
- Clean Air Act Implementation
- Endangered Species (Spotted Owl)
- Cam



EXECUTIVE OFFICE OF THE PRESIDENT
COUNCIL ON ENVIRONMENTAL QUALITY
WASHINGTON, D.C. 20500

Michael R. Deland
Chairman

(202) 395-5080

December 10, 1991

MEMORANDUM

TO: SAMUEL K. SKINNER
FROM: MICHAEL R. DELAND
SUBJECT: ENVIRONMENTAL ISSUES ON THE HORIZON

Congratulations on your appointment as White House Chief of Staff! The President has made a wise choice and I look forward to working closely with you to advance his agenda.

While public opinion surveys confirm the obvious--that the economy is the issue of top concern at the moment--most people when asked nonetheless want to see the government do more to protect the environment.

A June 1991 bipartisan poll also shows that President Bush is considered more believable on environmental issues than Members of Congress or business leaders. Environmentalists are consistently given high credibility ratings in public surveys.

In 1992, when reviewing the domestic record, voters will consider whether George Bush has met his goal to be the "Environmental President." To convince the electorate that he has earned that title, we must do two things:

- Use the President's record of accomplishment and "believability" to his political advantage; and
- Avoid blunders that detract from those strengths.

To be of assistance to you, CEQ has prepared the attached issue briefs on some of the thornier subjects that may work their way up to you and the President in coming months. Also attached for your perusal is a summary of the Bush Environmental Accomplishments and Initiatives, and the June 1991 poll.

I would be pleased to provide you with more information or discuss these issues in greater detail if it would be helpful.

Enclosures

Again, congratulations! In my judgment, the President has a solid environmental record. We need to do a ^{Recycled Paper} more artful - and aggressive - job marketing it for him ...

NATIONAL ENERGY STRATEGY

Although DOE figures show that the President's NES proposals would achieve roughly equal measures of new production and conservation, the public believes that the Administration favors few if any measures to promote conservation, efficiency, and clean energy sources, or to combat potential climate change.

In a related area, there is little public awareness of the President's July 1990 decision to set aside a substantial portion of the Outer Continental Shelf until 2000, pending further resource and environmental analysis.

Outlook: At this point, legislative efforts are stalled by filibuster threats in the Senate due to the standoff between key players on ANWR and CAFE standards. The House subcommittee recently finished its comprehensive package, which does not contain ANWR or CAFE provisions. This presents a possible opportunity to jump start NES deliberations early in 1992.

WETLANDS

Since January 1989, the struggle to implement the President's "no net loss" goal has pitted the "Field and Stream" crowd against permit applicants who dislike the red-tape and perceived "land grab" by Washington bureaucrats.

In 1988, there was no government-wide agreement on methods for delineating a regulated wetland. In early January 1989, the four agencies involved (EPA, Army Corps, Soil Conservation Service, Fish and Wildlife Service) expanded the delineation criteria with the result that hundreds of landowners, particularly in the Southeast, suddenly found themselves subject to strict federal regulations.

President's package: After more than a year of deliberations by a Domestic Policy Council Task Force, the President announced on August 9, 1991 a wetlands reform package reiterating his no-net-loss goal and containing three parts:

- o Revisions to the federal delineation manual;
- o Measures to improve the regulatory process; and
- o Commitments to boost nonregulatory programs, such as wetlands acquisition, restoration and research.

Virtually all of the negative public attention has focused on revisions to the delineation manual. The public comment period was extended by 60 days to December 15 and shortly will be extended again to allow comment on a parallel regulatory proposal.

✓ In the meantime, Congress has mandated that the Corps discontinue use of the 1989 manual. Indeed, there are roughly 170 cosponsors in the House for wetlands legislation introduced by Rep. Jimmy Hayes (D-LA) that is significantly less protective than the President's package.

Outlook: Preliminary results from interagency field tests indicate that the proposed manual would increase the cost and time required to conduct delineations; would reduce acreage defined as wetlands by as much as 50-70 percent in some areas; and would remove protection altogether from some ecologically-valuable wetlands.

Options for next steps on the delineation issue are being developed by the Wetlands Task Force.

INTERNATIONAL ISSUES

Climate Change

The United States is balancing scientific uncertainties with actions justified on other grounds that also reduce potential risks. The United States is making a major investment in increasing understanding of the scientific issues. The fiscal 1992 funding request was \$1.2 billion -- far more than any other nation's research efforts.

The U.S. joins other countries in seeking a framework accord on climate change to be signed at the Rio conference next June (see below). The Administration calls for a "Comprehensive Approach" under which emissions of all the various gases (not just CO₂) and all "sinks" (the absorption abilities of forests and oceans) are addressed. The United States also seeks the development of individual national strategies for controlling greenhouse gas emissions, rather than establishing inefficient, "one-size-fits-all" targets and timetables for particular gases.

Until recently, the Administration could claim that measures included in the Clean Air Act and NES would hold net emissions equal to or below the 1990 baseline through 2030. However, new scientific data has raised doubts about our ability to make these claims. It now appears that CFCs have less warming effect than previously thought. This reduces the threat somewhat but it also

complicates the U.S. position since we had relied on speedy phaseout of CFCs as an important component of our policy.

Much of the poor U.S. image on this issue is unfounded. The domestic media have parroted accusations of U.S. bad faith and depicted the NES as lacking conservation measures. Privately, some European and Japanese officials have conceded that their pledges are unattainable and/or extremely costly.

Outlook: Success by June 1992 depends on our ability to present attractive alternatives to CO2 targets and timetables and to provide assistance to poorer nations. In this regard, the Administration is considering aid for country-by-country studies (\$12.5 million estimated for FY 93) to show developing countries that we recognize the difficulties of raising living standards in an environmentally-responsible manner.

Ozone Layer

The new scientific evidence that CFCs are a smaller contributor to global warming than previously thought also indicates that depletion of the stratospheric ozone layer is occurring faster than earlier projections. There now appears to be depletion of the ozone layer over the United States during the spring and summer months when people are generally exposed to more UV radiation.

Outlook: In February 1992, a U.N. meeting in Nairobi will discuss proposals to revise the Montreal Protocol which regulates the international phase-out of CFCs. The DuPont Company, the leading U.S. maker of CFCs and CFC substitutes, has announced voluntary measures to phaseout the chemicals more quickly.

United Nations Rio Conference

The United Nations Conference on Environment and Development (UNCED) will be held in Rio de Janeiro, Brazil, June 1-12, 1992. It will be the largest U.N. Conference in history, with delegations from over 150 countries expected to attend. All heads of state have been invited to attend.

Domestic awareness will grow during two weeks of climate change negotiations in New York in February, immediately followed by a five week UNCED "Prepcom" (preparatory meeting) in New York.

The international political considerations are also significant. Chancellor Kohl, the host of the next G-7 summit (which will take place just after UNCED), has signaled he may attend UNCED and focus the G-7 summit on environmental issues. UNCED is also politically important to President Collor of

Brazil, and it seems likely that most Latin American heads of state will attend the conference.

UNCED is likely to have two or more products. An "Earth Charter" will be a non-binding statement of general principles on "sustainable development", while "Agenda 21" will list proposed activities to be carried out by governments or international organizations. Draft text for these documents will be the subject of extensive negotiation in New York in March.

The United States has specifically called for the following results from UNCED: completion of a framework convention on global climate change; progress toward global conventions on forests and conservation of biodiversity; and reforms to streamline international environment/development institutions.

Outlook: It currently appears that U.S. interests at UNCED will be promoted in the areas of Forests, Oceans, Technology Cooperation, Biodiversity, and reforming international institutions. To a lesser extent, we are playing a significant role in shaping the debate on toxic chemicals, wastes, and sustainable agriculture.

Financial resources are the most contentious item on the agenda. Our negotiators have insisted that existing resources be used more efficiently and effectively before new funding can be considered. Developing countries seek assistance to meet the "incremental" costs of adopting sustainable development policies. If UNCED and the related convention negotiations are to be successful, we will have to overcome the present stalemate.

Global Environmental Facility (GEF)

The Global Environmental Facility (GEF) was established in November 1990 to assist developing countries with the costs of environmental projects that have global benefits. It is an umbrella structure designed to accommodate various forms of contributions and trust funds. For example, the trust fund established for developing nations under the Montreal Protocol is considered a part of the GEF. France and Germany are the major donors to the GEF.

The US participates in the GEF through "cofinancing;" we are committed to providing \$50 million per year through AID projects that are approved according to GEF procedures. We have not made a direct contribution to the GEF Core Fund. We have committed \$50 million to the Montreal Protocol fund.

Budget. Federal spending on conservation and cleanup has increased significantly under President Bush (see table included with "Accomplishments" Report, attached).

Despite overall fiscal austerity, increased funds were sought and appropriated for global climate research (up 58% to \$1.2 billion in fiscal 1992), wetlands acquisition and research (up 48% to \$709 million in fiscal 1992), acquisition of parklands, forests, wildlife, and recreation areas (\$275 million in fiscal 1992), and the EPA operating budget.

Areas of special concern at the moment include:

- o Coastal programs, an area in which environmental quality is in decline;
- o Climate change assistance to developing nations, which may be required as the price for Third World agreement to the proposed framework convention on climate change (FY93 estimate \$12.5 million);
- o Assistance to developing nations for other environmental goals, being debated in the context of contributions to the Global Environmental Facility (see brief above).

✓ **Clean Air Act (CAA) implementation.** New regulations addressing acid rain, smog, air toxics, and ozone layer depletion are anticipated to cost American society \$25 billion per year when fully implemented in the next decade. At stake:

- o The flagship effort to merge economics with environmental planning. The system of tradable allowances for utility sulfur dioxide emissions (regulations proposed October 1991) will spur innovation and efficiency throughout the country.
- o The President's commitment to streamline regulation. Fifty-five regulations are planned by the end of 1992 to fully implement the CAA, contributing to a perception that EPA regulators are out of control. However, many of the proposed regulations will supplant highly prescriptive approaches with more flexible, market-oriented approaches.

Clean Water Act. The Clean Water Act is due for reauthorization in 1992, although little action beyond hearings has taken place to date, primarily due to widespread disagreement on wetlands (Section 404 of the existing law).

The key features of existing law are wastewater treatment and discharge permits, and construction grants to local governments for sewage treatment plants. As originally enacted, the law has succeeded in bringing many lakes and rivers back to fishable and swimmable conditions.

Current law does not address "nonpoint" source pollution (runoff from farms and cities) and pollution from combined sewer overflows (CSOs, in which street runoff and sewage handled by the same antiquated system overflow during storms). Among the Administration's priorities if and when the legislation moves forward are encouraging greater reliance on market incentives and pollution prevention approaches.

Coastal programs. These programs have grown in visibility in recent years due to oil spills, beach pollution scares, and Presidential initiatives. In his FY 1992 budget request, the President sought \$23 million in new funding for a "Coastal America" initiative to coordinate the restoration work of four agencies (EPA, NOAA, DOI, and the Army Corps). While Congress supported the concept in principle, it chose not to fund the new initiative.

The National Marine Sanctuaries Program is due to be reauthorized by Congress next year. At the same time, sanctuaries will be designated in California, Texas, Florida, and the Great Lakes region. The Administration has been criticized for "inadequate" budget requests for the Marine Sanctuaries program, as well as NOAA's coastal zone management program and EPA's coastal programs.

Endangered Species Act (ESA). Critics on the Right and Left question the wisdom of responding to constant crises over individual species, with no regard to the big picture. However, no consensus exists for any alternative. ESA is scheduled for reauthorization in 1992, providing an outlet for debate, but little likelihood of resolution, of these difficult issues:

- o **The Northern spotted owl/"God Committee."** The Federal Endangered Species Committee (the "God Committee") has begun evidentiary hearings in an effort to resolve conflicts between timber sales in Oregon and the owl, listed in 1990 as an endangered species. The Committee is empowered by law to overrule ESA restrictions, although it has done so only once in twenty years. The Committee's deliberations are expected to be completed in mid-Spring 1992.

Committee members are Secretaries Lujan, Madigan, and Marsh (Army), Administrators Reilly and Knauss (NOAA), Chairman Boskin of CEA, and a citizen from Oregon.

- o Pacific Northwest Salmon. Several species have been listed as endangered; additional petitions are expected. Affected interests include power producers, recreational and commercial fishermen, shippers, farmers, and foresters.
- o The Delta Smelt. Addressing the survival of the smelt, which lives in the San Joaquin/Sacramento River delta, could affect water use in a significant area of California.
- o Southern California sage-scrub area. This region is home to a number of listed and candidate species as well as major expanses of soon-to-be-developed land. Governor Wilson has convened a dialogue among affected parties to head off confrontation under the ESA.

EPA-Cabinet bill. The President has called a number of times for legislation to elevate EPA to Cabinet status. For nearly three years, Congress has let the matter languish while considering amendments that are non-germane to EPA elevation or that interfere unacceptably with the President's authority to manage the Executive Branch.

The Senate did pass a "clean" bill offered by Senator Glenn on October 1, 1991; the Administration expressed support for that bill. In the House, despite pressure to move a clean bill from environmental leaders and a bipartisan group of Members, House Government Operations Committee Chairman John Conyers (D-MI) indicated that he intends to hold hearings next year.

Federal Leadership. The Administration has a number of management initiatives underway which demonstrate leadership. We generally have not received the credit we should for these measures.

- o Energy efficiency. An Executive Order signed April 18, 1991 requires federal departments and agencies to reduce energy use 10 percent by 1995 and 20 percent by 2000. Other provisions require a 10 percent reduction in federal vehicle fuel consumption by 1995, and increased use of alternative fuels in the federal fleet. The White House complex itself is being relamped with high-efficiency light bulbs.
- o Recycling. An Executive Order signed October 31, 1991 directs federal departments and agencies to develop source reduction (preventing pollution rather than cleaning it up) and recycling plans, as well as plans to procure goods made from recycled materials. The E.O. established an interagency implementation council.

- o Extraterritorial Application of NEPA. Congress has threatened to amend the law to require environmental impact assessment for federal actions in other countries. The Administration opposes such a measure because of foreign policy and litigation concerns. However, CEQ has been tasked to develop an options paper to address this issue by Executive Order or other administrative action.
- o Federal facilities cleanup: Secretary Watkins and Secretary Cheney have made cleanup of DOE and DOD facilities a priority; work is proceeding with significantly increased federal resources. Some in Congress have proposed waiving the government's sovereign immunity at these sites.

President's Commission on Environmental Quality (PCEQ).

PCEQ is a 25-member advisory panel named in July 1991, chaired and staffed by CEQ. Composed of leaders of major U.S. corporations, environmental groups, foundations and universities, Over the next year, PCEQ will provide opportunities for the President to broaden the debate beyond the traditional regulatory and legislative framework. PCEQ members will develop and implement an voluntary action agenda to improve the environment in harmony with economic growth. The Commission meets quarterly in Washington; the next meeting is scheduled for February 5.

Resource Conservation and Recovery Act (RCRA). RCRA, the nation's principal waste management law, is due for reauthorization in 1992. Both the House and Senate subcommittees held extensive hearings in 1991. House and Senate subcommittee markup is expected in the first half of 1992, focusing on such matters as landfill regulation, recycling, and the handling of hazardous materials.

Many states have enacted laws deemed unconstitutional by the courts banning "imports" of wastes from other states. Also, the Administration seeks legislation to implement the 1990 Basel Convention, an international agreement on shipments of hazardous wastes.

The Administration has testified in opposition to the pending Senate RCRA bill and has not put forth a RCRA proposal.

Shared POTUS
Done
7/28

THE PRESIDENT'S COPY

MEMORANDUM FOR THE PRESIDENT

FROM: CRAIG L. FULLER *CLF*
DATE: July 22, 1992
SUBJECT: Convention Keynote Speaker

As we discussed on Monday night, our choice to deliver the keynote speech is Senator Phil Gramm.

Rich Bond will be in Houston, Texas tomorrow afternoon. Rich's visit presents an excellent opportunity to announce both the Keynoter (Phil Gramm) and the Temporary Chairman (Kay Bailey Hutchison).

If you concur with this decision, I have attached a recommended phone call for you to make to Senator Phil Gramm. This phone call would need to be made by 11:00 a.m. tomorrow.

RECOMMENDED TELEPHONE CALL FOR THE PRESIDENT**FROM: CRAIG L. FULLER****Senator Phil Gramm
(202) 224-2934**

1. Background

As we discussed on Monday night, your choice to deliver the keynote address is Phil Gramm.

Rich Bond will be travelling to Houston tomorrow afternoon. Rich's visit to Houston provides an excellent opportunity to announce this position, along with Kay Bailey Hutchison as Temporary Chairman.

2. Talking Points

- Phil, I called to ask you to deliver the keynote address at the Convention.
- You have been a loyal supporter, working tirelessly on my behalf and I want you to know how much I appreciate it.
- I know you will do a superb job.
- Rich Bond would like to make this announcement tomorrow when he is down in Houston.

3. Follow-up Actions

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3. Follow-up Actions



THE SECRETARY OF HEALTH AND HUMAN SERVICES
WASHINGTON, D.C. 20201

COF HAS BEEN

July 17, 1992

SHOWED
POTUS

Sam,

I have sent the enclosed
letter & draft speech to
the President, for his consideration
of the Urban League invitation.

I solicit your continued help
in this effort.

Lu



THE SECRETARY OF HEALTH AND HUMAN SERVICES
WASHINGTON, D.C. 20201

JUL 17 1992

The President
The White House
Washington, D.C. 20500

Dear Mr. President:

Recently, I shared the results of a survey with Bob Teeter, Sam Skinner and Rich Bond concerning the political outlook of Black voters. The survey showed that many Black voters view themselves as conservative on many issues. The survey showed, for example, that Black voters support tough anti-crime measures, endorse education reform which permits poor children to attend private schools, favor permitting public housing residents to purchase their units, and believe that public housing residents involved with drugs should be evicted.

Perhaps most importantly, despite a national media which unfairly portrays the Administration as insensitive to issues important to Black voters, fully 14% of Black voters support you for President. The results of the poll only confirm my very strong belief that we have a great opportunity to attract new voters this Fall.

The National Urban League has traditionally provided an excellent and nonpartisan forum for pragmatic discussion of the effects of various economic and social policies on Black Americans. Because I believe your attendance at the Urban League Convention on July 28 would significantly aid the goal of attracting new voters, I enthusiastically recommend that you accept this invitation.

The convention will provide a friendly forum before a strong and prominent group. You would be able to speak on the 28th, an enviable position after Clinton on the 27th.

I believe strongly that your appearance at the Urban League Convention would be one of the most important and effective steps we can take to attract new voters. I have enclosed a draft set of remarks and have also shared these with Bob, Rich and Sam. Should you wish, I would be pleased to accompany you to the Urban League's Convention.

Sincerely,

A handwritten signature in dark ink, appearing to read "Lou", is written over a horizontal line.

Louis W. Sullivan, M.D.

-DRAFT

PROPOSED SPEECH TO THE NATIONAL URBAN LEAGUE

I had the privilege of attending and addressing your convention three years ago, and it is a day I remember fondly. We spoke of fairness and opportunity, of fresh starts and new beginnings, of renewal and rebuilding.

It was a day to dream of what could be, but it was also a day in which my dreams were tempered with the reality of the world as it was.

You see, when I spoke to you in August of 1989, the world was still a dangerous place. There was still a Soviet Communist superpower. There was still a wall dividing Eastern Europe from Western Europe, undermining the security of our allies abroad. Nelson Mandela was still behind bars. There was still great tension and uncertainty in our world, not allowing us to relinquish our worries about the futures of our children and the fate of our planet.

But on that day in 1989, I could also see that we might very well have the opportunity to literally change the world. If we could bring to a close the Cold War that had dominated our last three decades, if we could end the nuclear threat that cast a perilous shadow over our lives, if we could close the book on the hostile Communist threat that necessitated the substantial buildup of our national defense, then that had to be my foremost priority.

On that day, ladies and gentlemen, when we came together to share our dreams, my greatest dream was for a world at peace, a world in which our children and grandchildren could grow up without the fear posed by superpower conflict and the possible use of nuclear weapons.

Today, we live in a world which has been greatly transformed from what it was three years ago. Today, there is no Soviet Union, no Communist threat. Today, there is no Berlin Wall, no major threat to the security of our European allies. Today, we live in peace and security and confidence -- confidence that the future is ours to shape as we wish.

Yes, we need to work to bring peace to the Middle East, to the Yugoslavian republics, and to South Africa. And, yes, we need to address the famine in the Horn of Africa and other sites where people are starving. But, today, there is only one global superpower, the USA, a superpower that finds itself on the verge of a very exciting, very promising, very challenging transition. We now have the opportunity to look within and to change America for the better.

When I made the forging of a new and peaceful world one of my top priorities, I knew that we were entering a process that had both international and domestic ramifications and that would take time, patience, planning and vision in order to fully develop. If we could somehow vastly diminish the threat to our national security, we would be able to devote more of our resources to rebuilding our nation -- rebuilding our cities, our schools, strengthening our health care systems, our families and our childrens' futures. We've done that. We've cleared the way, and now we're ready to build.

And I'll be very honest with you. That's why I'm running for re-election. I've completed the first half of the job, making it possible for us to focus our energies, our financial and intellectual resources on what needs fixing in this country. Now, I want to finish the work -- to bring opportunity and security and prosperity to those places where opportunity has been too scarce a commodity. That is my mission. That is our mission. And I'm not going to quit until that mission has been accomplished.

I am also not willing to turn that mission over to those who will return us to those days of double-digit inflation. This country's liberal leadership speaks eloquently and prolifically about compassion for our cities, compassion for the underprivileged, compassion for those who are without hope.

But they have had the opportunity to offer that hope and to translate their compassion into real change for the better, but they have chosen not to do so. The Democratic Party has controlled the Congress for almost all of the last 30 years and, despite all of the rhetoric, they have not yet been willing to change the tired old programs and policies that have generated dependency and stagnation and hopelessness in our cities and among so many of our citizens.

When offered new ideas and new directions, this Congress has rejected them. When offered opportunities to engage in a dialogue to develop ways to revitalize urban America, this Congress has shunned them. When handed legislation that can break the cycle of dependency and depression and despair in our cities, this Congress has turned its back and walked away.

They feel confident in turning away from change and hanging on to a discredited and destructive status quo because, frankly, they feel that they can take African-American votes for granted. The defenders of programs that foster dependency among underprivileged citizens will not accept change. They will not accept change because they don't want to lessen people's dependence upon them -- the self-proclaimed champions of government benevolence. They don't want to give up what they see as the keys to the kingdom of perpetual re-election.

Well, I believe that America can do better. I believe that, if we are to bring renewal to our cities and hope to those who have known only despair, we have to end the cynical gamesmanship that has been played for far too long. I know that you believe as I believe, that we have to move forward with a new agenda that promotes growth and independence and pride and opportunity. We overcame the Soviet Union and ended the terror that clouded our lives. Now, we must use the fruits of that victory to win the next, most important, war -- the war to revive our cities and to awaken the dynamic human spirit that lies within them.

I have sent to Congress over the course of the past year a series of sweeping, innovative proposals, legislation that represents genuine change and new hope and promise for millions of Americans. Now, I know that presidents are supposed to be above emotions like irritation and aggravation, but it gets me a little ticked off when I hear my opponents say that my administration doesn't have a domestic agenda. My comprehensive agenda has been offered to a Congress that has, thus far, been more interested in making political gains than in making legitimate gains for Americans in need.

There are 35 million Americans in this country who do not have health insurance, whose very lives are at risk because of their financial status. I have offered a health care reform package that offers guaranteed access to health insurance for all Americans, including the poor and the unemployed. It will control the outrageously-rising costs of health care. And it addresses the acute shortages of doctors and clinics in our inner cities by expanding funding for Community Health Centers, Migrant Health Centers and the National Health Service Corps. This proposal has not gotten the time of day from the Congress.

But that's not all. I've proposed critical education reforms. Polls show that over 80 percent of America's parents want to have more choice in their child's education. That's a feeling that crosses all demographic barriers -- racial, economic, urban, suburban and rural. Parents want a choice.

My reform package offers that choice, to give parents a greater say in where their child goes to school and to have their tax dollars follow their choice of school. We're not turning our backs on public schools. We're making our schools be more competitive, more aggressive in improving standards and improving the quality of the education we provide to our children. And in my education reform bill, we give greater flexibility and greater support to administrators and teachers to make their schools better. This education package has received no action from the Congress.

I have handed Congress urban revitalization legislation -- a series of proposals to bring greater investment into our cities, to entice businesses to move into urban areas through the use of enterprise zones, to fight the drugs and the violent crime that make our streets unsafe. Again, no action on Capitol Hill.

Yes, this has been frustrating. And, yet, it's a little hard to swallow criticism from the other party's ticket when one member of that ticket has been in the United States Senate for the past eight years and has not lifted a finger to move this agenda forward.

But there is nothing to gain by looking backward. I'm going to continue moving forward whether Congress comes with me or not. I'm going to keep pushing for better education for our children, particularly our children in urban areas. My fiscal year 1993 budget includes the largest funding increase for Head Start that has ever been proposed in the history of the program. Every eligible parent who wants to enroll a four-year-old child in Head Start will be able to do so.

I'm going to continue to work to revitalize our economy and to bring jobs to our cities. The Democratic Party wants to pursue a protectionist, isolationist agenda. They talk about keeping jobs at home. But their policies would only eliminate jobs at home. It is a fact that every one billion dollars in American exports creates 20,000 new American jobs. By ending the Cold War, we have created a new, dynamic global economy, and I am determined that we will take advantage of this new era and create new industries, new businesses and new jobs in America.

And I'm going to continue to work to strengthen America's families. Our opponents get a big laugh when we talk about family values. They deride us and scorn us and call such talk naive and patronizing.

But they are the ones who just don't get it. When I talk about family values, I'm talking about issues that are critical to all of us, but that strike especially hard in the African-American community.

The growing number of families without fathers is a very real crisis in this country. Some 60 percent of today's children in America will spend at least part of their childhood living in a fatherless family. Children living in families without fathers are five times more likely to be poor than their two-parent counterparts. Approximately 70 percent of juveniles in long-term correctional facilities did not have a father present in the home while they were growing up.

Some of the great unsung heroes of this country are the courageous and loving single parents who provide financially for their children and give them time, guidance, and attention. They deserve our respect and our admiration.

But we must devote our concern and attention to the other side of that picture. Minority males are today underrepresented in schools and over-represented in prisons and probation programs. Minority males are, more than any other segment of our population, economically disenfranchised and socially disenfranchised. This is not an issue that will be solved by hand-wringing. It is not an issue that will be solved by moral posturing and lecturing. And it is certainly not an issue that will be solved by partisan finger-pointing.

We've got to address this crisis in order to break the destructive cycle. We need to build stronger families, families that can raise their children well and start an entire new generational cycle of pride, self-respect and independence.

Under Secretary Louis Sullivan's guidance at the Department of Health and Human Services, we have launched a Minority Male Initiative -- an initiative that recognizes the fact that African-American, Hispanic, Native-American and Asian-American males suffer disproportionately from poverty, substandard education and lack of job training and opportunities. We will spend over \$100 million on this Initiative in the coming year to fund programs and projects in health promotion, training, employment and income security for families. We will fund programs to prevent and treat violence, substance abuse and the spread of AIDS.

Our goal is to foster training and economic independence, enhance and strengthen families, and build stronger communities. That's what I mean when I talk about family values. And this is an agenda that will continue to receive my full commitment.

While I'm on the subject of values, let me say a word or two about the state of race relations in this country.

When I served in the Navy during World War II, I learned a lot about depending on people. When you're in battle and literally fighting for your life and not knowing whether you're going to see the next day, you are dependent upon the people beside you -- the people fighting for the same cause, against the same common enemy.

And you don't care whether that person beside you is white or black or hispanic or asian or native American. It just doesn't matter. All that matters is that you need each other in order to survive and to fight again another day.

Well, it's not all that different today. We're in a fight against common enemies -- poverty, illiteracy, crime, broken families. These aren't white problems or black problems or hispanic problems. These are our problems, our enemies, and we've got to work together to solve them because it's our country and our children's futures that are at stake.

Racial hatred has no place in this country, no place whatsoever, no time, nowhere. We are together in this fight, and we're not going to let extremists and hate-mongers push us apart.

My friends, I'm excited about the years to come. We have the opportunity, in this world that we've created, to turn our attention and our resources to the challenges that exist within our own borders. There are three keys to our eventual success.

First, we've got to maintain a calm, conflict-free world, and that requires a President with experience, not someone who will be taking on-the-job training.

Second, we've got to have an agenda, a dynamic, achievable plan for the rebuilding of American cities and the strengthening of American families. I have offered that plan.

And, finally, we've got to come together to make it happen. There will be a new Congress in place next year, and it appears that there may be a record number of new members in it which will provide an excellent opportunity for new beginnings. I want to work with that new Congress and I want to work with you in bringing about real change and a new direction for America. The challenges before us are great, but our resolve and our determination and our collective spirit are even greater. Thank you and God bless you.