THE WHITE HOUSE

WASHINGTON

May 1, 1998

MEMORANDUM FOR THE PRESIDENT

FROM: **GENE SPERLING**

RE: **NEC WEEKLY REPORT**

cc: **____ NE BOWLES**

IRS Hearings: As you know, the Senate Finance Committee held four hearings this week on the IRS, focusing specifically on the IRS Criminal Investigations Division. Witnesses included IRS employees, taxpayers, and others, a number of whom recounted being on the receiving end of IRS strong arm tactics. As you know, Commissioner Rossotti and Secretary Rubin went out on Tuesday (4/28), the first day of the hearings, and announced that Judge William Webster will conduct an independent review of the Criminal Investigation Division. Commissioner Rossotti announced additional measures as well, including strengthened discipline of CID managers and employees, a new complaint system, and support for a new Inspector General for Tax Administration. The Senate is expected to consider the IRS bill on the floor next week. A main concern we have with the Senate bill is that, unlike the House bill, it loses significant revenue, $9.7 billion over ten years. While continuing to express overall support for IRS reform, we will work as the bill moves along to ensure that in final form it is paid for.

H-1B: As you know last month the Senate Judiciary committee reported out a bill sponsored by Senator Abraham that the administration did not support. The House Judiciary committee is now working on their bill. On Thursday (4/30), the House Judiciary sub-committee on immigration reported by a voice vote a bill introduced by Rep. Lamar Smith that would temporarily increase the number of H-1B visas for skilled foreign workers. Also on Thursday, Bruce Reed and I sent a letter to Rep. Smith stating that the Administration supports the reforms to the H-1B visa program that protect U.S. workers that are contained in the bill, but that until the bill includes a training provision (which we have stressed must accompany any temporary increase in the number of these visas) we cannot support the bill. We are working with Hill staff to ensure that an amendment including a training provision is included at the full Committee mark-up which is expected to be on Wednesday, May 6. We expect the Senate version to reach the floor the week of May 11th which Senator Lott has declared to be High-tech week.

G.I. Bill: The Senate version of the G.I. Bill, the Workforce Investment Partnership Act, was debated on Friday (5/1); the vote is scheduled for Tuesday (5/5) afternoon. We support the job training reforms in the Senate version of the bill, however there is an amendment by Sen. Ashcroft that threatens the Administration legacy on School-to-work which we strongly oppose. Our strategy is to not oppose the bill, but let it get voted out of the Senate and fix it in conference. We are working with Senator Kennedy who has received verbal commitment from DeWine and Jeffords to "render this amendment benign." The NEC is convening an interagency meeting next week to insure that the final bill reflects all of your principles.

Securities Litigation: On Tuesday (4/28), Bruce Lindsey and I sent a letter to Senators Dodd, D'Amato and Gramm concerning S. 1260, the Securities Litigation Uniform Standards Act, which provides that class actions generally can be brought only in federal court. We supported amendments negotiated by the SEC to clarify that the bill will not preempt certain corporate governance claims and to narrow the definition of class action. More importantly, we made clear that the Administration's support for the bill depends upon delivery of legislative history and floor statements promised to SEC Chairman Levitt that should help to reduce confusion in the courts about the proper interpretation of the Private Securities Litigation Reform Act ______ the Senate Banking Committee will report the bill out on Monday (5/4); it is expected _______ the Senate floor the week of May 11. We expect that House action on the bill, later in May, will respect the commitments that the SEC obtained from the Senate.

America Reads: On Thursday (4/30), Bob Shireman on my staff met with a group of black educators, including Doctor Charlie Knight, superintendent of the East Palo Alto district where Chelsea tutors. She asked Bob to pass along to you that you have raised a wonderful daughter, the kids love her, and she clearly loves working with them. Her help is valuable and appreciated.

Chairman Jeffords held a hearing Tuesday (4/28) on literacy. It covered both adults and children, and generally underscored the need for action on reading instruction, including teacher training. Jeffords indicated that he would like to mark-up a reading bill in the next few weeks; his staff thinks that Sen. Coverdell is sincere about moving a bill in time for the July 1 funding deadline, rather than just grandstanding on the issue (as you know, it is part of the Coverdell bill that you will veto). But passage of a separate bill that you can sign is by no means assured.

Student Loan Interest Rates: Majority Leader Armey fought hard to include a bank-friendly fix as part of the supplemental appropriations bill, but it may have to broken off separately at some point. We opposed his fix -- in part because its subsidies to banks were not offset -- and he ultimately failed. Keeping it as part of HEA helps to provide a driver for the reauthorization to occur this year. We may seek to quietly negotiate a compromise in the near future.

Response to Times Article on Medicare Billing: You asked about Monday's (4/27), *New York Times* article that reported that HCFA is implementing a policy to delay payments to providers. While it is true that HCFA is changing its payment policy, even with this change, Medicare pays providers as fast if not faster than private insurers. Medicare has been a leader in this field in the past and will continue to do so. Your 1999 budget adds $100 million in funding from user fees to improve payment and oversight in Medicare, and to assist in implementing the major changes in Medicare that were made in the bipartisan Balanced Budget Act. User fees are controversial amongst providers who would prefer that needed administrative funding come from the traditional discretional spending. We proposed these fees precisely because of the tight discretionary caps and because we believe that those who directly benefit from Medicare payments should help pay for its efficient administration. The day after this article (4/28), the *Times* editorial board (subsequent to discussion with Administration officials) endorsed this budget request and criticized Congressional opposition. Although we are beginning to pick up Congressional proponents, it is unclear whether this will translate into passage of the full request. We will encourage validators (e.g., Reischauer and Newhouse, the chair of the Medicare Payment Advisory Council) to repeat their support for this request.

Financial Modernization: H.R. 10 is tentatively on the House calendar for action next week. Commerce Committee ranking member Representative Dingell has lent his support in exchange for a series of consumer _______ amendments. Negotiations are on-going to address concerns of other Banking Committee Democrats. However, Treasury has not yet seen any proposal that fully addresses it's primary concern -- bias in favor of a holding company structure (regulated by the Fed) rather than an operating subsidiary structure (regulated by the OCC). The concern is not turf, but: (1) whether we should shift control over financial institution policy to an independent agency not accountable to the President; and (2) whether federal law should create powerful incentives to perform new financial activities outside a bank structure so that those new assets do not count toward CRA obligations. The NEC interagency process will continue to follow legislation development. In addition, Secretary Rubin and I will be meeting Tuesday (5/5) with legislation proponents, including Dave Komansky of Merrill Lynch, Sandy Weil of Travelers Group, John McCoy of Banc One, Jim Hance of MetLife, Hugh McColl of NationsBank, and Tom Wheeler of Mass Mutual.

Bankruptcy: The NEC is preparing a letter to send to the Senate Judiciary Committee setting forth certain principles that the Administration will use to guide its review of consumer bankruptcy reform proposals. The letter is designed to send a signal that we would oppose the most radical and inflexible proposal, known as means-testing or the Gekas bill. This approach is almost certain to survive in the House and we hope to steer the Senate (which will mark up in full committee next week) down a more moderate path. However, we also signal that we are open to reasonable consumer bankruptcy reform that asks people who are able to repay a portion of their debts (taking into account all relevant circumstances) to act responsibly. We also state emphatically that debtors' ability to pay child support and alimony must be protected. Proposals that would put some credit card payments on an equal footing with child support and alimony are clearly wrongheaded.

Credit Unions: An acrimonious Senate Banking Committee mark-up concluded late Thursday (4/30) with a 16-2 vote for the credit union bill. Our safety and soundness reforms were adopted, as were a host of provisions troublesome to the credit unions. A Shelby amendment to exempt small banks from CRA failed when Senator D'Amato voted with the Democrats. A Gramm amendment to eliminate the CRA-like provisions applicable to credit unions was withdrawn, but the Senator vowed to offer it on the Senate floor. We are preparing for battle on the CRA issues in what is expected to be quick floor action.

Product Liability: As you will recall, in March, Senators Rockefeller and Gorton met with Erskine Bowles. At this meeting, Senator Gorton proposed a host of so-called technical changes to the draft bill worked out between the Administration and Senator Rockefeller. At the time we rejected any substantive changes, accepted some technical changes, and promised to reply after review of the remaining technical issues. On Friday (5/1), Bruce Lindsey and I sent a letter to Senators Rockefeller and Gorton responding to the outstanding issues. We understand from press accounts that Gorton knows he has not gotten enough and that he plans to advance his own bill. We expect that it will vary only slightly from the agreement with Rockefeller, primarily limiting the two-way preemptive effect of the bill; and limiting manufacturer liability for harm in accidents involving drunk drivers even if the driver's conduct was not the cause of the injury. (For example, where a drunk driver backs a car __________ 5 miles per hour and the car explodes.)

Agricultural Research bill/food stamps for legal immigrants: The NEC has been working in conjunction with OMB, NEC and USDA to secure Senate passage of the Agricultural Research bill conference report. This legislation provides mandatory funding for crop insurance, agricultural research and rural development, as well as restoring food stamps to about 250,000 legal immigrants -- children, the elderly and the disabled, and refugees and asylees. Senator Lott has thus far refused to schedule the conference report for floor action, in large part because the Senate budget resolution reserves as an offset for increased transportation spending the food stamp administrative cost savings that are the primary source of the Ag Research bill funding.

Facing growing pressure to move the bill (73 Senators signed letters to the Majority Leader last week urging him to bring the bill to the floor expeditiously), Senator Lott attempted to add the crop insurance provisions to the supplemental bill, to mollify that constituency without acting on the food stamp restorations. Thanks to the efforts of Senator Harkin and the Administration, this attempt did not succeed. Given evidence that he will not easily be able to add the crop insurance title to another vehicle, Lott may now relent and schedule the Ag Research bill for a vote. The food stamp restorations in the Agricultural Research bill are not all that we sought -- the Administration's FY 1999 budget proposal would have restored benefits to roughly three times as many legal immigrants, including parents in working families -- but would still represent a genuine achievement.

U.S.-EU Trade Initiative: The EU General Affairs Council met last Monday (4/27) to consider the proposed U.S.-EU trade initiative. Led by French resistance, the Council firmly rejected Sir Leon Brittan' ambitious proposal but left the door open to a more modest proposal, which U.S. and EU negotiators had already begun to discuss. The goal is to agree on an agenda for future negotiations by the May U.S.-EU summit, but important hurdles still remain: the EU has conditioned progress on the trade initiative on the resolution of ILSA and Helms-Burton negotiations, and differences on key issues (audio-visual services) remain between the U.S. and EU, and France could reject even a refashioned proposal. I will convene an NEC Principals meeting Monday (5/4) to assess progress, determine how to push back on the ILSA/Helms-Burton conditionality and resolve various substantive issues.

OECD Anti-Bribery Convention: Final inter-agency agreement regarding the treaty's implementing legislation was reached on Tuesday (4/28), and the Convention is en route to the Senate for ratification. The implementing legislation, incorporating changes in the Foreign Corrupt Practices Act, is being forwarded separately to the Congress. These important steps will put you in an even stronger position to push for transparency and good governance at the upcoming G-8 Summit in Birmingham. Also, at this week's OECD Ministerial Meeting in Paris (4/27-28), we achieved all of our goals regarding the implementation timetable, ending the tax deductibility of bribes, and future anti-bribery work program.

The major issue of discussion at the OECD Ministerial this week was the MAI, the Multilateral Agreement on Investment. Charlene succeeded in renewing _________ mandate that will allow proceeding on a steady pace with a strong commitment to ________, outreach and other NGO concerns. This avoided an artificial deadline and a commitment to launch WTO investment negotiations. On the Asia crises, we were able to gain reference in the communique to all elements needed to resolve the crises, including "rapid implementation of structural reforms" and policies throughout the OECD that "sustain growth and domestic demand" and "further open markets," linked to a specific call for "domestic-demand led growth in Japan."

Japan: On Thursday (4/30), Hashimoto sent Taku Yamasaki, Chairman of the LDP Policy Research Council, to meet with Secretary Rubin, Deputy Secretary Summers, Chairman Greenspan and me to explain and seek endorsement of the PM's "bold and courageous" 12 trillion yen (2.4% of GDP) "real water" stimulus package as well as its financial stabilization package. He underscored the political difficulty for Hashimoto of reversing his own fiscal consolidation law and policy, but noted the landing thus far had been relatively soft. Yamasaki said the Government intentionally exceeded the size of the package Secretary Rubin and other Treasury officials had suggested. Yamasaki predicted it would boost GDP by 2%. I explained that we have pressed Japan because we are honest in our economic assessments, we truly believe that Japan needs to be an engine for growth in Asia, and because protectionist sentiment will rise if the United States becomes the buyer of last resort for Asian goods. Secretary Rubin's public statement welcoming the substantial policy measures as positive steps, while urging the Japanese government to implement them quickly, is what we believe. I underscored, as did Secretary Rubin, that further action to strengthen Japan's financial system and to deregulate and open Japan's markets is necessary to establish a sound basis for long lasting, domestic, demand-led growth.

USTR's Annual Intellectual Property Review: Ambassador Barshefsky announced Friday (5/1) the results of the 1998 Special 301 annual review. The annual review examines the adequacy and effectiveness of intellectual property protection of our trading partners. The release highlighted continued progress in China, where illegal exports of compact discs dropped from $260 million to $10 million from 1995 to 1997 through China's shutting down of 64 plants and imprisonment of 800 individuals. Although no new countries were identified as Priority Foreign Countries (PFC), triggering a section 301 investigation and sanctions process, USTR will initiate WTO dispute settlement consultations with Greece and the European Union over 150 Greek television stations that broadcast U.S. owned motion pictures and television programming without authorization and without any payment of compensation to U.S. copyright holds. 15 countries were placed on the "priority watch list" including Macao, Argentina, Ecuador, Egypt, the EU, Greece, India, Indonesia, Israel, Russia, Turkey, Bulgaria, Italy, Dominican Republic, and Kuwait, 32 trading partners were placed on the "watch list", and concerns were noted about 15 other countries. This year, as every, the April 30 deadline has produced meaningful commitments to improve intellectual property from a wide range of nations.