

August 26, 1992

MEMORANDUM TO THE LEADER

FROM: JOHN DIAMANTAKIOU *John*

SUBJECT: POLITICAL BRIEFINGS

Below is an outline of your briefing materials for trip #2.

Enclosed are the following briefings for your perusal:

1. Campaign briefing:
 - overview of race
 - biographical materials
 - bills introduced (Coats, Grassley, Nussle)
- ~~2.~~ National Republican Senatorial Briefing
3. National Republican Congressional Committee Briefings on competitive congressional races
- ~~4.~~ Governor's race brief (IN, ND)
5. Redistricting map/City stop
6. Republican National Committee Briefing
7. State Statistical Summary
8. State Committee/DFP supporter contact list
9. Clips (courtesy of the campaigns)

Thank you.

CAMPAIGN UPDATE

CAL: Endorsed by the Republican Party in April. He is a farmer from Tracy, MN. Served in Minnesota State Legislature from 1978-1984. In 1984, Cal was the political director for the State Republican Party. He served as a volunteer and his job was to recruit Republican candidates to run for State House & Senate. He recruited candidates in all but one of the legislative districts, and that year Minnesota had a Republican majority in the legislature. In 1986, Cal ran for governor and lost but won the Second District 54-46%. In 1988, he was Senator Dole's state campaign chair for his Presidential bid. We have enclosed a biography for more detailed information.

OPPONENT: David Minge, a lawyer from Montevideo, MN. He is endorsed by the DFL and has two primary opponents. At the first FEC, he had raised \$33,000. His opponents in the primary are: Pat "Family Farmer" O' Reilly from Canby, MN and Andrew Olson from Heron Lake, MN. Both candidates are fringe candidates with little party support, but Minge has not done much strong campaigning, so he could be vulnerable.

THE CAMPAIGN: Cal is not accepting PAC money, and challenged his opponent to do so as well, but Minge decided to accept PAC funds. Cal's first FEC showed \$117,000 raised with \$60,000 in the bank. (Of Minge's \$33,000, \$10,000 was still in the bank. Also, \$6,000 of Minge's money was from PACs.) Cal's goal is to raise \$500,000 through 10,000 individual contributors. Cal has been campaigning by attending county fairs, community festivals, parades, and holding county-wide meetings in each county to organize volunteers. The goal is to have 1,000 volunteers. Cal's field sign effort is in full swing, and we have put up about 1,000 of them district-wide. Minge has no signs up as of yet. Both Cal and Minge are meeting with newspaper editors and radio station news directors in the district to discuss the campaign.

STRATEGIES: Minge's main line of attack is that Cal Ludeman voted "No" in the State Legislature on many important bills. Minge is calling himself a "fiscal conservative who is moderate on social issues," and says that "Cal's ultra-right-wing philosophy is out of step with the district." Cal's defense is that we need a Congressman with the courage to say "No" to get this budget under control, and that we need a Congressman who won't rubber-stamp every new spending package proposed in Congress. Minge is also billing himself as a political outsider and says the last thing we need is another "professional politician" in Congress. Cal's response is that a rural district like ours would be better represented by a farmer than a lawyer.

POLLS: Cal has not yet taken a poll. The opponent did one poll which showed Cal down by fourteen points, but the questions were less than objective. Example: "Would you rather vote for a community leader who understands rural issues or a former legislator?" Minge is billing himself as the former and Cal as the latter. When asked that particular question, the "community

leader" won by 14 points over the "former legislator." (We enclosed an article on this poll, which was conducted by the Feldman Group.)

Balance

IMPORTANT ISSUES: Number one issue in the campaign is the budget deficit. Cal's position is to ~~raise~~ the budget without raising taxes by eliminating wasteful spending and over-regulation. The opponent's strategy is to balance the budget through increased taxes, cuts in the defense budget, and by appointing a bipartisan committee to examine the deficit and suggest spending cuts that would help.

KEY LOCAL ISSUE: Ethanol. There is an ethanol plant in Marshall and Morris and there is one proposed in Appleton. We would very much like Senator Dole to discuss the benefits of ethanol to both the Second District and the state of Minnesota.

**Current plants in Minnesota: Marshall-20 million gallons.
Morris-3.5 million gallons.

**Proposed plants: Appleton-15 million gallons,
Winthrop-10 million gallons.

Focus on the continuing demand for ethanol due to regulations like the Clean Air Act. The new ethanol plants will cause grain purchases to increase 5 times, giving farmers \$143 million by 1997. The plants will provide 400 full-time jobs with a payroll of \$10 million a year. Construction contracts for the plants will be \$200 million - more revenue for the state. The plants will sell 500,000 of livestock feed which returns \$60 million in value-added sales to the state.

Another good issue would be agriculture. Since Cal is a farmer and this is one of the most agricultural districts in the country, Cal is ideally suited to serve this district.

~~**ISSUES TO STAY AWAY FROM:** GATT agreement: The farmers in the district are relatively protectionist. Also, avoid too much "DFL-washing." Cal is describing himself as "less partisan than Vin Weber" because he feels "both sides are to blame for the deficit."~~

PRESS RELEASES: Cal is releasing his position papers in the form of press releases with the heading, "Ludeman outlines position on the deficit" to get out our message. We have enclosed sample press releases showing our strategies. We have seen only one press release from Minge: "Minge files for Congress." The state DFL party has released a statement criticizing Cal's voting record, but Minge has had very little press.

Congressional candidate comes calling



Eric Hansen/Daily Glob

Cal Ludeman (right) confers with his campaign manager, Rep. Ray Welker, IR-Montevideo, during Monday night's fund-raiser.

Ludeman targets 'buffoonery'

By Michael R. Vosburgh
Daily Globe staff writer

WORTHINGTON — Second Congressional District Republican candidate Cal Ludeman cites one simple reason for wanting to be one of the new members of the 103rd Congress.

"The buffoonery in Congress has to quit," he told supporters during two fund-raising events in Worthington Monday. "I sense an urgency that residents want government back under control."

The Independent-Republican endorsed candidate brought his campaign to Worthington with a reception at the Worthington Holiday Inn and a barbecue hog roast at Chautauqua Park.

The featured guest speaker, U.S. Rep. Fred Grandy, R-Iowa,

had to cancel his appearance pending a tax package vote in Washington today. Former Minnesota House Speaker Dave Jennings pinch-hit for Grandy.

Ludeman said the most pressing problem facing America is a \$400 billion federal deficit.

"I know it may be political suicide, but Congress shouldn't accept a budget from the president unless it is balanced," he stated. "And Congress should offer a balanced budget to freeze the magnitude of spending."

According to Ludeman, America has never been in debt to the extent that it now is. To those who say the nation is suffering from a revenue problem, Ludeman points out that the federal government doubled its revenue intake from \$550 million in 1980

to \$1.2 billion last year.

"Raising taxes is not part of my campaign because the government does not have a revenue problem," said Ludeman.

According to his campaign manager, retiring four-term state Rep. Ray Welker, IR-Montevideo, the Ludeman campaign is not having trouble raising money either.

"As of today, we have raised \$153,000," Welker stated.

Welker said Ludeman needs \$500,000 to conduct a "good campaign." He pointed out that retiring U.S. Rep. Vin Weber, R-Minn., normally spent between \$600,000 and \$800,000 for re-election.

Ludeman's campaign is not

accepting any political action committee money.

The Ludeman campaign has two goals — 1,000 volunteers within the district's 27 counties and 10,000 individual contributions. Each county has both a campaign chairman and financial chairman.

Welker said Weber and Ludeman are a lot alike in philosophy, but Weber was more partisan.

"Cal isn't afraid to vote the wishes of his constituents," Welker stated.

Ludeman told supporters he was only making two promises to them.

"I'll work hard for you and tell the truth," he stated.

CLIPPING SERVICE
NEW ULM JOURNAL
Newspaper Co.

JUL 23 1992

Ludeman attacks federal deficit

By LEE SMITH
Journal Staff Writer

NEW ULM — Voters looking for the "big issue" in the 2nd Congressional District race this fall can expect IR candidate Cal Ludeman to consistently offer one, namely the federal budget deficit.

"We're going to talk about balancing the budget until we're blue in the face, because I think it represents just about everything that's wrong with the federal government," Ludeman said Wednesday.

Speaking to reporters prior to a noon meeting with Brown County campaign volunteers in New Ulm, Ludeman said a fundamental reform is necessary in the way the government handles its finances.

"Spending \$1.5 trillion in one year when the revenues are only \$1.1 trillion represents the need to change our expectations about what government is and what it's there for and what it can do," he said.

According to Ludeman, if the federal government does not get its spending under control, the U.S. "could live with an absolutely stagnant economy for the next 20 years." He added that Minnesota's 2nd

Congressional District would quickly profit from a balanced federal budget.

"I would argue that the 2nd District of Minnesota would be one of the first areas of this country that would benefit if it had a federal government that was under control, because people here have the work ethic and the sort of risk-taking ability that would result in the sorts of jobs and investments and profits and savings that we have to have if we're going to have the kind of America that I believe we need to have."

To gain control of the deficit, Ludeman suggests across the board spending cuts. He adamantly opposes raising taxes.

"Since 1982, Congress has spent \$2.57 for every new dollar of revenue it has received, and that's where the deficit came from," he said.

Ludeman said the average Minnesota family pays out about 40 percent of its income to government at one level or another.

"You can't say that the answer to the problem is to raise that family's taxes," he said. "It's simply not going to be done; not with my help."

The final answer, he said, lies in gaining bipartisan support on across-the-board cuts.



Ludeman

In fact, in an effort to drive home the importance of the budget deficit, Ludeman recently co-sponsored a bipartisan conference of 24 Democrat and 22 Republican non-incumbent Congressional candidates from around the U.S. That effort, to involve Congress, along with solid pressure aimed at the President, is what is required for a change, Ludeman said.

"The President has to recharge this country's desire to get its government under control, and the Congress has to pass a budget resolution that it is willing to abide by that is balanced."

Ludeman's opponent is DFL-endorsed candidate David Minge. However, Minge will be facing primary challenges from Pat O'Reilly of Canby and Andrew Olson of Herod Lake.

CLIPPING SERVICE

ORTONVILLE
INDEPENDENT
Big News 4.0.

JUL 22 1992

Ludeman Calls For New Energy Policy

Cal Ludeman, the Independent-Republican Congressional Candidate called for a sensible U.S. energy policy today as new regulations threatened to severely limit the use of ethanol-blended fuel.

With passage of the federal clean air act in late 1990, the ethanol industry predicted that the use of corn-derived gasoline additive could double to two billion gallons as early as 1995, helping to reduce carbon monoxide emissions and clean the air in some of America's biggest and dirtiest cities.

But those predictions faded when the Environmental Protection Agency (EPA) proposed regulations on the use of ethanol after environmental groups raised concerns that the blended fuel contributes to some types of air pollution during hot, summer months. The EPA today a rule-writing process in Chicago today on the clean air act's provisions for reformulated fuels.

"The intent of Congress, and the intent of the President's Administration, was to include ethanol and other clean-burning fuels in the clean air act," Ludeman said. "Renewable resources should be publicly encouraged. We can and should turn to our own renewable resource. That will mean cleaner air because we will be less dependent on petroleum and on government mandated programs."

The use of ethanol would also mean a tremendous boost for Minnesota's farm economy. "We are an energy conscious state and a major corn-producing state. Our farmers are a step ahead. A four and a half pound bag of shelled corn represents 20 cents of value-added product for our state's corn farmers."

Ludeman said gasoline prices have risen about 2 cents every week for the past year. "If we were using our own renewable fuel, ethanol, I would doubt that we would see these increases," he said.

Commitment to the environment should begin at home, Ludeman said. "All eyes are focused on the environmental summit in Rio. We can also play a large role by making a commitment to protect our environment right here in our own

Ludeman focuses on many issues

by Bev Ahlquist
Editor

Cal Ludeman, a fourth generation farmer from Tracy, plans to focus on a variety of issues if he's elected to Congress this fall.

Those issues range from the budget deficit, to focusing on the future, to agriculture, the environment, crime, and Congressional ethics.

The 42-year-old farmer from Tracy is no newcomer to the political arena. He served in the state legislature from 1978 to 1984, as a minority whip the last two of those years, and in 1986 ran for Governor, capturing 45% of the vote.

He started his career at a grass roots level, serving as township clerk. He didn't like what was happening legislatively, there were massive tax increases, massive increases spending on the state level, lots of duplications and new agencies being created, all in a period of about four years.

Suddenly it was starting to affect the way we were trying to live. I don't think that was the right direction for government to go and decided to try do something about it."

Ludeman, in an interview Friday, said he was just 27 when he was first elected to the state legislature. "I was charging up there to change the world and did the best I could for six years."

Ludeman is very frustrated with government, and wants to bring work ethics into Congress. He wants to see Congress spending more time coming, and putting plans into action, setting some direction for this country. "We need presidential leadership in that direction too."

He's also frustrated with the federal deficit. "It's become obvious the biggest deficit ever in the history of the USA. We have a \$3.8 trillion national debt that's long term, and all endangers the future of our children and our grandchildren. The last legacy we should ever want to leave is a diminished standard of living or an overriding debt burden on our

future generations."

Ludeman said he feels strongly about that, and that's what ultimately caused him to run for Congress.



Cal Ludeman

The deficit represents a lot of what's wrong with government, Ludeman said. According to Ludeman, if they held spending, or even let it grow at a rate of three percent a year, the budget would be balanced in less than three years. "That doesn't sound so difficult to normal people in southwestern Minnesota. But they haven't even been able to do that. There's still parts of the budget growing at the rate of up to 20% a year."

Spending a lot more than one takes in is a formula for disaster, he said. "And we're very close to that if we don't do something."

He said that's the main theme of this campaign and it's the first thing the 1993 Congress is going to have to deal with.

Ludeman believes they need to statutorily oblige the president to present a balanced budget to the Congress. "Don't let the president in 1993 give up on the need for balance-

ing the budget."

Ludeman would also like to freeze the pass through dollars from federal government to state government so there is automatic incentives for reform. He said Wisconsin has been a leader in human services reform by changing eligibility requirements, making welfare temporary, and helping people become self sufficient very quickly.

"We need to put all the federal spending on the table. We can't hold harmless 60% of the budget and never intend to balance the budget. There's too many things that are considered off budget, and that can't continue."

The federal government, over the last six years, has become less involved with agriculture, Ludeman said, noting the budget dropped from a \$28 billion part of the budget to a \$14 billion part of the budget. "If everyone in America did what happened in Agriculture we wouldn't have a deficit today."

The environment will be another important issue to deal with, he said, noting more education and cooperation is needed to get the job done. The Second District has always been in tune with nature in agriculture, he said. "We know how sensitive water quality is, what pollution can do, and the quality of wildlife. We've always lived in pretty good harmony with nature. We don't need a lot of federal government telling us what to do. They can provide service, but they don't have to be mandating."

A very sensitive issue that will have to be addressed is animal rights, Ludeman said. "I have strong feelings about the issue of animal rights. I believe we need to re-focus on animal welfare, make sure that animals are taken well care of; but to equate animals with the same rights as humans is a religion, one that is not good for America. It says something is wrong about our sense of humanity, it's a very dangerous philosophy." Ludeman said he's very aware of that and knows the devastating effect it could have on agriculture,

hunting, and conservation efforts. "I think it's very important for whoever represents this area to understand that well."

Government needs to be tough on crime, Ludeman said. "Government should make no excuses for criminal behavior. We have to have a government that understands what criminal behavior is and penalizes it severely enough to put justice back in the system."

To date Ludeman has been visiting with media, organizing his campaign office and volunteers, and raising money. He figures it will take about \$500,000 in campaign funds, funds he will be raising. He said he will not accept any PAC [Political Action Committee] dollars because those funds have way too much influence on how this country is governed. "Special interest is not suppose to be the focus of a Congress person's attention. It's suppose to be the best interests of the nation. And that's the way we'd like to operate."

Ludeman looks on himself as an idea person. "I believe strongly changes in government have a lot to do with what ideas are presented." He also looks on himself as conservative. "I do believe in a distinct function and role of government in both state and federal, a lot of it embodied in a pretty important document called the State Constitution. It gives us pretty specific direction."

He wants to see a campaign that deals totally with ideas and issues. "I intend to spend a lot of time about what Cal Ludeman believes in and not spend time on what David Minge believes. I'd like to be a good, clean, open campaign."

Ludeman looks on this campaign as an exciting time. "The nation has reached a point where it needs to make some major decisions as far as policy, what direction it wants to go, and I think I'm prepared for that."

Ludeman has hired several field directors...Tom Beening of Spicer and Galen DenOuden of Prinsburg.

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A1 WATER HERALD
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Ludeman trades farm chores for campaign

For Cal Ludeman, the morning seemed like a break, with nothing more pressing than ear-tagging cattle and doing a few farm chores.

But at 1 p.m., it was time to hit the campaign trail. With several newspaper interviews scheduled that afternoon, Ludeman shed his farm duds in favor of a natty suit and tie.

"I didn't realize how many newspapers there are in the Second District," Ludeman confesses, as he's ushered into the *Headlight-Herald* office. "You're my 66th newspaper visit. Now there's only 35 to go."

Since winning Independent-Republican endorsement for the Second Congressional seat on April 28, the Monroe Township farmer has been busy putting together the nuts and bolts of a grass-roots campaign that in many respects parallels his quest for the state house in 1986.

On tap are lots of handshakes, speeches, parade walks, county fair visits, position papers, fund-raisers, back-fence visits and personal phone calls. Even the "Cal's Pals" parade

marchers from the gubernatorial race will be resurrected.

But there's one important difference this time around. In the state-wide 1986 race against then Gov. Rudy Perpich, Ludeman was an unknown conservative to many voters, struggling to raise money and convince people he could win. This year, Ludeman unquestionably begins with more name recognition than any other candidate in the field.

"The campaign is off to a good start," Ludeman said. "People know me and the kinds of things that I stand for."

A county-by-county campaign organization has fallen into place rapidly. Early last week, Ludeman had 24 of 27 counties to be organized, with all leaders personally recruited by himself. These leaders, in turn, are to galvanize an "army" of volunteers recruited in each county.

"The idea is that this isn't just my campaign. It's the campaign of ordinary people who want to see change take place in Congress."

Voter dissatisfaction

Voters are deeply dissatisfied this year, Ludeman says, with how the federal government is managed.

"There is a sense that the system is out-of-control. People are to the point where they aren't sure what can be done or should be done, but they want the Congress and the President to just *do something*. Now I'm not sure that's the right attitude either. We'd better be sure that our 'solutions' don't make the problem worse."

One of Congress' first priorities, Ludeman believes, should be balancing the federal budget.

"This (the deficit) can not go on forever," Ludeman says of the national debt that's approaching \$4 trillion dollars, and this year's budget deficit of about \$399 billion. "If we don't do something, at some point before the end of this decade, we are going to have a collapse of our system."

President Bush, he says, must share responsibility with the Democratic controlled Congress for letting the deficit problem grow steadily worse.

Congress has approved steadily higher deficits and increases in spending, Ludeman notes, but Bush has failed to press Congress on the budget or even present a balanced budget proposal to Congress.

"I've been very disappointed with the president on this issue," he admits.

Ludeman disagrees with those who say it is impossible to balance the budget without major tax increases. He opposes any new taxation, but believes the budget can instead be balanced by reducing the growth of government spending.

"If we could just put a three percent cap on the growth of the budget, in three years the budget would balance itself. The fact is that we can keep every Social Security and pension promise. We can keep Medicare in place. We can maintain our criminal justice system. We can maintain a strong national defense. We can maintain necessary social welfare services. We can maintain a strong

Ludeman

Continued on page 2

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TRACY HEADLINE LIBRARY

JUN 10 1992

Continued from page one

commitment to education. It is not as if all these things will vanish if we balance the national budget. What has to change is the rate of growth in government spending."

"What's needed in Congress and the House, Ludeman summed up, are people who "have the courage to say 'no' on occasion."

Ludeman's Democratic opponent Dave Minge of Montevideo has also stressed the importance of reducing the deficit. But Ludeman believes there is a difference.

"He is part of a party that has been in the majority in Congress for a long time. With Democrats in control of Congress, we haven't had a balanced budget in Washington for 22 years."

No PAC contributions

To run a successful campaign, Ludeman believes he will need to raise about \$500,000. None of the money will come from political action committees, which Ludeman believes are part of the problem in Washington.

"There are so many special interests giving money to candidates, that the public perception is that our elected officials are acting in what's in the best interest of the special interests, rather than what is best for the country."

By not accepting PAC money, Ludeman says, there will never be any question of potential conflicts of interest if he is elected to Congress.

Minge, a Montevideo attorney and school board member, has characterized Ludeman as a "Vin Weber clone" and "right wing conservative who is well schooled in the art of politics as usual."

Ludeman shrugs off the criticism. "I really don't know what he means by that. You'll have to ask Dave Minge. But I do know that I haven't held public office for eight years or ever served in Washington D.C. So I don't know how I can be called a part of the political establishment."

Ludeman, like Weber, is conservative on many issues. On the whole, Ludeman believes that Weber, now serving his 12th year in Congress, has done a good job of representing the district. But Ludeman said he will not be as partisan as Weber.

"Over the years, Vin became a Republican spokesman for some of the partisan battles in Congress. So a lot of people either liked him or didn't like

him. Deep down inside, I'm not as partisan as Vin is."

Bi-partisan cooperation, Ludeman suggests, will be vital in breaking the grid-lock and buck-passing that to date has prevented Congress from coming to grips with many of the nation's most pressing problems.

Government experience

An asset Ludeman believes he can bring to Congress is his experience working in the Minnesota legislature. Ludeman served three terms in the Minnesota House, 1978-84, including a tenure as House minority leader, before deciding not to seek a fourth term. In 1984, he spearheaded a state Independent-Republican effort that led to the election of an I-R majority in the House for the first time in 14 years.

"I know how government works. I have a good idea of what the problems are and I have a good idea of how to go

about solving those problems. I know how to work with others to get things done."

After Weber surprised everyone and decided not to seek re-election, and others suggested that he seek the office, Ludeman said he thought long and hard before making a decision. A key question was whether his election could help make a difference.

His conclusion, was "yes." Public dissatisfaction, he believes, will lead to the election of sizeable numbers of new Representatives and Senators to Congress. This new delegation will have the public mandate to make sweeping changes to reform government, he says.

"I don't relish the thought of moving to Washington," he said. "But I take the things that go on in government very seriously, some would say too seriously. And based upon what is happening in government, I feel compelled to run."

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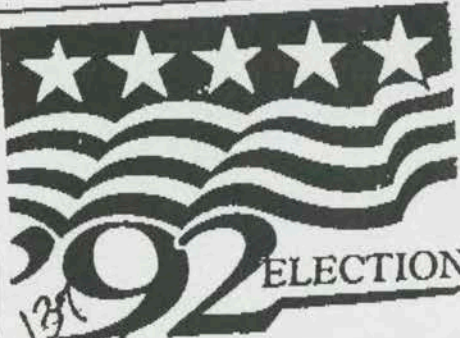
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612-587-4076-100
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JUL 22 1992



Complete or excerpted press releases from candidates vying for representation of the Annandale area.

131 169 "Onnen files for re-election"

State Rep. Tony Onnen (IR-Cokato) filed for re-election Friday, July 10, to serve another two years in his House seat in District 20B.

"The experience I've gained over the years has been invaluable, but I think the most important lesson I've learned is the importance of working in partnership with the people of my district," Onnen said in the release. "The best legislator in the world is still just a politician - working effectively to address people's needs is the real name of the game."

Onnen said his legislative agenda will focus on controlling health care costs, returning Minnesota to fiscal health, and rural communities and family life.

"There is a lot of work to be done to get Minnesota back on track as far as providing quality health care to all our citizens," Onnen said. "I believe controlling costs is the direction the state should be headed, rather than the current trend of increasing government involvement in the health care industry."

Onnen also mentioned that the state's proposed \$811 million shortfall. "Much could be accomplished by setting priorities in the role of government, eliminating duplication and increasing efficiency," he said. "It is my intention to continue working on the issues of violence and abuse, as well, by changing the incentives of our welfare system and involving entire families in dealing with violence."

Onnen is currently serving his eighth term in the Minnesota House of Representatives, with current appointments to the House committees of financial institutions/insurance, health and human services, judiciary and taxes. He chaired the health and human services committee in 1985-1986, when the IR's controlled the House.

Onnen lives on a farm north of Cokato with his wife, JoAnn, and five children. His past experience includes health care administration, owning his own tax and accounting practice, auditing and farming.

In Wright County, Onnen's new District 20B will include the cities of South Haven, Cokato, Howard Lake, Montrose and Waverly, and the townships of Albion, Cokato, French Lake, Marysville, Middleville, Southside, Victor and Woodland. Onnen's new area will also encompass the cities of Hamburg, Norwood, Young America and Watertown, and the townships of Hollywood, Young America and Watertown in Carver County. In McLeod County, Onnen will represent the cities of Lester Prairie, Plato, Silver Lake and Winsted and the townships of Bergen, Hale, Helen, Rich Valley and Winsted.

"Poll shows Minge more in touch"

David Minge, DFL-endorsed candidate for Minnesota's Second Congressional District, last week made claim to better knowledge of constituents' concerns. According to the release, The Feldman Group out of Washington discovered that among voters familiar with both Minge and IR Challenger Cal Ludeman, Minge would win by eight points, if the election were held on the day of the poll.

Pollster Diane Feldman was quoted as stating that among voters not familiar with the two candidates, Minge would win by 14 points because "voters in the Second District prefer a community leader who understands local problems over a former legislator."

In making his point of being in touch with his local constituents, Minge stated that he currently chairs the Montevideo Chamber of Commerce, the Community Development Corporation and the Agricultural Law section of the State Bar Association. He has served on the boards of the Montevideo United Way, the school board, as well as being active in an environmental group working to clean up a river.

"The Washington polling organization also discovered that Ludeman's opposition to any government spending on health care raised at least some doubts among 85 percent of the voters," the release continued, with a quote from Minge. "Cal Ludeman's ultra right perspective is out of line with southwestern Minnesota values."

Minge said Ludeman was the only legislator to vote against a resolution asking for federal help for tornado victims in southwestern Minnesota, and he was one of two legislators voting against help for the state's residents suffering from catastrophic illnesses.

"He was among the few legislators who voted against encouraging the development of processing plants in Minnesota, which use Minnesota agricultural products," Minge said, describing himself as a moderate who believes that the federal government is not working.

John
Add
RON BLACKSTONE
HOUSE CAND.
312-733-0334

MINNESOTA STOPS

Minneapolis

Located in the 5th District, Minneapolis is one of the select number of districts in the country where candidates are not afraid to refer to themselves as liberals.

Minneapolis residents account for nearly three-fourths of the 5th's voters, and except for those on the city's southwest side, they predictably choose liberal candidates over conservatives.

Although many of the flour mills that once lined the Mississippi River at St. Anthony's Falls have moved away, the major milling companies that settled in Minneapolis -- Pillsbury and General Mills -- have remained and diversified. They are among the major employers in the Twin Cities, along with the new "brain power" firms that find Minneapolis ideally suited for their needs.

Honeywell and Control Data have their worldwide headquarters in the district. The white-collar professionals who have attracted by these "clean" industries help give the city a clean-cut image that is reflected in the glistening towers of its downtown area.

The 5th is represented by Martin Olav Sabo (D), a 7-term representative who won with 73% of the vote in 1990. President Bush picked up only 33% of the vote in 1988.

Marshall

Located in Murray County in the 2nd District, Marshall is situated along the Iowa border.

The well-to-do farmers in the south along the Iowa border enjoy bountiful harvests of corn and soybeans. Nearby Worthington, located in Nobles County, claims to be the "Turkey Capital of the World."

Many voters in this part of the District are of German ethnic stock. Like those in the adjoining 1st District, they share a strong Republican tradition and an allegiance to the Farm bureau, the most conservative of the state's three major farm organizations.

The 2nd is represented by the retiring Vin Weber (R). President Bush squeaked out 51% of the vote in 1988.

MINNESOTA

REPUBLICAN ELECTED OFFICIALS

Constitutional Offices:

Governor ARNE CARLSON

Congressional Delegation:

1 R, 1 D

DAVID DURENBERGER - next election 1994

U. S. House of Representatives

2 R, 6 D

GOP Members:

2nd district VIN WEBER - retiring in 1992

3rd district JIM RAMSTAD

State Legislature:

State Senate

21 R

46 D

The Senate Republican Leader is DUANE BENSON.

State House

56 R

78 D

The House Republican Leader is STEVE SVIGGUM.

MINNESOTA

1992 PARTY STRUCTURE

STATE PARTY

Committee Members:

Chairman **BOB WEINHOLZER**

Elected: June 1991

Next Election: June 1993

WEINHOLZER was re-elected in 1991 with 70% of the vote from the State Central Committee. He is part of the conservative wing of the party and worked hard to get **ARNE CARLSON** on the gubernatorial ballot once **JON GRUNSETH** withdrew. Although many in the state are upset with Governor Carlson, Weinholzer has been able to maintain a working relationship with him. The chairmanship is a full-time paid position. He serves on the Rules Committee.

Deputy Chairman **BARB SYKORA**

Elected: June 1989

Re-elected: June 1991

Next Election: June 1993

SYKORA was re-elected as Deputy in 1991. Prior to this year, Minnesota had a Chairman and a Chairwoman. 1991 was the first year the Minnesota Party has elected only one chairperson.

National Committeewoman **EVIE AXDAHL**

Elected: December 1989

Re-elected: June 1992

Next Election: June 1996

AXDAHL was elected at a State Committee meeting in late 1989. She served on the Committee on Arrangements for the 1992 Convention.

National Committeeman **JACK MEAKS**

Elected: June 1992

Next Election: June 1994

MEAKS is the Chief of Staff to Congressman **VIN WEBER**. He sought the position after current Committeeman Printy opted not to seek re-election.

Party Leaders/Key Figures in State:

GEORGE PILLSBURY, Team 100 Member and personal friend of the President
WHEELOCK WHITNEY, Team 100 Member, college classmate of the President and
brother-in-law of George Pillsbury
EVIE TEEGAN, former National Committeewoman and current Ambassador to Fiji
Former Senator **RUDY BOSCHWITZ**

Bush-Quayle '92 Leadership:

Co-Chair: **BOB WEINHOLZER**
Co-Chair: **GOVERNOR ARNE CARLSON**
Honorary Chair: **FORMER CONGRESSMAN BILL FRENZEL**

STATE PARTY OVERVIEW

The Chairman is a full-time paid employee of the Party. The chairman has made fundraising a key objective for this year.

Minnesota has a strong Central Committee.

Financial Status:

Due to a substantial legal settlement from a mid-1980 lawsuit, the party currently has a significant balance of cash on hand.

Secretary **MADIGAN** participated in a roundtable discussion for Victory '92 in late August.

MINNESOTA

POLITICAL LANDSCAPE

ELECTION UPDATE

1992 Ballot:

President/Vice President

U.S House of Representatives:

- 1st CD - **TIMOTHY J. PENNY** (D)
- 2nd CD - **OPEN SEAT**
- 3rd CD - **JIM RAMSTAD** (R)
- 4th CD - **BRUCE F. VENTO** (D)
- 5th CD - **MARTIN OLAV SABO** (D)
- 6th CD - **GERRY SIKORSKI** (D)
- 7th CD - **COLIN PETERSON** (D)
- 8th CD - **JAMES L. OBERSTAR** (D)

No constitutional offices

1992 Electoral College Votes: 10

1992 Congressional Primary: September 15

State Convention: The State Convention was held in Minneapolis on June 19-20.

The delegation to the national convention had a conservative slant and consisted of 18 women and 14 men. State Chairman Bob Weinholzer served as chair of the delegation.

Political Environment/ Overview:

There are no statewide races in 1992. President **BUSH** should be able to mount a good campaign in Minnesota this year. Republican candidates have only won three of the last 10 Presidential elections since 1952, but a Democrat from Minnesota has been on the national ticket for 5 of the last 7 elections.

Presidential Primary Results

GOP PRIMARY

Bush	74,207	68%
Buchanan	27,992	25
Uncomm	3,623	3
Others	4,125	4

DEM PRIMARY

Clinton	59,694	33%
Brown	57,704	32
Tsongas	41,639	23
Uncomm	10,370	6
Harkin	3,938	2
McCarthy	3,497	2
Others	4,966	2

Key Congressional Races:

The hot congressional race in Minnesota will be the 7th District race of DEMOCRAT COLIN PETERSON, who defeated Republican ARLAN STANGELAND in the 1990 election. Peterson is the most vulnerable congressman up for re-election in the state.

1st - Congressman TIM PENNY (D) is being challenged by TIM DROOGSMA (R). Droogsma was press secretary for former Senator RUDY BOSCHWITZ and Gov. ARNE CARLSON. The party is optimistic about Droogsma's candidacy.

2nd - Congressman VIN WEBER (R) is not seeking re-election. Farmer and former Governor candidate CAL LUDEMAN is the Republican candidate. He faces attorney DAVE MINGE (D) this fall. The party looks for Ludeman to keep the seat in Republican hands.

3rd - First term Congressman, JIM RAMSTAD (R) is being challenged by PAUL MAITLAND (D) this fall. Ramstad is not expected to be seriously challenged.

4th - Republican IAN MAITLAND will again challenge Congressman BRUCE VENTO (D). Maitland is a college professor and has been the nominee for the past three election cycles. In 1990 he received 35% of the vote.

5th - Incumbent Congressman MARTIN OLAV SABO (D) is being challenged by STEVE MORIARITY (R). The party knows little about Moriarity.

6th - Former news anchor ROD GRAMMS is the Republican nominee against Congressman GERRY SIKORSKI (D). Sikorski was badly damaged by the check writing scandal and the party feels Gramms can mount a very serious challenge to Sikorski.

7th - It required three ballots for incumbent Congressman, COLIN PETERSON (D) to be endorsed for re-election of the DFL Convention. He will face BERNIE OMANN (R) this fall. Omann is a 27 year old farmer who has served three terms in the State House. The party feels Omann could significantly challenge Peterson.

8th - Incumbent JIM OBERSTAR (D) is being challenged by PHIL HERWIG (R). Herwig is a farmer and active member of the Labor Union.

1991 Redistricting Update:

Legislative and Congressional redistricting were finally completed late this spring. The state and federal courts were fighting over which had jurisdiction to draw the lines. According to party officials the Congressional changes were actually favorable to the Republicans and the legislative changes were a draw.

Opposition:

The Perot Petition Committee submitted over 50,000 signatures to the Secretary of State's Office, therefore qualifying for the fall ballot. Subsequently, the Minnesota Secretary of State's office confirmed that Perot requested again last week to keep his name on the ballot.

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**Minnesota
1992 Convention**

State Convention: June 18-20, 1992
Presidential Caucus: March 3, 1992
Presidential Primary: April 7, 1992
General Primary: September 15, 1992

Note: Republicans chose their delegates at the March 3 caucus. The delegates were allocated with the April 7 primary.

Delegate Breakdown:

Total: 32
12 men
20 women

1 Asian member

Rules Committee:

Ed Fiore
Mary Kiffmeyer

Credentials Committee:

Ron Carey
Georgeanne Peterson

Platform Committee:

Vin Weber
Evie Axdahl

Permanent Organization Committee:

Phil Harwig
Sue Kirch

Delegation Chairman: Bob Weinholzer

MINNESOTA STATE STATISTICS

POPULATION:	4,307,000
Largest City:	Minneapolis
Second largest:	St. Paul
Third largest:	Bloomington
GOVERNOR:	Arne Carlson (R) elected 1990 Next election: 1994
SENATORS:	Durenberger (Minneapolis) & Wellstone (Northfield)
DEMOGRAPHICS:	94% White, 67% Urban, & 33% Rural
MEDIAN FAMILY INCOME:	\$21,185 (13th)
VIOLENT CRIME RATE:	288 per 100,000 (36th)

INDEPENDENT - REPUBLICANS OF MINNESOTA

8030 Cedar Avenue, Suite 202
Bloomington, Minnesota 55425
Executive Director: Mike Triggs
(612) 854-1446
(612) 854-8488 FAX #

Chairman:

Bob Weinholzer
2422 Schadt
Maplewood, MN 55119
(612) 854-1446 (GOP)
(612) 735-3318 (H)

National Committeewoman:

Evie Axdahl
2209 Payne Avenue
Maplewood, MN 55117
(612) 771-5034 (H)

National Committeeman:

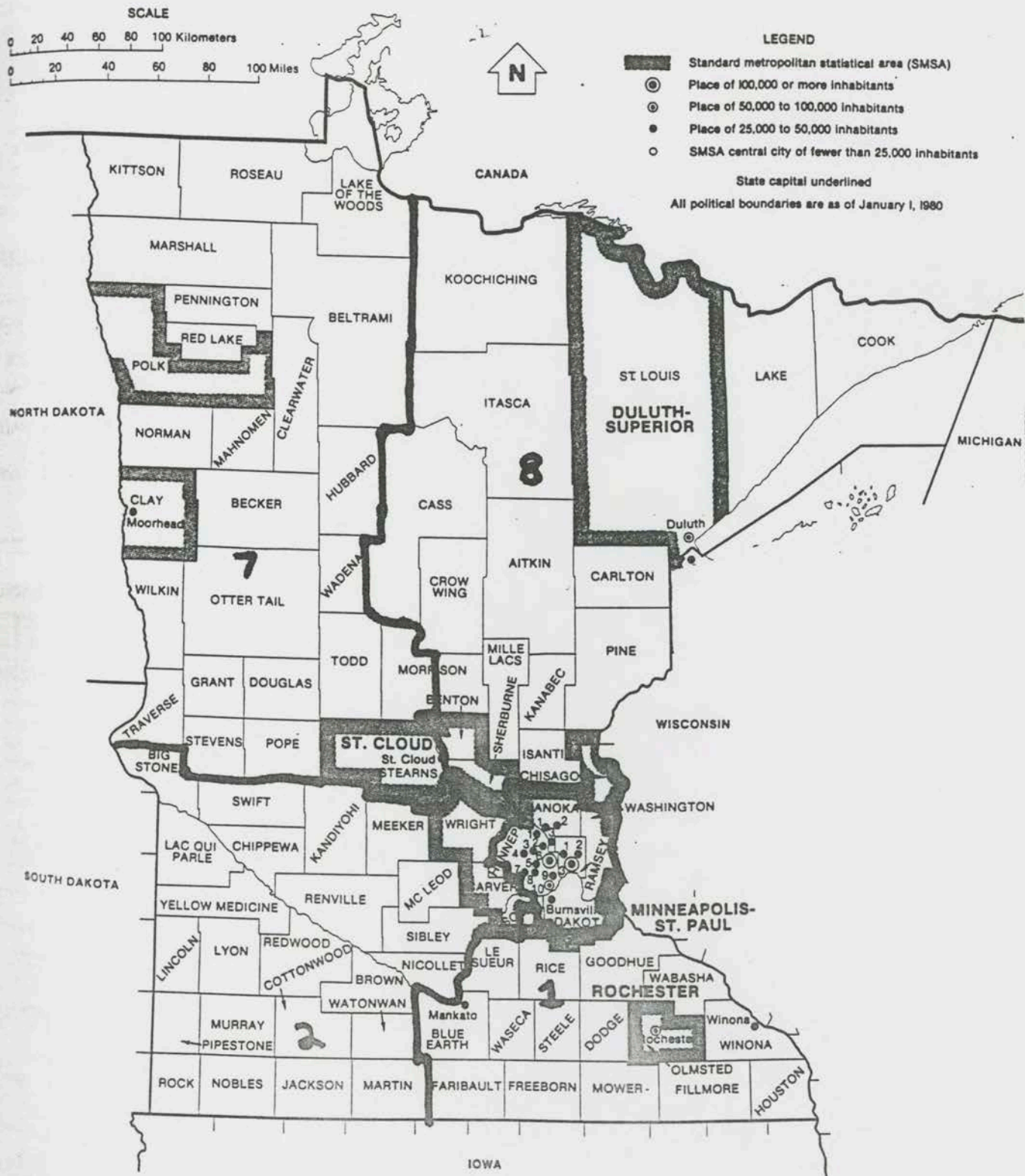
Dave Printy
19 South First Street
Apt. B2701
Minneapolis, MN 55401
(612) 933-2838 (o)
(612) 333-4448 (h)
(612) 698-1464 (H)

1988 DOLE SUPPORTERS, STATE OF MINNESOTA

Cal Ludeman
Route 2, Box 20
Tracy, MN 56175
(507) 629-3631 (H)

Dr. Edward Johnson
14400 Diamond Path West
P.O. Box 89
Roseville, MN 55113
(612) 484-9068 (H)

Lois Mack
Route 1, Box 119
Waterville, MN 56096
(612) 221-0904 (O)
(507) 267-4549 (H)

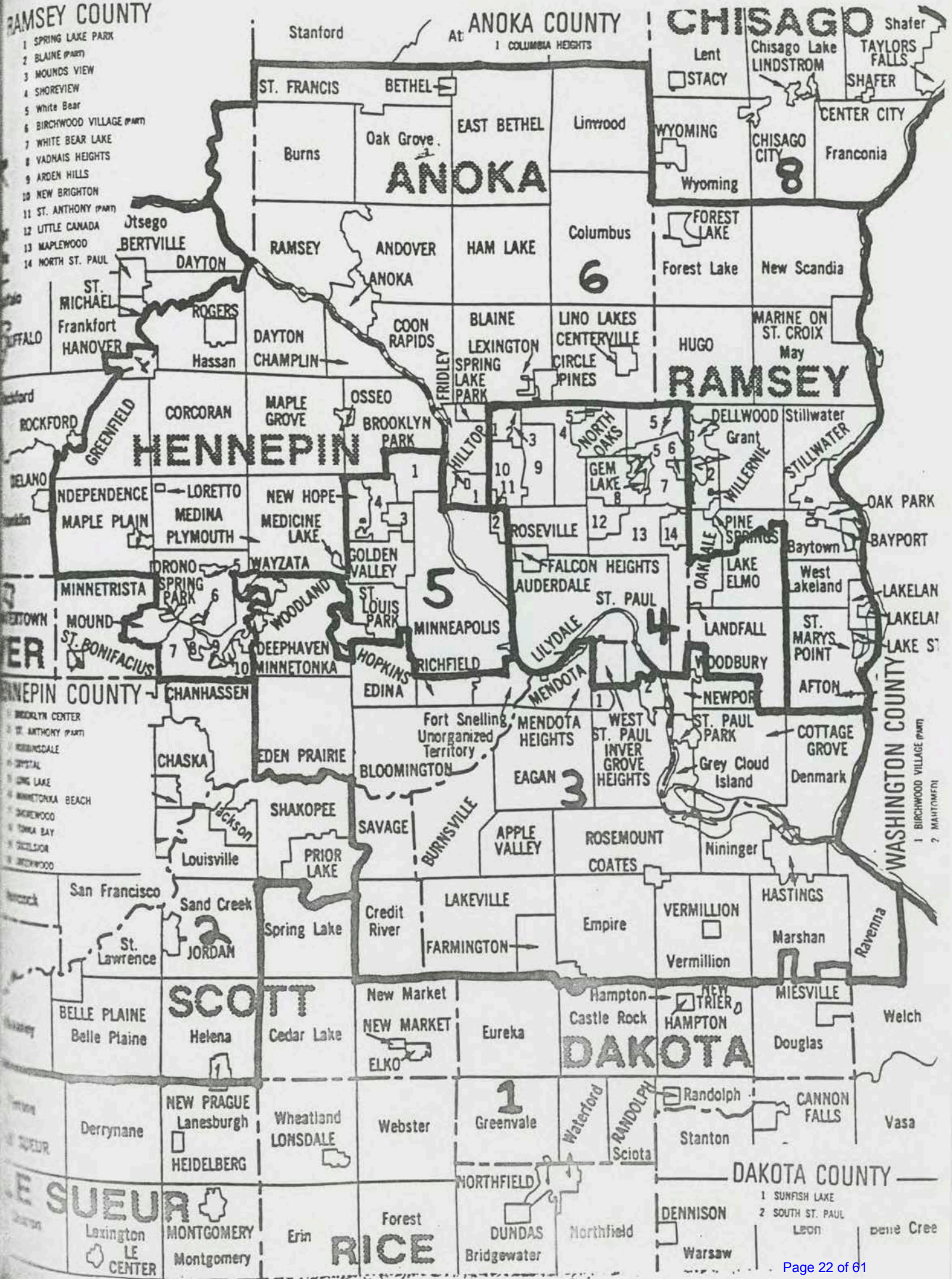


RAMSEY COUNTY

- 1 SPRING LAKE PARK
- 2 BLAINE (PART)
- 3 MOUNDS VIEW
- 4 SHOREVIEW
- 5 White Bear
- 6 BIRCHWOOD VILLAGE (PART)
- 7 WHITE BEAR LAKE
- 8 VADMAIS HEIGHTS
- 9 ARDEN HILLS
- 10 NEW BRIGHTON
- 11 ST. ANTHONY (PART)
- 12 LITTLE CANADA
- 13 MAPLEWOOD
- 14 NORTH ST. PAUL

ANOKA COUNTY

CHISAGO COUNTY



- 1 BROOKLYN CENTER
- 2 ST. ANTHONY (PART)
- 3 HEBBINGDALE
- 4 OPTIMA
- 5 LONG LAKE
- 6 MINNETONKA BEACH
- 7 SHOREWOOD
- 8 TOKIA BAY
- 9 SKILLSDOR
- 10 BIRCHWOOD

LE SUEUR COUNTY

- 1 LEXINGTON LE CENTER
- 2 MONTGOMERY

DAKOTA COUNTY

- 1 SUNFISH LAKE
- 2 SOUTH ST. PAUL

1992 MINNESOTA REDISTRICTING
CONGRESSIONAL DISTRICTS

Dist	Incumbent	Persons	Devn
1	Penny (D)	546,887	0
2	<i>Weber (R) retired</i>	546,887	0
3	Ramstad (R)	546,888	1
4	Vento (D)	546,887	0
5	Sabo (D)	546,887	0
6	Sikorski (D)	546,888	1
7	Peterson (D)	546,888	1
8	Oberstar (D)	546,887	0
Totals / Averages		4,375,099	

CAL LUDEMAN

for Congress

Minnesota
2nd Congressional District

BIOGRAPHY

P.O. Box 877
New Ulm, MN 56073
507-354-1994

Cal Ludeman is the Independent-Republican Party's endorsed candidate for the U.S. House of Representatives from Minnesota's 2nd Congressional District.

Ludeman, 41, is a lifelong resident of Tracy, 17 miles southeast of Marshall. He runs a farrow to finish hog operation, a beef cow-calf operation, and crop farms with his two brothers. Ludeman and his wife, Deb, have been married for 21 years and have three children: Ben, 18; Hilary, 16; and Grant, 14.

A graduate of Tracy High School in 1969, Ludeman attended South Dakota State University and the University of Wyoming, where he received a bachelor's degree in economics in 1972.

Ludeman first entered politics in 1975 when he was elected Monroe Township Clerk. He was elected to the state Legislature in 1978, representing Lyon and Lincoln counties in the Minnesota House of Representatives for three terms. Ludeman was appointed as Minority Whip in 1983 and served on the Governmental Operations, Agriculture, Environment and Natural Resources and Labor-Management committees.

Ludeman went from elective office to the state IR Party in 1984, serving as the party's political director. In that position, he was responsible for the state parties effort to elect legislative candidates state wide.

In 1986, Ludeman launched his campaign for governor against DFLer Rudy Perpich. Winning a hard-fought IR endorsement contest, Ludeman easily beat former Bloomington Mayor Jim Lindau in the IR primary, garnering 78 percent of the vote. Ludeman lost the general election by only 6% (a margin of 56% to 44%) and recieved over 600,000 votes.

Ludeman continued to be active in politics after the gubernatorial contest, serving as Bob Dole's state chairman in his 1988 bid for the Republican presidential nomination.

Currently serving as a member of the state Commission on Reform and Efficiency (CORE), a pet project of Gov. Arne Carlson, Ludeman is contributing his ideas to a long-range process to redesign how state government delivers services. Ludeman also has been involved in projects for the Foundation of Economic Education, the Constitution Education Foundation and served as charter director for the Center of the American Experiment.

The Ludeman family has long been active in community activities in the Tracy area. Ludeman has been a member and held a variety of leadership positions in the Jaycees, Kiwanis, Farm Bureau, the Southwest Minnesota Cattlemen's Association, Tracy Lutheran Church and the Tracy Milroy Boosters Club.

MINNESOTA AG BRIEFING POINTS

IN CAL LUDEMAN'S DISTRICT, CORN AND SOYBEANS ARE THE KEY CASH CROPS. THERE ARE SOME DAIRIES IN THE AREA. THE WEATHER DURING THIS GROWING SEASON HAS BEEN EXCELLENT AND GROWERS EXPECT BUMPER CROPS.

KEY CONCERNS:

- (1) PRICES - CORN PRICES ARE EXTREMELY LOW, AND SOME THINK THAT SOYBEAN PRICES COULD DROP SO LOW AS TO TRIGGER THE SOYBEAN MARKETING LOAN.
- (2) TRADE - THE SECTION 301 SOYBEAN DISPUTE WITH THE E.C. IS STILL PENDING. VSTR HAS NOT YET GONE AHEAD WITH THE RETALIATION (WHICH WOULD BE \$1 BILLION). THE E.C. CONTINUES TO MAKE ALTERNATIVE OFFERS THAT WOULD DO NOTHING TO AMEND THEIR EXISTING SUBSIDY REGIME, AND VSTR HAS HELD THE LINE TO THIS POINT.
- (3) ETHANOL - STRONG INTEREST IN ETHANOL AND IN GETTING THE PROBLEM WITH THE CLEAN AIR ACT FIXED.

KEY INDUSTRY:

DAIRY - SEE SEPARATE BRIEFING PAGE.

DAIRY BRIEFING POINTS

- DURING 1992 MILK PRICES HAVE BEEN BETTER THAN EXPECTED AND DIARY FARMERS HAVE BEEN RELATIVELY HAPPY.
- OVERALL MILK PRODUCTION HAS INCREASED THIS SUMMER DUE TO THREE PRIMARY REASONS: THE MONTH OF JULY INCREASED 4%.
 - TOO MANY COWS
 - AN ABUNDANCE OF GOOD FEED
 - IDEAL WEATHER (COOL) NO EXTREME HEAT
- THE M-W PRICE FOR AUGUST ROSE TO \$12.65 CWT. AND WAS PROJECTED TO INCREASE SLIGHTLY AND HOLD STEADY THROUGH THE FALL.
- HOWEVER, BEGINNING LAST WEEK

KRAFT, WHO HAS ABILITY TO IMPLEMENT THE CHEESE MARKET DUE TO SHEER VOLUME HAS DECIDED THE CHEESE PRICE IS TOO HIGH. THE CURRENT BLOCK PRICE (64 LB.) IS \$1.37 PER LB. THEY HAVE DECIDED TO LOWER THAT PRICE TO \$1.20 PER LB. THIS WILL EQUATE TO APPROX. \$1.20 PER CWT. DROP IN THE MILK PRICE TO THE PRODUCER.

BY DUMPING LARGE AMOUNTS OF CHEESE ON THE MARKET KRAFT LOWERED THE CHEESE PRICE LAST FRIDAY BY 2.75 CENTS. THE CHEESE PRICE IS SET EACH FRIDAY AND KRAFT IS EXPECTED TO TAKE SIMILAR ACTION UNTIL THEY REACH THEIR PRICE OBJECTIVE. IN ATTEMPT TO STOP THE SLIDE, THE DAIRY COOPS LED BY MID-AM HAVE STEPPED IN TRIED TO PURCHASE A LOT OF THE CHEESE FROM KRAFT, BUT KRAFT CONTINUES TO DUMP CHEESE ON THE MARKET BEYOND THE COOPS ABILITY.

OBVIOUSLY, THE PRODUCERS ARE CONCERNED BECAUSE THE EXPECTED DROP IN THE MILK PRICE PUTS THE FARM PRICE FOR A LOT OF THE PRODUCERS AT OR BELOW BREAK EVEN.

THE MILK SUPPORT PRICE IS \$10.10 PER CWT.

ACTION:

THE DAIRY LEADERSHIP IS CALLING FOR THE ADMIN. TO IMPLEMENT THE DEEP (DAIRY EXPORT ENHANCEMENT PROGRAM). DEEP PROVIDES THE ABILITY TO EXPORT CHEESE. THE OTHER OPTION WOULD BE TO PURCHASE IN ADVANCE CHEESE FOR THE SCHOOL LUNCH PROGRAM.

JOSEPH R. BIDEN JR. DELAWARE CHAIRMAN

EDWARD M. KENNEDY MASSACHUSETTS
HOWARD M. METZENBAUM OHIO
DENNIS DECONCINI ARIZONA
PATRICK J. LEAHY VERMONT
HOWELL HEFLIN ALABAMA
PAUL SIMON ILLINOIS
HERBERT KOHL WISCONSIN

STROM THURMOND SOUTH CAROLINA
ORRIN G. HATCH UTAH
ALAN K. SIMPSON WYOMING
CHARLES E. GRASSLEY IOWA
ARLEN SPECTER PENNSYLVANIA
HANK BROWN COLORADO

RONALD A. KLAIN CHIEF COUNSEL
CYNTHIA C. HOGAN STAFF DIRECTOR
THADDEUS E. STROM MINORITY CHIEF COUNSEL
AND STAFF DIRECTOR

United States Senate

COMMITTEE ON THE JUDICIARY
WASHINGTON, DC 20510-6275

Witness List
Subcommittee on Antitrust, Monopolies
and Business Rights
Hearing on
Consumer Disclosure of Insurance
June 23, 1992 at 9:30 am
226 Dirksen Senate Office Building

PANEL I

1. T.J. Butler speaking for Garrett Butler
Houston, TX
2. Rick K. Nelson
Independent Insurance Agent
R.K. Nelson & Associates
Northbrook, Illinois
3. Harold G. Mercer
Mercer & Jenkins Limited
Insurance Consultants
Alexandria, Virginia

PANEL II

1. James H. Hunt
Director
National Insurance Consumers Organization
Alexandria, VA
2. Judy A. Faucett, F.S.A., M.A.A.A.
Coopers & Lybrand
American Academy of Actuaries
Washington, D.C.
3. Geoff Rips
Director of Public Information
Office of Public Insurance Counsel
Austin, TX

JOSEPH R. BIDEN, JR. DELAWARE CHAIRMAN

EDWARD M. KENNEDY MASSACHUSETTS	STROM THURMOND SOUTH CAROLINA
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HOWELL HEFLIN ALABAMA	ARLEN SPECTER PENNSYLVANIA
PAUL SIMON ILLINOIS	HANK BROWN COLORADO
HERBERT KOHL WISCONSIN	

RONALD A. KLAIN CHIEF COUNSEL
CYNTHIA C. HOGAN STAFF DIRECTOR
THADDEUS E. STROM MINORITY CHIEF COUNSEL
AND STAFF DIRECTOR

United States Senate

COMMITTEE ON THE JUDICIARY
WASHINGTON, DC 20510-6275

OPENING STATEMENT

HOWARD M. METZENBAUM AT THE SENATE SUBCOMMITTEE
ON ANTITRUST, MONOPOLIES & BUSINESS RIGHTS HEARING
"LIFE INSURANCE: A SHELL GAME OF PREMIUM PADDING
AND SAVINGS SCHEMES"
JUNE 23, 1992

TODAY'S HEARING IS ABOUT HOW LIFE INSURANCE COMPANIES AND THEIR AGENTS INTENTIONALLY MISLEAD CONSUMERS ABOUT HOW MUCH THEIR LIFE INSURANCE POLICIES WILL COST AND WHAT THOSE POLICIES WILL BE WORTH WHEN THEY NEED THEM MOST.

I THINK WE CAN ALL AGREE THAT BUYING LIFE INSURANCE IS CONFUSING AND FRUSTRATING. BUT, I AM CONVINCED THAT IT DOESN'T HAVE TO BE THAT WAY. TOO MANY COMPANIES IN THIS INDUSTRY WOULD RATHER CONFUSE CONSUMERS THAN EDUCATE THEM. MAYBE THAT IS BECAUSE A CONFUSED CONSUMER WON'T ASK SO MANY TOUGH QUESTIONS -- LIKE, ARE THERE ANY POLICY CANCELLATION CHARGES AND HOW MUCH ARE THEY?

TODAY, LIFE INSURANCE SHELL GAMES ARE QUITE SOPHISTICATED. COMPANIES AND THEIR AGENTS DISGUISE THE TRUE COST AND TRUE VALUE OF A POLICY BY USING SLICK COMPUTER-GENERATED ILLUSTRATIONS OF HOW MUCH A POLICY WILL COST AND HOW MUCH IT WILL BE WORTH. THEY ALSO USE THESE ILLUSTRATIONS TO HIDE EXORBITANT ADMINISTRATIVE FEES AND POLICY SURRENDER CHARGES.

BUT THAT'S NOT ALL. THESE SAME COMPANIES DESIGN AND MARKET SO-CALLED NEW AND IMPROVED LIFE INSURANCE POLICIES TO LURE CONSUMERS INTO REPLACING THEIR CURRENT POLICIES. WHAT CONSUMERS DON'T KNOW, AND ARE NEVER TOLD, IS THAT THE REAL PURPOSE OF THE NEW POLICIES IS TO GENERATE HIGHER FEES FOR THE COMPANIES AND NEW COMMISSIONS FOR THEIR AGENTS.

THESE LIFE INSURANCE SHELL GAMES PRODUCE ONE RESULT: CONSUMERS GET A RAW DEAL.

IT'S ABUNDANTLY CLEAR TO ME THAT THE LIFE INSURANCE INDUSTRY DESIGNS POLICY ILLUSTRATIONS TO BE CONFUSING -- OR WORSE UNINTELLIGIBLE. TO THE AVERAGE CONSUMER, THE 5 ILLUSTRATION CHARTS DIRECTLY BEHIND ME ARE JUST A JUMBLE OF NUMBERS. WHAT LITTLE MEANINGFUL INFORMATION THEY CONTAIN IS HIDDEN IN THE DISCLAIMERS IN THE SMALL PRINT AT THE BOTTOM. THE TRUTH IS THAT

THESE POLICY ILLUSTRATIONS DISCLOSE ALMOST NOTHING THAT A CONSUMER REALLY NEEDS TO KNOW TO MAKE AN INFORMED CHOICE ABOUT WHICH LIFE INSURANCE POLICY TO BUY.

THESE POLICY ILLUSTRATIONS WERE CREATED BY 5 DIFFERENT COMPANIES AS A TOOL FOR SELLING THE SAME 45-YEAR OLD MAN \$300,000 WORTH OF LIFE INSURANCE TO PROTECT HIS FAMILY FINANCIALLY WHEN HE DIES. BUT, THE ONLY THING THAT THESE 5 ILLUSTRATIONS HAVE IN COMMON IS THAT NONE OF THEM DISCLOSE ENOUGH INFORMATION. FOR EXAMPLE, ALEXANDER HAMILTON'S ILLUSTRATION DOESN'T MAKE IT CLEAR THAT THERE IS NO GUARANTEED DEATH BENEFIT AFTER 12 YEARS. THAT MEANS THAT AT AGE 57, THIS 45-YEAR MAN WILL QUITE POSSIBLY HAVE TO PAY A LOT MORE TO GET NEW LIFE INSURANCE -- IF HE CAN GET IT AT ALL. FRANKLY, NO 45-YEAR OLD MAN COULD MAKE AN INFORMED CHOICE ABOUT WHICH POLICY TO BUY ON THE BASIS OF ANY OF THESE ILLUSTRATIONS.

THE MOST ABUSIVE POLICY ILLUSTRATIONS ARE THOSE THAT SEEM TO PROMISE CONSUMERS THAT THEIR POLICY WILL BE PAID FOR IN A SET NUMBER OF YEARS. THIS IS KNOWN AS A "VANISHING" PREMIUM BECAUSE NO PREMIUM PAYMENTS SHOW UP ON THE CHART AFTER 5, OR SOMETIMES 10 YEARS. NATURALLY, CONSUMERS BELIEVE THAT THEIR POLICY WILL BE PAID FOR WHEN THEIR PREMIUM PAYMENTS VANISH FROM THE PAGE. NOTHING COULD BE FURTHER FROM THE TRUTH.

WHAT THE COMPANIES HIDE IN THE FINE PRINT IS THE FACT THAT THESE VANISHING PREMIUMS ARE NOT GUARANTEED AND DEPEND ENTIRELY ON THE RATE OF RETURN THE COMPANY EARNS ON THE CONSUMER'S PREMIUM DOLLARS. SO, IF THE COMPANY DOESN'T MEET ITS OWN EARNING PROJECTIONS, PREMIUM PAYMENTS DON'T VANISH. INSTEAD, THE UNSUSPECTING POLICYHOLDER IS STUCK PAYING THOUSANDS OF DOLLARS MORE IN PREMIUMS TO KEEP FROM FORFEITING HIS LIFE INSURANCE.

THAT IS EXACTLY WHAT HAPPENED TO ONE OF OUR WITNESSES TODAY. MR. BUTLER'S FATHER SOLD HIS BUSINESS IN ORDER TO BUY A LIFE INSURANCE POLICY TO PROTECT HIS FAMILY AFTER HE AND HIS WIFE DIE. A BROKER SOLD HIM A POLICY THAT THE COMPUTER ILLUSTRATION SHOWED WOULD BE PAID FOR IN JUST 5 YEARS. AS FAR AS THE SENIOR MR. BUTLER KNEW, HIS POLICY WAS PAID UP LONG AGO. THEN, JUST 7 WEEKS AGO, HE CALLED THE COMPANY TO CHECK ON HIS INSURANCE. HE WAS HORRIFIED TO HEAR THAT HE WOULD HAVE TO MAKE HUNDREDS OF THOUSANDS OF DOLLARS OF ADDITIONAL PREMIUM PAYMENTS TO KEEP HIS LIFE INSURANCE. TO MAKE MATTERS WORSE, MR. BUTLER IS SERIOUSLY ILL AND CAN'T QUALIFY FOR NEW COVERAGE. SO, NOW, INSTEAD OF HAVING A PAID-UP POLICY, MR. BUTLER IS FACED WITH THE PROSPECT OF PAYING A DECEITFUL INSURANCE COMPANY EVEN MORE MONEY FOR INSURANCE THAT HE THOUGHT HE HAD PAID FOR LONG AGO.

MANY OF THESE MISLEADING POLICY ILLUSTRATIONS ARE JUST SHORT OF CRIMINAL BECAUSE THE COMPANIES ACTUALLY KNOW THAT THEY CANNOT EARN THE RATE OF RETURN THAT THEY SHOW ON THEIR PROJECTIONS. AS ONE OF OUR WITNESSES WILL TESTIFY, IT IS NOT UNCOMMON FOR A

COMPANY TO BE PEDDLING AN ILLUSTRATION SHOWING A HIGH RATE OF RETURN AT THE SAME TIME IT IS FILING A STATE DISCLOSURE FORM ADMITTING THAT IT CAN'T POSSIBLY MEET THAT PROJECTION. FOR EXAMPLE, IN ITS 1990 ANNUAL SCHEDULE M STATEMENT TO STATE INSURANCE DEPARTMENTS, MUTUAL OF OMAHA -- ONE OF THE NATION'S MOST RESPECTED INSURANCE COMPANIES -- ADMITTED THAT IT COULD NOT MEET THE RATE OF RETURN THAT ITS ILLUSTRATION PROJECTED FOR EVEN THE FIRST TWO YEARS OF THE POLICY.

COMPANIES ALSO USE COMPUTER-GENERATED ILLUSTRATIONS TO HIDE RIDICULOUSLY HIGH ADMINISTRATIVE AND SURRENDER CHARGES.

THAT IS WHY MOST POLICYHOLDERS DON'T REALIZE THAT THEIR AGENT WILL MAKE A COMMISSION OF BETWEEN 55% AND 105% ON THEIR PREMIUM PAYMENTS IN THE FIRST COUPLE OF YEARS. SOME COMPANIES AND AGENTS WILL GO TO ALMOST ANY LENGTHS TO HIDE THE FACT THAT ALL THEY REALLY CARE ABOUT IS HOW MUCH THEY CAN MAKE IN COMMISSIONS. AS ONE OF PACIFIC MUTUAL'S AGENT TRAINING FILMS PUT IT: "...WE START WITH THE CLIENT'S PREMIUM ... [OF SAY] TEN THOUSAND DOLLARS. WHAT WE ARE INTERESTED IN NOW IS HOW MUCH COMMISSION WE CAN GET ON THAT TEN THOUSAND DOLLARS ..."

SURRENDER CHARGES ARE ANOTHER COST THAT THE COMPANIES TRY TO HIDE. SURRENDER CHARGES ARE WHAT THE COMPANY MAKES A CONSUMER PAY WHEN THE POLICYHOLDER CASHES IN HIS POLICY DURING ITS EARLY YEARS. THESE CHARGES ARE USUALLY SO HIGH THAT MOST POLICIES HAVE ABSOLUTELY NO VALUE UNTIL A CONSUMER HAS PAID PREMIUMS FOR AT LEAST 3 YEARS. BUT, MOST CONSUMERS DON'T REALIZE THAT UNTIL IT IS TOO LATE TO GET THEIR MONEY BACK.

MANY INSURANCE COMPANIES EVEN HAVE A WAY TO GET A CONSUMER'S MONEY WITHOUT THE CONSUMER EVER KNOWING ABOUT IT. MOST POLICIES HAVE A CLAUSE THAT ALLOWS THE COMPANY, WITHOUT TELLING THE POLICYHOLDER, TO DIP INTO THE SAVINGS COMPONENT OF THEIR LIFE INSURANCE POLICY. THIS CAN HAPPEN, FOR INSTANCE, WHEN A CONSUMER STOPS PAYING ON A POLICY BECAUSE HE BELIEVES THAT THE POLICY IS PAID UP. THEN, WITHOUT EVEN TELLING THE POLICYHOLDER, THE COMPANY CAN RAID THE SAVINGS TO PAY ITSELF MORE PREMIUMS.

WE WILL HEAR TESTIMONY TODAY ABOUT A FAMILY IN TEXAS WHO PAID PREMIUMS ON A LIFE INSURANCE POLICY FOR THEIR SON FOR 20 YEARS AND THOUGHT IT WAS PAID UP. WHEN THEIR SON ASKED THE COMPANY ABOUT IT YEARS LATER, HE LEARNED THAT THE POLICY HAD A CASH VALUE OF ONLY \$56.10 BECAUSE THE COMPANY HAD USED THE REST TO PAY ITSELF MORE PREMIUMS.

FRANKLY, EVERYTHING SOME LIFE INSURANCE COMPANIES DO IS DESIGNED TO MAKE IT VIRTUALLY IMPOSSIBLE FOR CONSUMERS TO TELL WHETHER THEIR PREMIUM DOLLARS ARE GOING TO BUILD UP THE POLICY'S CASH VALUE OR LINE THE POCKETS OF THE COMPANY AND ITS AGENTS.

AS IF THEY DON'T GET ENOUGH MONEY BY TAKING EXPENSE CHARGES OUT OF PREMIUMS FOR 6 OR 7 OR EVEN 12 YEARS, LIFE INSURANCE COMPANIES ARE CONSTANTLY DESIGNING NEW POLICIES TO SELL TO THEIR OLD CUSTOMERS. WHEN THE UNSUSPECTING CUSTOMER BUYS THE "IMPROVED" PRODUCT, HE HAS TO START ALL OVER PAYING NEW AND HIGHER COMMISSIONS AND OTHER ADMINISTRATIVE CHARGES. AS ONE OF OUR WITNESSES WILL TELL US, "ONLY A THIRD OF BUYERS KEEP THEIR POLICIES LONG ENOUGH TO BREAK EVEN."

THE PURPOSE OF OUR HEARING TODAY IS TO DETERMINE WHAT THIS COMMITTEE CAN DO TO PUT STOP TO THIS SHELL GAME THAT LIFE INSURANCE COMPANIES ARE PLAYING WITH CONSUMERS.

OUR INVESTIGATION SHOWED THAT MANY COMPANIES OFFER MISLEADING ILLUSTRATIONS, INCLUDING THE 5 COMPANIES WHOSE ILLUSTRATIONS YOU SEE TODAY. WHILE THESE COMPANIES COOPERATED WITH THE SUBCOMMITTEE BY PROVIDING MATERIALS, NONE OF THEM WANTED TO PRESENT TESTIMONY HERE TODAY.

WE INVITED THE AMERICAN COUNCIL OF LIFE INSURANCE TO TESTIFY. BUT, THEY ALSO DID NOT WANT TO COME. THEY SAID IT WAS "INAPPROPRIATE" FOR THEM TO BE "FURTHER INVOLVED IN THESE MATTERS." I THINK THAT THE ABSENCE OF THE COMPANIES AND THE ACLI AT THE WITNESS TABLE SAYS A LOT ABOUT THE INDUSTRY'S COMMITMENT TO PROVIDING CONSUMERS WITH CLEAR AND COMPREHENSIVE INFORMATION ABOUT LIFE INSURANCE POLICIES.

WHAT CONSUMERS AREN'T TOLD

Essential Information not Disclosed in Policy Sales Illustrations

45 Year Old Male Non-Smoker \$300,000 coverage



Annual Premium
\$2,334

1. Policy Not Guaranteed after Age 57
2. Buyer Pays over \$1,400 in First Year Sales Commission
3. Buyer's Life Expectancy Withheld
4. Annual Cost of Death Benefit Withheld
5. Amount of Expenses buyer will pay withheld
6. No way to calculate cash value
7. Featured Rate of Growth Not Guaranteed
8. Company's Interest Crediting Rate Decreased in 1991



Annual Premium
\$5,206

1. Buyer Pays \$5,206 in First Year Sales Commission
2. Buyer's Life Expectancy Withheld
3. Annual Cost of Death Benefit Withheld
4. Amount of Expenses Buyer Will Pay Withheld
5. No Way to Calculate Cash Value
6. Projected Premiums and Values End at Age 74
7. Company's Interest Crediting Rate decreased in 1991



Annual Premium
\$5,387

1. Buyer pays over \$4,578 in First Year Sales Commissions
2. Buyer's Life Expectancy Withheld
3. Annual Cost of Death Benefit Withheld
4. Amount of Expenses Buyer Will Pay Withheld
5. No way to calculate cash value
6. Cancellation Charges Not Disclosed
7. Company's Interest Crediting Rate Decreased in 1991



Annual Premium
\$4,769-5,603

1. Buyer Pays \$4,769 in First Year Sales Commissions
2. Annual Cost of Death Benefit Withheld
3. Amount of Expenses Buyer Will Pay Withheld
4. Some Premium and Policy Values not Guaranteed
5. No way to calculate cash value



PACIFIC MUTUAL

Annual Premium
\$6,800

1. Buyer Pays \$6,800 in First Year Sales Commissions
2. Annual Cost of Death Benefit withheld
3. Buyer's Life Expectancy Withheld
4. Amount of Expenses Buyer Will Pay Withheld
5. No way to calculate cash value
6. Company's interest crediting rate decreased in 1991

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<http://dolearchives.ku.edu>



PRIMERICA
Financial Services

... Because It's Your Future

Page 33 of 61

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<http://dolearchives.ku.edu>

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Representing
Massachusetts Indemnity and Life Insurance Company / Executive Offices: Duluth, Georgia

For release on delivery
9:30 A.M., E.D.T.
June 16, 1992

Statement by
Alan Greenspan
Chairman, Board of Governors
of the Federal Reserve System
Before the
Commerce, Consumer, and Monetary Affairs Subcommittee
of the
Committee on Government Operations
U.S. House of Representatives

June 16, 1992

SAINT PAUL PIONEER PRESS

WEDNESDAY, JUNE 17, 1992

F 5B

Proposal ties Treasury interest rate to inflation

ASSOCIATED PRESS

Tying the interest rate on Treasury securities to inflation may save taxpayers' money and help the Federal Reserve plan monetary policy, but the proposal faces many hurdles, Fed Chairman Alan Greenspan said Tuesday in



Greenspan

Washington.

The central bank chief, appearing before a House subcommittee, said he is attracted by the potential benefits of inflation-indexed Treasury securities, but pointed out a number of possible problems.

"Changing the composition of federal debt issuance is not a matter to be taken lightly," he said.

Theoretically, the government could pay less interest if investors knew they would be protected from unexpected inflation surges. They would be paid the inflation rate plus several percentage points.

According to economics professor William Poole of Brown University, the government could have saved \$50 billion to \$100 billion or more since the early 1980s if it had indexed even a modest amount of Treasury debt to inflation.

Also, and more importantly, according to advocates of indexation, Federal Reserve policymakers could obtain an approximate reading of the market's inflation expectations by comparing the rate on regular securities to the rate on indexed securities of the same maturity.

Greenspan said he was attract-

ed to the prospect of getting a better window into the market's inflation views. But he warned that other factors, including the potential for reduced demand for the indexed securities, could erode savings to the government.

Current tax regulations may make indexed securities less advantageous for investors, which might explain the lack of a private effort to create indexed corporate bonds, Greenspan said.

Also, because of various complexities, the difference between rates on indexed and unindexed securities may not provide an as unambiguous as promised picture of inflation expectations, he said.

Mr. Chairman and members of the Subcommittee, I welcome this opportunity to discuss the potential issuance of indexed bonds by the Treasury. This assignment touches upon a wide array of challenging analytical and policy issues, such as the appropriate tax treatment of these obligations, the technicalities of bond contracts, an assessment of investors' likely interest in these novel instruments, and the consequences for the conduct of monetary policy. While I may not do justice to the range of demanding questions confronting the Treasury in its deliberations on whether to issue indexed debt, I do intend to convey the Board of Governors' current assessment of these considerations.

A Proposal on Indexed Debt

Enthusiasm for indexation--whether of wages, entitlements, the tax schedule, or government debt--quite often may be expected to echo a government's failure to control increasing rates of inflation. Indeed, some have voiced concern that by making it easier for investors to live with inflation rather than treating it as a fundamental problem, issuing indexed debt, on occasion, could appear to mark official acceptance of continuing high inflation. This is not the situation today. The U.S. economy has made considerable progress toward price stability over the past decade, trimming the core rate of inflation to below 4 percent, and it appears poised to make further advances.

Instead, we are here today to evaluate a proposal contending that continued progress in economic stabilization could be made somewhat easier. That proposal is to use Treasury debt management to extract market readings on inflation expectations and real interest rates and then to use those readings to aid the conduct of monetary policy.

Essentially, the Treasury is being advised to split a segment of its debt issuance into two parts. One part would be indexed to consumer prices and one would not. The yields on bonds that protect purchasing power could be considered measures of "real" interest rates. Importantly, the gap between the yields on two issues of comparable maturity but differing protection against inflation could be viewed as a market-based assessment of inflation expectations and the risk premium associated with inflation instability.

I commend the Subcommittee's efforts to broaden the range of indicators examined in analyzing economic events and setting policy. For my own part, I am attracted by the prospect of opening a window on the market's view of the path for inflation that potentially could provide readings of price pressures being built into wages and of real interest rates influencing spending decisions. The market provides many signals about the future in its current pricing of assets, and an increased menu of indicators, in principle, may offer a wider panorama on what is to come.

-3-

In a similar vein, it is helpful at times, for analytic purposes, to disentangle the movements of the Treasury yield curve into the path expected by market participants for future one-year interest rates.

However, those forward-rate measures are imperfect, as risk premiums built into financial returns confound attempts to take literal readings on the expected future. Some of the same problems may confront analyses using indexed debt to gauge inflation expectations. Moreover, changing the composition of federal debt issuance is not a matter to be taken lightly. With the vast scale of Treasury indebtedness, interest expense now absorbs almost as large a share of our limited tax resources as does discretionary domestic spending. Any proposal that has an impact on Treasury financing costs must clearly demonstrate that benefits exceed costs by a comfortable margin.

The Signals from Indexed Debt

A series of hurdles must be overcome before issuance of indexed debt moves from a promising alternative to a useful policy instrument. First and foremost, rigorous study is required to understand exactly what to read into the simple difference in yields between nominal and real debt. The yield on a nominal Treasury debt instrument comprises three elements: a real interest rate, an inflation premium that attempts to adjust for expected changes in purchasing power over time, and a risk premium.

-4-

This last component incorporates premiums for a variety of risks assumed by the investor. For a U.S. Treasury security denominated in dollars, default risk is negligible. However, because inflation is unpredictable, there is a chance that indexed and unindexed debt will provide different payments over time to investors. As a result, the market will value them differently, even in real terms. The uncertainty regarding the real return provided by the unindexed debt drives a wedge between the yields on indexed and unindexed bonds in the form of different risk premiums, which may vary unpredictably over time. Thus, the differential in yields likely will not serve as a pure measure of inflation expectations. Still, since risk premiums with rare exceptions are positive, the differential is almost always at least as large as inflation expectations. That is, the market would tend to delineate an upper bound on its prospects for inflation.

Second, in implementing some measure of protection for inflation to investors, the Treasury must select a single price index as the basis for that compensation and be confident that there will be no significant revisions to the referenced price index. Most likely, measurement issues are not much more difficult in this regard than in the construction of cost-of-living adjustments for wages and benefits, and the not-seasonally-adjusted consumer price index will probably fit the bill. However, all price

- 5 -

indexes are imperfect owing to distortions and limits to their coverage. To the extent that the index used by the Treasury did not adequately capture potential investors' cost of living, the estimate of the real interest rate would be comparably affected.

Third, the experts have to give careful consideration to tax treatment. Before-tax nominal returns on coupon-bearing indexed and unindexed instruments will may have to differ to pay the same after-tax compensation to investors. Since indexed debt provides protection of principal, the Internal Revenue Service likely would require investors to impute any increase in the nominal value of the principal as part of current income, as is the precedent with zero-coupon securities. Thus, an investor in indexed debt may be called upon to report income not yet paid in cash. In this regard, some have suggested that the Treasury issue zero-coupon securities, both nominal and real, to prevent indexed debt from being disadvantaged and make comparisons of yield differentials transparent.

Even if cash-flow considerations favor unindexed debt, rough estimates of the tax effects on the difference between real and nominal yields are calculable for the average investor, and hence approximate adjustments can be made. However, of greater importance, those adverse cash-flow implications of zero-coupon securities now or indexed debt in the future likely renders these instruments less

attractive to some classes of investors. If holders of indexed debt are drawn from a narrow segment of the investing populace, then the real rates and implied inflation expectations derived from those instruments may not reveal economy-wide sentiments.

Under those circumstances, the Treasury may have to offer an elevated real return to place its indexed debt issue relative to that expected from its nominal debt, which is purchased by more investors. A sufficiently elevated real rate may offset any gain to the Treasury by not having to pay investors some compensation in the form of a likely positive risk premium for inflation expectations on nominal debt. Thus, at a basic level, expected financing costs to the Treasury and the value of the signal on real interest rates to the Federal Reserve importantly depend on investors' attraction to an untested instrument.

Before the fact, it is reasonable to assume that a family establishing a child's college fund or a couple planning for retirement well may pay handsomely for inflation protection. After all, their anticipated future payments will certainly be influenced by movements in the general price index, and indexed debt represents an asset that at least keeps pace with the price index. However, by the historical record, many of these long-planned expenses, such as tuition, do not move in lockstep with general price indexes. These anticipated relative price shifts make bonds

-7-

tied to a general price index less useful for hedging purposes. Also, the imputation of taxes to the nominal increment to the value of the principal may make some investors wary of indexed debt. Still, tax-favored investors probably would shift some of their investments toward indexed debt. Many pension fund managers, for instance, accumulate assets to meet long-term payments tied to wages or prices. Indexed Treasury securities could permit them to match their deferred liabilities of predictable real but uncertain nominal value more accurately. Of course, not all investors need, or would be willing to pay, for purchasing power protection. For some hedging purposes, nominal liabilities must be matched with nominal assets. Moreover, the Treasury now offers investment possibilities that provide a rough measure of compensation for inflation. The simple and expedient technique of rolling over six-month Treasury bills every six months provides a stream of returns that has moved fairly closely with inflation.

Putting aside policy considerations, the private sector may receive direct benefits from the public example of indexed issuance. The yields on Treasury securities serve as benchmarks for private rates around the world. With direct quotes on indexed debt available in the broad and liquid market for government securities, private issuers may join in, issuing their own index-linked debt tailored to

-8-

their specific needs and broadening the choice of assets available to investors. However, the private sector seldom has waited for the government to lead the way in financial innovation. The lack of private-sector precedent for indexed debt, as well as the short-lived experiment in trading consumer price index futures on an organized exchange, suggests that the prospects for the success of an indexed issue must be weighed carefully. The thinness in that segment of the private market may simply indicate the need for the public sector to lead by example, but it instead may raise questions about investor demand and potential cost savings.

If, after weighing these costs and benefits, the Treasury adopts an indexed-link debt program, it will have to steer a difficult course in determining the scale of operations. Splitting federal issuance in equal parts, in my view, trusts too much to the uncertain demand for these instruments. The large stakes involved given the government's need for funds surely dictates that an experiment with indexed debt must be modest in size. At the same time, issuance must be large enough to attract the trading interest that would ensure an active secondary market for indexed debt. Any novel instrument initially would be less liquid and ultimately may lead to some fragmentation of trading in government securities, perhaps raising overall funding costs. The prices of indexed debt

-9-

trading in a thin market would not necessarily convey a significant amount of useful information about the economy as a whole.

Foreign Experience

The foreign experience divides between those developing countries that were driven by necessity to issue index debt as a means of attracting investors made wary by high inflation and a small number of developed countries that sought to save on the financing costs of the government. It is difficult to find obvious lessons from that latter and more relevant group. In the post-war period, the governments of several developed countries have issued debt securities offering claims that were in some way linked to a price index. Two industrial countries, the United Kingdom and Canada, issue bonds for which the principal and coupon amounts are tied to a consumer price index, although the Canadian program is under one year old with only one issue on the books. In 1988, Australia suspended an ambitious index-debt program begun in 1985.

British index-linked gilts (the equivalent of our Treasury debt obligations) were first issued in March 1981 with a maturity of fifteen years. While the ownership of index-linked gilts was initially limited to pension funds, now all investors can hold those securities. Indexed-linked debt has grown more rapidly than total issuance, pushing its relative share to about one-fifth of government debt, and

now trades in a relatively deep and liquid market. Such trading provides timely quotes on real interest rates, although tax treatment and an eight-month lag in inflation compensation complicate their interpretation.

The Australian government indexed some of its bonds to the consumer price index between 1985 and 1988 with the stated aim that diversification might reduce interest costs. Those efforts, however, were set back by weak demand that resulted in elevated real yields. Trading volume in the secondary market was thin and, after several successive budget surpluses reduced the need to tap the market, the government suspended its issue of indexed-linked debt.

Implications for Monetary Policy

Without doubt, the substantial uncertainty facing monetary policymaking would be reduced somewhat if the market were to provide a reliable measure of current inflation expectations. Indeed, the paired issuance of unindexed and indexed debt at various maturities might make it possible to offer some information on the market's expectations for the path of inflation well into the future. A timely and accurate reading on inflation expectations could considerably aid in economic forecasting by casting some light on incipient wage and cost pressures and by helping to divide changes in nominal asset values into their expected real and price components.

-11-

Also, by routinely monitoring the markets for the two debt instruments, the Federal Reserve could extract the market's evaluation of the consequences of policy operations. On occasion, the market's response to a policy action is difficult to interpret. A reading on real rates may make it easier to parse out the reaction of long-term nominal yields, for example, into the effects on real rates, inflation expectations, and risk.

But our concerns are not narrowly focused on price developments and short-term operations. Indexed debt would offer other, potentially useful, information about the economy. Nearly all descriptions of the economy assign important roles to real interest rates in influencing spending and investing decisions made by households and businesses. As a result, economists, including policymakers at the Federal Reserve, must assess the level of real interest rates when attempting to explain or to project economy-wide developments. A market for indexed debt would facilitate this process by continually updating our knowledge of investors' assessment of real interest rates and by perhaps signalling future changes in income and economic activity. While those readings on real interest rates would help, monetary policy would remain a difficult job, as they would not reveal the appropriate level of real rates consistent with sustainable economic growth.

I share the view of most economists that there is no better mechanism for refining opinion and focusing attention on economic fundamentals than a competitive market. Thus, I am sympathetic to the notion that policymakers should heed the messages from markets. But we must remember that there are problems associated with the issuance of indexed debt. The simple difference in unindexed and indexed returns well may convey more than a reading on inflation sentiment. At the least, economic theory suggests that a time-varying risk premium enters the picture. Technical considerations may bulk large as well. However, even an imperfect reading on expectations could help us to understand some aspects of the behavior of the private sector, though it in no way could supplant our other efforts to forecast inflation. At times, market participants are wrong, perhaps by stubbornly holding to outmoded lessons of the past or by swinging too wildly with the latest scrap of news. Even if indexed bonds were issued, the Federal Reserve by necessity would continue to rely upon a broad array of indicators and a considerable element of judgment in determining the stance of policy.

Nonetheless, I am confident that we would make use of new market-based indicators of inflation and real interest rates that would be made available by the issue of indexed bonds. Such measures may not mark the way as

-13-

unambiguously as promised by their most vocal adherents, but they would help.

Conclusion

For our part, the Federal Reserve retains responsibility for long-run price stability and fully intends to guard against reigniting inflation. That commitment might be easier for us to effect or the public to monitor should the Treasury issue indexed debt. Still, the benefits to monetary policy are not so obviously large as to outweigh any additional costs to the taxpayers in financing Treasury debt. Thus, the decision to issue debt that provides a measure of inflation protection should remain in the domain of fiscal policy and be based primarily on the consequences for total borrowing cost.

Lloyd G. Cherne
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Edina, MN 55436

Residence: 612-935-4069

Office: 612-933-~~5504~~ 8696

May 11, 1992

Mr. William J. McManus
Treasurer Republican National Committee
310 First St. S.E.
Washington, D. C. 20003

Dear Bill,

I thought you might like to see these headlines from March 5, 1937
where President Roosevelt is doing his own sort of READ MY LIPS by
saying NO THIRD TERM FOR HIM. We of course no what he did.

Best Regards,



Lloyd G. Cherne

MINNESOTA
HISTORICAL
SOCIETY

CAPOLIS JOURNAL

FRIDAY EVENING, MARCH 5, 1937.

36 PAGES—2 CENTS IN MINNEAPOLIS

o Rewrite ate Income 'ax Measure

tors to Start Monday
—Plan to Slash
House Rates

By LEIF H. GILSTAD

n state senators were an-
today to the task of rewrit-
o Farmer-Labor Income tax
id will begin work Monday
ed to cut deeply into the
ie of rates proposed by the

enate group is expected to
flat rate for corporations,
alman of the subcommittee
ng in a statement that the
ale voted by the house will
t serious effect on business
yrolls.

he same time it was learned
governor George H. Earle
nsylvania, a Democrat, who
sed the victory banquet last
that his state has just cut
population rate from 10 to 7
ent. Earle said economies
made possible a \$5,000,000 re-
in other taxes.

ed to the job of rewriting
come tax bill are Senators
I. Miller, Little Falls; Charles
St. Paul; Donald O. Wright,
spolls; C. A. Dahle, Duluth;
G. M. Neumeier, Stillwater;
Hietz, Montgomery, and J. L.
Continued on page 2

No Third Term for Him, Roosevelt Tells Nation; Criticizes Supreme Court

NEWSPAPER COMMENTS ON F. R. ADDRESS

SCRIPPS-HOWARD NEWS-
PAPERS The reactionary ma-
jority of the United States Su-
preme Court has been either
unable or unwilling to apply
... positive grants of constitu-
tional self-government to the
realities of our times. . . The
President proposes to break the
obstruction by taking over the
third branch of our govern-
ment. . . That, to us, is the
rub. . . We feel that the pre-
cedent he would set today as a
short cut would rise to plague
this nation in years to come. . .

CLEVELAND PLAIN DEAL-
ER—Mr. Roosevelt's plea is es-
sentially a plea for speed in
getting judicial approval of
New Deal purposes. . . Certain-
ly speed is important. It
might, however, be secured at
too great a cost. It is more im-
portant that in getting results
the democratic processes be
preserved, and no step taken
which might lead to a future
dictatorship.

ST. LOUIS STAR-TIMES—In
his address to the nation last
night, President Roosevelt put
the Supreme Court issue square-
ly where it belongs, not upon
the age and infirmity of jus-
tices, but upon the wilful pur-
pose of the present Supreme
Court majority to render the
nation powerless to meet its
problems.

BOSTON POST (Ind.-Dem.)
—The whole substance of the
plan to "reorganize" the Su-
preme Court boils down to the
simple question: "Shall the
President be given the power
to control the court by the
appointment of six men of his
own choosing?" . . . President
Roosevelt likes none of the de-
cisions which upset New Deal
legislation. His dislike extends
even to the unanimous deci-
sions. In his speech last night
he criticized the unanimous de-
cisions as severely as the 5 to 4
decisions."

BOSTON HERALD (Rep.)—
President Roosevelt said in ef-
fect. . . "To hell with the United
States Supreme Court! I
know what I want and I am
going out to get it." It was in
many ways the most passionate
outburst of his career, a hymn
of hate exceeding in bitterness
even the speeches in which he
assailed the "Bourbons" and the
"economic royalists" . . . The
mask came off. . . The court
must pull as he pulls, he im-
plied in his three-horse-team
figure of speech, or he will get
another horse."

"We Have Just Begun"



International Soundphoto—Transmitted by Telephone.

Tribunal Accused of Assuming Veto Over Laws

President Calls for "Action Now" to Aid People

Text of Roosevelt Address Page 6.

By Associated Press

Washington, March 5.—
President Roosevelt's conten-
tion that decisions by the
present Supreme Court en-
danger democracy intensified
today the dispute over his
judiciary program and virtu-
ally dispelled hopes for com-
promise.

Congressional leaders view-
ed his determination to carry
the issue to the people as
heralding an historic strug-
gle to reorganize the court,
not because of its burdens,
but frankly to encourage in-
terpretations of the Constitu-
tion more in accord with the ad-
ministration objectives.

Addressing the \$100-a-plate Dem-
ocratic "Victory dinner" here last
night, the President declared
sharply:

"Economic freedom for the
wage earner and the farmer
and the small business man will
not wait, like emancipation,
for 40 years.

"It will not wait for four
years. It will not wait at all."

His words were warmly drowned
by cheers from the more than 1,500
partly enthusiastic crowding the
Mayflower hotel ballroom.

Seeks No Third Term

Mr. Roosevelt told his audience
what he has been saying to mem-
bers of congress, that he aspires
to no third term in 1940.

His ambition, he said, is to turn
over to his successor "a nation
in fact, a nation at peace, a nation
prosperous, a nation clear in its
knowledge of what powers it has

Net Hung in Sky Will Defend London, Paris

London, March 5.—(AP)—The British
airforce disclosed its plan to-
day to defend London from air at-
tack by a cage of steel cables that
would be in the city and ensnare
any enemy plane that tried to dash
through. . .

Military experts today stressed
the "balloon barrage" as one of the
most efficient of modern weapons
against an attacking airplane fleet.
It consists of a series of kite
balloons which support steel ca-
bles. From the cables hangs a
screen of wires.

Any contact with these wires,
however slight, is said to be
enough to wreck an airplane or
cause a pilot to lose control of
his machine.

Huge fleets of balloons, he ex-

plained, would be sent into the air
at the first alarm of a hostile raid
to drop a network of cables that
would ensnare in the city and ensnare
any enemy plane that tried to dash
through. . .

The royal air force, Viscount
Swinton, secretary of state for air,
announced, would be increased to
70,000 officers and men with a first
line strength of 1,750 aircraft or-
ganized in 124 squadrons.

Ten special units of an auxiliary
airforce would be created, he de-
clared, to operate a balloon bar-
rage for the defense of London
from the air.

Large fleets of balloons, he ex-

Striking Sentences In Address by President

Who Is John? 38 Possibilities

Washington, March 5.—
The "distinguished mem-
ber of congress" named John
to whom President Roose-
velt said he renounced third
term intentions may have
been:

Vicepresident John N. Gar-
ner, Senator John Bankhead

ate's Farm Income in '36 up 78 Million

Minnesota farmers received a
income last year of \$335,848,
which was \$78,000,000 more
in 1935. It was shown today
final compilation prepared
government figures on the
cattle business map of Twin
newspapers, radio stations and
farmer of St. Paul.

was estimated in the business
put out in August that 1936
show a \$40,000,000 gain over
Today's figures show this gain
was nearly doubled. The
farm cash income was \$257,
000.

Minnesota's increase in farm
income last year, exclusive of
real benefit payments, was 30
cent, second only to that of
Iowa, which scored a 51 per cent
increase. Mississippi also showed a
er cent increase. In the north-
west, other gains included South
Dakota, 25 per cent; Wisconsin, 23
cent, and Iowa, 22 per cent.
Federal benefits paid to Minne-
sota farmers in 1936 amounted to
Continued on page 2

Farmer Weekend! Motorists Warned

Forecast of a spring-like week-
end promised to day to bring out
probably the heaviest motor traffic
of a last fall, as the state high-
way department reported clear
roads. Motorists were warned
to exercise caution at night
when melting snow freezes on the
roads.

WEATHER

U. S. Weather Bureau Forecast
Generally fair, with rising temperature Friday; Saturday unsettled and colder. 24 hour high 77, at 5 p. m. Thursday; low 51, at 7 a. m. Thursday. Additional details on page 28.

The Minneapolis Tribune

MORNING EDITION

Three Cents in Minneapolis

FIRST in City Circulation—FIRST in TOTAL Circulation—Daily and Sunday

Seventieth Year, No. 285.

3

MINNEAPOLIS, MINN., FRIDAY, MARCH 5, 1937.

Thirty Pages

F. R. Attacks Court Obstructionism; Denies He Will Seek Third Term

Mackinnon Loses Fight To Reconsider Tax Bill

Nazis Brand La Guardia No. 1 Foe of Fatherland

Berlin, March 4.—(AP)—New York completely overshadowed Moscow Thursday night as a world menace in Nazi minds, because of an asserted insult to Reichsfuehrer Adolf Hitler.

It was the result of Gotham's Mayor Fiorello H. La Guardia and his idea for a "hall of horrors" at the 1939 world's fair, including a figure of "that brown-shirted fanatic who is menacing the peace of the world."

Regret in Washington. Newspapers assailed the sharp-tongued mayor, often a severe critic of the Nazis and cables carried instructions to Dr. Hans Luther, German ambassador at Washington, to protest forthwith to the United States government.

Secretary of State Hull in Washington voiced informal regret over such incident's promised investigation, and indicated a formal expression of regret would be conveyed to the German embassy.

inasmuch as it is impossible to do physically.

Papers' Attack Severe.
The Tageblatt wondered how a "fundamentally healthy, wide-awake people like the Americans can tolerate this man at the head of their most important community."

The severest attack was that by Der Angriff, published by Minister of Propaganda Dr. Paul Joseph Goebbels. Der Angriff printed the mayor's picture under the caption "Second-rate La Guardia," and called him a "lout" and an "impudent Jew."

They Ought to Protest.
"We might take an interest in American affairs that would be distinctly unpleasant—La Guardia's racial friends should beware," Der Angriff warned.

Speaker Rules Senate Can Insert Guarantee for School Funds.
Bill Rests With Senate Committee, Where It Faces Revision.

By Orrin Felwick, Tribune Staff Writer.
Administration leaders in the state house of representatives for the third time Thursday refused to permit reconsideration of the income tax bill it passed Monday night to assure school boards in the three large cities the use of revenues for payment of teachers' salaries.

Barker Refuses Plea.
Fearful that \$200,000 will be lost to Minneapolis school teachers because as passed by the house the bill designates income tax revenues shall be used solely for requirement of bonds, Representative George Mackinnon sought house action to get the bill back from the senate.

Where his two previous moves were to win approval of the house for recall of the bill, Mackinnon Thursday went to the house leadership for an agreement that would permit consideration of only two amendments to cover the city school situation.

Replying that they did not wish to have the bill back in the house and that the amendments sought by Mackinnon could be tacked on in the senate, both Speaker Harold H. Barker and Representative Carl J. Eastvold, chairman of the rules committee, refused to consider the plea.

Redistribution Proposal.
"Mackinnon could have considered the situation when the bill was before the house and offered

TROLLEY-AUTO CRASH INJURES DR. ROAN'S SON

Father Is First Physician to Arrive at Head-on Accident Scene.

Robert, Son of Fred A. Osanna, Hurt Hitching Ride on Bus.

A head-on collision between his automobile and a streetcar on a slippery street late Thursday resulted in critical injury of Ore Roan, 28, of 3401 Sixteenth avenue south.

The accident occurred about 11:30 p. m. at Thirty-third street and Bloomington avenue, as Roan was driving from the loop toward his home. The streetcar was headed downtown.

Noise of the impact roused nearby residents who ran from their homes in time to see flames spurt from the wrecked car. Severed at joints to drag Roan from the machine, while others, using pails of water and snow quenched the flames.

Father Arrives First.
Dr. C. M. Roan, father of the victim, informed of the accident, was the first physician on the scene

'I Say We Must Act--Now'



Washington, March 4.—(AP)—President Roosevelt Thursday night addressed a Democratic party victory dinner in which he charged the supreme court had rendered congress impotent to attack social and economic problems.

Urges Freedom For Congress to Solve Problems

Assails Veto of Economic and Social Acts by Majority of Justices—Speaks at Party's Victory Dinner.

Text of President Roosevelt's speech on Page 4.

Washington, March 4.—(AP)—President Roosevelt swung Thursday night into the thick of the fight over his proposal to revamp the supreme court, with a charge that the tribunal's majority had condemned the nation to be "a no man's land of final futility."

Accusing the justices of rendering congress impotent to attack social and economic ills, he called for action "now" to "free from legal doubts those policies which offer a progressive solution to our problems."

With an obvious reference to the "dictator" charges hurled by his enemies, he disclaimed any intent to seek a third term in office. And he struck again at the tribunal's majority with the accusation that some justices were letting their own economic beliefs control their decisions.

He said it pleased the "personal economic predictions of a majority of the court that we live in a nation where there is no legal power anywhere to deal with its most difficult practical problems—a no man's land of final futility."

The speech, his first utterance on the courts since his message on the judiciary went to congress a month ago, was delivered at a gigantic "victory dinner," held

Debauching the supreme court as threatening the "very essence of democracy," Governor George H. Earle of Pennsylvania Thursday night charged decisions of the

Washington Springlike Weather To Continue in City

CIO OPPONENTS REORGANIZING

A Politician's Dream Is a Businessman's Nightmare

Wisdom too often never comes, and so one ought not to reject it merely because it comes late. — Justice Felix Frankfurter

It's been 11 years since I left the U.S. Senate, after serving 24 years in high public office. After leaving a career in politics, I devoted much of my time to public lectures that took me into every state in the union and much of Europe, Asia, the Middle East and Latin America.

In 1988, I invested most of the earnings from this lecture circuit acquiring the leasehold on Connecticut's Stratford Inn. Hotels, inns and restaurants have always held a special fascination for me. The Stratford Inn promised the realization of a longtime dream to own a combination hotel, restaurant and public conference facility — complete with an experienced manager and staff.

In retrospect, I wish I had known more about the hazards and difficulties of such a business, especially during a recession of the kind that hit New England just as I was acquiring the inn's 43-year leasehold. I also wish that during the years I was in public office, I had had this firsthand experience about the difficulties business people face every day. That knowledge would have made me a better U.S. senator and a more understanding presidential contender.

Today we are much closer to a general acknowledgement that government must encourage business to expand and grow. Bill Clinton, Paul Tsongas, Bob Kerrey and others have, I believe, changed the debate

Manager's Journal

By George McGovern

of our party. We intuitively know that to create job opportunities we need entrepreneurs who will risk their capital against an expected payoff. Too often, however, public policy does not consider whether we are choking off those opportunities.

My own business perspective has been limited to that small hotel and restaurant in Stratford, Conn., with an especially difficult lease and a severe recession. But my business associates and I also lived with federal, state and local rules that were all passed with the objective of helping employees, protecting the environment, raising tax dollars for schools, protecting our customers from fire hazards, etc. While I never have doubted the worthiness of any of these goals, the concept that most often eludes legislators is: "Can we make consumers pay the higher prices for the increased operating costs that accompany public regulation and government reporting requirements with reams of red

tape." It is a simple concern that is nonetheless often ignored by legislators.

For example, the papers today are filled with stories about businesses dropping health coverage for employees. We provided a substantial package for our staff at the Stratford Inn. However, were we operating today, those costs would exceed \$150,000 a year for health care on top of salaries and other benefits. There would have been no reasonable way for us to absorb or pass on these costs.

Some of the escalation in the cost of health care is attributed to patients suing doctors. While one cannot assess the merit of all these claims, I've also witnessed firsthand the explosion in blame-shifting and scapegoating for every negative experience in life.

Today, despite bankruptcy, we are still dealing with litigation from individuals who fell in or near our restaurant. Despite these injuries, not every misstep is the fault of someone else. Not every such incident should be viewed as a lawsuit instead of an unfortunate accident. And while the business owner may prevail in the end, the endless exposure to frivolous claims and high legal fees is frightening.

Our Connecticut hotel, along with many others, went bankrupt for a variety of reasons, the general economy in the Northeast being a significant cause. But that reason masks the variety of other challenges we faced that drive operating costs and financing charges beyond what a small business can handle.

It is clear that some businesses have products that can be priced at almost any level. The price of raw materials (e.g., steel and glass) and life-saving drugs and medical care are not easily substituted by consumers. It is only competition or anti-trust that tempers price increases. Consumers may delay purchases, but they have little choice when faced with higher prices.

In services, however, consumers do have a choice when faced with higher prices. You may have to stay in a hotel while on vacation, but you can stay fewer days. You can eat in restaurants fewer times per month, or forgo a number of services from car washes to shoeshines. Every such decision eventually results in job losses for someone. And often these are the people without the skills to help themselves — the people I've spent a lifetime trying to help.

In short, "one-size-fits-all" rules for business ignore the reality of the marketplace. And setting thresholds for regulatory guidelines at artificial levels — e.g., 50 employees or more, \$500,000 in sales — takes no account of other realities, such as profit margins, labor intensive vs. capital intensive businesses, and local market economics.

The problem we face as legislators is: Where do we set the bar so that it is not too high to clear? I don't have the answer. I do know that we need to start raising these questions more often.

Mr. McGovern, the 1972 Democratic presidential candidate, is president of the Middle-Eastern Policy Council in Washington.

#1 Bestseller of the Year



Plain Speaking
an oral biography of
Harry S. Truman
by
Merle Miller

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The 1948 Victory

Mr. President, you said the other day that you decided you were going to run for reelection the first day you were President, in April, 1945, but you didn't go into any detail about that. What were some of the reasons you decided so soon?

"I always knew that from April, 1945, until January, 1949, what I would really be doing was filling out the fourth term of Roosevelt, who was a great President, but I had some ideas of my own, and in order to carry them out I had to run for reelection and be reelected, and that is exactly what happened.

"Of course I didn't say I was going to run for quite some time. It didn't do any harm that I could see to keep people guessing for a while. I knew I'd be able to win, though. I knew that all along."

You knew?

"Of course I knew. I knew the Republicans would come up with somebody like Taft or Dewey, and I knew that the people of this country weren't ready to turn back the clock—not if they were told the truth, they weren't.

"The only thing we . . . I had to figure out was how to tell them the truth, in what way, and I decided that, the way I'd always campaigned before was by going around talking to people, shaking their hands when I could, and running for President was no different. The only difference was instead of driving to the various communities where people were, I went by train. But otherwise, it was exactly the same experience. I just got on a train and started across the country to tell people what was going on. I wanted to talk to them face to face. I knew that they knew that when you get on the television, you're wearing a lot of powder and paint that somebody else has put on your face, and you haven't even combed your own hair.

"But when you're standing right there in front of them

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THE 1948 VICTORY

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and talking to them and shaking their hands if it's possible, the people can tell whether you're telling them the facts or not.

"I spoke I believe altogether to between fifteen and twenty million people. I met them face to face, and I convinced them, and they voted for me."

Did you think it would be a three-way race, that Henry Wallace would run against you?

"Never had the slightest doubt of it. All through 1947 Henry went around the country making speeches saying that I was trying to get this country into war with Russia, which, of course, was the opposite of what I was doing. I was doing everything in the world to prevent a war, and I succeeded.

"But Henry said I was trying to start a war, and he also kept saying that he was still a loyal Democrat, and the more he said it, the more I was sure he was going to run against me on a third-party ticket."

Why?

"Because Henry was like Lloyd Stark, the fella that ran against me for the Senate. What he said he wasn't going to do was exactly what I knew he was going to do. I don't know, in Henry's case, if you'd say he was a liar as much as that he didn't know the difference between the truth and a lie.

"And anyway the way he . . . the way Henry talked to you, you had to listen very hard to understand what he was getting at, and half the time I was never sure if Henry knew. He was a very difficult man to follow what he meant."*

* As I said earlier, some years after the 1948 election I moved to Brewster, New York, not far from Mr. Wallace's large farm at South Salem. At one time I thought of writing something about him, maybe a biography, although I felt his campaign in 1948 had been a shambles and a shame.

In any case, I made several trips to South Salem and had several conversations with him. I have never been more disappointed in a public figure. He was a muddled, totally irrational man, almost incapable of uttering a coherent sentence. He was also the bitterest man I have ever encountered.

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Plain Speaking

Mr. President, you have quite a reputation as a poker player. Would you say there's any resemblance in politics and poker in that in both you seem to have to size up your opponent pretty well if you want to win?

"I was never much of a poker player. Roosevelt was more of a poker player than I was. But they never wrote anything in the papers about it. But they were always writing about me playing poker.

"Newspapermen, and they're all a bunch of lazy cusses, once one of them writes something, the others rewrite it and rewrite it, and they keep right on doing it without ever stopping to find out if the first fellow was telling the truth or not."

"But it is true that you have to size up the other fella, in politics, too. And I'd sized up Henry as a fella that would say one thing and do another. So it didn't surprise me a bit when he came out with a third party.

"And I knew another thing. He was like the other fella that ran against me that year. I knew the more he talked, the more votes he'd lose."

Do you mean he was dishonest?

"It wasn't so much that. It was that half the time and more he just didn't seem to make sense."

* Dr. Wallace Graham, the President's personal physician in the White House and until the time of his death, said, "When Mr. Truman was in the White House, we would play poker sometimes in the evening. I don't think he really enjoyed it much. He played more to find out about people. Often he'd play with someone he was considering for some office or other, some appointment. He'd ply him with champagne, and then General Vaughan [Colonel Harry Vaughan, a veteran of Battery D who followed Harry Truman right into the White House and was his most-criticized associate] would rib whoever it was, and the President would watch to see what the reaction would be. If the guy got flustered, if he couldn't take the ribbing or got too tight, Mr. Truman would feel, I believe, that he shouldn't be given whatever the appointment was.

"But I don't think he ever played much for his own enjoyment. He'd never give up, though. The way we'd play you couldn't lose more than eighty dollars or so, but Mr. Truman would stay in every hand, always."

Were you surprised when the Dixiecrats walked out of the convention and Strom Thurmond, who I believe then was governor of South Carolina, became another third-party candidate?

"No. When 1948 was coming along, they said that if I didn't let up with my asking for a Fair Employment Practice Commission and asking for a permanent commission on civil rights and things of that kind, why, some of the Southerners would walk out.

"I said if that happened, it would be a pity, but I had no intention of running on a watered-down platform that said one thing and meant another. And the platform I did run on and was elected on went straight down the line on civil rights.

"And that's the beautiful thing about it. Thirty-five votes walked out of that convention and split up the Solid South, and because of Wallace, Dewey was able to carry New York State by sixty thousand votes.

"So I always take a great deal of pleasure in saying I won without the Solid South and without New York, which wasn't supposed to be able to be done. It was never done before, and it hasn't been done since.

"People said I ought to pussyfoot around, that I shouldn't say anything that would lose the Wallace vote and nothing that would lose the Southern vote.

"But I didn't pay any attention to that. I said what I thought had to be said. You can't divide the country up into sections and have one rule for one section and one rule for another, and you can't encourage people's prejudices. You have to appeal to people's best instincts, not their worst ones. You may win an election or so by doing the other, but it does a lot of harm to the country.

"Another thing about that election. I won it not because of any special oratorical effects or because I had any help from what you call 'the Madison Avenue fellas' but by a statement of fact of what had happened in the past and what would happen in the future if the fella that was running against me was elected.

"I made three hundred and fifty-two speeches that were

agree to that, to inviting them. Although, as you say, the party was nearly broke during the entire campaign.

"That's true. I wouldn't."

Why?

"Because it's the Presidential yacht. It belongs to the President."

That was another time when I waited for more, knowing there would be no more.

I gather you have no faith in advertising men in politics.

"None at all. I'm sure they're very good at what they're trained to do, but in politics what you're doing, and I've said this a few times before, what you're doing or ought to be doing is discussing ideas with people so they can decide which is better, yours or the other fellow's.

"And as I say, you don't have to have any oratory to put it over. You just have to set down the facts, which is what I always did.

"The thing I never could understand about the fella that ran on the Democratic ticket in 1952 [Stevenson], he always spent a lot more time worrying about *how* he was going to say something than he did on *what* he was going to say. I told him once, I said, 'Adlai, if you're telling people the truth, you don't have to worry about your prose. People will get the idea.'

"He never did learn that, though. He was a very smart fella, but there were some things he just never got through his head, and one of them was how to talk to people."

That's not uncommon in politics, would you say?

"No, and it's a pity. It seems to get more that way all the time. The more time goes on, it seems people running for public office just don't tell what they have on their minds. There was a lot of that in the last campaign [1960]. The candidates for President didn't talk any less, but they said a lot less."

Mr. President, early in 1948, long before the convention there was a lot of talk among some Democrats about

on the record and about the same number that were not. I traveled altogether thirty-one thousand seven hundred miles I believe, and it was the last campaign in which that kind of approach was made, and now, of course, everything is television, and the candidates travel from one place to another by jet airplane, and I don't like that.

"You get a real feeling of this country and the people in it when you're on a train, speaking from the back of a train, and the further you get away from that, the worse off you are, the worse off the country is. The easier it gets for the stuffed shirts and the counterfeits and the fellas from Madison Avenue to put it over on the people. Those people are more interested in selling the people something than they are in informing them about the issues."

You didn't have any Madison Avenue people on the campaign train with you?

"No, no. We couldn't afford their services to speak of. In Detroit the day when I was going to make the Labor Day address from Cadillac Square they had quite a time raising the money for a radio broadcast, fifty thousand I think it was, and we were always running short of money throughout the campaign just paying to keep the train going from station to station.

"But we didn't have any advertising men along. I never felt the need for any."

Mr. President, speaking of money, in Jack Redding's book, which I know you've read because some of your marginal comments were printed in the book, he says that Senator Howard McGrath said in 1948 that if you had just invited some potential contributors to take a cruise aboard the Presidential yacht, the Williamsburg, the Democratic National Committee would have had no trouble at all raising a lot of money but that you wouldn't*

* Jack Redding was director of public relations for the Democratic National Committee in 1948; his book, published in 1958, was called *Inside the Democratic Party*. Howard McGrath was a Senator from Rhode Island, as well as chairman of the Democratic National Committee in 1948.

trying to nominate or draft the fellow who in 1952 succeeded you in the White House. Did that bother you?

"Not a bit. It didn't make any sense at all. They didn't know what party he belonged to even or how he stood on any issue at all."

There are those, myself among them, who would say that after eight years in the White House you still didn't know, the country didn't know, where he stood on almost any issue at all.

The President laughed, and then he said, "All that carrying-on before the convention in 1948, I knew nothing much would come of it, and it didn't."

What did you think of the Democrats who did it, the two Roosevelt boys, among others, James and Elliott, I believe?

"Well, their father was a great politician, but none of his sons seem to have inherited his abilities in that line. They just never seem to have what it takes to get people to vote for them. I told one of them, James I think it was, and I was out in California making a speech. I told him he was a goddam fool for trying to get rid of somebody who was just carrying out his father's policies. Trying to anyway.

"Of course, later, after the convention, he came around and supported me, but I never did forget what went on earlier.

"I never did anything about it, but the old man never forgets."

Weren't you a little bitter?

"No, no. I didn't have time for that. Being bitter . . . that's for people who aren't busy with other matters."

Mr. President, didn't you make what you called a "non-political tour" across the country before the Democratic national convention?

"I did. I had to dedicate some things. I think I dedicated the Grand Coulee Dam two or three times. I forget which, and it was, as you say, 'nonpolitical.' But on the way I made a few stops and told the people what was going on

in Washington, and they showed up in large numbers and listened and seemed to appreciate what I had to say. About a million people were lined up on the streets of Los Angeles alone, but they never took any pictures of that. They took pictures to prove . . . at times when there weren't big crowds."

Could you tell me how the phrase "whistle-stop" originated?

"Robert Taft [Republican Senator from Ohio] started it, and he wished he hadn't. Somebody asked him what was happening on my tour, and he said that I was lambasting Congress at all kinds of 'whistle-stops across the country.'

"Of course some of the boys at the national committee picked that right up and got word out to towns all across the country about what Taft had said, and the mayors of those towns didn't like it a bit. It did us no harm at all at the polls in November, of course."

What he was saying was, "Well, where the President is going is just to all these tiny towns that are of no importance."

"That's right, and some of those towns had populations of a hundred thousand people and more, including Los Angeles, of course, and, after that, the whole campaign became what was called a whistle-stop campaign, and I saw to it in my speeches that people remembered what Taft had said about their towns."

Why is it do you suppose that Republicans so often make mistakes like that? Or seem to. Is it stupidity?

"No. Most of them are smart enough. It's just—this is only my opinion, of course—it's just that they don't seem to know or care anything about people. Not all of them but a lot of them don't."

"The fella they nominated to run against me was a good example of that. People could tell he wasn't open and above board, and the more he talked, the more he showed that he didn't have any program at all in mind if he got elected. Except to set things back a few dozen years or more. So he didn't get elected. It was as simple as that."

"That really stirred things up. It was in the middle of my speech, and I said, 'The Republicans have agreed on a platform. Now I'm gonna call a special session of the Congress and give them a chance to put their platform into effect.'

"And of course they didn't do a damn thing. If they had been smart and even passed one measure along the lines they'd promised in their platform, I'd have been up a creek, but I knew damn well they wouldn't do it, and of course, they didn't."

Mr. President, you said you were calling that special session for Turnip Day. What's Turnip Day?

"The twenty-sixth of July, wet or dry, always sow turnips. Along in September they'll be four, five, maybe six inches in diameter, and they're good to eat—raw. I don't like them cooked."

Turnip greens are pretty good.

"Well, yes, but the only way to get turnip greens is in the spring. You take out the turnips that you've kept in the cellar all winter and set them out in the garden, and then they come up. You grow them, and the greens that have come up when they're both, oh, about four or five inches long you mix them with dandelions and mustard, and they make the finest greens in the world. Spinach isn't in it."

"That's what the country people used to have in the spring. Turnip greens with dandelions and mustard and things of that kind."

"But you have to know which is which with plants like that. Plenty of those things are violent poison. You take poke berries, pokeroots. When they're so long, they're good to go into greens, but you wait a little longer, and you might as well order your coffin. Because you're done. They're as poisonous as cyanide."

How do you find out when to pick them?

"Your grandmother has to tell you."

Mr. President, during the campaign, how did you decide where to go, where to speak? For instance, you spoke at

Mr. President, you said the other day you hadn't given much or any thought to what you were going to say at the convention, but it says in the Memoirs that I believe you had made some informal notes.

"Yes, I'd written down some notes when Margaret and the Boss and I were coming from Washington to Philadelphia, and they were in a big black notebook that I carried to the podium with me when I made my acceptance speech. There were two things I was sure of that I was going to say. I was going to tell them that Alben Barkley [Truman's Vice Presidential running mate] and I were going to win the election, and I'd made up my mind that after I lambasted into the do-nothing Eightieth Congress that I was going to call them back into a special session, which is what I did do.*

* "On the twenty-sixth of July, which out in Missouri we call 'Turnip Day,' I am going to call Congress back and ask them to pass laws to halt rising prices, to meet the housing crisis—which they are saying they are for in their platform."

"At the same time I shall ask them to act upon other vitally needed measures, such as aid to education, which they say they are for; a national health program; civil rights legislation, which they say they are for; an increase in the minimum wage, which I doubt very much they are for; extension of the Social Security coverage and increased benefits, which they say they are for; funds for projects needed in our program to provide public power and cheap electricity. By indirection, the Eightieth Congress has tried to sabotage the power policies the United States has pursued for fourteen years. The power lobby is as bad as the real-estate lobby, which is sitting on the housing bill."

"I shall ask for adequate and decent laws for displaced persons in place of this anti-Semitic, anti-Catholic law which the Eightieth Congress passed."

"Now, my friends, if there is any reality behind the Republican platform we ought to get some action from a short session of the Eightieth Congress. They can do this job in fifteen days, if they want to do it. They will still have time to go out and run for office."

"They are going to try to dodge their responsibility. They are going to drag all the red herrings they can across this campaign, but I am here to say that Senator Barkley and I are not going to let them get away with it."

a plowing contest I think it was in Dexter, Iowa. I'm from Iowa, and I don't even know where Dexter is. How did you happen to decide to go there?

"Well, there were ninety-six thousand farmers at Dexter, Iowa [I-uh-way], and somebody had to go there and talk to 'em, and I went."

How do you know there were ninety-six thousand?

"There was a lot of disagreement in the papers and the newsmagazines about how many people were there. Nobody asked me, but I could have told 'em. Some said fifty thousand, some said seventy-five thousand, and some said ninety thousand."

"But there were ninety-six thousand people there. There was ten acres, and the place was jammed full. Now figure two to the square yard and you'll see how many there were. Figure it out yourself."

How do you think those farmers felt about what you said?

"I don't know, but they voted for me. I've told you time and again. You've got to know how to talk to people. That's the whole thing, and you've got to convince them that you know what you're talking about. They don't go for high hats, and they can spot a phony a mile off."

"I stopped one time in a place in either Montana or Idaho. And I guess there must have been two or three hundred people there, and I got off the train, and some smart aleck on a horse rode up and said, 'Mr. President, how old is this horse?' I said, 'Which end do you want me to look at, his tail or his mouth?' I looked at his mouth, and I said, 'He's so old.' The fella said, 'Jesus Christ, he knows, doesn't he?'"

"If you don't think I had that vote committed."

"Some of these smart alecks are always saying that to tell how old a horse is you can look either at his tail or his mouth, but that isn't true. You have to look at his teeth, and this horse had teeth that long. I said, 'This old son of a bitch must be fifteen or twenty years old, and he ought to be taken out to pasture.' The fella turned and rode him off."

I read someplace that when you were in Dexter, you talked at some length about the differences between mules and machines.

"I did. I don't remember what I said, but all those speeches were recorded. They're in a book in there. But what I probably said is that there's a hell of a lot of difference between riding behind a mule and riding behind a tractor.

"The most peaceful thing in the world is riding behind a mule, plowing a field. It's the calmest and most peaceful thing in the world, and while there's some danger that you may, like the fella said, get kicked in the head by a mule and end up believing everything you read in the papers, the chances are you'll do your best thinking that way. And that's why I've always thought and said that farmers are the smartest people in the world.

"My father used to trade mules, and he knew a lot about them. He didn't have to look at a mule's teeth to tell how old he was. All he had to do was look at him, and he was never wrong.

"A tractor will never be as . . . satisfactory as a mule. It makes a noise, for one thing, and noise interferes with a man's thoughts.

"But plowing a field with a mule is the most satisfying thing a man can do. And at the end of the day, looking over what you've done, you can feel a real sense of accomplishment, and that's a very rare thing."

Mr. President, I see by Jack Redding's book that not all your speeches in 1948 were for votes, that when you were in Dallas, you stopped at an orphanage and talked to the children there.

"Yes, I did. Yes, I did. I just told them to stop the cars, and I went inside and talked to those children."

Why?

"I thought that, well, being spoken to by the President of the United States was something they'd remember all their lives. It's a very lonely thing being a child. It was for me, and I had a family, including, as I think I told you,

yourself what the reason for it is. People just don't give money away for no reason."

What are some of the other highlights of that remarkable campaign that you remember?

"Well, in an auditorium in Seattle that holds seven thousand people, they had eight thousand or more crowded in, and some bird way up in the balcony shouted, 'Give 'em hell, Harry. We'll take 'em.' And that's where that whole thing started. After that a lot of people started shouting it."

Was that spontaneous?

"Oh, yes. None of those things was ever worked up. I didn't believe in that. The minute you start planning things, why, the next step is powder and paint, and they want you to become a playactor, and I believe I've told you a time or two how I feel about that."

Yes, sir, I remember. . . . Could we try a typical day on the campaign train? What would happen? What time would you get up in the morning?

"Five o'clock."

And would you take a walk?

"The first time where there was a stop I'd get off and take a walk. And of course, they had to hold the train as long as I wanted it held. I was President."

And after the walk? What happened next?

"We'd go on, and whenever the train got to a spot where there were enough people on the platform to be talked to, we'd stop, and I'd talk to them."

What did you consider enough people?

"Ten to a thousand."

Did you ever actually speak to an audience as small as ten people in 1948?

"Many a time, many a time. They'd come out to hear me, and I talked to them."

And did you lambaste the Republicans at every stop?

"Most of the time, but there were some exceptions, and they got me into trouble with some of the local politicians. When I was in Michigan, they wanted me to light into

thirty-nine first cousins, and I was the only one they all spoke to.

"So I was very lucky when I was a child, and I had a happy childhood, but sometimes . . . well, I was lonesome, and I felt that it must be twice as bad for boys and girls who are orphans. So I went inside and talked to them.

"I was glad I did it, and I guess they were, too."

And when you were in Dallas, Texas, you had the first integrated rally in the history of the state.

"Oh, yes, and there was quite a to-do over that. They said I'd lose votes, and they said there'd be race riots, and I don't know what all they said.

"But that rally was just as peaceful as any of the others. If you just give people a chance to be decent, they will be. If the fella that succeeded me had just given people a little leadership, there wouldn't have been all that difficulty over desegregating the schools, but he didn't do it. He didn't use the powers of the office of the President to uphold a ruling of the Supreme Court of the United States, and I never did understand that.

"If he'd got out in front and told people that they had to uphold the law of the land, it's my opinion that they'd have done it. But he didn't; he shillyshalled around, and that's the reason we're in the fix we're in now."

Mr. President, didn't your train run out of money in Oklahoma someplace?

"In Oklahoma City. We ran out of money, and some of them got in a panic again and said we'd have to call off the campaign and go back to Washington, but we raised it. We never had much, but we raised enough to finish the trip. And then we got up enough money for a second trip."

It sounds as if it was always nip and tuck as far as money was concerned, though.

"It was, but that's the way it ought to be. I think I've told you. When people are anxious to give you a lot of money in a political campaign, you always have to ask

Senator Vandenberg [Arthur Vandenberg, Republican Senator from Michigan]. But I wouldn't do it. He'd supported the Marshall Plan; if it hadn't been for him, it might never have been approved in the Senate, and I wasn't about to forget that and start attacking him, and I didn't. It made a lot of those birds in Michigan unhappy, but I wouldn't do it.

"And in California I wouldn't say anything against Governor Warren [Earl Warren, Republican candidate for Vice President] because he was a friend of mine.

"If you can't win an election without attacking people who've helped you and who're friends of yours, it's not worth winning. I think I've told you. You can't pay too high a price to win an election."

Didn't Mr. Dewey have a little trouble with the engineer of his train out in Illinois?

"He said something about how maybe he ought to have the engineer shot at sunrise because he backed up the train too far. We managed to get that news around the country, and it didn't help him much with the working people. The trouble was he'd forgot what it was like to have to work for a living, and it showed on him, which is why he lost the election." *

Someplace I read that Lester Biffle [Secretary of the Senate] went around during the campaign disguised as a chicken peddler and made a poll that was the only poll that showed you were going to win.

* In his illuminating book on 1948 *The Loneliest Campaign*, Irwin Ross writes of that incident, which took place in Beau-coup, Illinois, on October 12: "As Dewey began to speak from the rear platform, the train suddenly moved backward into the crowd. It stopped after a few feet and no one was hurt. Dewey momentarily lost his poise. 'That's the first lunatic I've had for an engineer,' he told the crowd. 'He probably ought to be shot at sunrise but I guess we can let him off because no one was hurt.' The flash of temper was forgivable under the circumstances, but it was to cost Dewey dearly. Before the campaign was over, the Democrats inflated the remark to the dimensions of a cause célèbre, charging that it proved that Dewey was unfeeling and hostile to the workingman."

"That's right. He went around in a spring wagon and dressed in overalls, and he got more information for me than anybody else in the business. He said, 'Now listen, Harry, you don't have to worry. The common people are for ya.' And they were."

What's a chicken peddler?

"Well, in every neighborhood in the country where they raise chickens there was always a fella who drove around either in a truck or an old spring wagon with a team of mules who bought the surplus chickens and eggs.

"That's what a chicken peddler is, and in the old days there were a tremendous number of them. There used to be an old man with whiskers who'd come out to our farm, and my mother would sell him eggs and butter, and with the money she got she'd buy all the coffee and sugar and everything else we needed.

"They called him Old Folks, and he was always honest with my mother. He'd give her a fair price for the chickens by weight and eggs by the dozen, and he was always welcome because people knew he was honest.

"But I don't think they have them anymore. I think they're gone. I think they're gone."

So Mr. Biffle's poll was the only one that had it right?

"The only one. The rest of them, what they were doing was polling each other, and I didn't let it worry me. What I did was keep on giving the facts to the people."

Weren't you worn out at the end of the campaign?

"I felt better at the end of the campaign than I had at the beginning, and I'll tell you why. I got the feeling . . . a real feeling of the kind of country we've got here and the kind of people, and it sort of you might say renewed my faith."

Especially since you won the election.

"No, no, no. Even if I'd lost the election, my feeling for the common people of this country wouldn't have changed. You know what Lincoln said. 'The Lord must have loved the common people he made so many of them.' Well, the feeling I got in that campaign was that most of the people in this country are not only, like I said, decent people,

the back door and go down to Excelsior Springs [about thirty miles north of Independence]. Which is what he did."

Mr. Truman: "We drove down to Excelsior Springs, and I had a bath in the hot springs and a little something to eat and went to bed, about six o'clock in the evening I think it was."

And you went to sleep, of course.

"Oh, yes, and about midnight I tuned in the little radio there, and old H. V. Kaltenborn was carrying on about how while I was ahead, he didn't see how I could win."

Tom Evans: "I called him about midnight. He had just lost New York State to Dewey, and I knew he had to carry Ohio, Illinois, and California. And when I called him to tell him that he said, 'Tom, I'm going back to sleep. Now don't call me any more. I'm going to carry all three of those states.' Which he did." *

Mr. Truman: "The Secret Service, one of the Secret Service men woke me up the next morning around four thirty, and I was elected. So I got up and got dressed, and we drove over to the Muehlebach Hotel to celebrate."

they want to do the right thing, and what you have to do is tell them straight out what the right thing is.

"And feeling . . . like that, I didn't get tired."

Mr. President, I guess everybody in the United States who was alive at the time remembers what he did on election day, November 2, 1948. For one thing, the radio networks had sent out word to expect Mr. Dewey's victory announcement around nine in the evening. So we all planned to listen to that and then go to bed and get a good night's sleep. Instead of which, we stayed up all night, and, as you may recall, Mr. Dewey didn't concede until almost noon the next day. I wonder, sir, could you tell me what you did that day?

"Nothing very special. I got up at the usual time and took my morning walk, and then later, of course, we voted, and I had a nice, long lunch at the country club. Mayor Sermon [Roger T. Sermon, mayor of Independence] gave a little party out there, and we all had a good time. Just a few old friends was all it was, but we had a good time."

Rufus Burrus, Harry Truman's personal attorney: "We had lunch . . . and Mr. Truman said, 'Now, fellows, don't worry. I'm going to get elected. You can depend on it. But you'd better go out in the precincts and do a little work, see that the vote gets out.

"None of us believed it, believed that he was going to win, but he did. He was as sincere in his belief that he was going to be reelected President as he was at any time when he was running for judge of the county or the Senate of the United States.

"And before that lunch was over, speaking only for myself, of course, he'd brought me around to thinking that way, too."

Tom Evans, an old friend of Harry Truman's: "He called me from the country club, and he said he was having dinner there but that he was going to escape out

* Truman carried Ohio by 7,107 votes, California by 17,865, and Illinois by 33,612.

THE WALL STREET JOURNAL MONDAY, AUGUST 24, 1992

That Revolutionary Ten-Percent Option

By DANIEL J. MITCHELL

George Bush's proposal to allow taxpayers to dedicate up to 10% of their income taxes to "reduce the national debt" sounds like a political gimmick. It would be a gimmick if Mr. Bush were talking about a simple executive order. Closer examination, though, reveals that this approach really could curtail the growth of federal spending — on a scale not seen since Gramm-Rudman was enacted in 1985.

Mr. Bush didn't say where he got the idea that he mentioned Thursday night in his Houston acceptance speech. But his proposal matches legislation that Rep. Robert Walker (R., Pa.) and Sen. Robert Smith (R., N.H.) have introduced.

If Mr. Bush follows the Walker-Smith plan, the actual effect of the proposal would be to reduce, dollar-for-dollar, the following fiscal year's spending by the amount checked-off by taxpayers when filing their taxes. With individual income tax collections for the 1992 tax year expected to exceed \$500 billion, adoption of the Walker-Smith legislation next year could reduce fiscal 1994 spending by as much as \$50 billion, or 3.27% below levels currently projected for 1994.

Best of all, as was the case with Gramm-Rudman, lawmakers would have no choice but to comply. The \$50 billion of spending cuts would occur automatically, reducing by equal percentages all spending items other than Social Security, deposit insurance and net interest. Congress could not avoid the automatic cuts by raising taxes; nor could legislators replace the real cuts with a package of phony savings similar to those in the 1990 budget.

The legislation is also crafted so that the spending reductions permanently reduce the trend line of federal spending. In other words, rather than evaporating after the year they occur, automatic cuts would reduce projected spending levels in all future years, a critical reform since these estimated levels are used as the starting point for crafting each year's budget.

Budget Surplus by 1997

Would the Walker-Smith plan work? According to the Congressional Budget Office, hardly a lackey for conservative budget plans, the proposal could balance the budget in just four years. As shown in the table, savings of \$49 billion in fiscal 1994 would grow to \$263 by 1997, resulting in a budget surplus of \$26 billion that year.

Whether or not the budget actually is balanced by 1997, of course, depends on the number of taxpayers who choose to partici-

pate and whether they choose the full 10% check-off. Even if actual savings were only one half of maximum levels, however, the Walker-Smith legislation would dramatically slow the growth of federal spending. This is especially impressive when compared to what is happening under current law. The Budget Enforcement Act, imposed as part of the 1990 budget, has allowed constant dollar domestic spending to climb more than seven-and-one-half times faster than it did when the law the new act replaced, Gramm-Rudman, was in effect.

critics might claim.

As was the case with Gramm-Rudman, the legislation will also be attacked for its inflexibility. Opponents will assert that an across-the-board sequester treats all programs as if they had equal value, subjecting monies for AIDS research to the same percentage cut as subsidies for honey production and spending for pork-barrel mass transit projects. A "meat ax" approach to the budget, critics will say, denies lawmakers the right to target more federal funds to pressing needs.

Not true. When preparing a budget for

opponents both agree that automatic sequesters generate real deficit reduction; the same cannot be said for the alleged savings which have been included in past budget agreements. Assuming that these hurdles could be overcome, however, the law could be modified to give Congress the authority to come up with their own package of real spending cuts instead of a sequester.

Another line of attack will come from Keynesian economists who will argue that we should be increasing spending to lift the economy out of the doldrums. According to the Keynesians, legislation which mandates less spending will weaken the economy by reducing aggregate demand. (A Reuters report that came out Friday reflected this view. Its author wrote of the 10% proposal: "The effect of such action in a slow-moving economy could easily be to dampen economic activity further, rather than to stimulate it.")

Gramm-Rudman's Lessons

The Keynesian argument rings hollow, however, since record spending increases and record deficits in the last few years have been associated with slower rather than faster economic growth. Not that Keynesians have a good track record. They were the ones who predicted that the Reagan tax cuts, adopted when inflation was in double digits, would be inflationary.

Just as interest groups condemned Gramm-Rudman, they will criticize Walker-Smith. This is a sign that the legislation would be effective. The real question is not whether it will work. It is whether Congress will voluntarily be able to enact legislation that so clearly would curtail its ability to funnel resources to favored constituencies.

This is why the president's endorsement Thursday night is so important. If the president's support for the Walker-Smith legislation indicates that the administration recognizes the urgent need to reduce federal spending — and is willing to fight to get the legislation enacted — the policy mistakes of the first term could be reversed. In his speech, Mr. Bush quoted an old saying that goes "Good judgment comes from experience, and experience comes from bad judgment." The unanswered question is whether Mr. Bush's economic team, Budget Director Richard Darman and Treasury Secretary Nicholas Brady, have learned the same lessons.

Mr. Mitchell is a fellow at the Heritage Foundation in Washington.

Surplus in Sight

If every taxpayer opted for the full 10% check off, the savings, in billions of dollars, would be:

FISCAL YEAR	1994	1995	1996	1997
Automatic Cuts	\$48	\$101	\$162	\$232
Interest Savings	2	7	16	31
Total Deficit Reduction*	49	107	178	263

*Figures may not add due to rounding

Source: Congressional Budget Office

The Friday after the speech, many critics were already dismissing the Bush 10% idea. If Mr. Bush shows continued support for the Walker proposal, the legislation is almost sure to come under attack, too. Initial critiques doubtlessly will assert the approach is simplistic. Opponents will focus on some of the bill's cosmetic features, which include the creation of a trust fund to reduce the national debt. They will argue, quite accurately, that buying down existing debt is meaningless if offset by the creation of new debt. Such attacks miss the target, however, since the real impact of the Walker-Smith legislation is the automatic dollar-for-dollar reduction in spending levels.

Once proponents of higher spending realize what the legislation could accomplish, they may reverse field and argue that the cuts are too severe. Under the Walker-Smith legislation, full participation in the check-off would limit fiscal 1997 spending to \$1.464 trillion, only 4.5% more than the \$1.407 trillion projected for this fiscal year, and more than 13% below the baseline fiscal 1997 projection made by CBO in March.

By Washington standards, these cuts might be draconian, but by real-world standards they remain modest. Moreover, if Walker-Smith legislation is enacted, not all taxpayers will choose to check off, and many of those who did would not choose the full 10%. As a result, the actual amount of spending discipline will be less than

an upcoming fiscal year, lawmakers will be free to increase or decrease funding for any program. Changes in overall spending levels will continue to be constrained by already existing restrictions, such as the overall cap on discretionary spending and the pay-as-you-go rules for entitlements (rules that mandate higher taxes to pay for increases in entitlement programs).

Nothing in these rules or in the Walker legislation, however, would prevent Congress from appropriating more money to politically popular programs. Indeed, even if taxpayers checked off enough money to force a 5% sequester, Congress could guarantee the level of funding for any particular program by appropriating 5% more than they really wanted to spend.

But the Walker-Smith legislation would force lawmakers to set priorities by shrinking the overall federal spending pie and making interest groups compete for fewer federal dollars. This discipline would put an end to the current practice of giving all programs big increases, regardless of how poorly the money is being spent.

Some will argue that automatic cuts are not necessary; that Congress should be allowed to vitiate a sequester by enacting legislation with an equal level of deficit reduction. This is fine in theory, but difficult in practice. Not only would the law have to be written to preclude tax increases, policymakers also would have to craft the legislation to ensure that the substitute cuts are real. Supporters and

McGovern's days as an innkeeper teach him a lesson

George McGovern, the former South Dakota senator and unsuccessful Democratic presidential candidate, remembers an impassioned speech his friend, Hubert Humphrey, delivered to his Senate colleagues some 20 years ago.

Humphrey, who owned a drugstore in his native South Dakota, had been visiting his hometown and was in the store when an inspector from the Occupational Safety and Health Administration (OSHA) happened by.

After watching the OSHA inspector hand out a fistful of citations for what the Minnesota senator regarded as Mickey Mouse violations, an outraged Humphrey took the Senate floor to complain bitterly about "excessive" regulation of small business.

McGovern, the ultraliberal who had been in the middle of the business-regulation movement of the 1970s, recently recalled his reaction to that speech with some chagrin.

"I remember saying to myself, 'Why is Hubert wasting our time with something like this,'" McGovern said in a telephone interview.

Twenty years later, having plugged his savings into the financially troubled Stratford Inn, a Connecticut hotel, restaurant and meeting center, McGovern had his answer.

In large part because of the recession, but in significant measure because of what McGovern regards as excessive and inflexible local, state and federal regulation, the business headed down the tubes in little more than two years.

And McGovern, who had spent most of his life in politics, had a new appreciation for the pressures and problems that small businesses face, in large part because of governmental regulation.

"I don't know how this experience might have changed my votes" on business regulation, McGovern said. "But I think it would have made me a better U.S. senator, with more appreciation for what a small business has to deal with.

"I'm afraid that most legislators, myself included, don't take into account the very real problems that the business community faces."

Given McGovern's pronounced tilt to the political left, you will recognize the preceding observations as the equivalent of Lee Iacocca parking a Toyota minivan in his garage.

I'm not surprised to find him going public, however. While I have often disagreed with McGovern, whose



Dick Youngblood

prairie populism has sometimes defied logic, I've always admired him as a man with a strong core of intellectual honesty.

Thus, when his first personal experience with the realities of an operating business shook his political assumptions, McGovern not only was willing to admit his doubts, but he wrote them down and allowed them to be published in that bastion of 16th-century liberalism, the op-ed page of the Wall Street Journal.

That's what inspired me to call the gent, who now labors as president of a Washington, D.C., think tank called the Middle-Eastern Policy Council, to inquire after his mental health.

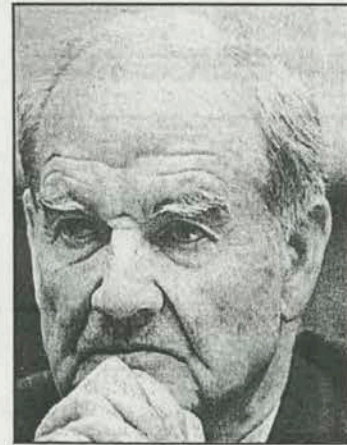
No, he hasn't tipped over the edge, McGovern made it clear. He still believes in environmental protection and occupational safety, for example. But if he had known then what he knows now, he said, "I probably would have supported some modifications, particularly for small business."

Among the modifications: Rules that are "more flexible and more reasonable," with a sharp reduction in "complexity and paperwork."

Ah, the paperwork: McGovern said his manager at the Stratford Inn, which he acquired in 1988, used to tell him that he was immobilized in his day-to-day management by the load of tax, employment and similar forms that were required. "Big business can hire the expertise" to deal with the complexity," McGovern said, "but a small business can't afford it."

There's also the problem of applying the same rules to businesses big and small, McGovern said. Take, for example, the "rigid" enforcement of local fire-safety regulations, which he said applied the same provisions "to a two-story inn in Stratford as to a 42-story office tower in Hartford.

"The regulations went beyond any reasonable safety requirements for a building like ours," he said. "We had



George McGovern

perfectly adequate fire protection, but if we'd stayed open, we'd have had to invest about \$150,000 to be in full compliance."

Considering that the 150-room Stratford Inn had annual revenues of just \$1.5 million, and was not breaking even at that level, such an investment clearly was impossible, McGovern said. So the inn was closed in 1990.

In short, the tendency to impose "one-size-fits-all rules for business ignores the reality of the marketplace," McGovern wrote in his Wall Street Journal piece. "And setting thresholds for regulatory guidelines at artificial levels — e.g., 50 employees or more, \$500,000 in sales — takes no account of other realities, such as profit margins, labor-intensive vs. capital-intensive businesses, and local market economics."

The bottom line is jobs, he wrote: "To create job opportunities, we need entrepreneurs who will risk their capital against an expected payoff. Too often, however, public policy does not consider whether we are choking off those opportunities."

That, of course, is precisely the argument that McGovern and his Senate cohorts blithely ignored 20 years ago as they were forging the regulatory chains around the business community.

Hearing McGovern, a former history professor who spent 24 years in federal government, talk about profit margins and market economics thus might sound peculiar to some of his former antagonists in business.

McGovern acknowledged as much — and proved that he retains his sense of humor — with the quotation from Justice Felix Frankfurter that he chose to lead his Wall Street Journal article.

"Wisdom too often never comes," the famous jurist once wrote, "and so one ought not to reject it when it comes late."

August 26, 1992

MEMORANDUM TO THE LEADER

FROM: JOHN DIAMANTAKIOU *gd*
SUBJECT: HOUSE RACE OVERVIEW - MINNESOTA

Other than Cal Ludeman's candidacy, Minnesota has a menu full of competitive contests for the September 15 primary. Below is an overview.

5th District

Representative Martin Olav Sabo (D), a reliable liberal in Washington, is facing a surprise primary challenge from the left in Lisa Niebauer-Stall, a financial consultant. She is part of the Wellstone brigade and at the Democratic convention in May, this coalition was able to scare Sabo for seven ballots until 3 a.m. when he finally won the endorsement. On the GOP side, Steve Moriarty and Buzz Gilbertson are gunning for the nomination.

6th District

This is the suburban Minnesota-St. Paul area where 5-term Democratic Representative Gerry Sikorski faces voters for the first time since disclosing that he had 697 overdrafts at the House bank. Sikorski faces three other Democrats in his primary. Rod Grams, a former TV newscaster, is favored to win the GOP primary.

7th District

Freshman Democratic Representative Collin Peterson, an opponent of abortion, faces abortion rights supporter Lorelei Kraft in the primary. Peterson won with only 54% in 1990.

Republicans choose between state Representative Bernie Omann and Phyllis Onsgard, the former district director for GOP Representative Arlan Stangeland, the man Peterson defeated.

Other Districts

In the 1st, former Boschwitz/Carlson press secretary Tim Droogsma will likely win the GOP primary and the right to face Timothy Penny (D).

In the 8th, Jim Oberstar (D), faces Phil Herwig, a farmer and machinist.