

# Withdrawn/Redacted Material

## The George W. Bush Library

DOCUMENT NO.	FORM	SUBJECT/TITLE	PAGES	DATE	RESTRICTION(S)
001	Fax Cover Sheet	[Fax Cover Sheet] - To: Karl Rove - From: Jason Parker	1	01/24/2005	P6/b6;
002	Resume	Jason O. Parker [page 1]	1	01/24/2005	P6/b6;
003	Email	FW: ACTPN: 3 PM Phone Call - To: Matthew Schlapp, et al. - From: Karl Rove	5	11/19/2004	P2; P5; P6/b6;
004	Email	RE: - To: Alberto Gonzales, et al. - From: Karl Rove	1	01/24/2005	P5;
005	Email	FW: Chris Christie and NJ - To: Susan Ralston - From: Karl Rove	1	11/14/2004	P6/b6;
006	Handwritten Note	[Notes]	1	N.D.	P5;
007	Email	FW: Kemp/Soc Sec - To: Susan Ralston - From: Karl Rove	1	11/10/2004	P5; P6/b6;

**COLLECTION TITLE:**

Records Management, White House Office of

**SERIES:**

Subject Files - FG006-27 (Office of Senior Advisor - Karl Rove)

**FOLDER TITLE:**

652618 [2]

**FRC ID:**

9741

**RESTRICTION CODES**

**Presidential Records Act - [44 U.S.C. 2204(a)]**

- P1 National Security Classified Information [(a)(1) of the PRA]
- P2 Relating to the appointment to Federal office [(a)(2) of the PRA]
- P3 Release would violate a Federal statute [(a)(3) of the PRA]
- P4 Release would disclose trade secrets or confidential commercial or financial information [(a)(4) of the PRA]
- P5 Release would disclose confidential advise between the President and his advisors, or between such advisors [(a)(5) of the PRA]
- P6 Release would constitute a clearly unwarranted invasion of personal privacy [(a)(6) of the PRA]

PRM. Personal record misfile defined in accordance with 44 U.S.C. 2201(3).

**Deed of Gift Restrictions**

- A. Closed by Executive Order 13526 governing access to national security information.
- B. Closed by statute or by the agency which originated the document.
- C. Closed in accordance with restrictions contained in donor's deed of gift.

**Freedom of Information Act - [5 U.S.C. 552(b)]**

- b(1) National security classified information [(b)(1) of the FOIA]
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**Records Not Subject to FOIA**

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DOCUMENT NO.	FORM	SUBJECT/TITLE	PAGES	DATE	RESTRICTION(S)
008	Email	Re: - To: Karl Rove - From: Bob Ney	1	11/06/2004	PRM;
009	Memorandum	Gonzales Outreach - To: Karl Rove - From: Tim Goeglein	2	11/10/2004	P5; P6/b6;
010	Email	FW: Updated Election Stats - To: Karl Rove, et al. - From: Sara Taylor	2	11/08/2004	PRM;
011	Email	Re: The Latest Slander - To: Peter Wehner - From: Morton Kondracke	1	11/11/2004	P5; P6/b6;
012	Memorandum	To Request General Schwartzkopf's Participation... - To: Karl Rove - From: Chris Myers	1	09/23/2004	PRM;
013	Email	FW: Oracle - To: Barbara Goergen - From: Susan Ralston	2	08/27/2004	PRM;

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014	Email	FW: Rove - To: Barbara Goergen - From: Susan Ralston	2	08/27/2004	PRM;
015	Email	Re: Oracle - To: Susan Ralston - From: Matt Schlapp	2	09/07/2004	PRM;
016	Email	RE: Oracle - To: Susan Ralston - From: Ken Mehlman	2	09/07/2004	PRM;
017	Email	Fw: Fed Money to Defeat GWB - To: Susan Ralston - From: Karl Rove	3	09/17/2004	PRM;
018	Email	Looking Ahead - To: Barbara Goergen - From: Sol Trujillo	1	11/29/2004	P5; P6/b6;
019	Email	Fw: Good Luck! - To: Susan Ralston - From: Karl Rove	3	12/02/2004	PRM;
020	Email	Fw: Fallujah - To: Susan Ralston - From: Karl Rove	1	11/07/2004	P5;

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021	Email	RE: AMA - Tort Reform - To: Susan Ralston, et al. - From: Kristen Silverberg	1	11/29/2004	P5;
022	Email	RE: AMA - Tort Reform - To: Susan Ralston, et al. - From: Michael Meece	1	11/29/2004	P5;
023	Talking Points	Telephone Call with David Sibley	1	N.D.	P5;
024	Email	Re: Parsky - To: Angela Flood - From: Karl Rove	1	11/29/2004	P5;
025	Email	Fw: Social Security: Important - To: Susan Ralston - From: Karl Rove	1	11/29/2004	P5;
026	Chart	Polling vs. Actual Results	4	N.D.	PRM;
027	Briefing	[Briefing]	2	N.D.	P5;

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028	Report	Federal Home Loan Bank	1	12/10/2004	P2; P5; P6/b6;
029	Email	FW:... - To: Dina Powell, et al. - From: Karl Rove	1	12/08/2004	P2; P5; P6/b6;
030	Email	Grover/Private Stuff - To: Karl Rove - From: Grover Norquist	2	12/12/2004	PRM;
031	Email	FW: Discussion with Pete Conway... [with attachment] - To: Susan Ralston - From: Karl Rove	5	12/08/2004	PRM;

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052618

THE WHITE HOUSE  
WASHINGTON

Date: 1/24/05

To: Ann Gray

From: Strategic Initiatives B.J. Grodzon

- FYI
- Appropriate Action
- Direct Response
- Prepare Response For My Signature
- Per Our Conversation
- Let's Discuss
- Per Your Request
- Please Return
- Deadline
- Other

Comments: Can you please  
respond to him directly re:  
intern process? Thanks.

*JOP*

Jason O. Parker



(b)(6)

Fax Number (713) 313-7901

To: Honorable Karl Rove

Fax: (202) 456-0191

January 24, 2005

Total Number of pages (Including cover sheet): 5

From: Jason O. Parker, Special Summer Intern 2004 to  
Secretary Alphonso Jackson and Chief of Staff  
Camille T. Pierce of U.S. Housing and Urban  
Development

*If there are any problems with this transmission please call Jason Parker at (361) 658-6191*

Jan 24 05 05:34p P.C.

January 24, 2005

Dear Honorable Karl Rove,

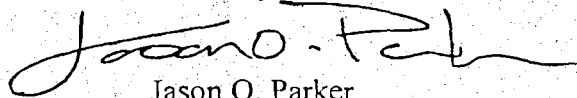
Hello, my name is Jason O. Parker. I was Secretary Jackson's and Chief of Staff, Camille Pierce of HUD Special Summer Intern Assistant 2004.

What a magnificent learning experience I had working for this great Country of America, President Bush, his outstanding Administration, and Secretary Jackson at HUD. Moreover, I am writing to you requesting can I become your Special Summer 2005 Intern Assistant.

Conclusively, it would be a wonderful, fabulous, and educational experience I would learn from you, Mr. Rove, and your brilliant staff. Also, it would be my pleasure to work for this Country, President Bush, and YOU!

Attached is a picture of me and my remarkable resume. Thank you for your time and interest. I hope to hear from you soon. Thanks in advance.

Sincerely,



Jason O. Parker



# Jason O. Parker

Resume



# Jason O. Parker

(b)(6)

**OBJECTIVE:** I am currently enrolled at Texas Southern University pursuing a degree in Political Science and a double minor in English and French. My goal is to complete my undergraduate degree and enroll in law school and earn my Doctor of Jurisprudence.

## QUALIFICATIONS

- Ability to represent a company or a person with professionalism and confidence.
- Highly motivated and committed to delivering top quality service.
- Articulate and persuasive in written and verbal presentations.
- Experienced Administrative Assistant and Student Executive with a strong background in all aspects of administrative support.
- Outstanding typing skills 62 words per minute.
- Ability to meet multiple priorities and program deadlines.
- Excellent writing, oral communication, and listening skills.
- Well organized and time efficient.

## EDUCATION

B.A. Political Science, Texas Southern University, Houston, TX (December 2005 Pending)  
High School Diploma, Foy H. Moody High School, Corpus Christi, TX (May 2001)

## EMPLOYMENT

**Summer Internship 2004:** Special Intern Assistant to Secretary Alphonso Jackson and Chief of Staff Camille Pierce of United States Department of Housing and Urban Development. Washington, DC. Responsibilities include but not limited to Scheduling for the Secretary and Chief of Staff, Executive Correspondence for HUD, Brief the Secretary and Chief of Staff on E-mails three times a day, Special Projects, and responsible for opening the Secretary and Chief of Staffs offices every morning.

**2004-Present:** Student Executive, Texas Southern University Board of Relations. Houston TX. I am support staff to the Executive Director and Board of Regents. Responsibilities including but not limited to posting meetings, maintenance of files, resolutions and policies, answering phones, filling, and typing.

**2003-2004:** Community Assistant (CA), Ambling Inc. University Courtyard Apartments Houston TX. Community Assistants play a vital role in developing and maintaining this atmosphere of academic, personal and social growth. We are qualified and experienced TSU students who live on every floor throughout the apartments. We assist students with the transition to college, serving as mentors and friends during the academic year. CAs organize hall meetings and activities to bring residents closer together, inform residents of events taking place within the campus community and create a special bond and a sense of belonging for students.

2001-2002 Administrative Assistant, Orion Health Services, Inc. Corpus Christi TX.  
Duties included but not limited to: Typing, filing, answering phones, and key punching data entry, such as hours, new hires, terminations, address changes, etc., into the payroll system. Received applications, checked over information, and forwarded application to the proper manager. Trained new employees and provided feedback through written evaluations.

2000-2001 Sales Representative, Abercrombie & Fitch Inc. Corpus Christi, TX.  
Provided assistance to customers, responsible for maintaining inventory control, entering data into computer system, and handling money. Other responsibilities included bagging, checking the stock room for new merchandise.

#### COMMUNITY AND SCHOOL

- Texas Southern University Student Government Association (Election Chairman)
- French Club
- Political Science Club
- University Program Council
- Texas Southern University Living Testimony Gospel Choir
- Community Assistant (Courtyard and Tiewester Apartments)

652618

**THE WHITE HOUSE**

WASHINGTON

**ASIAN AMERICAN and PACIFIC ISLANDER APPOINTEES MEETING**

3:00 P.M. – 3:10 P.M.  
Tuesday, January 25, 2005  
EEOB, Room 474  
Susan Ralston/Joey Lee

**I. PURPOSE**

To inform the President's Asian American and Pacific Islander (AAPI) appointees of President Bush's second term agenda and encourage them to actively engage in Asian American and Pacific Islander outreach through the White House Office of Public Liaison.

**II. BACKGROUND**

You will make brief remarks to forty Asian American and Pacific Islander appointees. As of December 6, 2004, the President has appointed Asian Americans and Pacific Islanders to 259 positions.

The AAPI appointees were invited to a previous briefing in May 2001.

**III. PARTICIPANTS**

Norman Mineta, Secretary of Transportation  
Susan Ralston, Special Assistant to the President and Assistant to the Senior Advisor  
Ed Moy, Special Assistant to the President and Associate Director of Presidential Personnel  
Joey Lee, Staff Assistant, Office of Public Liaison

**IV. PRESS PLAN**

Closed

**V. SEQUENCE OF EVENTS**

- Asian American and Pacific Islander appointees arrive and are greeting by OPL staff.

- Joey Lee introduces you.
- You deliver brief remarks.
- You depart.

Note: After your departure, Secretary Mineta, Susan Ralston, and Ed Moy will make remarks.

## VI. ATTACHMENTS

Talking Points prepared by Joey Lee.  
List of attendees.

**Talking Points for Asian American &  
Pacific Islander Appointees Briefing  
Tuesday, January 25, 2005**

- Thank you for being great representatives of the Administration to the Asian American and Pacific Islander (AAPI) community.
- We understand the important role you play in carrying the President's message to your respective communities, and we need your help to accomplish all the significant reforms the President has planned for his second term agenda.
- Under President Bush, Asian Americans and Pacific Islanders have made significant strides.
  - For the first time, 2 Asian Americans sit in the Cabinet of the President, and the President has appointed AAPI to 259 positions.
  - On May 13, 2004, the President signed Executive Order 13339 Increasing Economic Opportunity and Business Participation of Asian Americans and Pacific Islanders creating the President's Advisory Commission on Asian Americans and Pacific Islanders.
  - President Bush's administration has acknowledged numerous cultural holidays – Diwali, Chu'sok (the Korean Thanksgiving), and Lunar New Year which many Asian Americans will celebrate on February 9<sup>th</sup>.
- We need your help to get this message out. We want to know who you know, and you can help by working with the Office of Public Liaison. Talk to Joey Lee, who is our liaison to the AAPI community, and tell her who is reliable, who we can trust, and provide names and contact information. This network will only spread with your help.
- Specifically today you will hear from Secretary Mineta – a great Asian American public servant – and Susan Ralston and Ed Moy who have played vital roles in Asian American outreach.

## Attendees

1. Patrick Atagi, Deputy Director, Intergovernmental Affairs, Department of Agriculture
2. Karan Bhatia, Assistant Secretary for Aviation and International Affairs, Department of Transportation
3. Elizabeth Bingold, Paralegal, White House Counsel, The White House
4. Jennifer Brosnahan, Special Assistant to the President and Associate Counsel, White House Counsel, The White House
5. Rajkumar Chellaraj, Senior Advisor, United States Mint
6. Shinae Chun, Director, Women's Bureau, Department of Labor
7. David Cohen, Deputy Assistant Secretary of the Interior for Insular Affairs, Department of Interior
8. Nina Collier, Commissioner, President's Advisory Commission on Asian Americans and Pacific Islanders
9. Akshay Desai, Commissioner, President's Advisory Commission on Asian Americans and Pacific Islanders
10. Uttam Dhillon, Associate Deputy Attorney General, Department of Justice
11. Stephen Fong, Office of Communications and Congressional Affairs, Federal Transit Administration
12. Denise Gitsham, Associate Director, Office of Intergovernmental Affairs and Public Liaison, Department of Justice
13. Anna Hui, Special Assistant, Office of the Secretary, Department of Labor
14. Christine Isett, Confidential Assistant, Department of Education
15. Ash Jain, Special Assistant, Bureau of Arms Control, Department of State
16. Joseph Jen, Under Secretary, Department of Agriculture
17. Paul Jhin, Director, Office of Planning, Policy, and Analysis, Peace Corps
18. Yvonne Jubang, Assistant to the Under Secretary, Department of Homeland Security
19. Gopal Khanna, CFO, Peace Corps
20. Prakash Khatri, Ombudsman, Department of Homeland Security
21. William Kil, President's Advisory Commission on Asian Americans and Pacific Islanders
22. Veronica Lau, Special Assistant, Office of the Secretary, Department of Labor
23. Edwin Lee, Staff Assistant, Council of Economic Advisors, The White House
24. Jimmy Lee, Commissioner, President's Advisory Commission on Asian Americans and Pacific Islanders
25. Elan Liang, Special Assistant to the President for Legislative Affairs (House), Legislative Affairs, The White House
26. Shayam Menon, Associate Director for Administrative Reform, Center for Faith Based and Community Initiatives, Department of Education
27. Roger Minami, Acting Associate Director, National Office of Outreach, Department of Agriculture
28. Sam Mok, CFO, Department of Labor
29. Eric Mondero, Office of Congressional and Intergovernmental Affairs, Department of Labor
30. Ajit Pai, Liaison, Government/Public Sector, Department of Justice

31. Jane Pak, Special Assistant to the Administrator, Office of Strategic Alliances, Small Business Administration
32. Jeff Pon, Deputy Director, e-Gov, Office of Personnel Management
33. Peter Ramjug, Speechwriter to the Secretary, Department of Transportation
34. Jeff Sakaguchi, Commissioner, President's Advisory Commission on Asian Americans and Pacific Islanders
35. William Shen, Special Assistant, Office of Field Operation, Department of Housing and Urban Development
36. Szu-Nien Su, Bureau of East Asian and Pacific Affairs, Department of State
37. Michael Thieman, Special Assistant, Department of Health and Human Services
38. Nguyen Van Hanh, Ph.D., Director, Office of Refugee Resettlement, Department of Health and Human Services
39. Tim Wang, Special Assistant to the Assistant Secretary for International Trade, Department of Commerce
40. Betty Wu, Chair of the President's Advisory Commission on Asian Americans and Pacific Islanders



F: INAUGURAL

POFFS

652618

Ralston, Susan B.

From: Karl Rove [KR@georgewbush.com]  
Sent: Sunday, January 23, 2005 7:19 PM  
To: Ralston, Susan B.  
Subject: Fw: Chief Justice Rehnquist

-----  
Sent from my BlackBerry Wireless Handheld

-----Original Message-----

From: Bobbie Kilberg <bkilberg@NVTC.org>  
To: Karl Rove <KR@georgewbush.com>  
Sent: Sun Jan 23 13:14:22 2005  
Subject: Chief Justice Rehnquist

Karl:

I know that the President was very moved by Chief Justice Rehnquist's effort to be at the inauguration to swear him in. I thought the President would like to know how moved the Chief Justice was that the President had faith in his ability to administer the Oath.

Shortly after the President entered the platform and took his seat, we closed the platform chute doors to warm up the chute area and the Chief Justice moved from his holding room in a wheel chair to a folding chair next to me in the chute. When he walked over to my chair, he moved with considerable difficulty. I told him that I would give him a two minute warning when it was time to go out onto the platform. The Chief Justice told me that he very much wanted to be on the platform for the Vice President's swearing in as well as the President's swearing in. Sen. Lott, however, skipped part of the script which was supposed to include a short musical interlude and all of a sudden he was announcing the Chief Justice. There thus was no 2 minute warning and I looked at the Chief Justice and told him he was on now. The Chief Justice literally bolted out of the chair and with great determination and a strong stride walked leaning on his cane to the chute door and down onto the platform. Sally Rider, his administrative officer, literally had to run after him.

When the Chief Justice returned to the chute after administering the Oath of Office to the President, he walked back inside with that same determined stride. I told him that the President very much appreciated the effort that he had made to attend. The Chief Justice looked at me and said: "I would not have missed this for anything in the world. This was very important, the most important thing I could do." He was visibly moved, squeezed my hand and asked me to thank the President.

Please share this with the President. Thanks. Bobbie

# Withdrawal Marker

## The George W. Bush Library

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**This marker identifies the original location of the withdrawn item listed above.  
For a complete list of items withdrawn from this folder, see the  
Withdrawal/Redaction Sheet at the front of the folder.**

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Records Management, White House Office of

### SERIES:

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### FRC ID:

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### OA Num.:

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### NARA Num.:

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### FOIA IDs and Segments:

2015-0037-F

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PRM. Personal record misfile defined in accordance with 44 U.S.C. 2201(3).

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### Records Not Subject to FOIA

Court Sealed - The document is withheld under a court seal and is not subject to the Freedom of Information Act.

# Withdrawal Marker

## The George W. Bush Library

FORM	SUBJECT/TITLE	PAGES	DATE	RESTRICTION(S)
Email	RE: - To: Alberto Gonzales, et al. - From: Karl Rove	1	01/24/2005	P5;

**This marker identifies the original location of the withdrawn item listed above.  
For a complete list of items withdrawn from this folder, see the  
Withdrawal/Redaction Sheet at the front of the folder.**

### COLLECTION:

Records Management, White House Office of

### SERIES:

Subject Files - FG006-27 (Office of Senior Advisor - Karl Rove)

### FOLDER TITLE:

652618 [2]

### FRC ID:

9741

### OA Num.:

10765

### NARA Num.:

10823

FOIA IDs and Segments:

2015-0037-F

### RESTRICTION CODES

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Records Not Subject to FOIA

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**Susan Ralston**

652618

**From:** Karl Rove [kr@georgewbush.com]  
**Sent:** Sunday, November 14, 2004 2:18 PM  
**To:** Susan Ralston  
**Subject:** FW: Chris Christie and NJ

Call list and discuss with Andy

----- Forwarded Message

**From:** (b)(6)  
**Date:** Sat, 13 Nov 2004 15:47:38 -0500  
**To:** "Karl Rove" <kr@georgewbush.com>  
**Subject:** Chris Christie and NJ

Karl--

Just following up on my email of last week to you. If you have some time to discuss NJ and 2005 with me, I would appreciate your insight.

I have some very tough decisions to make very soon.

Thank you for your consideration and, as always, it is an honor to serve this President and his administration.

Chris Christie  
973-645-2890-office

(b)(6) cell  
home

----- End of Forwarded Message

# Withdrawal Marker

## The George W. Bush Library

FORM	SUBJECT/TITLE	PAGES	DATE	RESTRICTION(S)
Handwritten Note	[Notes]	1	N.D.	P5;

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**COLLECTION:**

Records Management, White House Office of

**SERIES:**

Subject Files - FG006-27 (Office of Senior Advisor - Karl Rove)

**FOLDER TITLE:**

652618 [2]

**FRC ID:**

9741

**OA Num.:**

10765

**NARA Num.:**

10823

**FOIA IDs and Segments:**

2015-0037-F

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**Records Not Subject to FOIA**

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# Withdrawal Marker

## The George W. Bush Library

FORM	SUBJECT/TITLE	PAGES	DATE	RESTRICTION(S)
Email	FW: Kemp/Soc Sec - To: Susan Ralston - From: Karl Rove	1	11/10/2004	P5; P6/b6;

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**SERIES:**

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**FRC ID:**

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2015-0037-F

**RESTRICTION CODES**

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Freedom of Information Act - [5 U.S.C. 552(b)]

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PRM. Personal record misfile defined in accordance with 44 U.S.C. 2201(3).

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# Withdrawal Marker

## The George W. Bush Library

FORM	SUBJECT/TITLE	PAGES	DATE	RESTRICTION(S)
Email	Re: - To: Karl Rove - From: Bob Ney	1	11/06/2004	PRM;

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Records Management, White House Office of

#### SERIES:

Subject Files - FG006-27 (Office of Senior Advisor - Karl Rove)

#### FOLDER TITLE:

652618 [2]

#### FRC ID:

9741

#### OA Num.:

10765

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10823

#### FOIA IDs and Segments:

2015-0037-F

#### RESTRICTION CODES

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## The George W. Bush Library

FORM	SUBJECT/TITLE	PAGES	DATE	RESTRICTION(S)
Memorandum	Gonzales Outreach - To: Karl Rove - From: Tim Goeglein	2	11/10/2004	P5; P6/b6;

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Records Management, White House Office of

**SERIES:**

Subject Files - FG006-27 (Office of Senior Advisor - Karl Rove)

**FOLDER TITLE:**

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# Withdrawal Marker

## The George W. Bush Library

FORM	SUBJECT/TITLE	PAGES	DATE	RESTRICTION(S)
Email	FW: Updated Election Stats - To: Karl Rove, et al. - From: Sara Taylor	2	11/08/2004	PRM;

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Subject Files - FG006-27 (Office of Senior Advisor - Karl Rove)

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FORM	SUBJECT/TITLE	PAGES	DATE	RESTRICTION(S)
Email	Re: The Latest Slander - To: Peter Wehner - From: Morton Kondracke	1	11/11/2004	P5; P6/b6;

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# Withdrawal Marker

## The George W. Bush Library

FORM	SUBJECT/TITLE	PAGES	DATE	RESTRICTION(S)
Memorandum	To Request General Schwartzkopf's Participation... - To: Karl Rove - From: Chris Myers	1	09/23/2004	PRM;

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# Withdrawal Marker

## The George W. Bush Library

FORM	SUBJECT/TITLE	PAGES	DATE	RESTRICTION(S)
Email	FW: Oracle - To: Barbara Goergen - From: Susan Ralston	2	08/27/2004	PRM;

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FORM	SUBJECT/TITLE	PAGES	DATE	RESTRICTION(S)
Email	FW: Rove - To: Barbara Goergen - From: Susan Ralston	2	08/27/2004	PRM;

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Email	Re: Oracle - To: Susan Ralston - From: Matt Schlapp	2	09/07/2004	PRM;

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652618 [2]

### FRC ID:

9741

### OA Num.:

10765

### NARA Num.:

10823

### FOIA IDs and Segments:

2015-0037-F

### RESTRICTION CODES

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Email	Looking Ahead - To: Barbara Goergen - From: Sol Trujillo	1	11/29/2004	P5; P6/b6;

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## Pursuing Hispanic Wealth

By Ben White

NEW YORK -- The booming Hispanic population is changing American life from pop culture to politics. And investing is no exception.

In research reports and demographic studies, investment firms and business groups are scrambling to identify ways to capitalize on both the exploding size of the Latino population in the United States and expected shifts in consumption patterns. As second- and third-generation Hispanic Americans gain more wealth, they'll begin buying a broader array of goods and services, in banking, housing and health care.

In a study released this week, investment bank Goldman Sachs & Co. noted that Latinos could make up 20 percent of the U.S. population within 25 years and predicted that the income and employment gap between whites and Hispanics will narrow over the same period.

In another report, the Conference Board, a business advisory group, said income among Latinos in the United States could grow by as much as 43 percent over the next six years, to nearly \$700 billion by 2010. Other estimates put Latino income in 2010 at closer to \$1 trillion.

Both Goldman Sachs and the Conference Board noted that the Latino population is unusually young, with a median age of 25.9 years, according to Census Bureau data, compared with 35.3 years for the broader U.S. population. This means many Latinos have yet to reach their top earning potential, will be spending money longer and are among the age group most coveted by marketers.

As Latino wealth increases, analysts say, Hispanic Americans may begin spending a smaller portion of their income on things like rent, food and clothing and more on financial services, homes, media, health care and other products. Loyalty to traditional Latino brand names could also begin to dissipate as the children of first-generation immigrants become more assimilated into American culture.

"The Hispanic population's growth in size and purchasing power will spill over into industries across the board," said Lynn Franco, director of the Consumer Research Center at the Conference Board. "The numbers are growing exponentially and if you look out beyond 2010, the numbers become just astounding."

In the Goldman Sachs report, analyst David J. Kostin attempted to identify both industries and specific companies that could benefit from the growing purchasing power of Hispanic Americans.

Among others, Kostin cited media companies, home builders and home improvement stores, banks, managed care firms and drugmakers as possible beneficiaries, especially those with a large presence in California, Texas, Florida and New York, the centers of Latino population growth in the United States.

Among specific companies, Kostin listed Belo Corp. and Tribune Co. as media firms with large exposure to the Hispanic market, as well as

Univision Communications Inc., the dominant Spanish-language television broadcaster. Belo, which owns the Dallas Morning News among other papers, and Tribune Co., which owns the Los Angeles Times among other newspapers, both have launched Spanish-language efforts.

Media companies in markets with smaller but growing Hispanic populations also have been trying to attract Spanish-language readers and viewers. The Washington Post Co., for example, recently purchased Arlington-based newsweekly El Tiempo Latino.

Kostin cited General Electric Co., parent company of Spanish-language television network Telemundo, as another possible winner as the Hispanic population grows. But he noted that Telemundo, which captures a far smaller audience than Univision, represents only about 0.3 percent of GE's total annual revenue.

In the consumer products sector, Kostin singled out Avon Products as uniquely positioned because Hispanic women tend to embrace direct home sales of cosmetics more than other demographic groups. Avon earlier this year signed Hispanic actress Salma Hayek as a celebrity spokeswoman for the company.

Among commercial banks, Kostin cited Bank of America and Washington Mutual as firms with the largest market share in California, Florida and Texas and thus the opportunity to benefit from rising incomes among Hispanic Americans.

Kostin said only 51 percent of Latinos in the United States have bank accounts, far below the level for whites and African Americans. However, the numbers are significantly higher for U.S.-born Latinos (58 percent) than for recent immigrants (47 percent), indicating a major opportunity for banks as the population of U.S.-born Latinos rises.

Other big banks beyond Bank of America and Washington Mutual are looking to capitalize on the rising Latino population. Citigroup Inc., the nation's largest financial services firm, recently acquired First American Bank in Texas. And in a September interview, Citigroup chief executive Charles O. Prince III said the firm would continue to look for strategic branch acquisitions in markets such as Texas and Florida.

Kostin, for his part, listed a handful of regional banks that could be targets for acquisition by larger firms, including Compass Bancshares in Texas; City National in California; and Colonial BancGroup in Florida.

Jay C. Garcia, managing director at New York investment bank Samuel A. Ramirez & Co., said financial services is one area where loyalty to Latino-oriented firms such as Puerto Rico-based Banco Popular could diminish over the next decade.

"There is product loyalty, so companies that tailor themselves [to Latinos] should stand to benefit in the short term. But with the second and third generation, they are more mainstream," Garcia said. "They are less likely to embrace the products of the parents or grandparents. . . . So it's going to be less about the Banco Populares of the world and more about the Washington Mutuels."

Despite the anticipated shift in loyalty, Garcia said, companies with largely Hispanic ownership, or that cater to Hispanic customers, are doing remarkably well. In November of last year, Garcia helped launch the Ramirez and Co. Hispanic Index (RCHI), which measures stock performance of the 10 biggest Latino-oriented public companies in the United States and Puerto Rico. The two biggest companies in the index are Banco Popular and Univision.

From August 2000 through November 2003, Garcia calculated that the RCHI rose 124.9 percent, compared with a loss of 7.3 percent for the Dow Jones industrial average and a loss of 26.4 percent for the Standard & Poor's 500-stock index.

Researcher Richard Drezen contributed to this report.

## **BusinessWeek Online**

"The China Price"

Friday November 26, 4:00 pm ET

By Pete Engardio and Dexter Roberts With Brian Bremner in Beijing and bureau reports

From the rich walnut paneling and carved arches to the molded Italian Renaissance patterns on the ceiling, the circa 1925 council chamber room of Akron's municipal hall evokes a time when the America's manufacturing heartland was at the peak of its power. But when the U.S.-China Economic & Security Review Commission, a congressionally appointed panel, convened there on Sept. 23, it was not to discuss power but decline. One after another, economists, union officials, and small manufacturers took the microphone to describe the devastation Chinese competitors are inflicting on U.S. industries, from kitchenware and car tires to electronic circuit boards.

These aren't stories of mundane sunset industries equipped with antiquated technology. David W. Johnson, CEO of 92-year-old Summitville Tiles Inc. in Summitville, Ohio, described how imports forced him to shut a state-of-the-art, \$120 million tilemaking plant four football fields long, sending Summitville into Chapter 11 bankruptcy protection. Now, a tenfold surge in high-quality Chinese imports at "below our manufacturing costs" threatens to polish Summitville off. Makers of precision machine tools and plastic molds -- essential supports of America's industrial architecture -- told how their business has shrunk as home-appliance makers have shifted manufacturing from Ohio to China. Despite buying the best computer-controlled gear, Douglas S. Bartlett reported that at his Cary (Ill.)-based Bartlett Manufacturing Co., a maker of high-end circuit boards for aerospace and automotive customers, sales are half the late-1990s level and the workforce is one-third smaller. He waved a board Bartlett makes for a U.S. Navy submarine-detection device. His buyer says he can get the same board overseas for 40% less. "From experience I can only assume this is the Chinese price," Bartlett said. "We have faced competition in the past. What is dramatically different about China is that they are about half the price."

### **Slide Show: China Prices**

#### **Where the Jobs Went**

"The China price." They are the three scariest words in U.S. industry. In general, it means 30% to 50% less than what you can possibly make something for in the U.S. In the worst cases, it means below your cost of materials. Makers of apparel, footwear, electric appliances, and plastics products, which have been shutting U.S. factories for decades, know well the futility of trying to match the China price. It has been a big factor in the loss of 2.7 million manufacturing jobs since 2000. Meanwhile, America's deficit with China keeps soaring to new records. It is likely to pass \$150 billion this year.

Now, manufacturers and workers who never thought they had to worry about the China price are confronting the new math of the mainland. These companies had once held their

own against imports mostly because their businesses required advanced skills, heavy investment, and proximity to customers. Many of these companies are in the small-to-midsize sector, which makes up 37% of U.S. manufacturing. The China price is even being felt in high tech. Chinese exports of advanced networking gear, still at a low level, are already affecting prices. And there's talk by some that China could eventually become a major car exporter.

Multinationals have accelerated the mainland's industrialization by shifting production there, and midsize companies that can are following suit. The alternative is to stay at home and fight -- and probably lose. Ohio State University business professor Oded Shenkar, author of the new book *The Chinese Century*, hears many war stories from local companies. He gives it to them straight: "If you still make anything labor intensive, get out now rather than bleed to death. Shaving 5% here and there won't work." Chinese producers can make the same adjustments. "You need an entirely new business model to compete."

America has survived import waves before, from Japan, South Korea, and Mexico. And it has lived with China for two decades. But something very different is happening. The assumption has long been that the U.S. and other industrialized nations will keep leading in knowledge-intensive industries while developing nations focus on lower-skill sectors. That's now open to debate. "What is stunning about China is that for the first time we have a huge, poor country that can compete both with very low wages and in high tech," says Harvard University economist Richard B. Freeman. "Combine the two, and America has a problem."

How much of a problem? That's in fierce dispute. On one side, the benefits of the relationship with China are enormous. After years of struggling to crack the mainland market, U.S. multinationals from General Motors (NYSE:GM - [News](#)) to Procter & Gamble (NYSE:PG - [News](#)) and Motorola (NYSE:MOT - [News](#)) are finally reaping rich profits. They're making cell phones, shampoo, autos, and PCs in China and selling them to its middle class of some 100 million people, a group that should more than double in size by 2010. "Our commercial success in China is important to our competitiveness worldwide," says Motorola China Chairman Gene Delaney.

By outsourcing components and hardware from China, U.S. companies have sharply boosted their return on capital. China's trade barriers continue to come down, part of its agreement to enter the World Trade Organization in 2001. Big new opportunities will emerge for U.S. insurers, banks, and retailers. China's surging demand for raw materials and commodities has driven prices up worldwide, creating a windfall for U.S. steelmakers, miners, and lumber companies. The cheap cost of Chinese goods has kept inflation low in the U.S. and fueled a consumer boom that helped America weather a recession and kept global growth on track.

But there's a huge cost to the China relationship, too. Foremost is the question of America's huge trade deficit, of which China is the largest and fastest-growing part. While U.S. consumers binge on Chinese-made goods, the U.S. balance-of-payments

deficit is nearing a record 6% of gross domestic product. The trade shortfall -- coupled with the U.S. budget deficit -- is driving the dollar ever downward, raising fears that cracks will appear in the global financial system. And by keeping its currency pegged to the greenback at a level analysts see as undervalued, China amplifies the problem.

### America's Eroding Base

The deficit with China will keep widening under most projections. That raises the issue: Will America's industrial base erode to a dangerous level? So far the hardest-hit industries have been those that were destined to migrate to low-cost nations anyway. But China is ramping up rapidly in more advanced industries where America remains competitive, adding state-of-the-art capacity in cars, specialty steel, petrochemicals, and microchips. These plants are aimed at meeting insatiable demand in China. But the danger is that if China's growth stalls, the resulting glut will turn into another export wave and disrupt whole new strata of American industry. "As producers in China end up with significant unused capacity, they will try to be much more creative in how they deploy it," says Jim Hemerling, a senior vice-president at Boston Consulting Group's Shanghai office.

That's why China is an even thornier trade issue for the U.S. than Japan was in the 1980s. It's clear some Chinese exporters cheat, from intellectual-property theft and dumping to securing unfair subsidies. Washington can get much more aggressive in fighting violations of trade law. But broader protectionism is a nonstarter. On a practical level the U.S. is now so dependent on Chinese suppliers that resurrecting trade barriers would just raise costs and diminish the real benefits that China trade confers. Also, unlike Japan 20 years ago, China is a much more open economy. It continues to lower tariffs and even runs a slight trade deficit with the whole world -- which makes the U.S.'s deficit with China all the more glaring. Hiking the value of the yuan 30% might help. But that's unlikely. For one thing, Beijing fears what such a shift would do to jobs -- and the value of its \$515 billion in foreign reserves. The real solution is for the U.S. to reduce its twin deficits on its own -- but that's more America's issue than China's.

Meanwhile, U.S. companies are no longer investing in much new capacity at home, and the ranks of U.S. engineers are thinning. In contrast, China is emerging as the most competitive manufacturing platform ever. Chief among its formidable assets is its cheap labor, from \$120-a-month production workers to \$2,000-a-month chip designers. Even in sophisticated electronics industries, where direct labor is less than 10% of costs, China's low wages are reflected in the entire supply chain -- components, office workers, cargo handling -- you name it.

China is also propelled by an enormous domestic market that brings economies of scale, feverish local rivalry that keeps prices low, an army of engineers that is growing by 350,000 annually, young workers and managers willing to put in 12-hour days and work weekends, an unparalleled component and material base in electronics and light industry, and an entrepreneurial zeal to do whatever it takes to please big retailers such as Wal-Mart Stores (NYSE:[WMT](#) - [News](#)), Target (NYSE:[TGT](#) - [News](#)), Best Buy (NYSE:[BBY](#)

- News), and J.C. Penney (NYSE:JCP - News). "The reason practically all home furnishings are now made in China factories is that they simply are better suppliers," says Janet E. Fox, vice-president for international procurement at J.C. Penny Co. "American manufacturers aren't even in the same game."

Fox's point is important. China's competitive advantages are built on much more than unfair trade practices. Some 70% of exports now come from private companies and foreign ventures mainly owned by Taiwanese, Hong Kong, Japanese, and U.S. companies that have brought access to foreign markets, advanced technology, and managerial knowhow. Aside from cheap land and tax breaks in some areas, private Chinese manufacturers get minimal government help. "The Chinese government cannot afford to offer financial support to the export economy," says business professor Gu Kejian of People's University in Beijing. And as capital floods in and modern plants are built in China, efficiencies improve dramatically. The productivity of private industry in China has grown an astounding 17% annually for five years, according to the U.S. Conference Board.

China needs U.S. imports, though not as much as imagined when Beijing agreed to join the WTO. U.S. exports to China have risen 25% to 35% annually in the past two years. But China's exports still outstrip its imports from the U.S. by 5 to 1. The U.S. sells about \$2.4 billion worth of aircraft a year, and its semiconductor exports tripled in three years. Otherwise the U.S. looks like a developing nation. It runs surpluses in commodities such as oil seeds, grains, iron, wood pulp, and raw animal hides.

Meanwhile, the Chinese keep expanding their export base. Chinese competition arrives so fast that it's nearly impossible to adjust through the usual strategies, such as automating or squeezing suppliers. The Japanese, South Koreans, and Europeans often took "four or five years to develop their place in the market," says Robert B. Cassidy, a former U.S. Trade Representative official who helped negotiate China's entry into the WTO and now works for Washington law firm Collier Shannon Scott, which wages dumping cases on behalf of U.S. clients. "China overwhelms a market so quickly you don't see it coming."

"Shock and Awe"

Georgetown Steel Co. is a case in point. The Georgetown (S.C.) maker of wire rods used in everything from bridge cables to ball bearings had battled Asian and Mexican imports for years. But last year it shut its 600-worker plant, citing a tenfold leap in Chinese imports, to 252,000 tons, from 2001 to 2003. International Steel Group Inc. (NYSE:ISG - News) has since bought the facility after U.S. anti-dumping duties on imports and a rise in global demand helped hike domestic prices. The Gardiner (Mass.) plant of Seaman Paper Co., a maker of crepe and decorative paper, is highly automated. Yet Chinese imports have grabbed a third of the market. It sells 81-foot streamers to big retailers for as little as 9 cents each. That's below Seaman's cost of materials. "We thought we could offset Chinese labor cost by automating, but we just couldn't," says Seaman President George Jones III.



In bedroom furniture, 59 U.S. plants employing 15,500 workers have closed since January, 2001, as Chinese imports have rocketed 221%, to \$1.4 billion -- half of the U.S. market. Prices have plunged 30%. Dumping certainly seems to be one factor: At its Galax (Va.) factory, Vaughan-Bassett Furniture Co. displays a Chinese knockoff of one of its dressers that wholesales for \$105 -- below the world market cost for the wood. But the main competition comes from Chinese megaplants that sell directly to U.S. retailers and can get a new design into mass production in two months. The new Chinese factories of suppliers such as Lacquer Craft Furniture, Markor, and Shing Mark, some of them Taiwanese-owned, employ thousands and are so big they seem meant to build Boeing 747s, making most U.S. factories look like cottage industries. "The first wave is shock and awe," says John D. Bassett III, CEO of Vaughan-Bassett, whose sales and workforce have shrunk even though it has boosted productivity fivefold at its 600-worker Galax plant since 1995 by investing in computer-controlled wood drying, cutting, and carving gear. "American industry has never encountered (such) competition."

As component industries and design work follow assembly lines to China, key elements of the U.S. industrial base are beginning to erode. American plastic-molding and machine-tool industries have shrunk dramatically in the past five years. Take Incoe Corp. in Troy, Mich., a maker of steel components for plastic-injection machines. "When the economy turned soft, we anticipated the business would come back," says Incoe CFO Robert Hoff. "But it didn't. We saw our customer base either close or migrate to China." The U.S. printed-circuit-board industry has seen sales go from \$11 billion to under \$5 billion since 2001. In that time, PCB exports from China have more than doubled, to a projected \$3.4 billion this year, says market researcher Global Sources Ltd. (NasdaqNM:GSOL - News) Most U.S. production of key electronics materials, such as copper-clad laminates, has fled, too. "The whole industry is hollowing out," says Joseph C. Fehsenfeld, CEO of Midwest Printed Circuit Services Inc. in Round Lake Beach, Ill.

The migration of electronics to China began when the Taiwanese shifted plants and suppliers across the Taiwan Strait in the late 1990s. As recently as four years ago, though, the U.S. exported \$45 billion in computer hardware. Since the tech crash, that number has slid to \$28 billion as the industry headed en masse for China, which is even more competitive than Taiwan. "All electronics hardware manufacturing is going to China," says Michael E. Marks, CEO of Flextronics Corp. (NasdaqNM:FLEX - News), a contract manufacturer that employs 41,000 in China. Flextronics and other companies are hiring Chinese engineers to design the products assembled there. "There is a myth that the U.S. would remain the knowledge economy and China the sweatshop," says BCG's Hemerling. "Increasingly, this is no longer the case."

A visit to Flextronics' campus in the Pearl River Delta town of Doumen vividly illustrates Marks's point. The site employs 18,000 workers making cell phones, X-box game consoles, PCs, and other hardware in 13 factories sprawled over 149 acres. The bamboo scaffolding is about to come down on an additional 720,000-square-foot factory nearing completion. Almost every chemical, component, plastic, machine tool, and packing material Flextronics needs is available from thousands of suppliers within a two-hour drive of the site. That alone makes most components 20% cheaper in China than in the

U.S., says campus General Manager Tim Dinwiddie. Plus, China will soon eliminate remaining tariffs on imported chips. In the past five years, electronic manufacturing-services companies such as Flextronics have cut their U.S. production from \$37 billion to \$27 billion while doubling their China output, to \$31 billion. That's likely to double again by 2007.

### "Gravitational Pull"

China is even making its presence felt in the U.S. market for networking gear, a bastion of American comparative advantage. On Nov. 15, struggling 3Com Corp. (NasdaqNM:[COMS](#) - [News](#)) in Marlborough, Mass., launched a data-communications switching system for corporate networks of 10,000 users or more. It claims twice the performance of Cisco Systems Inc.'s (NasdaqNM:[CSCO](#) - [News](#)) comparable switch. At \$183,000, 3Com's list price is 25% less. Its secret? 3Com is settling for lower margins and taking advantage of a 1,200-engineer joint venture with China telecom giant Huawei Technologies Co. This is the first high-end piece of networking gear sold by a U.S. company that is designed and manufactured in China. For the price of one U.S. engineer, the joint venture can throw four engineers into the task of making customized products for a client. Even if 3Com does not succeed, similar tie-ups are expected, which could drive down prices of high-end gear sold in the U.S. Says 3Com President Bruce Clafin: "We want to change the pricing structure of this industry." 3Com hopes this is the start of a whole line of networking gear designed and made in China for the global market. Without referring to China, Cisco CEO John T. Chambers says "we are starting to see a stream of good, very price-competitive competitors, particular from Asia."

The next step for China is critical mass in core industries. Outside Beijing, Semiconductor Manufacturing International Corp. (NYSE:[SMI](#) - [News](#)) has just opened a chip plant fabricating 12-inch silicon wafers that experts say is just two generations behind Intel Corp. (NasdaqNM:[INTC](#) - [News](#)) A foundry that makes chips on a contract basis, this plant won't compete directly with U.S. chipmakers. But with four more 12-inch wafer plants due by 2006 and many more fabs in the pipeline, the U.S. Semiconductor Industry Assn. warns that a "gravitational pull" could suck capital, people, and leading-edge research-and-development and design functions from the U.S.

Digital technologies aren't the only areas where the Chinese have huge ambitions. In the past decade, U.S. petrochemical makers have invested in little new capacity. But at a three-mile-long site in Nanjing, 12,000 workers are erecting a \$2.7 billion network of pipes and towers for China's Sinopec (NYSE:[SNP](#) - [News](#)) and Germany's BASF (NYSE:[BF](#) - [News](#)) that by next year will be among the world's biggest, most modern complexes for ethylene, the basic ingredient in plastics. An even bigger complex is going up in Shanghai. "The Chinese understand everything that scale means," says Fluor Corp. (NYSE:[FLR](#) - [News](#)) Group President Robert McNamara, who lives part-time in Shanghai and whose company has design contracts at both complexes. "When they target an industry to dominate, they don't mitigate."

Can China dominate everything? Of course not. America remains the world's biggest manufacturer, producing 75% of what it consumes, though that's down from 90% in the mid-'90s. Industries requiring huge R&D budgets and capital investment, such as aerospace, pharmaceuticals, and cars, still have strong bases in the U.S. "I don't see China becoming a major car exporter in the foreseeable future," says GM China (NYSE:GM - News) Chairman Philip F. Murtaugh. "There is no economic rationale." Murtaugh cites high production costs and quality issues at Chinese car plants, as well as just-in-time delivery needs in the West, as impediments.

### Burning Rubber

Don't tell that to Miao Wei, president of Dongfeng Motor Corp. On Nov. 7, Dongfeng and Honda Motor Co. (NYSE:HMC - News) announced that their joint venture will invest \$340 million to boost output of Honda CR-Vs and Civics fivefold, to 120,000, by early 2006. The plant aims to achieve world standards by employing Honda's flexible manufacturing system. "Honda will sell some of the Chinese-built cars in Europe," says Miao. Nissan Motor Co. (NasdaqSC:NSANY - News) is also talking about exporting with Dongfeng.

China's carmakers are developing the suppliers that one day could sustain exports. Auto-parts maker Wanxiang Group in Hangzhou started as a tiny township-owned farm-machinery shop in 1969. Now it's a \$2.4 billion conglomerate that supplies the Chinese assembly plants of GM, Ford Motor (NYSE:F - News), Volkswagen, and others and also exports 30% of its output. In two years, China will drop the rule that its auto plants buy at least 40% of parts locally. Wanxiang is getting ready: It is opening a \$42 million plant loaded with U.S. and European testing gear. And since 1995, Wanxiang has bought 10 U.S. auto-parts makers. "Our goal is to acquire technology, management, and most important, to get access to overseas markets," says Chairman Lu Guanqiu.

Some U.S. manufacturers hope China will run out of steam. This year, factories in Guangdong and Fujian faced serious labor shortages for the first time. Red-hot demand has meant skyrocketing costs for China's producers, most of which rely on imported goods such as steel, plastics, and components. Energy shortages have forced manufacturers to shut factories several times a week. In almost any industry one can think of, vicious price wars are biting into already razor-sharp margins. "There are so many small companies competing that they crowd out all profit," says Beijing University economist Zhang Weiying. Indeed, given the low emphasis on profits and the unsophisticated accounting of many Chinese companies, often their pricing isn't based on a full understanding of costs. Having gotten as far as they can on cheap production costs, Chinese manufacturers must develop their own technologies and innovative products to move ahead -- areas in which they've made slow progress so far.

The juggernaut will slow, but only slightly. While salaries for top Chinese designers are rising fast, they are still a fifth to a tenth of those in Silicon Valley. If China's wages rise 8% annually for the next five years, says a Boston Consulting Group study, the average factory hand will still earn just \$1.30 an hour by then. If China allowed the yuan to

appreciate by around 10% in the next year, productivity gains would more than offset the higher costs, figures China expert Nicholas R. Lardy of the Institute for International Economics. "I don't think revaluation will have a significant impact," he says.

And Chinese producers are hardly standing still. In a recent survey of Chinese and U.S. manufacturers by IndustryWeek and Cleveland-based Manufacturing Performance Institute, 54% of Chinese companies cited innovation as one of their top objectives, while only 26% of U.S. respondents did. Chinese companies spend more on worker training and enterprise-management software. And 91% of U.S. plants are more than a decade old, vs. 54% in China. Shanghai-based TV maker SVA Group, for example, has opened China's first plant to make flat panels, a venture with Japan's NEC (NasdaqNM:[NIPNY - News](#)) Corp. That is enabling SVA to secure a U.S. beachhead by selling liquid-crystal display and plasma TV sets through channels such as the online sites of Costco Wholesale (NasdaqNM:[COST - News](#)) and Target. Starting price: \$1,600 -- 30% below similar models by Royal Philips Electronics (NYSE:[PHG - News](#)) and Panasonic (NYSE:[MC - News](#)).

More innovation. Better goods. Lower prices. Newer plants. America will surely continue to benefit from China's expansion. But unless it can deal with the industrial challenge, it will suffer a loss of economic power and influence. Can America afford the China price? It's the question U.S. workers, execs, and policymakers urgently need to ask.

Solomon D. Trujillo

*Dna*

FACSIMILE TRANSMITTAL SHEET

TO: Scheduling Office of	FROM: Vicki Strauch
COMPANY: Mr. Karl Rove	DATE: 11/15/2004
FAX NUMBER: (202) 456-0191	TOTAL NO. OF PAGES INCLUDING COVER: 1
PHONE NUMBER: (202) 456-2369	SENDER'S TELEPHONE NUMBER: 303-224-7452
RE: Meeting Request	SENDER'S FACSIMILE NUMBER: 303-224-7489

URGENT   
 FOR REVIEW   
 PLEASE COMMENT   
 PLEASE REPLY   
 PLEASE RECYCLE

NOTES/COMMENTS:

Mr. Solomon D. Trujillo would like to request a meeting with Mr. Rove. Schedule permitting, he is requesting time after 2:30pm on Monday, December 6 or after 4:00pm on Tuesday, December 7.

Should you require additional information, I can be reached at the above contact numbers or via email: [vstrauch@chotingroup.com](mailto:vstrauch@chotingroup.com). Your consideration is appreciated.

Respectfully,

*Vicki Strauch*

Vicki Strauch

*Subject?*

*Next few years*

# Withdrawal Marker

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FORM	SUBJECT/TITLE	PAGES	DATE	RESTRICTION(S)
Email	Fw: Good Luck! - To: Susan Ralston - From: Karl Rove	3	12/02/2004	PRM;

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### FOLDER TITLE:

652618 [2]

### FRC ID:

9741

### OA Num.:

10765

### NARA Num.:

10823

FOIA IDs and Segments:

2015-0037-F

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FORM	SUBJECT/TITLE	PAGES	DATE	RESTRICTION(S)
Email	Fw: Fallujah - To: Susan Ralston - From: Karl Rove	1	11/07/2004	P5;

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Email	RE: AMA - Tort Reform - To: Susan Ralston, et al. - From: Kristen Silverberg	1	11/29/2004	P5;

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Email	RE: AMA - Tort Reform - To: Susan Ralston, et al. - From: Michael Meece	1	11/29/2004	P5;

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Talking Points	Telephone Call with David Sibley	1	N.D.	P5;

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# A.M.A. Says Government Should Negotiate on Drugs

By ROBERT PEAR

WASHINGTON, Oct. 16 - The American Medical Association says the government should negotiate directly with drug manufacturers to secure lower prices on prescription medicines for the nation's elderly.

Under the new Medicare law, signed by President Bush last December, 41 million elderly and disabled people will have access to drug benefits in 2006. Medicare will rely on private health plans to deliver the benefits. The law says the government "may not interfere" in negotiations with drug companies.

Authors of the law included that provision out of fear that government involvement could overwhelm the free market, leading to federal regulation of drug prices - "price-fixing" by federal bureaucrats, in the words of Senator Charles E. Grassley, Republican of Iowa.

The American Medical Association lobbied last year for the Medicare law, which makes hundreds of changes in the giant health insurance program.

The association now says Congress should pass legislation giving the secretary of health and human services authority to negotiate contracts with manufacturers of drugs that will be covered by Medicare.

The association, often viewed as a conservative voice for organized medicine, is influential on Capitol Hill. It strongly supports Republican efforts to limit damages that can be awarded in medical malpractice lawsuits.

But it is Democrats who have taken the lead in trying to repeal the ban on federal negotiations with drug manufacturers under Medicare.

In the presidential debate on Wednesday, Senator John Kerry, the Democratic nominee, said Medicare should be allowed to save money through "bulk purchasing" of drugs. But, Mr. Kerry said, "rather than help seniors have less expensive drugs, the president made it illegal, illegal, for Medicare to actually go out and bargain for lower prices." As a result, he said, drug companies will receive a "windfall profit."

Mr. Kerry did not vote on the legislation when it received final Senate approval in November, but he had criticized it earlier.

Within hours after Mr. Bush signed the Medicare law last year, the Democratic leaders of the House and the Senate, Representative Nancy Pelosi of California and Senator Tom Daschle of South Dakota, introduced bills to give federal officials the "authority to negotiate prices with manufacturers" of drugs covered by Medicare.

Dr. Andrew F. Calman of San Francisco, an ophthalmologist who pushed for the new policy adopted by the medical association, said: "I don't think it's a Democratic or a Republican issue. We have the support of doctors from different points on the political spectrum. We're very concerned about patients' access to affordable drugs. I have some glaucoma patients who need to take three or four different types of eye drops to avoid going blind, and each medication may cost \$50 to \$100 a month."

Ms. Pelosi said: "I'm pleased to have the A.M.A.'s support for negotiating lower prices and look forward to working with them on this issue. Their support will be a significant help."

Under the new law, competing private plans will buy drugs for Medicare beneficiaries.

The Bush administration and the Congressional Budget Office contend that these plans will be able to obtain large discounts from drug manufacturers, saving just as much money as the government could in such negotiations.

The secretary of health and human services "would not be able to negotiate prices that further reduce federal spending to a significant degree," said Douglas J. Holtz-Eakin, director of the budget office.

Megan E. Hauck, deputy policy director of Mr. Bush's re-election campaign, said that, despite their current position, Mr. Kerry and other Democrats had once supported bills that prohibited the government from interfering in drug price negotiations. One such bill was introduced in 2000, but never advanced.

In asserting that Medicare officials should be able to negotiate with drug companies, the medical association said that other federal agencies, like the Department of Veterans Affairs and the Defense Department, had "negotiated favorable rates on prescription drugs on behalf of their beneficiaries, resulting in very substantial cost savings."

Moreover, it said, "others delivering medical services under federal health care programs, including physicians, have long been under government-imposed limits on their fees."

Doctors and hospitals often complain about federal regulation of the payments they receive under Medicare, and some suggest that it would be an anomaly if drugs were completely exempt from such restraints. Some doctors worry that rapid growth in Medicare spending on prescription drugs could create new pressure to hold down payments to doctors and other health care providers in the program.

At its annual meeting in June, the policy-making arm of the medical association, known as the house of delegates, voted to study the safety and feasibility of drug imports from Canada and other countries as a way to reduce patients' costs.

Dr. Donald J. Palmisano, former president of the association, said the study would consider "reasonable mechanisms for medications to be safely re-imported, under Food and Drug Administration guidance, from other countries."

The Bush administration has consistently opposed efforts to allow imports of prescription drugs from Canada and other countries. But in the presidential debate on Oct. 8, Mr.

Bush hinted that he might be open to the idea, if the government could somehow ensure the safety of imported drugs.

"It may very well be here in December you hear me say I think there's a safe way to do it," Mr. Bush said.

AMERICAN MEDICAL ASSOCIATION HOUSE OF DELEGATES

Resolution: 903  
(I-04)

Introduced by: Florida Delegation  
Subject: Medicare Drug Pricing  
Referred to: Reference Committee L  
(Andrew W. Gurman, MD, Chair)

---

Whereas, The United States government passed a Medicare prescription drug plan to begin in 2006; and

Whereas, The Veterans Administration has for many years had a drug plan in place; and

Whereas, The Veterans Administration competitively bids for each drug to represent a class of drugs available to the physicians; and

Whereas, Major HMO drug plans and hospitals competitively bid for prescriptions; and

Whereas, The cost at present with drugs in noncompetitive markets is extremely high; therefore be it

RESOLVED, That our American Medical Association work to assure that the Medicare Drug Prescription Plan actively competitively bids for drugs to represent each class of drugs available to prescribing physicians (Directive to Take Action); and be it further

RESOLVED, That our AMA aggressively work for legislation to allow for competitive bidding to help lower the cost of Medicare prescription drugs (Directive to Take Action); and be it further

RESOLVED, That our AMA also work to disseminate educational materials to physicians so that they will know the cost differences between preferred drugs on the Medicare drug list. (Directive to Take Action)

Fiscal Note: Lobby accordingly and communication cost estimated at \$9,108.

Received: 10/18/04

## **RELEVANT AMA POLICY**

### **H-110.997 Cost of Prescription Drugs.**

Our AMA: (1) supports programs whose purpose is to contain the rising costs of prescription drugs, provided that the following criteria are satisfied: (a) physicians must have significant input into the development and maintenance of such programs; (b) such programs must encourage optimum prescribing practices and quality of care; (c) all patients must have access to all prescription drugs necessary to treat their illnesses; (d) physicians must have the freedom to prescribe the most appropriate drug(s) and method of delivery for the individual patient; and (e) such programs should promote an environment that will give pharmaceutical manufacturers the incentive for research and development of new and innovative prescription drugs; (2) reaffirms the freedom of physicians to use either generic or brand name pharmaceuticals in prescribing drugs for their patients and encourages physicians to supplement medical judgments with cost considerations in making these choices; (3) encourages physicians to stay informed about the availability and therapeutic efficacy of generic drugs and will assist physicians in this regard by regularly publishing a summary list of the patient expiration dates of widely used brand name (innovator) drugs and a list of the availability of generic drug products; (4) encourages expanded third party coverage of prescription pharmaceuticals as cost effective and necessary medical therapies; (5) will monitor the ongoing study by Tufts University of the cost of drug development and its relationship to drug pricing as well as other major research efforts in this area and keep the AMA House of Delegates informed about the findings of these studies; (6) encourages physicians to consider prescribing the least expensive drug product (brand name or FDA A-rated generic); and (7) encourages all physicians to become familiar with the price in their community of the medications they prescribe and to consider this along with the therapeutic benefits of the medications they select for their patients. (BOT Rep. O, A-90; Sub. Res. 126 and Sub. Res. 503, A-95; Reaffirmed: Res. 502, A-98; Reaffirmed: Res. 520, A-99; Reaffirmed: CMS Rep. 9, I-99; Reaffirmed: CMS Rep.3, I-00; Reaffirmed: Res. 707, I-02; Reaffirmation, A-04)

### **H-110.998 Cost of New Prescription Drugs.**

Our AMA urges the pharmaceutical industry to exercise reasonable restraint in the pricing of drugs. (Res. 112, I-89; Reaffirmed: Res. 520, A-99)

### **H-110.996 Cost of Prescription Drugs.**

The AMA (1) supports entering into dialogue with pharmaceutical company representatives and other appropriate agencies to explore ways to reduce the costs of brand name drugs through such mechanisms as a more cost-effective research and development process, more modest promotional activities, product liability reform and

streamlining the FDA requirements for new drug approval, and (2) supports increasing physician awareness about the cost of drugs prescribed for their patients. (Res. 173, A-91; Reaffirmed: Res. 520, A-99)

**H-110.995 Excessive Cost of Prescription Drugs.**

The AMA expresses its concern to the Pharmaceutical Manufacturers Association, including its CEO, and others as appropriate about the cost of prescription drugs as well as the inability of many patients to afford essential prescription drugs. (Sub. Res. 202, I-91; Reaffirmed: Res. 520, A-99)



652618

war fighter. In the bill that was introduced in the Senate, in the bill that I introduced, along with some members, we preserve the tactical intelligence part of the equation."

More Roberts: "It's sort of disingenuous to me when you have the secretary of Defense saying, 'Whoa, wait a minute on intelligence reform' while he's trying to reform the military in the middle of a war."

Roberts, asked if he thinks Rumsfeld is the one blocking the reform: "No, I don't think there's any one person really blocking it. You have to understand in the Pentagon, in the military, they truly believe that this is a problem. Now I don't think that that's the case, but it took three years for the jointness reform to pass, bitterly opposed by the Pentagon and also the services, and then two years to implement. Now everything in the military today, every mission we have, is joint. Change is hard, and this is structural change" ("Face the Nation," CBS, 12/5).

Sen. **Jay Rockefeller** (D-WV): "There is no question, in my mind at least, that if this bill were brought up for a vote in the House, it would pass. It would pass with a goodly number of Republican votes and probably most Democratic votes. ... I respect the two committee chairman in the House who are holding this up, or Speaker Hastert, who's saying 'I will only put something out which will get a majority of Republican votes.' I'm sorry. This is called the biggest national security problem we have had in a generation, and here's a bill that, for the first time since 1947, would change the way we organize and do national intelligence, and the biggest beneficiary of that would be the military, since they use the most intelligence."

More Rockefeller: "I think the president has so much to lose and/or to gain, depending upon what happens with this bill. If it doesn't pass, I think it's a tremendous setback for him, and I don't want to see that setback because it involves our national security" ("Face the Nation," CBS, 12/5).

Rep. **Mike Pence** (R-IN), asked if House GOPers are turning their backs on the pres: "a lot of the media are saying this is a bit of a feud between House conservatives and the president. I think it's a bit of an argument between frankly the House and the Senate, which is very healthy. Under the Constitution of the United States, while the Pentagon has to fall in when the president gives an order the Congress does not have an obligation to fall in when the commander and chief gives an order. It's our job to deliberate, to create a product that will see to the best interest of our armed services and the protection of our citizens" ("IP," CNN, 12/5).

### Old Liners Or Hardliners? What Should They Be Called?

*Time's* **Duffy**: "it is essentially a turf battle. ... What's happening in this bill is a huge sort of reordering on the boxes in the government, and the big loser is the Pentagon. It would take a lot of power and a lot of money and authority away from the military and give it to this new, you know, person who would basically be in charge of all the intelligence community. The Pentagon doesn't want to give this up. They're expert bureaucratic players. There may be nobody who's better at it than Don Rumsfeld, and I think behind the scenes, the Pentagon has made sure that its friends on the Hill are fighting their fight for them, and that's the delay" ("Face the Nation," CBS, 12/5).

*Boston Globe's* **Milligan**: "this is an interesting kind of fissure here. You have, first of all, Republican leaders in the House who are balking at this bill, going against their own leadership. And now you have the legislative branch at odds with the executive branch, and it's kind of a interesting dynamic, especially now with the president not running for reelection. Some people on the Hill looking at their own presidential aspirations and I think they're not going to be quite as acquiescent as they used to be" ("IP," CNN, 12/5).

NBC's **Gregory**: "It's a mystery to some of the president's allies in his conservative caucus in the House as well, that they appeared at the White House to be flat-footed on this. The president didn't use his political capital that he talked about having after re-election. Indeed, it's House Republicans who feel they've got some political capital to spend as well. And more important than the president, I've been told by some conservatives on Capitol Hill that it's Secretary

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# Withdrawal Marker

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FORM	SUBJECT/TITLE	PAGES	DATE	RESTRICTION(S)
Email	Re: Parsky - To: Angela Flood - From: Karl Rove	1	11/29/2004	P5;

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### SERIES:

Subject Files - FG006-27 (Office of Senior Advisor - Karl Rove)

### FOLDER TITLE:

652618 [2]

### FRC ID:

9741

### OA Num.:

10765

### NARA Num.:

10823

### FOIA IDs and Segments:

2015-0037-F

### RESTRICTION CODES

#### Presidential Records Act - [44 U.S.C. 2204(a)]

- P1 National Security Classified Information [(a)(1) of the PRA]
- P2 Relating to the appointment to Federal office [(a)(2) of the PRA]
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PRM. Personal record misfile defined in accordance with 44 U.S.C. 2201(3).

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#### Freedom of Information Act - [5 U.S.C. 552(b)]

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#### Records Not Subject to FOIA

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FORM	SUBJECT/TITLE	PAGES	DATE	RESTRICTION(S)
Email	Fw: Social Security: Important - To: Susan Ralston - From: Karl Rove	1	11/29/2004	P5;

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Chart	Polling vs. Actual Results	4	N.D.	PRM;

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652618

EU and Belgium. Additional stops are TBA (AP/USA Today, 12/10).

### Econ 101

**Bob Novak** writes, "No one can accuse" Treas. Sec. **John Snow** "of lacking in either loyalty to Bush or fervor in trying to sell his economic programs." But some WH supporters "doubt" he is the person "best equipped to achieve" Bush's goals, and so "poor Snow was tortured while Bush and his aides figured what to do with him. That questions the myth of a super-competent Bush administration." Snow has been "criticized for not being something he never pretended to be: a master" of internat'l economics and cong. strategy. Among people considered 2 years ago upon Paul O'Neill's departure, sources close to Bush say ex-Sen. **Phil Gramm** "was getting a good look this time," Bush's man in CA, **Gerald Parsky** "was spotted recently leaving" VP **Cheney's** office, but there was "no sign" that **Steve Forbes**, "a natural for the job, was being considered."

But Bush "does not want anybody" in this job "with an independent power base. ... In that case, why not keep John Snow, instead of torturing him? That is Bush's decision, at least for now."

Bush "also has to figure out what to do with the post" of nat'l econ. dir., created by Pres. **Clinton** "to find a place" for future Treas. Sec. **Robert Rubin** while Sen. **Lloyd Bensten** held the top job. Bush kept it "mainly to have a job" for BC'00 econ. adviser **Larry Lindsey**. His "loyalty and enthusiasm were rewarded with a pink slip," and Bush chose **Steve Friedman** to follow. He "resigned last week, after two years of invisibility. The president could consider abolishing this job as a fifth wheel" (*Chicago Sun Times*, 12/9).

### Whoa -- I Know Shaq Fu

NYU prof **Paul Light**: "We still can't be sure who's on 1st when it's time to draft a grand economic design. It's just not clear. Friedman is gone. Snow is wounded. There's no **Shaquille O'Neal** there. So after all this flurry of activity, I'm not sure they solved the economic team situation" (*Chen, Los Angeles Times*, 12/10).

### Who's The Big Winner, Huh? Denny, That's Who. Denny's The Big Winner. Denny Wins!

*Wall Street Journal's* **Rogers** reports, "In the annals" of the intel bill, House Speaker **Denny Hastert** "will be remembered for the Saturday afternoon last month when he opted not to call up the legislation for a vote even when he knew it would win House approval." He was accused of "caving to pro-Pentagon conservatives and embarrassing" Bush, but in retrospect, it "showed an increased self-confidence on Mr. Hastert's part that has huge implications" for the Social Security and tax reform.

Hastert "appears buffeted between a supremely self-assured White House and an insecure, conservative wing" of the House GOP which "feels it doesn't enjoy the sway it deserves." Hastert not only "mediated but also asserted himself, forcing the White House to get more involved and also drawing the line on how far he would take the House to appease his right flank on immigration issues" (12/10).

### Pretty Quiet, All Right

*Washington Times's* **Sammon** reports, Bush is "quietly seeking support from a growing number" of cong. Dems "who would rather work with him than fight him" on some key issues. Boyd, supporting Kolbe's bill to "partially privatize" Social Security, on bipartisanship: "I think there are some of us who are willing to work to find solutions to difficult problems. We can do a better job of working across party lines than we've done in the past." Boyd, on the bill itself: "Look, if you're going to have meaningful reform, you've got to get past this notion that we attack them for every position or idea they float." WH spokesperson Scott McClellan "made it clear that the overture did not go unnoticed": "We certainly appreciate Congressman Boyd, a Democrat, coming out in strong support of fixing this problem."

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FORM	SUBJECT/TITLE	PAGES	DATE	RESTRICTION(S)
Briefing	[Briefing]	2	N.D.	P5;

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Report	Federal Home Loan Bank	1	12/10/2004	P2; P5; P6/b6;

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FORM	SUBJECT/TITLE	PAGES	DATE	RESTRICTION(S)
Email	FW:... - To: Dina Powell, et al. - From: Karl Rove	1	12/08/2004	P2; P5; P6/b6;

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Email	Grover/Private Stuff - To: Karl Rove - From: Grover Norquist	2	12/12/2004	PRM;

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- b(4) Release would disclose trade secrets or confidential or financial information [(b)(4) of the FOIA]
- b(6) Release would constitute a clearly unwarranted invasion of personal privacy [(b)(6) of the FOIA]
- b(7) Release would disclose information compiled for law enforcement purposes [(b)(7) of the FOIA]
- b(8) Release would disclose information concerning the regulation of financial institutions [(b)(8) of the FOIA]
- b(9) Release would disclose geological or geophysical information concerning wells [(b)(9) of the FOIA]

### Records Not Subject to FOIA

Court Sealed - The document is withheld under a court seal and is not subject to the Freedom of Information Act.

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**DOCTOR JAMES DOBSON**

Well, there are a lot of reasons. Comments that he's made. I was in the audience on one occasion when he said that the Constitution could be set aside for a time if necessary. Things of that nature. We just don't see him as the kind of Supreme Court justice that's going to be needed.

**GEORGE STEPHANOPOULOS**

(Off Camera) So who is your topic for the Supreme Court?

**DOCTOR JAMES DOBSON**

Miguel Estrada would be at the top of the list. And I won't go on down from there 'cause I'll probably sabotage those that we care about. But we certainly think that Miguel Estrada was given a bad deal. He was hung out to dry by Senator Daschle and others for two years. This is a good man, a Hispanic who came to this country at 17 years of age, worked his way up. Went to one of the best law schools, got the highest rating from the ABA, which is a liberal organization, and then they would not even allow an up or down vote. That's unconscionable and I think it's one reason that Senator Daschle is going to have to go find another line of work.

**GEORGE STEPHANOPOULOS**

(Off Camera) Of course, you know the President has the ability to nominate people for the Supreme Court but it's up to the Senate to confirm them. And I want to show you a statement that was made by the man who hopes to be the chairman of the Senate Judiciary Committee, Pennsylvania Senator Arlen Specter, about how he saw a potential court choice. He said this earlier this week. I want to play it and get your response.

**SENATOR ARLEN SPECTER,****REPUBLICAN, PENNSYLVANIA**

When you talk about judges who would change the right of a woman to choose and overturn Roe vs. Wade, I think that is unlikely. And I have said that bluntly during the course of the campaign and before.

**GEORGE STEPHANOPOULOS**

(Off Camera) Now, after that, Senator Specter backed away from the statement, said he's approved all of President Bush's judges and said he wasn't trying to issue any kind of a warning. Was that good enough for you or do you think the Senate Republicans should choose someone else as chairman of the Senate Judiciary Committee?

**DOCTOR JAMES DOBSON**

Senator Specter is a big-time problem for us, and we're very concerned about him. I campaigned against him. I campaigned on behalf of Toomey, there in Pennsylvania. I thought that the comment that was made by the -Senator there, especially the one that you just showed, was one of the most foolish and ill-considered comments that a politician has made in a long time. President Bush came to Pennsylvania 30-plus times to campaign for him. And the next day after he wins this mandate, wins this enormous victory, he goes on the air and sticks his thumb in the President's eye. That makes no sense at all. Senator Specter is a problem, not only because of the judiciary but because he has been the champion of stem cell - embryonic stem cell research and so many other things. He's remembered most for having sabotaged Robert Bork. He is a problem, and he must be derailed.

**GEORGE STEPHANOPOULOS**

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**Goergen, Barbara J.**

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**From:** Chung, Eva [eva.chung@gs.com]  
**Sent:** Tuesday, December 07, 2004 5:48 PM  
**To:** Goergen, Barbara J.  
**Subject:** Report for Mr. Rove

B.J.

Peter Coneway thought that this report might be of interest to Mr. Rove. Please let me know if you are unable to open the document.

Many thanks.

Eva

[http://www.gs.com/our\\_firm/our\\_culture/social\\_responsibility/gmi/docs/kostin\\_final.pdf](http://www.gs.com/our_firm/our_culture/social_responsibility/gmi/docs/kostin_final.pdf)

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**Hispanization of the US: The Growing Influence of the  
Hispanic and Latino Communities in the United States Economy**

**Global Markets Institute  
Goldman Sachs**

**BY DAVID J. KOSTIN**  
MANAGING DIRECTOR AND  
CHIEF SECTOR STRATEGIST • GOLDMAN, SACHS & CO.

NOVEMBER 2004

## Hispanization of the US: The Growing Influence of the Hispanic and Latino Communities in the United States Economy

**BY DAVID J. KOSTIN**

MANAGING DIRECTOR AND  
CHIEF SECTOR STRATEGIST • GOLDMAN, SACHS & CO.

The Hispanic/Latino population in the United States will dramatically increase its economic significance in the coming years. Key reasons for this belief include: (1) absolute population growth, (2) growth in income, and (3) new spending patterns. High levels of immigration, above-average fertility rates, and a younger demographic community are driving dramatic population growth among Hispanic/Latinos relative to the US average. Hispanic/Latinos will continue to advance economically, magnifying the effects of the increase in absolute population. Spending patterns are likely to change as incomes rise in this population segment.

**POPULATION GROWTH — YOUNGER DEMOGRAPHIC, HIGH FERTILITY, AND IMMIGRATION.**

The 36 million Hispanic/Latinos in the United States currently comprise 13% of the population. The US Census Bureau forecasts this share will reach 20% by 2030 based on the expectation that the Hispanic/Latino population will grow at a rate three times faster than the national average. On present trends, and as estimated by the Census Bureau, this population growth will be driven by three factors: (1) Hispanic/Latino immigrants are likely to continue to arrive in the United States at a rate of 700,000 per year (0.25% of the US population), (2) there are far higher fertility rates among Hispanic/Latino population (2.9 children per female versus 1.8 among white, non-Hispanics), and (3) the Hispanic/Latino population is unusually young, with a median age of 25.9 years, versus 35.3 years for the broader US population.

**WEALTH — HIGHER HISPANIC/LATINO INCOMES WOULD MAGNIFY ECONOMIC IMPACT.**

Hispanic/Latinos currently have among the lowest average income level of any ethnic group within the United States. However, as this population surges, we believe income levels will also rise, and converge toward the United States average. We believe increasing wealth will have three drivers: (1) The "Generation effect:" second-generation

immigrants will have significantly higher incomes than new immigrants; (2) current economic momentum: Hispanic/Latinos have already begun to close the income gap over the past several years; and (3) low base: Hispanic/Latinos have the lowest — therefore easiest — base from which to grow.

**SHIFTING CONSUMPTION PATTERNS — HISPANIC/LATINOS WILL SPEND IN NEW AREAS**

Hispanic/Latinos spend 93% of their pre-tax income (versus the US average of 82%) and follow buying patterns characteristic of lower-income groups. As Hispanic/Latinos advance economically, we anticipate more spending on health care, insurance, and home ownership.

**BEST POSITIONED — US COMPANIES FOCUSING ON HISPANIC/LATINO CONSUMERS**

US businesses across all industries have begun to focus on of the rapidly growing Hispanic/Latino market through targeted advertising spending and customized products. We believe this trend will continue. Companies taking the lead in these initiatives and in areas likely to benefit from the emerging economic power of Hispanic/Latinos in the United States are likely to see their revenues grow faster than those of their competitors over the long term.

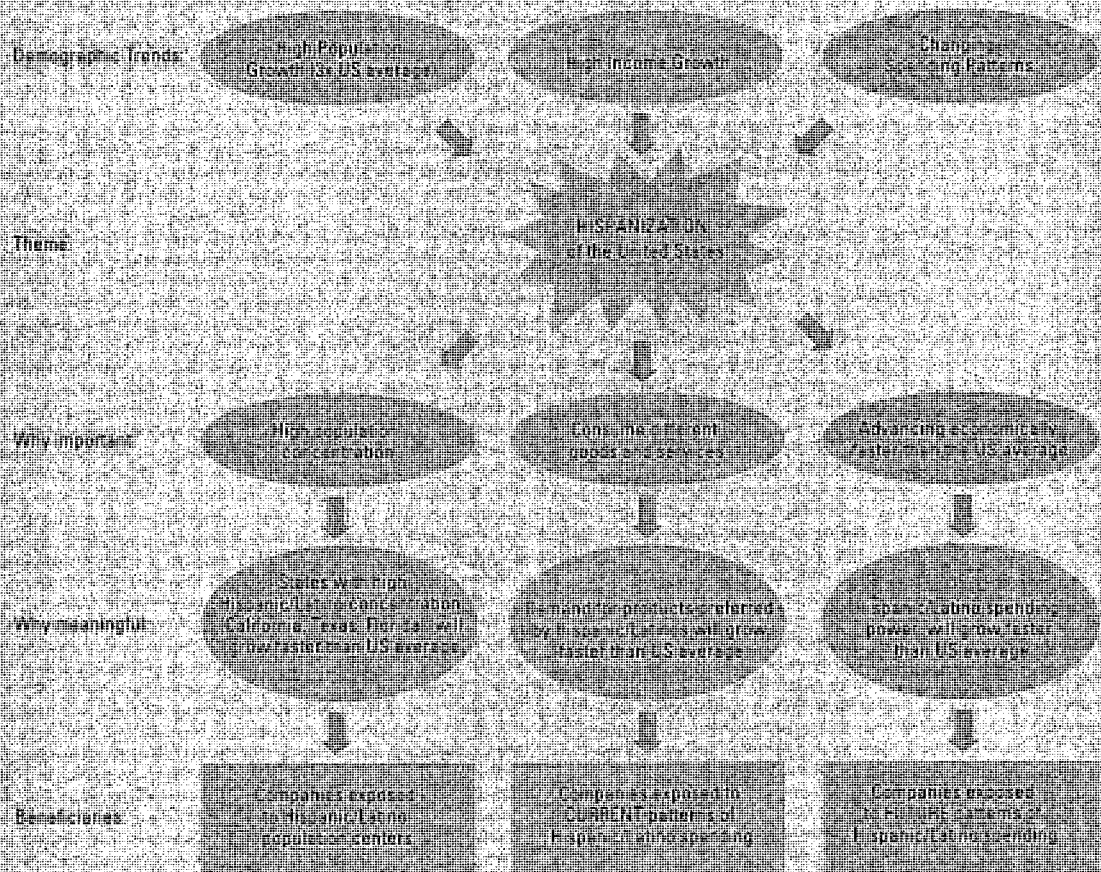
**Acknowledgement**

The author wishes to acknowledge the significant contributions made by Nathan Swem in the preparation of this report.



**EXHIBIT 1: HISPANIC/LATINO POPULATION GROWTH, INCOME GROWTH, AND CHANGING SPENDING PATTERNS WILL IMPACT ECONOMY**

Outcome of Hispanic/Latino population growth, income growth, and spending patterns on economic activity



Source: Goldman Sachs Research



## The economic implications of the Hispanicization of the United States

The rapid growth of the Hispanic/Latino population represents one of the most important demographic trends taking place in the United States that is expected to have dramatic social, political, economic, and market influences on the country during the next 25 years.

High levels of immigration, above-average fertility rates, and a younger demographic community are driving dramatic population growth among Hispanic/Latinos relative to the US average. Hispanic/Latinos will continue to advance economically, magnifying the effects of the increase in absolute population. Spending patterns are likely to change as incomes rise in this population segment.

US businesses across all industries have begun to focus on the rapidly growing Hispanic/Latino market through targeted advertising spending and customized products. We believe this trend will continue. Companies taking the lead in these initiatives and in areas likely to benefit from the emerging economic power of Hispanic/Latinos in the United States are likely to see their revenues grow faster than those of their competitors over the long term.

This report focusses on the demographic impact and economic consequences of the fast-growing Hispanic/Latino population, a process we refer to as the "Hispanicization of the United States." Although we do not directly address other important aspects of this theme (such as the increased political influence of Latinos or the societal consequences of the shift in demographics) several recently published books and surveys highlight these issues.<sup>1</sup> These studies put the emerging demographic shift into context.

### WHAT DEFINES A HISPANIC OR LATINO?

Nearly 13% of the US population — 36 million individuals counted in the 2000 Census — classified themselves as Hispanic or Latino. Specifically,

question five on the survey form asked "Is this person Spanish/Hispanic/Latino?" Possible answers included "(a) No, not Spanish/Hispanic/Latino, (b) Yes, Mexican, Mexican American, Chicano, (c) Yes, Puerto Rican; (d) Yes, Cuban, or (e) Yes, other Spanish/Hispanic/Latino (print group)."

The Census Bureau considers people of Hispanic origin to be those who indicated that their origin was Mexican, Puerto Rican, Cuban, Central or South American, or some other Hispanic origin. People of Hispanic origin may be of any race.

From an official perspective, the terms "Hispanic" and "Latino" may be used interchangeably to reflect the new terminology in the standards issued by the Office of Management and Budget in 1997 and implemented on January 1, 2003.

From a practical perspective, consider how veteran Univision anchorman and author Jorge Ramos describes a Hispanic/Latino person:

*I use the terms "Hispanic" and "Latino" interchangeably. In California and Chicago, people generally prefer "Latino". In Florida and Texas, "Hispanic" usually takes priority. But when it comes down to it, most of the people I know don't use either of these terms to describe themselves. They say, "I'm Mexican," "I'm Cuban," "I'm Puerto Rican," "I'm Columbian," or "Mexican American." What they don't say is "I'm Latino" or "I'm Hispanic."...*

*...while a small percentage of the population does prefer to define themselves as such, the terms "Hispanic" or "Latino" have been invaluable in their ability to quantify a growing segment of the population and give it a single categorization. By grouping together under one name (or two), we can present a united front, on both political and*

<sup>1</sup> See, for example, *The Latino Wave: How Hispanics Will Elect the Next American President*, Jorge Ramos, HarperCollins, 2004; *Who We Are Now: The Changing Face of America in the Twenty-First Century*, Sam Roberts, Henry Holt & Co., 2004; *Who Are We? The Challenges to America's National Identity*, Samuel P. Huntington, Simon & Schuster, 2004; and *National Survey of Latinos*, Pew Hispanic Center, 2002.

<sup>2</sup> See *The Latino Wave*, Jorge Ramos, page 97.

*economic matters as well as in defense of our civil rights and education. If an official, unifying category did not exist, our incipient political power would be much more diluted.*

#### SPANISH LANGUAGE IS THE COMMON THREAD AMONG THE DIVERSE LATINO POPULATION

The *National Survey of Latinos* conducted and published in 2002 by the Pew Hispanic Center notes that Latinos come from many different countries of origin and have different degrees of language assimilation. The Latino population is comprised of recent immigrants, children of immigrants, and those whose families have been in the United States for multiple generations.

In 2000, for the first time, the majority of Americans born abroad were from Latin America. Mexicans alone accounted for 25% of all foreign-born residents. Language skills varied greatly based on birthplace. Foreign-born Latinos in the Pew Survey were found to be much more likely than native-born Latinos to be Spanish-dominant in their primary language (72% versus 4%). In contrast, native-born Latinos were English dominant (61% versus 4%) or bilingual (35% versus 24%).

As Sam Roberts notes in *Where Are We Now*, "In California, for the first time since the late 1850s, shortly after the territory was seized from Mexico, the majority of babies born in the state are Hispanic. Non-Hispanic whites now constitute a minority of the population in California and New Mexico – again – and are close to becoming a minority in Texas, too. In the late 1990s, Hispanics, propelled by both immigration and higher birth rates, achieved numerical parity with blacks or African Americans (the Census uses the terms interchangeably)."<sup>3</sup>

#### MEXICAN IMMIGRATION AND THE HISPANIZATION OF THE UNITED STATES

Harvard University Professor Samuel Huntington points out many ways in which the contemporary Mexican immigration trend is unique in American history. We note four of these observations below and highlight implications of the Hispanic/Latino immigration wave on US society.<sup>4</sup>

#### 1. LINGUISTIC CONCENTRATION

Previous immigration surges included a diversity of foreign-born locations and mother tongues. Such variety facilitated assimilation. However, almost half of the immigrants arriving in the US over the past 40 years speak a single non-English language: Spanish. The domination of the immigrant flow by a single language is unprecedented. Such concentration reduces the need for assimilation.

#### 2. REGIONAL CONCENTRATION

More than 69% of the US Hispanic/Latinos population is concentrated in the Southwest: California, Nevada, New Mexico, as well as Texas, Florida, and New York. This concentration allows language usage and traditional culture to persist for long periods, even indefinitely.

#### 3. IMMIGRANT VOLUME.

Hispanic/Latinos comprise 52% of annual immigrants into the US. Each year over 700,000 thousand Hispanic/Latinos enter the US, with roughly 40% entering illegally. The constant supply of first generation immigrants will ensure the Hispanic/Latino population retains culture, language, and behavioral patterns longer than other immigrant groups.

#### 4. CONTIGUOUS BORDER.

The US is unique among developed world nations in that it shares a long, contiguous border with an economically emerging nation. Japan, Australia, and New Zealand are islands. Canada is bordered only by the US. The closest European countries come to the emerging world is across the Strait of Gibraltar between Spain and Morocco and the Straits of Otranto between Italy and Albania. This US-Mexico border will likely continue to serve as a unique gateway from the emerging world to the developed world – a gateway that has been and will be impossible to fully control. This all but ensures the massive immigrant inflow will continue until the economic gap between the US and Central and South American countries closes significantly.

<sup>3</sup> See *Who We Are Now*, Sam Roberts, page 122.

<sup>4</sup> See *Who Are We?* Samuel P. Huntington, pages 221-256.

#### A SUPPLY-SIDE VIEW OF THE LABOR MARKET

The growth in the US labor force is slowing. During the past four years, the growth rate of the US labor force has slowed by half, falling to 0.8% per year from about 1.6% in the late 1990s, as the Goldman Sachs Economics Group noted in a report published earlier this year.<sup>3</sup> Three basic factors affect the supply of labor: (1) natural population growth, (2) immigrants and temporary workers, and (3) labor force participation. The flow of foreign labor, including temporary workers, permanent legal immigrants, and undocumented immigrants, has become increasingly important to the US labor supply. Official data show that immigration has added nearly half a percentage point to annual labor force growth in the United States over the past 40 years (roughly 20% of the total labor force growth over this period).

#### THE NEW COLOSSUS: WHY IMMIGRATION IS GOOD FOR AMERICA

Although immigrants no longer arrive via Ellis Island, in a sense things have never changed. The stirring lines of Emma Lazarus' poem still ring true: "Give me your tired, your poor, your huddled masses yearning to breathe free...I lift my lamp beside the golden door!" Immigrants typically arrive poorer and less educated than native-born Americans. But the sense of economic opportunity that attracted them here in the first place serves as a powerful inspiration for each wave of immigrants to pursue upward economic mobility.

Do immigrants cost Americans money or contribute to the nation's economy? Sam Roberts answers the question by citing a 1997 study by the National Research Council. "Age and education are the variables that appear most likely to determine the difference between how much an immigrant costs society in services provided over his lifetime and what the government gains in taxes. An adult arriving with less than a high

school education costs about \$89,000 (in 1996 dollars) over his lifetime. An adult who graduated from high school would cost \$31,000. An adult with more than a high school degree would contribute \$105,000."

#### PURCHASING PATTERNS: WILL HISPANICS START BUYING STARBUCKS COFFEE?

Hispanic/Latinos spend 93% of their current discretionary income versus the US average of 82%. In addition, they follow buying patterns characteristic of lower-income groups and direct a greater share of income directed towards: (1) rental expense, (2) food, and (3) transportation. As Hispanic/Latinos advance economically, we anticipate a higher savings rate and an "up market" spending shift towards areas such as health care and insurance.

Immigration would blur the shift in spending patterns. Continued high immigration volumes are expected to have the same effect on spending patterns as on income levels for Hispanic/Latinos. As second-generation immigrants advance economically, they are likely to shift spending towards health care and insurance. However, while this is happening first generation immigrants, with lower incomes, would continue to spend according to necessity favoring food, housing, and transportation.

Over the long term the generation effect will rule the day. As second generation and above immigrants make up a greater share of the population, the "up market" spending shift becomes more profound. Currently Hispanic/Latinos have the lowest: (1) health care insurance coverage rates, and (2) home ownership rates and (3) savings rates of the large ethnic groups in the United States. Higher incomes will likely lead to higher insurance coverage, home ownership, and savings rates.

<sup>3</sup> See *A Supply-Side View of the Labor Market*, US Economics Analyst, Goldman Sachs Research, April 23, 2004.

<sup>4</sup> *Who Are We Now?* Sam Roberts, page 130.

## Three drivers of Hispanic/Latino population growth

The US Census Bureau estimates 36 million Hispanic/Latinos lived in the United States in 2000, comprising 13% of the total population. The Census Bureau forecasts the Hispanic share will reach 20% by 2030 and 24% by 2050. Predicted growth would be driven by three factors: (1) The Hispanic/Latino population is very young, with a median age of 26 years versus 35 years for the broader US population. (2) Higher fertility rates among the Hispanic/Latina population, currently 2.9 children versus the US average of 2.0. (3) Hispanic/Latino immigration trends appear likely to continue.

Hispanic/Latinos comprised more than 50% of all immigrants (legal and illegal) between 1990 and 2000. We expect historical average trend levels of 700,000 Hispanic/Latino immigrants per year (400,000 legal and 300,000 illegal) for the foreseeable future, or 50% of total annual immigration.

### HISPANIC/LATINO POPULATION PROJECTED TO REACH 20% OF US TOTAL BY 2030

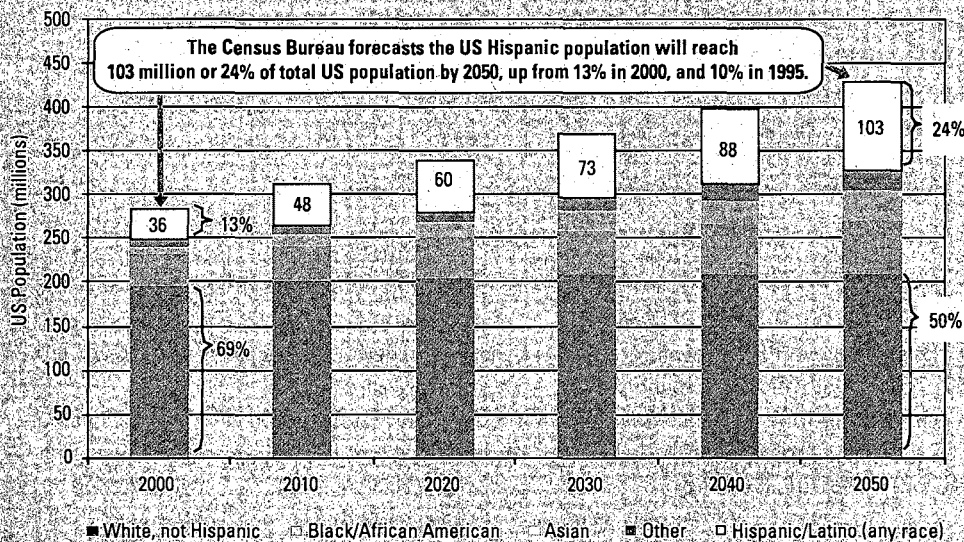
The US Census Bureau estimates the Hispanic/Latino population will have the highest growth rate of any ethnic group over the next 25 years — three times faster than the national average — reaching 20% of the total US population by 2030 and 24% by 2050 from 13% currently (See Exhibit 2).

### DRIVER 1: HISPANIC/LATINO IMMIGRATION WILL CONTINUE TO BOOST POPULATION

The most important driver of Hispanic/Latino population growth will be immigration (see Exhibits 4 and 5). In 2002, 440,000 Hispanic/Latinos immigrated to the United States through legal channels and approximately 300,000 immigrated illegally, based on estimates from the Statistical Yearbook of the US Citizenship and Immigration Service. Hispanic/Latinos accounted for an overwhelming 53% of the nation's 1.4 million total immigrants. Of the 1.4 million total, 35% were from Mexico, or 66% of the 740,000 Hispanic/Latino total (see Exhibit 5).

EXHIBIT 2: THE HISPANIC POPULATION IS FORECASTED TO GROW FASTER THAN THE OVERALL POPULATION OVER THE NEXT 50 YEARS

US population growth projections by ethnicity



Hispanic/Latinos may also be included in other ethnic categories.

Source: US Census Bureau.

**EXHIBIT 3: IMMIGRATION HAS BEEN A CRITICAL DRIVER OF HISPANIC/LATINO POPULATION GROWTH**

Hispanic/Latino population growth breakdown – 1990 to 2000

Hispanic/Latino Population	1990-2000 (millions)	Percent of Growth
1990 Population	22.4	
+ Domestic Population Growth	4.8	37%
+ Legal Immigrants	5.0	39%
+ Illegal Immigrants	3.1	24%
= 2000 Population	35.3	100%
<b>10 year CAGR (1990-2000)</b>	<b>4.7%</b>	

Immigration accounted for 63% of Hispanic/Latino population growth from 1990 - 2000.

Source: Statistical Yearbook of the US Immigration and Naturalization Service, US Census Bureau, and Goldman Sachs Research.

**EXHIBIT 4: IMMIGRATION WILL CONTINUE TO DRIVE GROWTH**

Hispanic/Latino population growth breakdown – 2000 to 2030

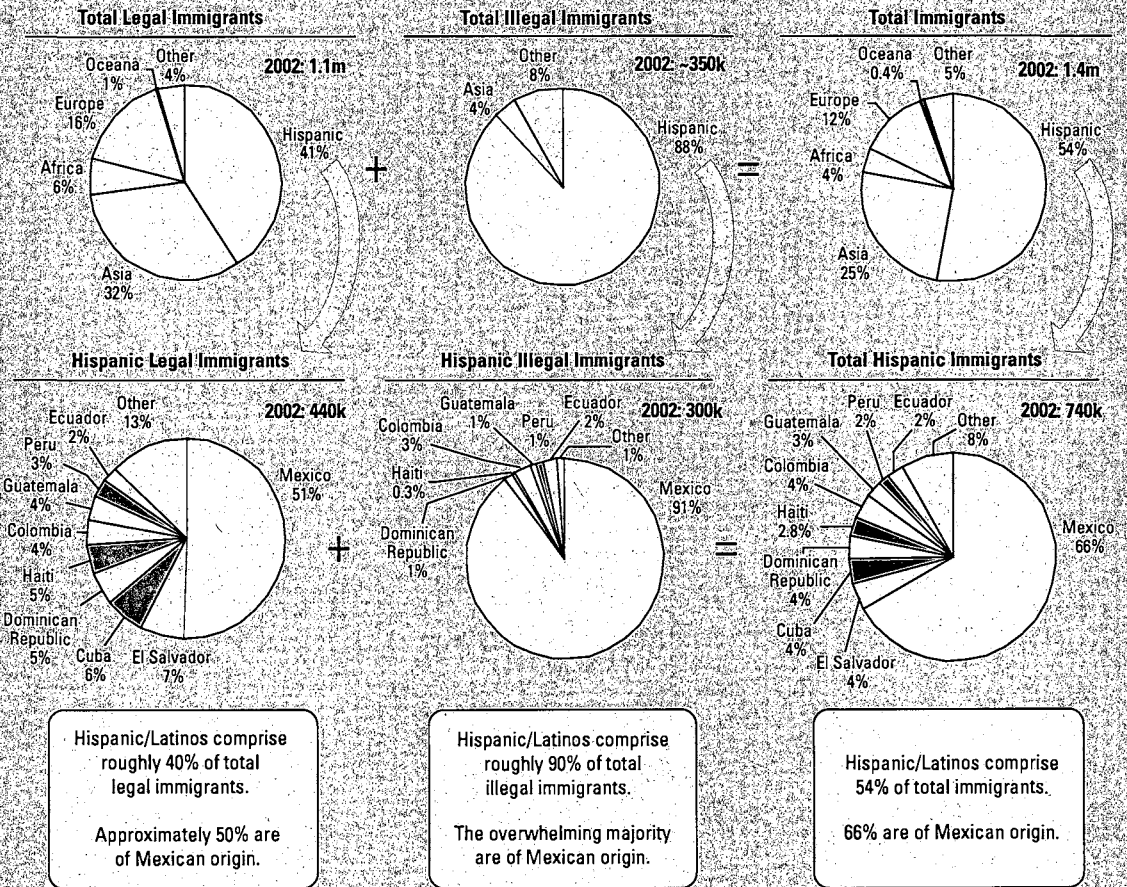
Hispanic/Latino Population	2000-2030E (millions)	Percent of Growth
2000 Population	35.3	
+ Domestic Population Growth	35.8	53%
+ Legal Immigrants	18.0	27%
+ Illegal Immigrants	13.5	20%
= 2030E Population	102.6	100%
<b>30 year estimated CAGR (2000-2030)</b>	<b>2.4%</b>	

Immigration should account for 50% of Hispanic/Latino population growth from 2000 - 2030.

Source: Statistical Yearbook of the US Immigration and Naturalization Service, US Census Bureau, and Goldman Sachs Research.

**EXHIBIT 5. HISPANIC/LATINOS COMPRISE A MAJORITY OF US IMMIGRANTS. MEXICANS DOMINATE HISPANIC IMMIGRATION**

Hispanic/Latino immigrant breakdown, 2002



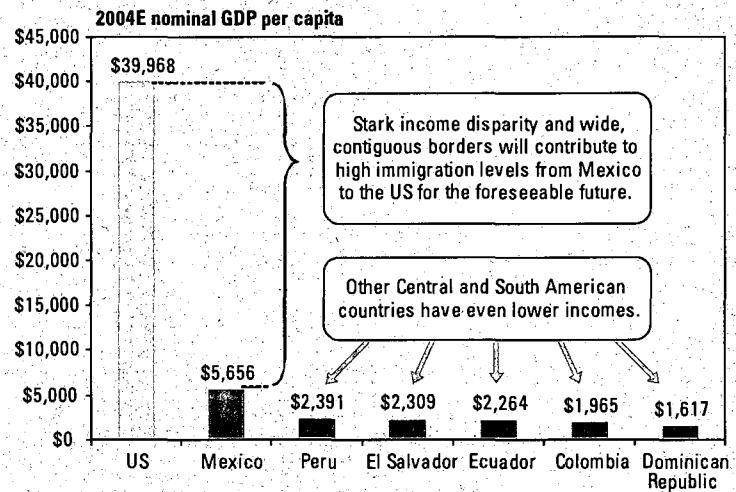
Source: Statistical Yearbook of the US Immigration and Naturalization Service; US Census Bureau; and Goldman Sachs Research.



The dramatic income differential between the United States and Latin America is set to drive immigration for years to come. The Goldman Sachs Economics group estimates 2004 GDP per capita for the United States of \$40,000, six times Mexico's \$5,700 and 20 times Columbia's \$2,000 (see Exhibit 6). Class mobility and the opportunity for economic advancement have characterized the United States for more than three centuries and continue to serve as powerful magnets for foreign nationals seeking an improved lot in life. The vast gulf in economic prosperity between the United States and Latin America is unlikely to shrink in the immediate future. Despite the more stringent barriers to naturalization imposed after September 11, 2001, the high immigration rates of recent years are likely to persist for some time.

**EXHIBIT 6: INCOME DISPARITY AND CONTIGUOUS BORDERS WILL LIKELY ENSURE HIGH IMMIGRATION LEVELS FOR YEARS TO COME**

Nominal GDP per capita for selected countries contributing high levels of Hispanic/Latino immigrants to the US



Source: US Federal Reserve, Goldman Sachs Economics Research.

**DRIVER 2:**

**THE HISPANIC/LATINO POPULATION IS FAR MORE FERTILE THAN THE US AVERAGE**

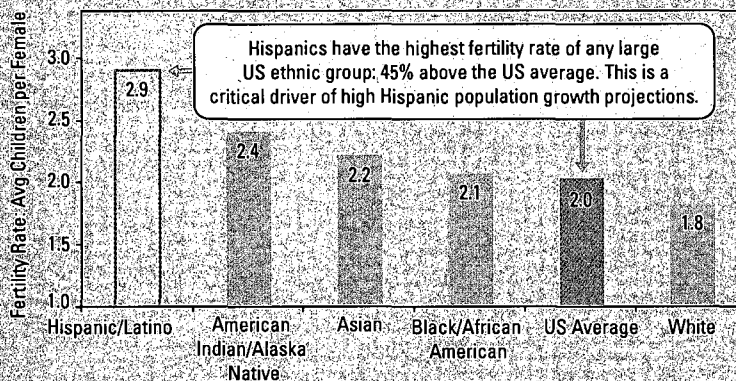
Another important driver of population growth will be the high fertility rates among Hispanic/Latinas. Hispanic/Latinas in the United States currently have an average of 2.9 children, 45% above the US average of roughly 2.0 children per woman (see Exhibit 7). High fertility is partly a result of relative

poverty, and Hispanic/Latinos have among the lowest incomes on average of any ethnic group in the United States.

We expect Hispanic/Latino incomes to increase and fertility rates to decrease over time, especially among second, and third generation immigrants. However, a constant influx of relatively poor immigrants would boost absolute population levels, but act as a drag on average income levels and contribute to above-average fertility rates within the Hispanic/Latino community.

**EXHIBIT 7: HISPANICS HAVE THE HIGHEST FERTILITY RATE OF ANY LARGE ETHNIC GROUP IN THE UNITED STATES**

Fertility rates for United States women by ethnicity



Source: US Census Bureau.

**DRIVER 3:**

**HISPANIC POPULATION**

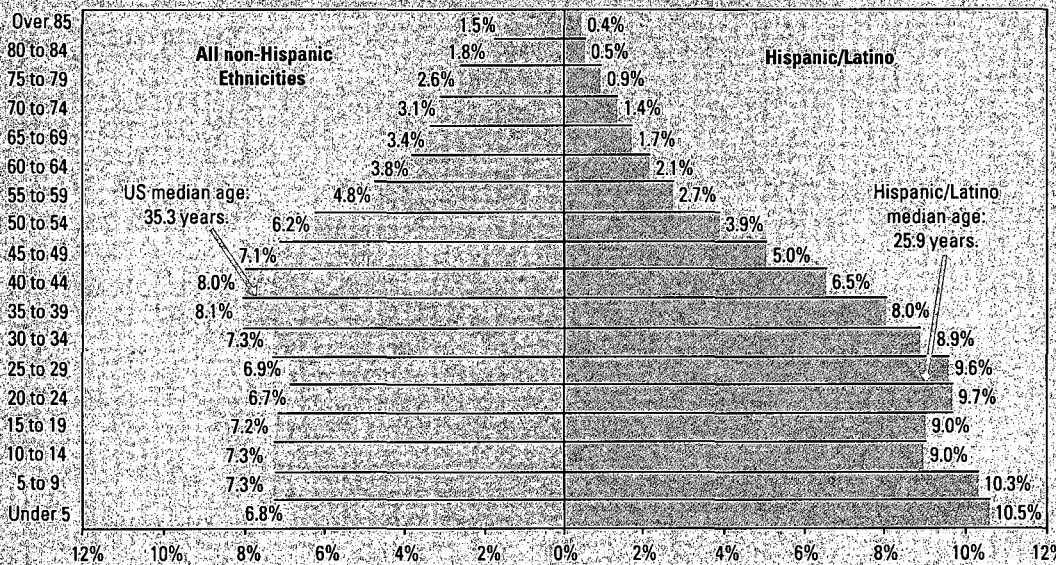
**IS MUCH YOUNGER THAN THE US AVERAGE**

The final driver of population growth is the relative youth of the Hispanic/Latino population. The median age of Hispanic/Latinos in the US is 25.9 years, versus the US average of 35.3 years (See Exhibit 8). Only 7% of Hispanic/Latinos are over 60 years old, compared with 19% for the US average.

The overall US population is projected to begin to decline by the middle of the century. However, relative youth implies that, even without assuming higher fertility or immigration, the Hispanic/Latino population will make up a larger share as other ethnic groups lose more of their population to old age.

**EXHIBIT 8: THE HISPANIC POPULATION IS YOUNGER THAN THE OTHER ETHNICITIES WITHIN THE UNITED STATES**

Hispanic and non-Hispanic population age demographics

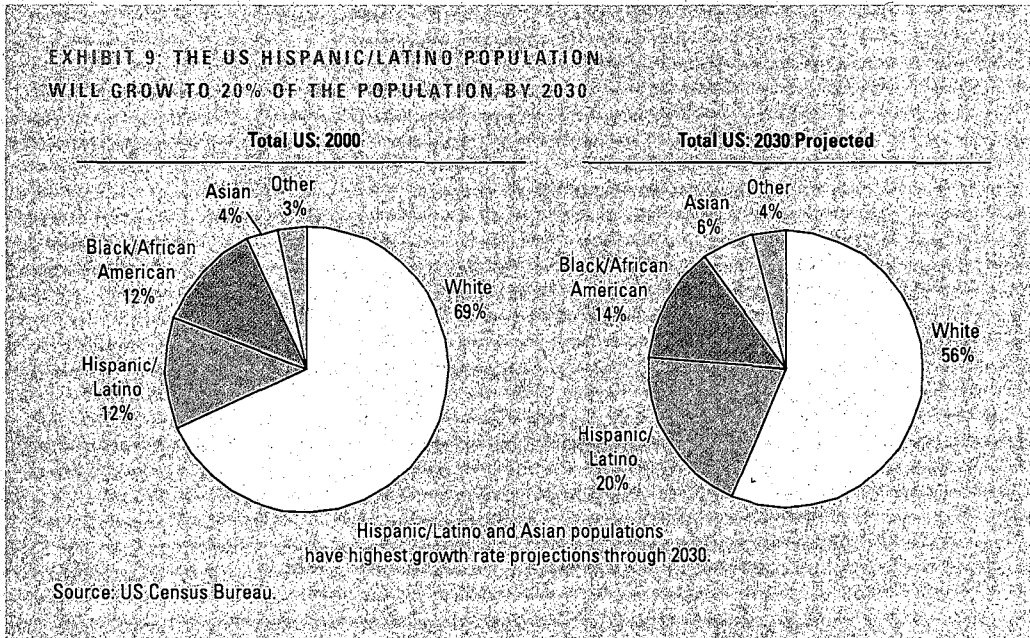


Source: US Census Bureau.



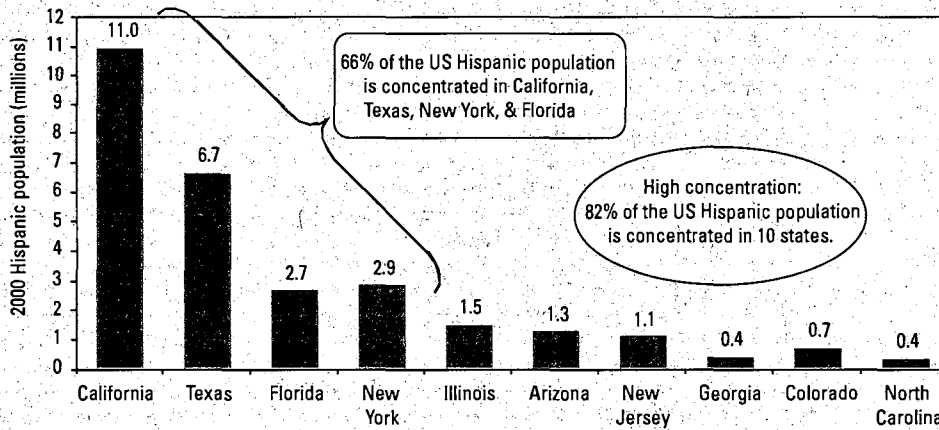
**GEOGRAPHY IS DESTINY: THE UNITED STATES  
HISPANIC/LATINO COMPOSITION IN 2030**

Within 25 years, the Hispanic/Latino population is forecast to surge from 13% of the population to 20%. Four states currently have a Hispanic/Latino population above 24%: New Mexico (42%), California (32%), Texas (31%), and Arizona (25%) (see Exhibits 9-12).



**EXHIBIT 10: THE MAJORITY OF HISPANIC/LATINOS LIVE IN FOUR STATES: CALIFORNIA, TEXAS, NEW YORK, AND FLORIDA**

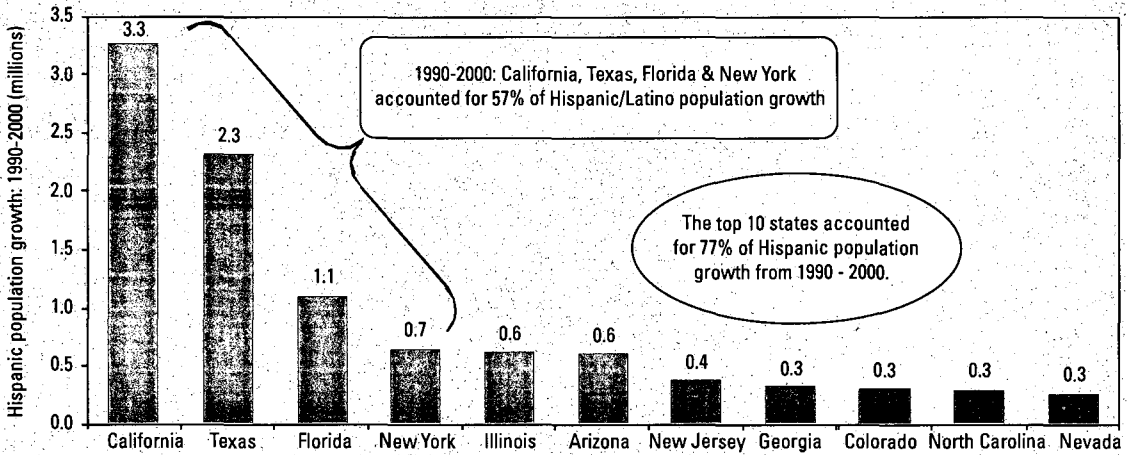
US ethnic composition 2000, 2030



Source: US Census Bureau.

**EXHIBIT 11: THE MAJORITY OF HISPANIC/LATINO GROWTH WITHIN THE PAST DECADE OCCURRED IN FOUR STATES**

1990-2000 Hispanic population growth by state



Source: US Census Bureau.

**EXHIBIT 12: HISPANIC/LATINOS ACCOUNT FOR 58% OF ALL US POPULATION GROWTH OVER THE PAST DECADE**

1990-2000 Hispanic population growth by state, in thousands

Rank:	California 1	Texas 2	Florida 3	New York 4	Illinois 5	Arizona 6	New Jersey 7	Georgia 8	Colorado 9	North Carolina 10	Total United States
<b>Hispanic/Latino Population</b>											
1990 Population	7,688	4,340	2,214	1,574	904	688	740	124	424	113	22,354
2000 Population	10,967	6,670	2,868	2,683	1,530	1,296	1,117	394	736	275	35,306
Absolute Population Growth	3,279	2,330	654	1,109	626	607	377	270	311	163	12,952
% Population Growth	43%	54%	30%	70%	69%	88%	51%	217%	73%	144%	58%
<b>State Population</b>											
1990 Population	29,760	16,987	17,990	12,938	11,431	3,665	7,730	1,202	3,294	2,842	248,710
2000 Population	33,872	20,852	18,976	15,982	12,419	5,131	8,414	1,998	4,301	3,421	281,422
Absolute Population Growth	4,112	3,865	986	3,044	989	1,465	684	796	1,007	579	32,712
% Population Growth	14%	23%	5%	24%	9%	40%	9%	66%	31%	20%	13%
<b>Hispanic/Latino Share of:</b>											
2000 State Population	32%	32%	15%	17%	12%	25%	13%	20%	17%	8%	13%
1990-2000 Absolute Growth	80%	60%	66%	36%	63%	41%	55%	34%	31%	28%	40%

Hispanic/Latinos comprise 32% of the population in both California and Texas. However, between 1990 and 2000 Hispanic/Latinos accounted for 80% of the total population growth in California, and 60% of the growth in Texas.

81% of the US Hispanic/Latino population live in these 10 states.

Source: US Census Bureau.

## Three drivers of Hispanic/Latino income growth

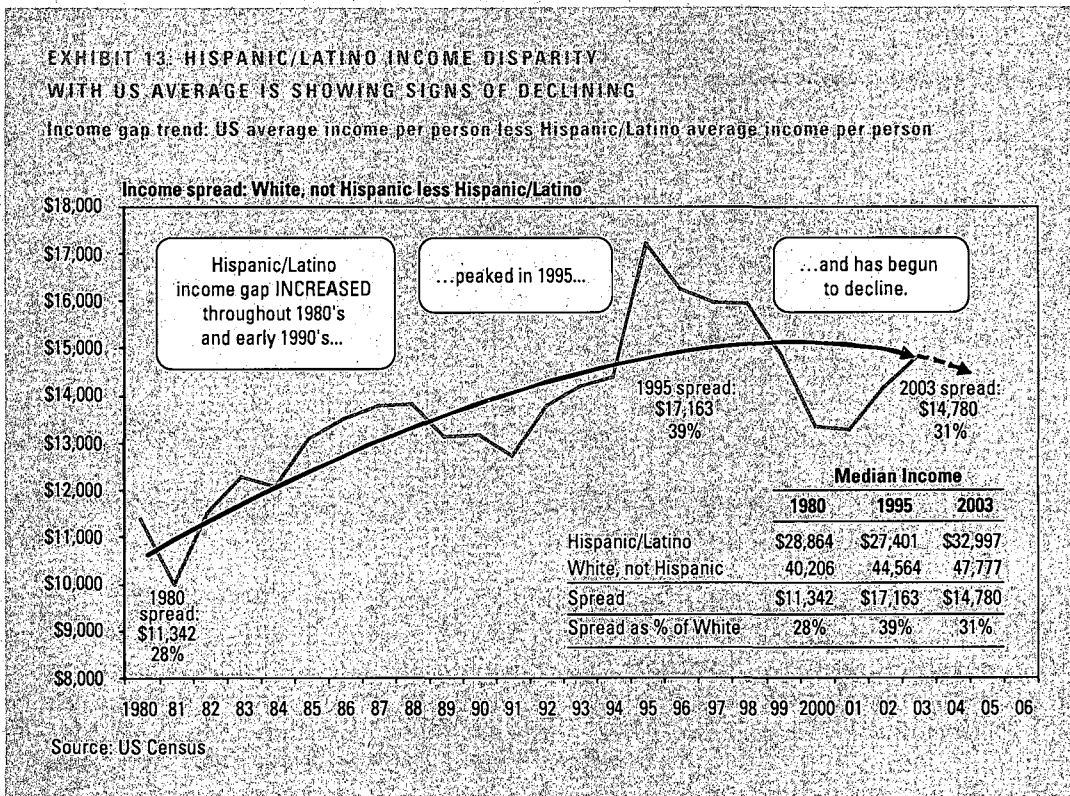
Hispanic/Latinos currently have among the lowest median income levels of any population group in the United States. Hispanic/Latino median income was \$33,000 in 2003, nearly 25% below the overall US median of \$43,300. However, we expect the Hispanic/Latino population and average income levels will rise concurrently, and eventually converge toward the US average.

Hispanic/Latino income growth benefits from three drivers: (1) native born Hispanic/Latinos have significantly higher income levels than foreign born Hispanic/Latinos; (2) Hispanic/Latinos have started to close the economic gap with the US average over the past several years; and (3)

Hispanic/Latinos have among the lowest income levels of any large minority group and therefore the lowest (easiest) base from which to grow.

### THE INCOME GAP HAS BEGUN TO DECLINE IN THE FACE OF EXPANDING POPULATION.

Despite absorbing an average of 800,000 immigrants annually between 1990 and 2000 and growing population in absolute numbers much faster, the income gap between Hispanic/Latinos and Non-Hispanic Americans has begun to close (See Exhibit 13). While it will fluctuate, we expect this trend to continue in the future.



**INCOME DRIVER 1:**

**THE 2ND GENERATION EFFECT: BEING BORN IN THE US IS HALF THE BATTLE**

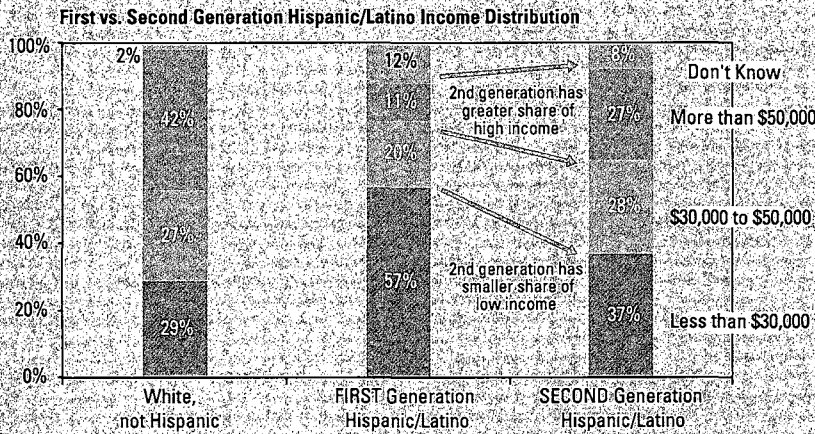
The most important driver of income advancement among Hispanic/Latinos is as simple and as profound as having children in the United States. Second-generation immigrants have significantly higher levels of: (1) English proficiency, (2) educational attainment, (3) employment, and (4) income.

Offsetting the positive second generation effects on income are continued high immigration

levels. High immigration supply the Hispanic/Latino population with lower-income first generation immigrants, who serve as a drag on average income advancement for the broader group. However, the first-generation Hispanic/Latino immigrant pool shrinks as a share of the total as the Hispanic/Latino population increases. In general, the positive income effect of second-, third-, and greater generation immigrants will overwhelm the first-generation immigrant income drag.

**EXHIBIT 14: NATIVE (US) BORN INCOMES ARE ABOVE THOSE FOR FOREIGN BORN HISPANIC/LATINOS**

Distribution of household income by ethnic group



Source: National Survey of Latinos, Pew

**EXHIBIT 15: BEING BORN IN THE US IS HALF THE BATTLE**

First and second generation Hispanic/Latino economic statistics.

	Hispanic/Latino Adults			
	First Generation	Second Generation	Total	
<b>1. Primary Language</b>				
Spanish Dominant	72 %	4 %	47 %	Native (U.S.) born Hispanic/Latino adults speak more English.
Bilingual	24	35	28	
English Dominant	4	61	25	
<b>2. Education</b>				
Less than high school	55 %	23 %	43 %	Natives have higher educational attainment.
High school graduate	29	35	31	
Some college	9	29	16	
College graduate or more	7	13	9	
<b>3. Occupation</b>				
Blue collar	65 %	28 %	51 %	Natives have higher paying jobs.
Other	3	3	3	
White collar	31	69	45	
<b>4. Household Income</b>				
Less than \$30,000	57 %	37 %	50 %	Natives have higher incomes.
Between \$30,000 and 50,000	20	28	23	
Greater than \$50,000	11	27	17	
Don't Know	12	8	11	

Source: National Survey of Latinos, Pew

**INCOME DRIVER 2:  
MOMENTUM – ECONOMIC CONVERGENCE  
IS ALREADY UNDERWAY**

Hispanic/Latinos have already begun to close the income gap with Non-Hispanic White Americans over the past several years. Since the mid-1990s, in the areas of unemployment, poverty, home ownership, and income, Hispanic/Latinos have dramatically closed the economic gap versus the US average.

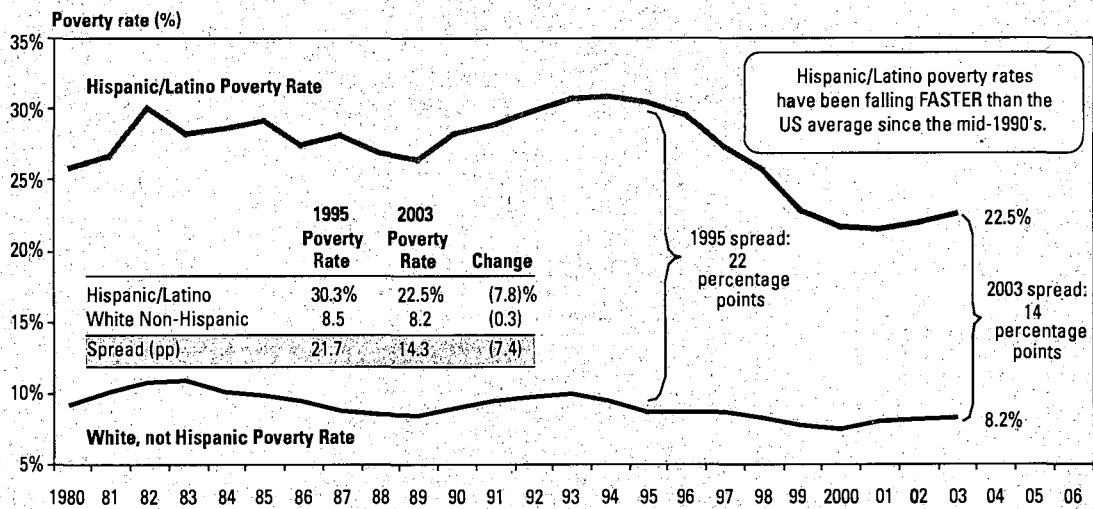
The strong economic performance of Hispanic/Latinos during the past decade is even

more impressive considering that between 1990 and 2000 the Hispanic/Latino population absorbed five million first generation legal immigrants and approximately three million illegal immigrants. Most likely the majority of the three million total immigrants had income levels below the Hispanic/Latino average.

We believe the Hispanic/Latino demographic will continue to narrow the gap versus White, non-Hispanics across all economic metrics over the coming decades and converge with the overall US average over the long term. This trend will not follow a linear pattern (see Exhibits 16-18).

**EXHIBIT 16: HISPANIC/LATINOS HAVE BEGUN TO CLOSE THE POVERTY GAP VS. NON-HISPANIC AMERICANS IN RECENT YEARS**

Poverty rates of Hispanic/Latinos and White, non-Hispanic Americans



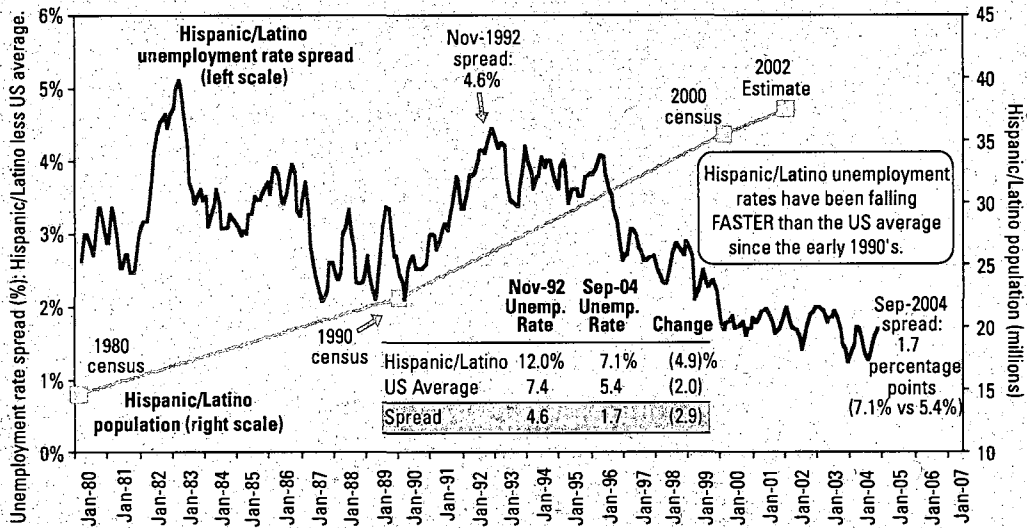
Poverty reached if a family's total income is less than that family's poverty threshold which varies by family size. The official poverty thresholds do not vary geographically, but are updated annually for inflation using CPI. The official poverty definition uses money income before taxes and does not include capital gains or noncash benefits (such as public housing, Medicaid, and food stamps).

Source: US Census Bureau.



**EXHIBIT 17: HISPANIC/LATINO UNEMPLOYMENT RATES  
HAVE BEEN CONVERGING WITH THE US AVERAGE SINCE THE EARLY 1990'S**

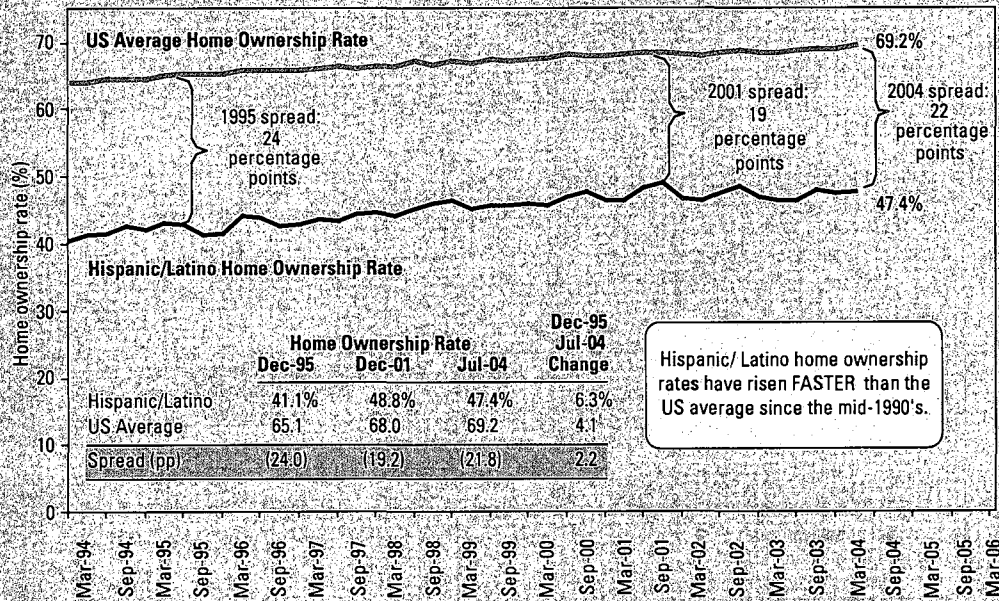
Spread between Hispanic/Latino and US average unemployment rate



Source: US Bureau of Labor Statistics.

**EXHIBIT 18: HISPANIC/LATINOS HAVE BEGUN TO CLOSE THE GAP IN  
HOME OWNERSHIP RATES WITH THE US AVERAGE SINCE THE EARLY 1990'S**

Spread between US Hispanic/Latino average home ownership rates



Source: US Census Bureau.

**INCOME DRIVER 3:  
THE WIDEST GAP IMPLIES THE  
EASIEST BASE FROM WHICH TO GROW**

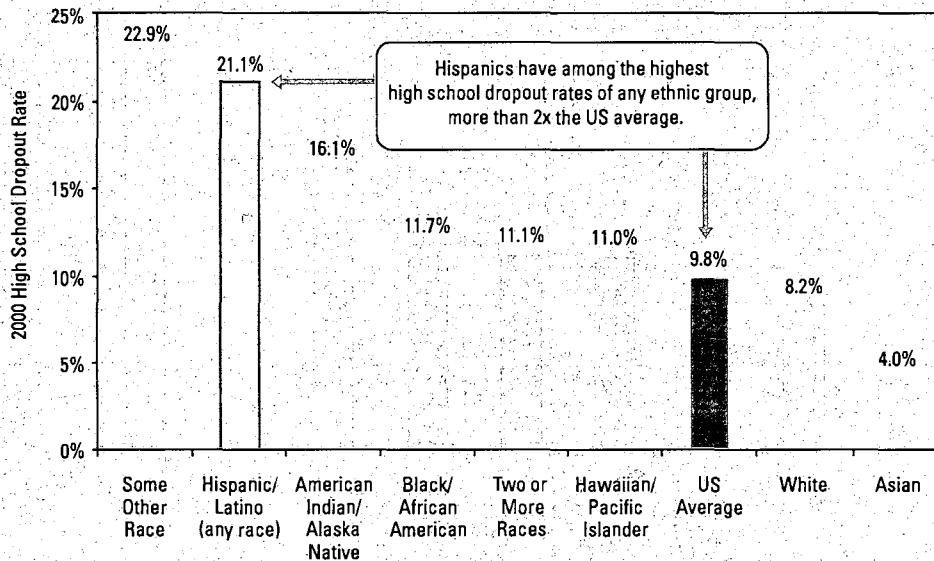
Despite recent progress, Hispanic/Latinos have the longest way to go to reach the US average across most metrics of economic development. The Hispanic/Latino population lags most other ethnic groups on a variety of economic measures. But they have the lowest — and therefore easiest — base from which to grow. Over the long-term other groups, starting from higher levels, should continue to advance in the areas of educational attainment, home ownership, and income. However, a population cannot achieve greater than 100% college graduation rates, or 100% home ownership rates. By starting much further from the maximum, Hispanic/Latinos can expect to make the

most dramatic progress over the longer term.

Hispanic/Latinos currently have the lowest levels of educational attainment of any large ethnic group in the United States with only 52.4% graduating high school, versus the US average of 80.4%. In the areas of home ownership (47.4% versus 66.2%), poverty (22.5% versus the US average of 12.5%), health insurance coverage (67.3% versus the US average of 84.4%), and income (\$33,000 versus the US median of \$43,300) they rank at or near the bottom versus each of the other major ethnic groups within the United States (see Exhibits 19-21). The huge immigrant inflow — Hispanic/Latinos represent roughly half of all immigrants — presents the Hispanic/Latino community with a unique challenge, as most immigrants are uninsured, poorly educated, and have very low incomes.

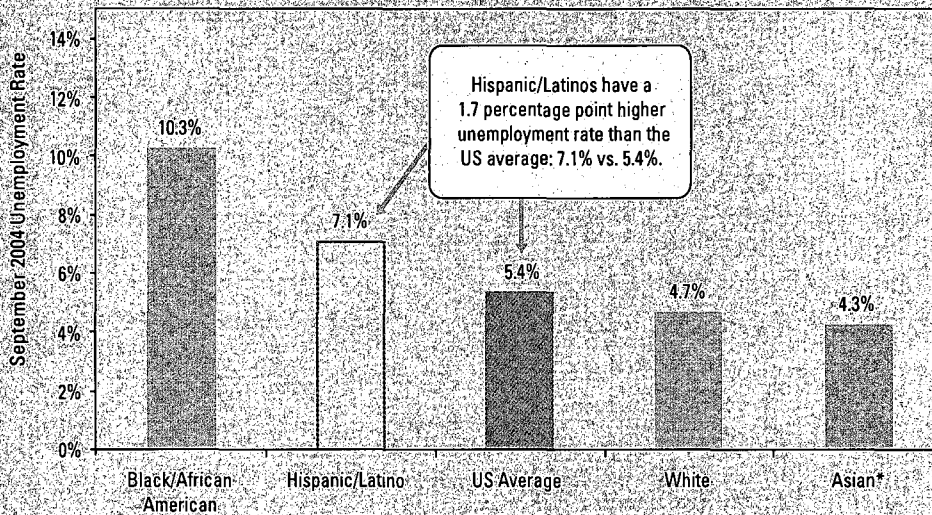
**EXHIBIT 19: HISPANICS/LATINOS HAVE A HIGHER  
HIGH SCHOOL DROPOUT RATE THAN THE US AVERAGE**

High school dropout rate by race/ethnicity – 2000 census data



Source: US Census Bureau.

**EXHIBIT 20: HISPANICS/LATINOS HAVE A HIGHER UNEMPLOYMENT RATE THAN THE US AVERAGE**  
 US civilian unemployment rate by race/ethnicity, September 2004

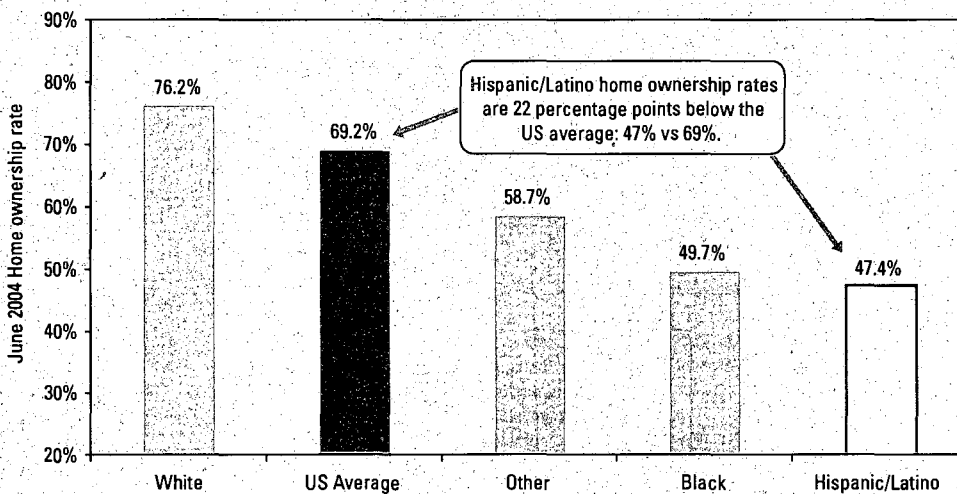


\*Asian unemployment rate not seasonally adjusted.

Source: US Bureau of Labor Statistics.

**EXHIBIT 21: HISPANICS/LATINOS HAVE DRAMATICALLY LOWER HOME OWNERSHIP RATES VERSUS THE US AVERAGE**

Home ownership rates by race/ethnicity – June 2004



Source: US Census Bureau.



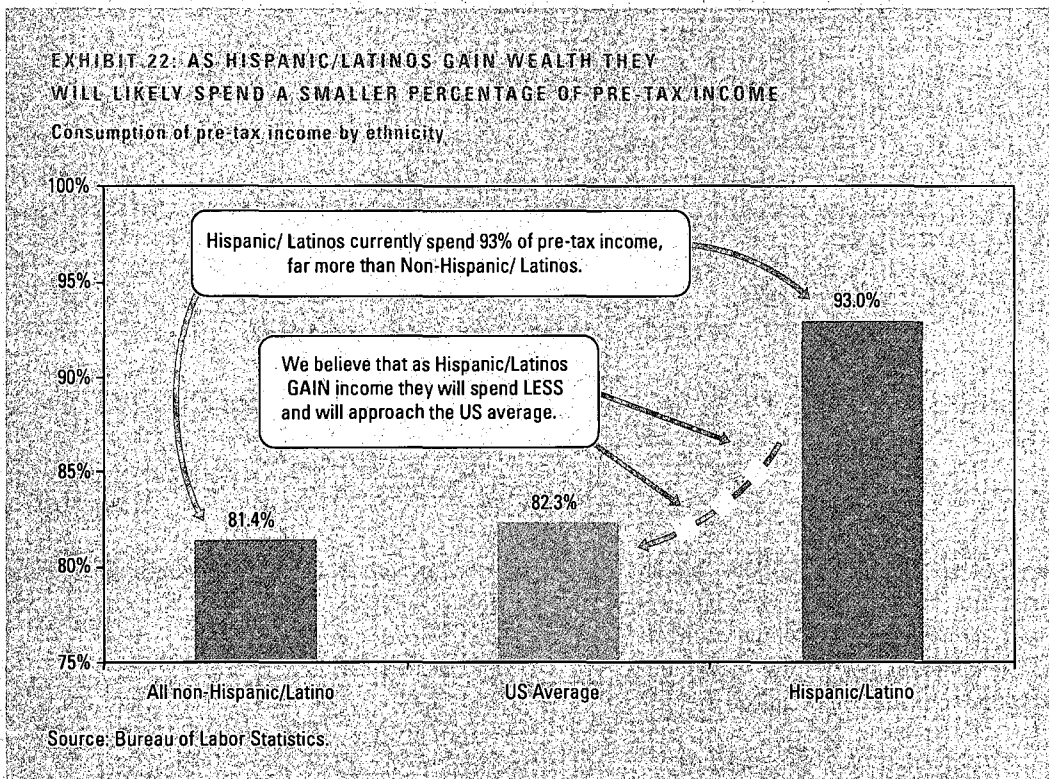
## Changing Hispanic/Latino spending patterns

Hispanic/Latinos spend 93% of their pre-tax income versus 82% for the US average. They follow buying patterns characteristic of lower-income groups with a greater share of income directed towards: (1) rental expense, (2) food, and (3) transportation. As Hispanic/Latinos advance economically, we anticipate a higher savings rate and an “up market” spending shift towards areas that include health care and insurance (see Exhibit 22).

**HISPANIC/LATINOS SPEND A HIGHER PERCENTAGE OF THEIR PRE-TAX INCOME VS. US AVERAGE**  
Immigration will blur the shift in spending patterns. Continued high immigration affects both the income levels and the spending patterns of Hispanic/Latinos. As second-generation immigrants

advance economically, they are likely to shift spending towards health care and insurance. However, while this is happening, first-generation immigrants, with lower incomes, will continue to spend according to necessity, favoring food, housing, and transportation.

Over the long term the generation effect should rule the day. As second-generation and above immigrants make up a greater share of the population, the “up market” spending shift will become more profound. Currently Hispanic/Latinos have the lowest: (1) health care insurance coverage statistics, and (2) home ownership rates and (3) savings rates of the large ethnic groups in the United States. Higher incomes will likely lead to higher insurance coverage, greater home ownership, and increased savings rates.



**EXHIBIT 23 HISPANIC/LATINOS WILL SPEND MORE ON HEALTH CARE AND INSURANCE AS THEIR WEALTH INCREASES**

Percentage of annual pre-tax income expenditures: Hispanic/Latino vs Non-Hispanic/Latino

	Percent of Pre-tax Income		
	Hispanic/Latino	All non-Hispanic	difference (percentage points)
<b>Average annual expenditures</b>	<b>93.0%</b>	<b>81.4%</b>	<b>11.61</b>
Rented dwellings	31.7	26.5	5.23
Housing	19.7	15.5	4.21
Food	18.1	15.5	2.63
Shelter	15.2	10.5	4.62
Food at home	9.8	4.0	5.80
Transportation	9.8	6.0	3.75
Apparel and services	8.4	7.3	1.05
Meats, poultry, fish, and eggs	6.5	5.3	1.11
Utilities, fuels, and public services	5.6	3.4	2.23
Vehicle purchases (net outlay)	5.5	5.0	0.57
Gasoline and motor oil	5.4	4.5	0.88
Food away from home	3.4	2.4	0.95
Fruits and vegetables	3.2	3.1	0.10
Other food at home	2.8	1.5	1.30
Other vehicle expenses	2.6	1.9	0.72
Cereals and bakery products	1.9	1.1	0.87
Dairy products	1.7	1.6	0.09
Personal care products & services	1.3	0.9	0.45
Housekeeping supplies	1.3	1.0	0.27
Household furnishings & equipment	1.3	1.1	0.17
Miscellaneous	1.0	0.6	0.39
Public transportation	0.8	0.8	0.07
Alcoholic beverages	0.8	0.8	0.05
Owned dwellings	9.5	10.5	(0.96)
Personal insurance & pensions	7.6	7.9	(0.33)
Pensions and Social Security	7.0	7.1	(0.01)
Entertainment	3.8	4.2	(0.46)
Health care	3.7	4.8	(1.18)
Cash contributions	1.6	2.7	(1.01)
Education	1.3	1.5	(0.23)
Household operations	1.1	1.5	(0.36)
Life & other personal insurance	0.5	0.8	(0.32)
Tobacco products & supplies	0.5	0.7	(0.16)
Other lodging	0.4	1.1	(0.63)
Reading	0.2	0.3	(0.13)

First generation Hispanic/Latinos will likely continue to spend a higher proportion of income on: Housing RENTAL, Food, and Transportation.

As Hispanic/Latinos GAIN wealth they will likely spend more in underemphasized areas: Home OWNERSHIP, Health Care, and Insurance.

Source: U.S. Department of Labor - Bureau



# Withdrawal Marker

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