[redacted]

THE WHITE HOUSE

WASHINGTON

93 MAY 11 P2:33

[redacted]

Pres —

Intriguing
bed-time reading

Sandy

Thanks

B

New Yorker
April 19, 1993

GARY HART IN EXILE

The personal and political lessons of Gary Hart's career paved the way for Bill Clinton's victory, but the former Senator is still paying for his own defeat.

BY DAVID REMNICK

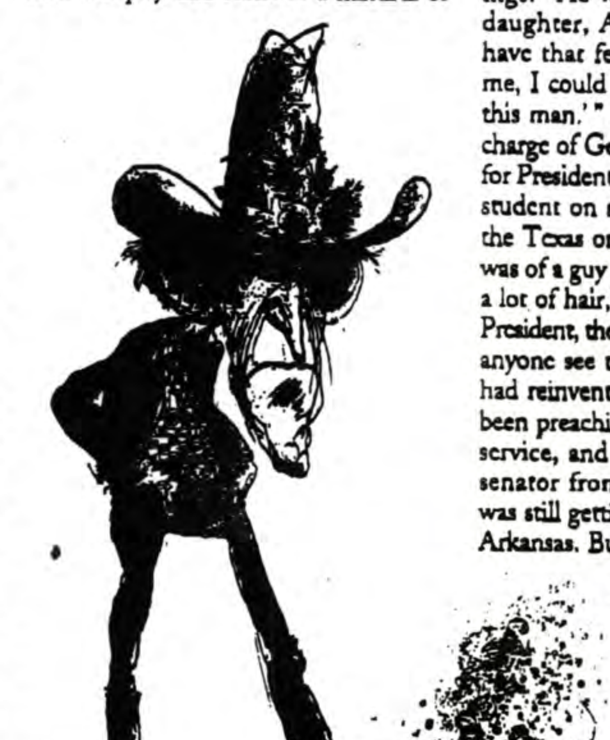
IT was freezing in the mountains, about ten degrees below zero. All across Colorado, drifts of snow swept halfway up the sides of the barns and the cabins. Without waking his wife, Gary Hart got up before dawn and walked downstairs to his living room, a cavernous place with a vaulted ceiling, high windows, and walls of lodgepole pine. It is a mountain house out of a plutocrat's fondest four-color dream. Hart could sit by the fire that morning and see deer, elk, mountain lions, and red fox move through the woods as the sun came up over the foothills of Kittredge. Lately, a Corsican ram had been climbing around the rocks near the house, and the dogs barked up at him. Hart built the house a couple of years ago for his wife, Lee, he said the other day, "because Lee had never had anything like this and Lee deserved it."

Hart was making real money now, as a lawyer and an international businessman. Born to Nazarene evangelicals in Kansas, he confessed to sometimes feeling "a little funny" about all the opulence: the poolroom, the sauna, the walk-in closets, the state-of-the-art appliances. It seemed sinful somehow. But the unease of living here was more severe than a passing case of guilt; it was endless and deep.

This was not the house that Gary Hart had thought he would be living in. At the start of the 1988 Presidential campaign, he had been headed, as if on a greased chute of destiny, for the White House. But out of vanity, it seemed, and stubborn refusal to curb his extramarital liaisons for the purposes of high politics, he threw it all away long before the first primary. He could rage at the press for its blithe savagery, its puritan hypocrisy. But he should have known. In fact, he did know: he knew the risks and he ignored them. In May of 1987, he even invited the press to "follow me around" during the campaign. "I don't care. I'm serious," he told the *Times*. "If anybody wants to put a tail on me, go ahead. They'd be very bored." In the end, Hart paid for the sins of the flesh as no one else had done in two hundred years of American political history.

Hart's exile was immediate and absolute. To venture from the mountains of Colorado was to open himself to further humiliation. When he went to the 1988 Democratic Convention, in Atlanta, the only way he could enter the arena was with a Colorado delegate's pass. When he reached the Convention floor, the Democratic chairman, Paul Kirk, put a few security men between him and the television cameras. Hart's sense of martyrdom and piety was acute. "All our heroes are dead," he told Maureen Dowd, of the *Times*. "John is dead. Bobby is dead. And I'm dead—walking dead."

Now, five years on, Hart dispensed with self-pity and stuck to a handful of pitiful jokes. "Sometimes I'll be walking down the street in Washington and someone'll come up to me and say, 'Aren't you Gary Hart?' And I give 'em this little joke. I say, 'Yeah, I used to be.' And they laugh—'Ha! Ha! Ha!' "



RICHARD THOMPSON

During Hart's first Presidential campaign, Warren Beatty warned him, "Watch out. You've become famous too fast."

After the Convention was over, Hart had wanted to get on with his life. He was constantly on the road, especially in Russia, trying to set up business projects—seaports, airports, banks, phone systems—that would enrich his clients and connect him, in some marginal way, to public life. But the 1988 bruises still hurt. Hart was convinced that he would never have lost to George Bush, that his fall was "an accident, a car crash in history." When his friend and adviser Paul Tully died, last September, Hart ran into Richard Gephardt, the House majority leader, at the funeral. The election was only weeks away, and Gephardt, ever the Eagle Scout, could barely keep a cap on his fizzy enthusiasm.

"I think Bill's gonna do it!" Gephardt said.

"Yeah," Hart said darkly. "But Bush never should have won in the first place."

When Bill Clinton finally did win, Hart tried not to betray his mixed feelings. "He was glad Clinton won," his daughter, Andrea, said. "But he does have that feeling—'It could have been me, I could have done as good a job as this man.' " In 1972, when Hart was in charge of George McGovern's campaign for President, he had hired Clinton, a law student on summer break, to help lead the Texas organization. "My impression was of a guy with a lot of enthusiasm and a lot of hair," he said. Now that kid was President, the savior of his party. But didn't anyone see that Hart, and not Clinton, had reinvented the Democrats? He had been preaching military reform, national service, and economic investment as a senator from Colorado when Clinton was still getting to know the precincts of Arkansas. But no one much cared. Hart had lately sent memos to the White House but had got no answers.

Hart's frustration in exile was not just a matter of failed ambition—nothing as vain and petty as that. Take the winter of 1990-91. The Harts were moving into the new house, on Troublesome Gulch Road—just up the path from their old log cabin—but Gary felt no great happiness. Like everyone else in the country, he was spending hours in front of the television watching the bombing raids over Baghdad. In the press, many of the armchair analysts were predicting that when the land war finally began thousands of American soldiers would die. Hart reflected that if he had been in the White House he would have gone the "sanctions route" a good deal longer. "I was terrified we'd lose a lot of people," he said later. "If thousands of American lives had been lost, I would have felt personally responsible."

Personal responsibility for thousands of dead—all for a weekend trip to Bimini on the good ship Monkey Business. This was what it was, at times, to be Gary Hart. "When you talk about Gary Hart now, people don't focus on anything except that here was this guy who got out of the race and the Donna Rice episode," Billy Shore, one of Hart's closest aides from the early days, said in February. "If he'd been hit by a bus the week before all that happened, the *Times* would have written an obituary paying tribute to 'a legislators' legislator.'" Now he was a living punch line.

"I DON'T like 'feel' questions," Hart said as we drove in his Jeep from Denver west to Kittredge. Over and over, in Kittredge, in Denver, and in Washington, Hart would dip lightly into the waters of the personal and then suddenly yank himself out. "It's all part of my death struggle with ego," he said.

Rarely has an American ego been more thoroughly probed, indulged, and, ultimately, destroyed. After his weekend became public knowledge, Hart quickly toppled from the pinnacle of public life, to join that shadowy population of Americans who are ready fodder for "Where Are They Now?" columns. They are figures first of irony and then of trivia; after a while, the game is guessing whether they are alive or dead. But Gary Hart's story will prove grander than that. His rise to prominence and fall from grace rings of Hawthorne and Dreiser, and it played a critical role in the election of Bill Clinton.

Hart, whose parents forbid dancing, movies, alcohol, and the indulgences of the flesh, marries Lee Ludwig, a Nazarene girl from a good family, and they head east to New Haven. It is the age of John Kennedy, and Hart, at Yale Law School, is swept up in Kennedy's charisma and call to public service. In 1972, he runs McGovern's children's campaign against the demonic Richard Nixon. The loss is overwhelming, but is eventually redeemed somewhat by Watergate. In 1974, Hart is elected to the Senate, where he gains a reputation as an innovative advocate of reform, the best of a new generation of "neo-liberals." In 1984, he runs for President and stuns the experts by placing second in the Iowa caucus and winning the New Hampshire primary. One estimate has him suddenly gaining three million supporters a day. "Not since the Beatles had stormed onto the stage of the Ed Sullivan Show twenty years before had any new face so quickly captured the popular culture," Paul Taylor, of the Washington *Post*, writes. Hart is told by Warren Beatty, "Watch out. You've become famous too fast." If it hadn't been for the Democratic Party machinery and a botched campaign in Illinois, Hart could well have won the nomination in 1984. He finishes the race with a string of victories, but loses narrowly to Walter Mondale. In 1987, Hart is the odds-on favorite to win the Party's blessing and challenge George Bush in November. But then, in May of 1987, he vanishes under the wave of scandal as the Miami *Herald* stakes out his house and the Washington *Post* snags a detective report commissioned by a jealous husband. Hart quits the race. In December, he reënters it, but he can never regain his footing. In Iowa, he gets less than one per cent of the vote and finishes last. Five weeks later, he goes home to stay.

Hart still has the rangy, handsome look that his handlers always hoped would be seen as a Colorado version of "Kennedyesque." In deepest winter, he still wears cowboy boots with his business suit, and no overcoat. Aware that his tag has come to be "aloof," or "imperious," Hart makes an effort to charm. As we drove through the foothills of the Rockies, past one old mining town after another, he told some familiar Nixon stories in a dead-on Nixon voice. His set piece is about the day he found himself seated next to Nixon at the funeral of Jacob Javits.

"All of a sudden I feel him tapping me on the knee. . . . Whap! Whap! Whap! . . . And he says, 'That music. Is that Bach or Brahms?' . . . Bach or Brahms? . . . I said I didn't know. And he says, 'Bach is much better than Brahms. Because Bach is *tougher* than Brahms.' "

Hart is fascinated by Nixon—by his cynicism and his uncanny ability to remain in the political limelight. Though Hart would be appalled by the idea, he and Nixon are historical partners. Both men were always remarkable analysts of everyone but themselves. Their downfalls were successive chapters in the history of the media and American politics. Watergate represented the apogee of investigative reporting on the Presidential level; the Hart scandal took the public's right to know beyond any previous framework. It was Nixon who acknowledged this strange kinship when he wrote to Hart in 1987:

DEAR GARY,

This is just a line to tell you that I thought you handled a very difficult situation uncommonly well. . . . What you said about the media needed to be said. They demand the right to ruthlessly question the ethics of everyone else. But when anyone else dares to question their ethics, they hide behind the shield of freedom of speech. They refuse to make the distinction that philosophers throughout the centuries have made between freedom and license.

Hart drove slowly along the road that cuts through his property, of a hundred and seventy acres. He pointed to a spot where he had seen a fox the week before and to the gate outside which, in 1987, hundreds of reporters and TV trucks had hunkered down, waiting for another glimpse of scandal. The Harts haven't had many reporters at their house since those days. They had invited me for dinner and to stay the night, and, in a clumsy attempt to thank them, I'd bought flowers in Denver and brought them as a gift.

Getting out of the Jeep, Hart smiled thinly at the bouquet. "It's gonna take a lot of flowers to make Lee feel any better about reporters," he said. "Lee was pretty brutalized, you know. I think she's all right now."

As we walked through the snow toward the house, we were greeted by the barking of dogs and then by Lee Hart, standing in the doorframe. She looked eager and nervous at the same time. Since "the events of 1987," as her husband often calls them, Lee Hart has kept out of the public eye. Even some of the Harts' closest friends are bewildered by the endurance of their marriage.

"Babe, why don't you give him the tour, and get that over with?" Hart said.

"That's what I was going to do, Gary."

Perhaps the thing that struck me most about the house, besides its sheer splendor, was how few signs there were that one of its owners had been so close to becoming the most powerful person on earth. Politicians usually keep several dozen grip-and-grin photos around—self-gilding memorabilia from the old campaigns or the trips abroad. At the Harts', just a few black-and-white pictures had been tacked up—familiar images from the campaign trail, with both Gary and Lee all smiles and looking a bit younger.

We sat by the fire and talked about "The Good Fight: The Education of an American Reformer," a book that Hart was getting ready for publication. "I really wanted to title the book 'The Diary of a Failed Reformer,' but they wouldn't let me," he said. "My editor had a fit. They give no credit to people for a sense of irony. The truth is, I don't think I was a failure. I just wasn't a success."

Hart's is a willfully soulless book. Throughout, he uses "the reformer" in place of the first person—a device that was intended to make the book seem less self-conscious and succeeds only in making it seem more so. Instead of paying tribute to Henry Adams with this device, as Hart had intended, he summons Norman Mailer's old alter ego, Aquarius. That might not be so grating if Hart had written openly, bravely, even angrily, about his own experience. He has not. His reticence is at constant war with his sense of injury, and the conflict produces a tinny, self-righteous effect.

Hart wrote with far more passion in a number of letters to his editor at Random House, Jonathan Karp. One reads:

You must condition yourself and your colleagues to the fact that nothing short of suicide will satisfy the skeptics and the cynics or even the asinine acquaintances. The reason simply is this: a newly aggressive and intrusive press establishment, never comfortable with my refusal to be categorized, exploited (and possibly created) an incident very near the bone. . . . I will never escape from this event, as you say, simply because the press cannot afford to let me escape it and because social and political exile is demanded to sustain the hypocrisy. *Nothing*, I repeat, *nothing*, I say in the foreword would solve these two problems. It would require an act of utmost contrition, which I am incapable of making.

In "The Good Fight" Hart writes a skeletal history of various reformers in America and the ways they have been stifled, thwarted, or killed. Although he propounds no grand conspiracy theory, he is fascinated by the conspiratorial elements in the murders of Martin Luther King, Jr., and the Kennedys, and in the defeats of McGovern and the reformer. A prominent Washington journalist once told me that Hart, after a couple of drinks on an airplane five years ago, described his own fall in 1987 as a conspiracy of power élites: the military establishment, the energy industry—in short, all the institutions he planned to reform as President.

I told Hart I thought there was an acute sense of conspiracy running through the new book linking his own trials with those of the Kennedys and King.

He seemed genuinely surprised. "If you think that a paranoid sense of conspiracy runs through the book, then you're misreading it, or maybe I should rewrite it," he said. "And I may put myself in line with reformers, but it doesn't mean my loss was in any way equal to their losses. You can be a good Christian or a follower of Christ or Paul and not think you are Christ or Paul. My own impression of my experience in politics is that it was very minor. Virtually none of the things I wanted to get done got done."

LEE HART called us in to dinner. She had prepared an elaborate salad of greens, bacon, cheese, and fruit, and then chicken breasts with wild rice and, for dessert, the richest chocolate cake this side of Lyons.

"This wine's a little tart, though, isn't it, babe?" Hart said. "Musta been a lemon vintage."

Lee Hart looked mortified. "Maybe another bottle . . ."

Hart smiled. "Don't bother, babe. This'll do."

I asked Lee Hart how the two of them had managed to pull themselves together after the disaster of 1987.

There was a pause. Then Lee said, "We were redoing the kitchen in the old house, where Andrea's living now. And Gary cut a lot of logs. Some were the Miami *Herald*, others were the Washington *Post*—"

Gary Hart's face turned the color of claret. "Now, babe," he said, in a voice freighted with anger and meaning.

"I just meant—"

"Babe, speak for yourself. Sure, it was hard. And if it was a career it was the tragic end of a career. But if you take it as public service, the way I did, then it's just the end of that part of your life."

"That's true, Gary. You always said that."

"The key thing is your attitude going into it. When I was elected to the Senate, I was eager to be there. But I never thought that this would be it, senator for life, or climb the ladder to the Presidency. I just decided in the eighties that the Democratic Party had to be the party of change. And 'up or out' became my attitude. I just could not stand to look at the lack of courage in the Senate. And then after I lost in '84—well, you really can't go back to the Senate after running for President, and rejoin those silly, inane discussions. I'm against the two-term limit, but people should leave voluntarily. They have to avoid being coöpted by the permanent Washington crowd—the journalists, the friendship. They get coöpted after a couple of terms. I want to go back to an earlier time, when politicians didn't hobnob with the press, and they saw themselves as public servants for a time. I was made fun of, even ridiculed, because I always said 'Mr. Koppel' or 'Mr. Brinkley' when I was on TV. My staff and family gave me hell about it . . ."

"I didn't," Lee said.

"Now, babe. C'mon. But for me it was an important thing. I thought I should be businesslike. Chumminess on television, the 'David' and 'Ted' stuff, was symbolic of the problem."

I tried to get back to the question of how the Harts went on with their lives in 1987.

"I left the Presidential race at noon Friday and I was back in my law office at eight o'clock Monday morning," Hart said. "To prove something to everyone—that life goes on. Being President isn't everything in the world. If you are a mature adult and you have your values straight, you just go ahead and do the next thing. The hardest thing to deal with was the continual drumbeat of the press. I was out of politics, but it kept coming. I mean, how many times can you kill someone? How many times can you be dead?"

"Gary, don't make it seem as if—"

"Speak for yourself, babe," Hart said.

"Well, O.K.," she said. "A lot of people have the idea that you just didn't want to be President."

"Well, that's just . . . Look. We are at the stage where we think that you've got to be all-consumed by the idea of becoming President. But it's nonsense. Thomas Jefferson gave his Inaugural speech and then walked home through the mud to his boarding house. Now they think that your life is ruined if you fail. The danger of running for the Presidency is that if you don't make it—and that's the case for almost everyone who tries—then you are considered a failure."

After dinner, we had coffee in the living room, and I asked the Harts about the '92 race.

"When Clinton began to pick people for his team, there was a moment of elation for me when I saw Eli Segal, John Emerson, and those people—people who had been with me once—getting serious jobs in the Administration," Hart said.

I asked him whom he had supported initially in the race.

He seemed embarrassed, and Lee broke in, saying, "I supported Tsongas in the primaries. Clinton's idea of a middle-class tax cut was just pandering to voters. I also didn't like the Japanese-bashing. Gary, you said the same thing."

Hart reddened once more.

"Just let me recollect, babe," he said, and then, "Tsongas's famous little book looked like a lot of my stuff. When he called me and said, 'I'm going to run for President,' I started laughing. And he did, too. It was like an unspoken thing on how crazy it is to run for President."

"I remember you said, 'Paul, I knew you weren't feeling well, but I didn't think you were sick in the head.'"

"Maybe, babe. Maybe. But we went on laughing for three minutes or so, and then, a few days later, he announced."

Hart said he was tired and ready for bed, but before he left I asked him what he did now on a typical day when he was not travelling abroad.

"It's very boring," he said. "I sit behind a desk. I make telephone calls, draft proposals. I give speeches. I negotiate proposals for airports and seaports. I'm an advocate. In '88, I tried to figure out a way to maintain a link to the private sector, to do something in the private sector related to what my goals had been in the public. I went to Taiwan, to Argentina, but it didn't lead to anything."

"You got to play a lot of tennis," Lee Hart said.

"Yeah, babe. And to Czechoslovakia, Japan. When I travelled, I discovered there was a lot of bewilderment out in the world about why I hadn't succeeded. They still thought I had something to say, even if no one at home did. That was very vivid."

LEE HART and I stayed up and talked awhile in the kitchen. I was grateful to her for the trouble she had gone to. No matter how much the Harts steered away from the "events" that Hart had ruled out of bounds, the presence of yet another reporter could only have been painful to both of them.

"You know, it's different for Gary from what it is for me," she said. "He was the one running for office, and, contrary to what some people might have thought, I really never fantasized about being in the White House. That was putting the cart before the horse. I did think Gary should have been President. I didn't fear the White House. There were all sorts of things I would have worked on. But I had no long-standing ambitions. Maybe that was a mechanism of self-protection. You protect yourself against disappointment. I'm delighted with Hillary. Early on, she made a few faux pas, which happens, but she's a good speaker and doesn't have a lot of mannerisms that drive you crazy."

I said it seemed strange that the Clinton Administration had asked Mondale, Hart's 1984 opponent, to be the Ambassador in Moscow—an appointment that Mondale eventually turned down, and that went to Thomas Pickering. Friends and family had told me that Hart, who wrote a book on *perestroika*, and travels to Moscow several times a year, was particularly galled by the Mondale appointment.

Lee Hart's face tightened into an expression infinitely sad.

"I'd have been stunned if he had been asked," she said. "But it tells you something. Gary has never, ever, abused the public trust. And when we know the garbage that's come out of that city . . . The truth is, Gary is trashed anytime there's anything negative brought up about anyone else. Clinton would never have been President had it not been for what happened to Gary. The Clinton people know that they got off easier than Gary did. Clinton also had the support of the Democratic Party people, who hung in there with him, which Gary never had. I was just very happy that they survived. The press seemed to have learned—or I hope so, for the sake of the country. Otherwise, who would ever run for office?" Lee Hart's eyes widened and filled. "In many respects," she said slowly, "our situation was just so simple, but it was not what they thought it was or said it was. It never was."

WHILE Gary Hart was still running for President in 1988, he mapped out in his mind the first months of his term. The first thing he would do was invite Gorbachev to the Inauguration, and then he'd get a quick arms-control treaty on strategic arms and nuclear testing. "I may flatter myself, but I think Gorbachev sensed in me a dramatic figure who was like him, at least in some small way," he said. Then he would get started on the Middle East, break some of the old molds on defense policy, the economy, energy policy.

Some of Hart's former aides found themselves wandering through the Inaugural events in Washington this year and thinking, This should have been us—four years ago.

Hart had hoped that Clinton, as President, would make a bold gesture to the Russians, as he said he himself would have done. He told some of Clinton's aides that they ought to invite Boris Yeltsin to the Inauguration, as an indication of support for democratic reform. "I got back mumbo-jumbo about who was where last, the protocol of it," he said, rolling his eyes. "They missed the whole point."

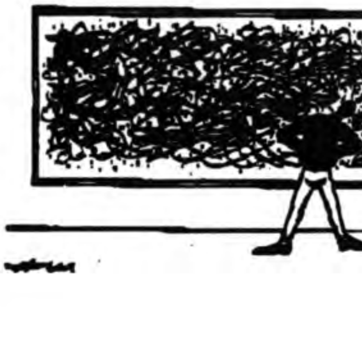
But even if Clinton didn't ape Hart's Inaugural strategy, the political debt of the new President to the exile is undeniable. For one thing, the White House is stocked with former Hart people: John Emerson, the deputy director of personnel; Eli Segal, the head of the fledgling national-service program; David Dreyer, the director of planning; Jeremy Rosner, the counsellor and director of legislative affairs at the National Security Council. And Larry Smith, who was Hart's key aide on defense policy, is now the counsellor to Secretary Les Aspin, at the Pentagon.

The influence goes beyond mere personnel. In Denver, Hart and I watched the State of the Union speech together. He spent some of the time laughing at the standing ovations and the primping of his old colleagues, and the rest of it, and he nodded paternal assent to the policy initiatives coming from the podium: a streamlined defense, an economy based on investment rather than on consumption, a program of national service. In Hart's time, all this was known as neo-liberalism, the sharp break with the ideological orthodoxy of the Hubert Humphreys and Walter Mondales of the Democratic Party.

"In 1984, Hart fired the first shot at the fortress of the Democratic Party and lived to tell the story, which inspired a bunch of others who might have been scared off," Bruce Reed, a domestic-policy adviser to Clinton, said recently. "To the extent that he made the world safe for new ideas, Gary Hart made his mark."

Where Hart and Clinton differed profoundly was in their style of personal politics. Hart's was cool, intellectual, while Clinton's is more that of a populist, a hugger, a figure of almost preternatural resilience. The joke about Hart among his aides during the 1984 and 1987 campaigns was that the candidate would go to a reception for five hundred people, and after it was over his aides would ask, "Well, did he meet any of them?" The joke about Clinton last year was that the duty of the Secret Service was to protect the people from the candidate.

But Clinton's edge didn't consist only of his natural warmth toward people and crowds; he had history, and Gary Hart, to learn from. In 1987, when the press first started asking Hart questions about his marriage and his sex life, he knew there was static in the Washington air. At the same time, he had faith—an unwise and luckless faith—in precedent and the secrets that the press had always kept. Hart's staff members were far from ignorant about "the Issue." They had prepared explanations in 1984, too. But they continued to suspend disbelief. They wished away disaster. Then, in April of 1987, just two weeks before the scandal broke, Larry Smith went to Colorado for a "blue skies" meeting with the campaign leadership. He asked the group what they intended to do about rumors of Hart's womanizing. "One of the campaign's leaders laughed, and said, 'We never talk about it,'" Smith recalled. "I



said, 'Well, you'd better think about it.'"

Reporters might whisper, but what would the papers actually print? Just look at what had gone on before, they said. Andrew Jackson was married to a bigamist. Grover Cleveland supported an illegitimate child. Wendell Willkie had an affair with an editor of the New York *Herald Tribune* at the very time the paper was promoting his candidacy. Franklin D. Roosevelt and Dwight Eisenhower had affairs, and the Homeric catalogue of John Kennedy's afternoons of leisure surely needed no recounting.

But, as Hart well knew, the atmosphere had changed immeasurably after the Watergate scandal. The press had become adversarial, wary of being duped or of being seen as "in the tank" for a public official. And the truth was that reporters never really warmed to Gary Hart. They found him imperious, aloof, reckless, a little strange. Somehow, that made it easier to bring him down.

"It's like with George Romney in 1967," I was told by Richard Cohen, a Washington *Post* columnist who travelled with the Hart campaign in 1984. "The press knew that Romney was an idiot, but the question was: How do you write it? So along come his comments about being brainwashed, and—*wham!*—they take him out. He's history. Same with Hart. There was always this sense among the press that he just wasn't—well, right. That he was weird. But how do you write it? And then along comes Donna Rice."

After the Miami *Herald* rushed into print with the results of its stakeout of Hart's town house, on Capitol Hill, "Hell Week" began for the campaign. Nothing like this had ever happened in American politics. The rules had suddenly changed, and the Hart cadres, young, and scattered across the country, were utterly confused. The newspapers and the television stations were in a mad dash to win the race to nail Hart. "I thought the whole system had gone awry," says Kathy Bushkin, who was once a close aide of Hart's and is now an executive at *U.S. News & World Report*. "For whatever reason, Gary Hart showed bad judgment and, for whatever reason, the press seemed determined to get something on him. Inside the campaign, people were stunned, frightened, frustrated. These were people who had come to politics out of great idealism. They weren't prepared for things like spin control and damage control."

John Holum, who worked with Hart in both Presidential campaigns, told me, "When the story broke, Gary called me. No one else was talking to the press. We needed to do something. I said, 'What's going on?' He said, 'John, I'm not crazy.' So I said, 'So it's not true.' He said, 'Right, it's not true.' So I went on television and got hung out to dry saying that I had known Gary Hart for seventeen years and I believed him. Now I think he did lie. I was very angry. What really made me angry is that he could let all those people pin their hopes on him and then not have the personal discipline to make his candidacy viable."

While Hart struggled to keep his candidacy alive—while he faced unprecedented questions from the press on the order of "Have you ever committed adultery?"—editors and reporters at the Washington *Post* looked into a detective's report they had been given which provided evidence that Hart had been carrying on an affair with a Washington lobbyist. When the *Post* called Hart and said that it was preparing to run a story on the subject, Hart quit the race and went home to Kittredge.

"No one looks back on that with great memories, but the rules evolve," says Dan Balz, a political writer at the *Post*. "We're in a period like that now, with babysitters and nannies sinking Cabinet appointees. What Hart did was wrong, because he misrepresented his own marriage and life in a way that became fatal. For a lot of people in this country, the simple fact of infidelity is disqualifying. Also, his actions were contemporaneous with the race. He stretched the limits."

David Dreyer, who was a key Hart aide in the Senate and is now a member of Clinton's staff, naturally sees it otherwise. "I think he was treated shabbily by the press," he says. "His privacy was invaded. The trials he went through after the campaign were disproportionate to what he had done. He was treated as a non-person, almost as a political prisoner in a totalitarian system. He's off the political radar screen."

WHILE Hart always denied to his staff that there was a problem, Bill Clinton acknowledged from the start that there would be questions, and he intended to act before the press did. In

September of 1991, John Holum and other Democratic activists went to a meeting of an exploratory committee of the Clinton campaign at the Quality Inn on New Jersey Avenue in Washington. "Clinton himself brought up the question of the marriage," Holum told me. "Clinton said, 'I know you are all concerned about this. Here's the situation: There were problems in our marriage and we've worked them out.' I was so gratified. No, I was *thrilled* that he was doing this."

To compare Hart's shock and his steely defensiveness at his press conferences during Hell Week with Bill and Hillary Clinton's command of the same subject in the early stages of their campaign is to see consummate politicians learning from the foibles of a deeply flawed teacher. Hart made himself into a martyr. He went before his supporters and the cameras and said that his campaign was a "crusade," and that "if I'm right about that, it really doesn't matter if the leader is struck down in battle or with a knife in the back, because the case goes on and the crusade continues."

Clinton and his aides watched Gennifer Flowers unleash her unholy confession in the *Star* and went immediately on the counter-offensive, charging her with profiteering and saying that taped conversations with the candidate had been doctored. On January 26, 1992, just after the Super Bowl, Clinton and his wife went on "60 Minutes" and seemed to speak past the host, Steve Kroft, and straight to the voters, in a way never seen before in Presidential politics. When Kroft asked for the specifics of the problems in the marriage, Clinton replied with a combination of frankness, indirection, and a knowing vocabulary which was designed to admit imperfection and, at the same time, shield him from further assault.

"I think the American people—at least, people that have been married for a long time—know what it means and know the whole range of things it can mean," he said. "You go back and listen to what I've said. You know, I have acknowledged wrongdoing. I have acknowledged causing pain in my marriage. I have said things to you tonight and to the American people from the beginning that no American politician ever has. I think most Americans who are watching this tonight, they'll know what we're saying; they'll get it, and they'll feel that we have been more than candid."

And then, perhaps even more important, Hillary Clinton echoed her husband, and did so without apology or embarrassment: "You know, I'm not sitting here—some little woman standing by my man, like Tammy Wynette. I'm sitting here because I love him, and I respect him, and I honor what he's been through and what we've been through together. And, you know, if that's not enough for people, then, heck, don't vote for him."

The Clinton campaign had it easier. If there had been extramarital affairs, they were not going on during the campaign. Hart had not given voters reason to believe the same of him. And Clinton was not taken by surprise. His young campaign handlers, some of whom run the White House communications office today, were no longer fooled by even the friendliest of reporters.

"The Clinton cadre had no illusions about what the press was capable of doing, while the Hart people were stunned by it," a Party activist who worked in both candidates' campaigns said. "With the Hart episode, people on the Democratic side began to understand about reporters. 'O.K.,' they said about the reporters, 'they may be our age, they may look like us, and even vote like us, but they are not us. They are another political force, an adversary.' The Clinton people hated the press even more than the Hart people."

ON a clear, cold evening this winter, I went out to the Pentagon and was led to Larry Smith's office. Like so many offices around Washington this year, Smith's rooms were newly painted and bare. "We're just finding out where the coffeepot is," Smith said by way of greeting. Smith worked as Hart's top aide in the Senate from 1978 to 1982, leaving the office just as the other aides were discussing strategy for the first Presidential race.

"Let me begin by saying this," he said. "Gary is a truly tragic figure. Though I love him, I left him in the late spring, early summer of 1982 because I lost confidence in him. I believed he felt himself in a way to be divine."

A mixture of anger, dismay, and real, lasting affection was characteristic of every former Hart aide I had met, but Smith was the one who was most willing, or able, to display his feelings.

"There is a theology that says that if you sin you are cast into the outer darkness, called Hell," Smith said. "If you are mortal, like most of us, you have to deal with the fact of sin, so when you do sin you are in your own mind condemned to Hell. That is, if you are human and do not deny that fact. The only other way is to insist that you are above the usual rules. I came to believe that Gary Hart felt that the fate of Gary Hart was that he was destined to be President of the United States and he was not bound by the disciplines that impinge on the rest of us. In the end, the guy broke everybody's heart.

"Look at what Clinton did. He signalled that he had come short of the glory of God. But he looked into the camera and acknowledged it and said he still felt worthy of support. In other words, he is like us. He is human. That was a powerful political act."

I interrupted Smith to say that Hart had told me he could not have stayed in the race, because "other lives" would have been dragged through the press and ruined.

"Maybe so, maybe so," Smith said. Then he said, "But before you go, I want you to hear something."

Smith crossed the room and found a hardbound copy of the collected poems of Yeats, a gift from Gary Hart. He leafed to one of the later poems—"Come Gather Round Me, Parnellites," an ode to the Irish hero and statesman whose political career faltered when he became a co-respondent in the divorce case of his mistress, Kitty O'Shea.

"I can't read this without thinking of Gary," Smith said. And he read:

> The Bishops and the Party
> That tragic story made,
> A husband that had sold his wife
> And after that betrayed;
> But stories that live longest
> Are sung above the glass,
> And Parnell loved his country,
> And Parnell loved his lass.

Larry Smith's eyes filled with tears as he closed the book. "That's the tragedy," he said. "But with Gary it's worse. He didn't even love the lass. Now he is walking around like a ghost. What I want for my friend is to have a fine peace on this earth."

GARY HART is in Washington looking for work at a new law firm. He sits by the window of a trendy Washington restaurant, i Ricchi, drinking cappuccino.

"Clinton was a watershed," he says. "There was the scandal, and it was dealt with for a couple of weeks, and then it went away. It wasn't just how he handled it. I hate that word 'handle.' They say Clinton handled his situation better than I did. Poppycock. It wasn't the decision to go on '60 Minutes.' It was the editorial decision not to pursue it any further. I didn't see editors this time sending reporters halfway around the world to peek in a politician's window. And that was good for the country. The wife of a very prominent Washington journalist told me the other day that everyone in Washington thinks Bill Clinton never would have been elected President without Gary Hart. Maybe. The idea is that I somehow carried away the burden of scandal. Maybe she also means that I plowed new ground on the Party and the issues. If that's the case, I'm a happy man. You don't always have to win to win. You don't always have to achieve the highest office to succeed.

"The hardest adjustment was having a platform for twelve years and then having it disappear overnight. See, you don't have to be President to have a platform, but when you lose you've lost your platform. Even if you are speaking in an empty Senate, when it's a sea of mahogany, you can feel you are contributing. That urge doesn't end overnight. Imagine a writer told he could not write. A painter. It was a way of expressing myself, my convictions. One day, you're speaking ten times a day, and then, suddenly, you're not. I was in London, and one of the papers sent around a reporter to interview me. They also sent over a photographer to take my picture. I'd met her before, and we started talking to kill time while she set up. I kind of interviewed her. She said she was married, but the marriage wasn't too happy, and someone had suggested she get involved in photography. And now, she said, her camera had become her whole life. 'If someone ever took away my camera,' she said, 'I'd be lost.' Then she started asking about my life and my situation. And I said, 'Well, you know how you would feel if someone took away your camera? You'd be completely lost. Well, that is how I feel. I've lost my platform, my chance to influence things and contribute.' And when she turned around there were tears streaming down her face.

"So now I have no public role. I don't have a platform. You are limited at the *Times* Op-Ed page to one appearance every six months or so. I tell them that doesn't seem to apply to Henry Kissinger, but that doesn't matter. Every time I call there with something to say, I get a new young thing on the line. Very nice, smart, but they just don't want to hear from me. This is not an American ethos, it's an American journalistic ethos. There are a handful of people who decide who is going to have a platform and who will not. The golden Rolodex. My category—my place in the Rolodex—is the Privacy Issue for Public Officials. Which is the only thing I won't talk about. My friend Billy Shore gets on me to write about Yugoslavia, and I say, 'For whom? Who cares what I think about Yugoslavia?' The young thing at the other end of the phone says, 'When were you last in Yugoslavia?' I'll bet they never ask Nixon that." ♦

Sports Illustrated
May 3, 1993

[redacted]

[redacted]

Working here is like an amusement park! There's excitement! There's challenge...

Laura Tyson/CEA

Isn't it likely
tonight? — B.

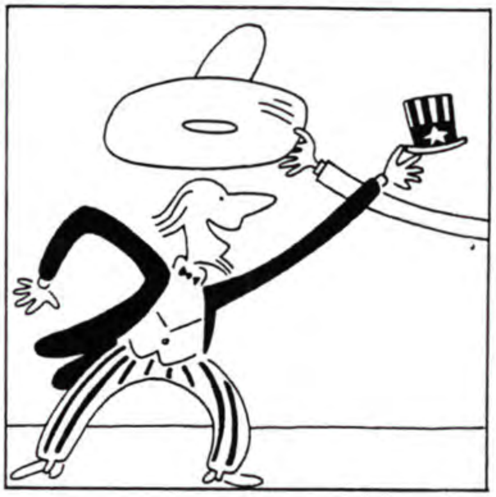
...and it will often make you sick.

THE PRESIDENT HAS SEEN 5/24

To judge by the example of Canada, which began an experiment in free trade with the United States in 1989, the proposed U.S. free-trade agreement with Mexico is a threat to the social comity on which prosperity depends

WHAT PRICE ECONOMIC GROWTH?

BY JONATHAN SCHLEFER



"FREE TRADE" IS SHORThand for both an ideology and a theory of the way things are supposed to work out for the best between trading partners. If the United States goes ahead with the proposed North American Free Trade Agreement (NAFTA) with Mexico and Canada, it will be betting a great deal on that theory. Proponents of the agreement argue that it will bring economic growth to all three countries. Opponents say that it will erode support for social-welfare programs and aggravate inequality, especially in the United States, where the gap between rich and poor has been widening ominously in recent years. Both sides could be right. I will argue that the agreement confronts us with the question posed in my title.

Before elaborating that argument, I want briefly to review the history of the free-trade agreement. The current pursuit of this grand abstract idea has roots in the domestic politics of our North American neighbors, Mexico and Canada. Indeed, when one considers it in the context of its gestation, there is an asymmetry about NAFTA—as if our neighbors figured out that to get us to help them politically, all they had to do was invoke the right Republican ideological shibboleths. In that sense NAFTA is a belated monument to Reaganism.

It was not the United States but Canada that proposed the free-trade agreement that has been in effect between the two nations since 1989, and it was Mexico that pressed for the negotiations that may well lead to the North American Free Trade Agreement among all three countries. Despite the vast differences between Canada and Mexico, their governments' motivations were remarkably similar—and illuminating about hoped-for changes in the continent's economy.

In Canada, the Liberal Pierre Trudeau, as Prime Minister, had followed a century-long tradition of what was seen as national industrial policy. The government protected many industries with tariffs three times as high as those in the United States, approved only foreign investment that it deemed of "significant benefit" to Canada, and often imposed requirements on foreign firms such as that a given proportion of purchases were to be made locally and that a given percentage of production was to be exported. The Conservative Prime Minister Brian Mulroney came to power in 1984 convinced that Canada, with a manufacturing productivity frequently reckoned to be 25 percent lower than that of the United States, needed a dose of the free market. The Macdonald Royal Commission, convened to examine the economy, predictably concluded in 1985 that "we Canadians must significantly increase our reliance on market forces." What was innovative was the means it suggested: "free trade is the main instrument" the government should use to achieve this "fundamental change in the relationship of the state to the market." Some weeks later Mulroney proposed the free-trade agreement to President Ronald Reagan. Gilbert Winham, the research coordinator for the commission, said, "In terms of its more profound interests, what Canada wants from the bilateral negotiation, it could achieve unilaterally." The FTA not only is eliminating tariffs over ten years but has codified much of Mulroney's deregulation—for example, precluding a return to investment policies like those of the Trudeau government.

Mexico's economic history makes the Trudeau government look like the Eisenhower Administration. As late as the mid-1980s Mexico maintained tariffs of up to 100 percent, flat prohibitions on foreign investment in areas from basic chemicals to stock brokerage, intrusive rules for approved foreign firms, and state ownership of the oil company, banking, and many other enterprises. The economy grew more than six percent a year for decades—twice the U.S. rate—but in the late 1970s Mexico borrowed heavily just before interest rates soared, counted on oil revenues just before prices dropped, and wound up with its famous

ILLUSTRATIONS BY CHARLES BARSOTTI

debt. Partly as a condition for receiving temporary loans from the International Monetary Fund, but finally because they, too, favored a dose of the free market, Presidents Miguel de la Madrid and Carlos Salinas de Gortari brought to an end the history of state economic intervention. After changing the rules in 1989 so as to welcome foreign investment, Salinas waited for the influx. But, as was made clear in an October, 1990, study by the U.S. International Trade Commission, investors feared that what Salinas did, his successors could undo. Like Mulroney, then, Salinas proposed a free-trade agreement with the United States to secure domestic deregulation through an international treaty. Canada subsequently joined the negotiations, so that NAFTA will apply to the whole continent north of Belize and Guatemala.

The Motives Behind NAFTA

THE REAGAN AND BUSH ADMINISTRATIONS agreed to trade negotiations not only to help like-minded foreign governments but also for their own reasons. Global talks under the aegis of the General Agreement on Tariffs and Trade remained stalled through the 1980s. GATT has done one thing well—reducing tariffs on manufactured goods among advanced nations—and seems unable to do more. It has done little to facilitate foreign investment or control nationalist policies in countries ranging from Japan to Trudeau's Canada, and it has not paved the way for firms to provide services abroad such as banking and data processing. The Reagan and Bush Administrations concluded that the United States needs progress in these areas to exploit its competitive strengths. With GATT stalled and trade blocs emerging in Europe and East Asia, the U.S. response was to try to develop a North American bloc. In a 1988 article about the free-trade agreement with Canada, James Baker, then Secretary of the Treasury, wrote, "Other nations are forced to recognize that the United States will devise ways to expand trade—with or without them." In the article Baker used the phrase "to expand trade" interchangeably with "to open markets." He wanted the terms of the treaty to reflect the same free-market policies that Canada sought.

NAFTA entails a similar bargain. It will both promote the free flow of goods by eliminating tariffs over five to ten years (fifteen for a few sensitive items) and establish rules to foster the flow of investment across borders, and it seeks broadly to increase North American reliance on market forces. All three governments, along with most economists and many business groups, share a conviction that this will strengthen the North American economies, largely by making manufacturing, financial firms, and some other services more efficient. Investors will be able to locate enterprises wherever they can operate most effectively—for example, developing advanced software in the United States and producing personal computers with less expensive labor in Mexico. Production can be planned on a broader scale, for the entire North American market, rather than in the piecemeal fashion of today, for particular countries with the hope of export. Products will become both cheaper for North American consumers and more competitive in world markets, according to Rudiger Dornbusch, of MIT, and other economists. These economists foresee few drawbacks to NAFTA.

The question is whether they are right. NAFTA is an experiment in opening the economies of industrialized nations to a major Third World country. Japan has no such agreement with its East Asian trading partners, and although the European Community admitted Spain, Portugal, and Greece into its membership, they are not comparable to Mexico. Spain has a per capita income close to half that of the United States, while Mexico's is a tenth as high. Portugal and Greece are poorer than Spain but still have per capita incomes twice Mexico's, and they contain only six percent of the total population of the EC; Mexico contains almost a quarter of North America's population. The EC is bringing poorer member countries up to Community standards with billions of dollars of development assistance and the enforcement of common environmental and workplace regulations. The EC economic and political union, if it occurs, will make policies on matters from unemployment assistance to maternity leave at least as consistent as are those of, say, Massachusetts and Alabama today. In contrast, NAFTA proposes that the United States and Canada take Mexico as is, while Mexico pays back a debt of close to $75 billion—a kind of Marshall Plan in reverse. The treaty specifically allows each nation to establish its own environmental and workplace regulations. It is an experiment tried in economics texts but never before in history.

Consider Canada

THE CANADIAN DEBATE OVER THE 1989 FREE-trade agreement is useful to consider: it set the tone for current NAFTA disputes, and the few years since the agreement was adopted tell something about its effects, and thus what NAFTA's could be. The main issue in the 1988 Canadian elections, the agreement was supported by the Conservatives but opposed by the Liberals and the New Democratic Party—along with the Canadian Labor Congress, the Canadian Teachers Federation, the Canadian Nurses Federation, the Conference of Catholic Bishops, women's groups, anti-poverty organizations, environmental groups, and, as Ernie Lightman and Allan Irving, professors of social work at the University of Toronto, put it, "virtually every non-business interest group in the country." In the end the New Democratic Party and the Liberals split the opposition vote, and the Conservatives, with a plurality of 42 percent, won a majority in the House of Commons. The agreement was ratified, but Canadians, particularly lower-income Canadians, have remained broadly opposed to it in polls.

The concerns of Canadian critics center on erosion of the welfare state, which is much more generous in Canada than in the United States. For example, in Canada both health care and Old Age Security are universal—eligibility for the latter, unlike U.S. Social Security, is based not on work history but on age alone. The differences between Canadian and U.S. unemployment insurance are staggering. In 1988 seventy percent of unemployed Canadians received insurance covering 60 percent of their wages, while 32 percent of Americans received benefits covering 35 percent of their wages. In other words, nearly 70 percent in the United States got nothing. In both countries unions push for broad social programs (which reduce unemployed workers' incentive to break strikes), but Canadian unions represent 36 percent of employed workers (outside agriculture), while U.S. unions represent 18 percent. The whole attitude toward unions is different. *Canada Year Book 1992*, a more colorful if less figure-packed counterpart to the *Statistical Abstract of the United States*, features in its chapter on employment a photo of a miners' strike and a chart on "Unions With Largest Membership."

THE CANADIAN DEBATE OVER THE 1989 FREE-TRADE AGREEMENT SET THE TONE FOR CURRENT NAFTA DISPUTES, AND THE YEARS SINCE THE AGREEMENT WAS ADOPTED TELL SOMETHING ABOUT ITS EFFECTS.

Canadian critics of the free-trade agreement argued that it would prompt firms to desert the country for the United States, particularly for the South, where unions are weak. The firms could thus lower their wage costs and taxes, and ship products duty-free back to Canada. The result would be Canadian job losses, pay cuts, and pressure to curtail social programs paid for by taxes. Employment loss in manufacturing, a sector that accounts for a large portion of trade with the United States, was a particular concern. Polarization between rich and poor, which has become worse in Canada (though it has not yet reached U.S. proportions), would be aggravated as middle-income wages eroded.

Mulroney responded that by strengthening the economy, the agreement would allow Canada to improve welfare programs, and he rashly promised that it would create "250,000 new jobs for young Canadians over and above current predictions." On a more sober note, J. David Richardson, a professor of economics at the University of Wisconsin and a consultant to the Economic Council of Canada, surveyed the various studies projecting the agreement's effects and singled out as "worst-case limits" the loss of a "minuscule 0.2 percent" of Canadian manufacturing employment. Academic economists and the staff of the Ministry of Finance looked forward to the invigorating effects of freer markets and trade and to the prospect of 250 million U.S. consumers who would be able to buy tariff-free Canadian products.

It is hard to apportion blame between the agreement and the recession (yet another candidate is the monetarism of the Bank of Canada, Ottawa's Federal Reserve), but after three and a half years, more than 15 percent of manufacturing jobs are gone. The headline on the April, 1992, *Canadian Economic Observer*, a government compilation, says, "More cutbacks in manufacturing push unemployment above 11 percent." The most recent figures put unemployment at 11.4 percent. The Canadian Manufacturers Association found that half the members it queried had examined the costs of operating in the United States, and of that half, three quarters had concluded that doing so would be cheaper. The press has been replete with stories of firms moving south for just that reason. The Ministry of Labor in Ontario, a major manufacturing province, found that more than half the layoffs are due to plant closings, so the production is gone for good, whereas less than a quarter of job losses in the 1982 recession had this permanent character. A senior adviser to the Finance Minister, speaking anonymously to the newsweekly *Maclean's*, concurred: "The problem now is that we are losing manufacturing activity itself to the United States." This is a far cry from even the direst projections of economists.

Now they say that they were looking at the long run, that four years is too little time to judge the results, and that any manufacturing losses have been caused by the recession. That does not explain why the losses are more serious now than in 1982, or why they are so much worse in Canada than in the United States. While the volume of U.S. manufacturing actually rose 1.6 percent from 1988 to 1991, that of Canadian manufacturing fell 11.4 percent. The explanation for the faulty predictions of the Canadian free-trade models may lie in their assumptions. Economics treats unemployment as a short-run effect of recessions, and according to James Stanford, of the New School for Social Research, the Canadian free-trade models assumed full employment and a fixed volume of investment in both countries. Capital would move to more-productive activities within Canada, but corporations would not widely shut factories and import goods from lower-wage U.S. plants. In short, the assumptions built into the models ignored critics' major concerns, and thus, not surprisingly, the models' conclusions suggested that the concerns were groundless. Stanford notes that the same assumptions are built into most models that predict favorable outcomes for NAFTA.

After the agreement was signed, business leaders began raising a clamor in the press that high taxes as well as labor costs were inhibiting their competitiveness. Mickey Cohen, a former deputy finance minister, told the Toronto *Financial Times* that Canada faced "greater pressure to harmonize" social programs with the United States: "If we're going to compete, we have to look more like the guys we're competing with." Sure enough, there has been pressure on Canadian social programs. The most significant was on unemployment insurance, which the Mulroney government weakened in November of 1990, so that workers had to be employed longer to be eligible and received benefits for an average of thirteen weeks less. Now the portion of the unemployed who are covered has dropped from 70 percent to 58 percent. Those no longer supported by unemployment insurance get welfare from provinces and local municipalities. But these levels of government are receiving a smaller share of revenue transfers from Ottawa. Some social programs have been trimmed. For example, in 1991 federal payments to Newfoundland, a poor province, were cut by $180 million. The town of Port Aux Basques, in turn, lost $1 million from its hospital budget and laid off a third of the staff. Threats to social programs would have occurred without the free-trade agreement—federal-government budget deficits were a problem before the treaty—and in time those Canadian manufacturers that survive will no doubt improve their productivity. But events have at least partly borne out what the agreement's critics said.

THOSE WHO FAVOR THE TREATY SAY IT WILL BOOST ECONOMIC GROWTH. OPPONENTS SAY IT WILL THREATEN MODERATE-INCOME WAGES AND ERODE SOCIAL PROGRAMS. BOTH PREDICTIONS MAY BE BORNE OUT.

The Mexican Portent

UNIONS IN THE UNITED States are well aware of the Canadian experience as they look south toward a country with far lower wages than their own. Last year William J. Cunningham, of the AFL-CIO, told the House Committee on the Budget that 50 to 70 percent of U.S. workers will lose ground under NAFTA. "Farther up the economic ladder, the affluent minority would certainly benefit. . . . Multinational corporations would hit the jackpot" by paying Mexican workers "a small fraction of average U.S. wages" and supplying no workmen's compensation, unemployment insurance, health insurance, or "other essentials of civilized life." The environmental movement has been vocal, particularly about the *maquiladora* plants set up in Mexico to export to the United States. Some managers privately admit that their plants moved from the United States to evade enforcement of health and environmental laws. A statement in *The Wall Street Journal* that the *maquilas*' "very success is helping turn much of the border region into a sinkhole of abysmal living conditions and environmental degradation" has achieved celebrity. Friends of the Earth and other environmental groups say that NAFTA will bring more of the same.

Citizens' groups in Mexico have not similarly debated NAFTA. The Partido Revolucionario Institutional, a party that actually does embrace both revolutionary and institutional elements, has held power since the 1930s, and once the President of Mexico sets a priority, opposition becomes a serious political matter. In the case of NAFTA the opposition has come mainly from a left-of-center political coalition headed by Cuauhtémoc Cárdenas. He almost defeated Salinas in the 1988 presidential election. (He may actually have won: the government prevented public scrutiny of almost half the ballots.) Cárdenas echoes his northern counterparts on NAFTA: "The exploitation of cheap labor" and "lax environmental protection" should not be "the premises upon which Mexico establishes links with the U.S., Canada, and the world economy." NAFTA will create jobs, but without political reform might not do much for wages, working conditions, or the environment. Despite an increase in foreign investment, manufacturing wages fell 25 percent in the 1980s. Collective action is risky, to put it mildly. If the leaders of a union local call a strike, they may well be ousted from their jobs, often with the cooperation of the main union federation, which is part of the PRI. And violence against organizers is not unusual.

Thus North American opposition to NAFTA (which in Canada has taken up where opposition to the U.S.-Canadian agreement left off) is centrally concerned that the treaty will free investors to roam in search of the lowest wages, weakest environmental and workplace regulations, and most-minimal taxes and other public contributions. NAFTA will, in short, free investors from political sovereignty. Governments, which at least claim to treat all people equally and to represent some common interest, will lose ground to the market, a process that, according to Maude Barlow, the chair of the Council of Canadians, an organization opposed to the agreement, means "weakest to the wall, survival of the fittest." Advocates of NAFTA do not entirely disagree but want more reliance on market forces and less on government nonetheless. "The bulk of government policies [are] motivated not by the desire to increase overall public welfare," writes Herbert G. Grubel, an economist at Simon Fraser University, in British Columbia. "Rather they are designed to provide benefits for special interest groups in order to secure their financial and voting support." If so, then perhaps the free market is a solution, and NAFTA is a step in that direction. Grubel applauds the way "increased international competition constrains the power of special interest groups."

Growth by Inequality

A CURIOUS THING IS THAT THE MORE CAREFULLY one considers the NAFTA debate, the less it seems that advocates and critics actually contradict each other. Those who favor the treaty say it will boost economic growth by strengthening the competitiveness of North American manufacturing and other firms in global markets. Opponents say it will threaten moderate-income wages (at least in Canada and the United States), erode social programs, and weaken the economic sovereignty of the state. It is perfectly conceivable that both predictions will be borne out. In the United States in the 1980s, according to government statistics, the growth of manufacturing productivity and of the economy as a whole was higher than it had been in the 1970s and was almost at the level of the 1950s and 1960s —yet 44 to 70 percent of the increase in income went to the richest one percent of all families (the variation depends on whether one adjusts for the declining size of families), and lower-middle-income families and the poor lost ground. Critics are saying that NAFTA will promote more of the same.

This lack of direct disagreement between advocates and critics of NAFTA reflects standard economic theory, which predicts both "gains from trade," meaning higher total income and more efficient production, and "trade adjustments," including job losses and salary cuts for some. "Trade adjustments" sounds pleasantly minor and temporary, but though economists do not like to say so out loud, their texts explicitly confirm that losses can be large and permanent. In one report on NAFTA, the U.S. International Trade Commission concluded that "U.S. skilled workers and owners of capital services would benefit more from lower prices and thus enjoy increased real income" (these are gains from trade), but that "unskilled workers in the United States would suffer a slight decline in real income" (these are adjustments). The ITC did not say what portion of U.S. workers it considers unskilled, but according to Jeff Faux, of the Economic Policy Institute, the ITC's model, based on the 1980 census, classifies 26 million American workers as skilled and 70 million as unskilled. Moreover, the ITC's assessment of a "slight decline" depends on timing. Standard economic theory says that wages in a given line of work converge totally and forever. (An adjustment for productivity remains: if productivity is 25 percent higher in one country, that country's income is 25 percent higher. But Mexico has, for example, auto and electronics export plants with productivity at U.S. levels.) Certainly it will take a long time for capital to move and for the changes in wage levels to occur. How long depends on judgments of investors which no one can quantify. But it could be a long way down for many Canadian and U.S. workers. There could also be substantial improvement for workers in Mexico, if political suppression of wage demands abates.

Economics leaves the debate at this impasse—a prediction of "gains" from overall growth but "adjustments" potentially harming large groups—because its most basic premises have to do only with gross income. In economic equations a dollar is a dollar, as long as it is adjusted for inflation, whether it accrues to a homeless person or a millionaire. The discipline has no means of comparing one person's additional "utility" from a dollar with another's. It can only be sure that more national income yields greater utility. Economists prefer a higher national income because, in principle, governments can redistribute it to achieve equity and leave everyone better off. Many economists advocate such redistribution, but they are the first to admit that this is a "normative" judgment quite separate from the discipline of economics itself. If NAFTA raises national income (as advocates promise) but distributes it in an inequitable fashion that governments will not remedy (as opponents believe), then the treaty poses a trade-off that economics, by its own assumptions, cannot address.

The Conditions of Well-being

IF WE ACCEPT THIS FRAMEwork, the question becomes one of means and ends. Should the end be to promote the fastest possible growth, or is some adequate level of economic activity a means to broad material well-being? In both the United States and Canada, as mentioned, the 1980s saw rapid economic growth that went predominantly to the wealthy. The result in the United States has been a widespread sense of discontent, made vivid in the specter of homeless people and the worst urban riot in decades. The result in Canada has been similar though more moderate. Certainly the end should be broad material well-being for society, and though at other times and in other places the means would be different, the United States and Canada now need greater equity. If faster growth must be sacrificed to achieve that, so be it. The matter is not so clear-cut for Mexico. It needs both substantial economic growth, which could come from investments brought by NAFTA, and a more equitable distribution of income, which requires political reform.

The framework of the question posed this way remains limited, however. Textbook economics has been so thoroughly melded into what we accept as common sense that even critics of NAFTA rarely dispute the claim that freer trade will promote economic growth. A typical example is the labor leader William Cunningham's statement that "the affluent minority would certainly benefit" and "multinational corporations would hit the jackpot." In the end, will they really? The reasoning that leads to this conclusion is based on a conception of society as a set of individuals each maximizing his or her utility. Any divergence from that situation is, in the terminology of economics, an "imperfection." Simply put, the argument is that the less individuals are hindered from maximizing their utility, the more they will do just that, and the greater will be the sum of their utility, which is the gross national product.

WHEN ECONOMIC LEADERS TAKE TOO GREAT A SHARE OF PRODUCTION AND CONTRIBUTE TOO LITTLE TO SOCIETY, THEY LACK THE AUTHORITY NEEDED TO GUIDE PATIENT, LONG-TERM GROWTH.

Suppose society is actually more than a collection of individuals. It may be that some measure of equity is in fact required for the cooperation on which long-term economic growth depends. The late Chilean economist Fernando Fajnzylber studied this relationship. (No wonder he was interested: his country both grew slowly and had an inequitable income distribution, even by Latin American standards.) In a comparison of Japan, West Germany, and the United States, Fajnzylber found that since the mid-1960s income distribution has been most equitable in Japan, second most in West Germany, and least in the United States. Japan grew the fastest, Germany the second fastest, and the United States the slowest. He noted that in level of savings as well as growth, Japan was first, Germany second, and the United States last. And by various measures (civilian research and development as a percentage of national income, productivity growth in manufacturing, and others) Japanese manufacturing was the most competitive, German the second most, and the United States' least. When economic leaders take too great a share of production and contribute too little to society, they lack the authority needed to guide patient, long-term growth.

That is a problem in the United States, Canada, and Mexico, and one that NAFTA will only aggravate. As investment moves south, it will wind up in Mexico, undoubtedly providing some benefits there. Yet looking at long-term prospects, even Mexico might not do particularly well hitching itself to a North American trading bloc that is more inequitable and less farsighted than either Europe or East Asia. The culprit is not wider trade but the way NAFTA will achieve it, by allowing investors to desert countries with better wages, stronger environmental and workplace regulations, and higher taxes. The EC, to which proponents often compare NAFTA, is increasing trade through a diametrically opposite project: the strengthening of common economic sovereignty, not the undermining of what exists. That is the sort of cohesive effort North America needs. □

THE PRESIDENT HAS SEEN
5/24

Robert Kuttner

How Clinton Could Turn It Around

Much
very interesting
argument
B.

Bill Clinton's presidency is on the verge of a downward spiral in which perceived weakness produces further weakness. If he does not pull up on the stick, Clinton will have little to take to the voters either in the mid-term elections of 1994 or in 1996.

The recent defection of conservative House Democrats over energy taxes and social spending is only the latest example. As the president seems vulnerable and vacillating, each interest group and each party faction figures it has nothing to lose by holding the president's program hostage for its own parochial demands—which only weakens him further.

The skirmishes to date are mere warm-ups for the main event of this presidential term, namely health reform. If health reform follows the pattern—compromise and vacillation in drafting the bill, then further compromise with interest groups and congressional Republicans—the exercise will hardly be worth the trouble.

Here is a radical proposal to change these political dynamics, call it the Wofford gambit. It is risky, but the present course is riskier.

In the Pennsylvania special election of 1991, Harris Wofford, then a relatively unknown liberal, overcame a 40 percent deficit in the polls to defeat a former U.S. attorney general and Pennsylvania governor, Richard Thornburgh. Wofford did it by stressing one issue—universal health care. Wofford's win instantly placed health reform center stage and transformed the presidential dynamics for 1992.

Instead of rushing to complete a health bill and making fatal compromises in its design to get it through Congress, Clinton should learn from the Wofford victory. He should craft a package bold enough to do the job properly—a bill that provides a reliable and universal system of health care for every citizen.

Such a package would be expensive. It would invite the opposition of many special interest groups. But it would win wide backing from the people.

Universal health coverage would also be opposed by the Republicans in Congress. But instead of compromising with the opposition party in order to win a quarter of a loaf, Clinton should draw the clearest possible line differentiating his program from what the Republicans have to offer on health care.

Rather than compromising, he should dare congressional Republicans to block his reform in the current Congress—and then take it to the country in the 1994 midterm elections. The 1994 House and Senate elections would then become a virtual referendum on health reform.

Nearly all Democratic candidates would run for office pledged to support the president's health plan. Most Republicans would oppose it, and the voters for once would have a clear choice.

This strategy would have several benefits. First, it would slow down the crazed pace that now afflicts the Clinton health task force and the attendant pressure to make fatal compromises in order to get a bill, any bill.

Rushing through the most important domestic reform in half a century was never a realistic strategy. To put this in perspective, President Roosevelt appointed his Cabinet Committee on Economic Security in 1933. The committee reported back in 1934. That proposal underwent further refinement, and the Social Security Act finally became law in 1935—a whole Congress later.

By taking more time, Clinton could fashion a program that reflected consensus in his own party and that was substantively up to the job. He could take the time to adequately educate the voters and nurture popular comprehension and support.

Second, this approach would increase the odds that Clinton could pick up Democratic seats in the 1994 midterm elections. Without a dramatic new strategy, those odds are long indeed.

Historically, most presidents lose congressional seats in their first midterm election. In the history of the republic, new presidents have made congressional gains in midterm elections exactly two times—in 1802 and 1934.

In 1994 a disproportionate number of Democratic senators in marginal seats are up for reelection. Given the legislative stalemate so far and the soft economy, Clinton would almost surely follow the pattern and suffer midterm losses, increasing the risk of gridlock as he prepares to face the voters in 1996.

To beat the midterm odds, Clinton will need a defining issue. As Wofford's election and public opinion polls show, health care is fairly begging to be that issue. It is, further, a very salient issue on which the Republicans, denying that a crisis exists, are on the wrong side of history and the wrong side of the electorate.

Finally, this strategy could give Clinton not just more Democrats in Congress but more reliable ones, who basically owed their election to support for the president and his health plan.

Symbolic politics and messages-of-the-day are fine on the campaign trail. But to govern, a president must solve real problems. Clinton needs to slow down and define a strategy that will serve him and the country for the long term.

History has dealt him a crisis of health care, the way it dealt Roosevelt the Great Depression, Truman the Cold War and Johnson the twin challenges of civil rights and Vietnam. How he plays the health issue will define Clinton's success as president.

52

[redacted]

[redacted]

Noel -

I'll put him on the call list. —

N.H.

[redacted]

J. ROBERT KERREY
NEBRASKA

THE PRESIDENT HAS SEEN 5/24

File w Desk

(1) Roy N
(2) Mark G
(3) Howard P
(4) POTUS / F.Y.I.

United States Senate

WASHINGTON, DC 20510-2704

May 14, 1993

Mr. Thomas McLarty
Chief of Staff
The White House
1600 Pennsylvania Avenue
Washington, D. C. 20500

Dear Mack:

You have been good to listen to my concerns about the President's economic plan. This letter is an attempt to speak candidly about my intentions: in its current form, I will vote against the reconciliation bill.

In an attempt to be constructive and because I believe strongly it is in America's interest for President Clinton to have two terms to fully implement his agenda, I feel I must be as direct as possible. Two changes must occur before I can vote yes:

1. There must be deeper spending cuts. Generally speaking, I urge and hope you will seize the majority in Congress who are prepared to advance on the goal of a balanced budget by further reducing spending. Specifically, I hope you will begin by embracing the Nunn-Domenici freeze on entitlements.

Mandatory spending will automatically increase by $44 billion from the last Bush year to the first Clinton year. Constraint in this area must occur or all is lost. Further, this freeze would honor the President's sound strategy of shifting from consumption to long term investments.

Not only would this proposal produce $90 billion in savings over ... years, but it would put Congress in the frame of mind needed to cut further. For example, my guess is you would find a majority in support of a budget freeze or across the board cuts. Across the board cuts are terrible in theory, but very workable in practice.

2. Drop the BTU tax. This new tax is good in theory but bad in practice. I am convinced we would lose jobs with this tax. It would be better to use the gasoline tax - an established and predictable tax - IF new money is needed after we reduce spending.

Mack, President Clinton inherited a Federal government in terrible shape. You know the numbers at least as well as I do. Americans do not expect the President to satisfy immediately all the pent up demand for domestic spending. In fact, as a consequence of his extraordinary State of the Union address, they expect us to spend less money. They are prepared for shared sacrifice.

It would be a great boost to the confidence of Americans if Democrats could actually eliminate the budget deficit. Imagine the economic and morale benefits of saying to America: now we are finally reducing the Reagan-Bush debt.

I know there are some who have macroeconomic worries about cutting too much. I know they tend to be reinforced by others who describe the political losses if we reduce spending on favorite programs. I believe both groups are wrong.

One further constructive suggestion. Some of the President's language carries the tone of class warfare, particularly the phrase "taxes that merely soak up the excesses of the 1980's". All of us occasionally yield to the temptation of such rhetoric. Used repetitively, however, it can quickly become a theme.

As a theme it cannot sustain us. We are Democrats because of our values, and those values must reject acts guided by envy as clearly as those guided by greed. We must stand up to those who would soak up the successes along with the excesses.

The excesses of the 1980's were those business leaders who cared more for their dogs than they did their employees, who were more concerned about the fees they earned than whether the job was in Philadelphia or Chihuahua, or who paid more attention to the quality of their golden parachutes than the flimsy nature of their workers' pensions. These attitudes will not change with our tax policies; they will only change as a consequence of the quality of our leadership and our willingness to confront irresponsible friends as energetically as we battle reprehensible enemies.

Please, understand I am arguing for change which I genuinely and strongly believe will help to create new jobs and strengthen the President's position with the American people. I would be happy to talk with you about this if you like.

Sincerely,

J. Robert Kerrey

INVOICE

Critical Care
A M E R I C A

50 Washington Street
Westborough, MA 01581-5030
508/836-3610
800/344-5500

PLEASE REMIT TO

INVOICE NO.	PAGE
125566	1

PLEASE REFER TO THIS NUMBER WHEN MAKING PAYMENT OR INQUIRY

WEBER, SARAH
2508 EUCLID HEIGHTS BLVD

CLEVELAND HEIGHTS, OH 44118
Phone: 216-229-2126

CUST. ACCOUNT NO.	PAYOR CLASS	THERAPY	SALES REP.	INVOICE DATE	
WLAK-CW0042	3014	HGG	2F	03/31/93	NET DUE

ITEM NUMBER	RX NUMBER	ITEM DESCRIPTION	U.M.	SHIP QTY.	UNIT PRICE	EXTENSION
		Prescription Medication				
011-062	3030632	CEFTIZOXIME (CEFIZOX) 2G V	EA	30	195.02	5,850.60
011-120	2030538	AMPICILLIN (POLYCILLIN) 1GM VL	EA	40	122.81	4,912.40
011-225	0	AZACTAM 2G/ML 30ML VL	EA	15	196.49	2,947.35
011-249	0	DIFLUCAN 2MG/ML 100ML BAG	EA	10	257.25	2,572.50
014-004	2040088	PHYTONADIONE(AQUA-M) 1MG/.5ML VIT-K	EA	35	7.78	272.30
014-007	2120392	MVI PEDIATRIC (5ML) POWDER	EA	21	31.35	658.35
014-052	0	MVI PEDIATRIC	EA	14	49.48	692.72
015-056	3030065	INFED 50MG/ML 2ML VL(IRON DEXTRAN)	EA	4	230.56	922.24
017-035	3010519	UROKINASE(ABBKNSE)5000U/ML 1ML	EA	2	183.12	366.24
017-052	2040173	HEPARIN NA+ 1000U/ML 5ML AMP	EA	130	33.25	4,322.50
018-009	0	NALOXONE(NARCAN)0.4MG/ML 1ML	EA	2	75.64	151.28
018-024	2090676	PROMETHAZINE AMPULE 25MG/ML 1ML	EA	10	26.14	261.40
018-097	0	GAMIMUNE 5% 100ML VL CUTTER	EA	9	775.00	6,975.00
018-098	2050147	GAMIMUNE 5% 10ML VL CUTTER	EA	6	77.50	465.00
018-230	0	GAMIMUNE N 2.5GM 50ML	EA	25	387.50	9,687.50
018-244	2110333	CALCIJEX 1MCG/ML 1ML AMP	EA	10	82.78	827.80
018-270	2050314	SANDOSTATIN 50MCG AMP	EA	28	53.66	1,502.48
018-285	3020194	PEPCID-IV 10MG/ML 2ML VL 10/BX	EA	105	72.74	7,637.70
018-304	2040084	ZOFRAN 2MG/ML 20ML VL	EA	9	316.00	2,844.00
022-112	0	SOL .9% NACL (MCGAW) 1L BAG 12/CS	EA	14	45.80	641.20
022-114	2060559	SOL .9% NACL(MCGAW) 250ML BAG 24/CS	EA	25	63.84	1,596.00
024-012	2060558	SOD CHLOR .9% 50ML PF PL MCGAW	EA	31	42.81	1,327.11
072-054	2110429	VALIUM 10MG 2ML INJ 10/BX	EA	12	61.57	738.84
072-056	3020408	PHENOBARBITAL 60MG TUBEX 10/BX	EA	56	24.57	1,375.92
NON-INV	0	DURAMORPH 10MG/10ML AMP	EA	15	84.15	1,262.25
NON-INV	0	LASIX 20MG/2ML AMP	EA	6	13.47	80.82
NON-INV	0	LASIX 20MG/2ML AMP	EA	15	13.47	202.05
NON-INV	0	ALBUMIN 25% 50ML	EA	2	154.55	309.10
###-###	2070475	D10%/0.22% NACL 1000ML + 20MEQ KCL	EA	45	56.00	2,520.00

Continued

INSURANCE COPY

INVOICE AMT. DUE

Critical Care
AMERICA

50 Washington Street
Westborough, MA 01581-5030
508/836-3610
800/344-5500

PLEASE REMIT TO

INVOICE NO.	PAGE
125566	2

PLEASE REFER TO THIS NUMBER WHEN MAKING PAYMENT OR INQUIRY

WEBER, SARAH
2508 EUCLID HEIGHTS BLVD

CLEVELAND HEIGHTS, OH 44118
Phone: 216-229-2126

CUST. ACCOUNT NO.	PAYOR CLASS	THERAPY	SALES REP.	INVOICE DATE	
WLAK-CW0042	3014	HGG	2F	03/31/93	NET DUE

ITEM NUMBER	RX NUMBER	ITEM DESCRIPTION	U/M	SHIP QTY	UNIT PRICE	EXTENSION
###-###	2100544	FUROSEMIDE 20MG/2ML AMPULE	EA	14	13.47	188.58
###-###	3020021	NACL 0.45% 500 ML + 20 MEQ KCL	EA	7	49.09	343.63
###-###	3030011	TPN 1000ML	EA	15	437.25	6,558.75
###-###	3030012	TNA 1125ML (FAT 20% 125ML)	EA	10	628.27	6,282.70
###-###	3030126	DEX. 10%/0.9% NACL + 20MEQ KCL 1L	EA	4	56.00	224.00
###-###	3030504	DURAMORPH 10MG/10ML AMPULES	EA	5	84.15	420.75
		* Group Sub-total *				77,941.06
		Administration Supplies				
031-058	0	STOPCOC 3 WAY	EA	67	15.30	1,025.10
032-037	3030363	NEEDLE FILTER 19GX1 1/2"	EA	200	2.13	426.00
032-039	2060560	NEEDLES 20GX1" 100EA/BX	EA	500	.81	405.00
034-007	0	FILTER SET W/.22M MINI-BORE LL	EA	48	20.81	998.88
034-042	0	FILTER SET 1.2 MICRON (MCGAW) 50/CS	EA	11	37.42	411.62
035-002	0	ADMIN SET 68"NV (MCGAW)	EA	35	39.05	1,366.75
035-044	0	ADMIN SET NV NF IVAC #52-04-0	EA	33	43.70	1,442.10
035-147	0	ADMIN SET BAG SPIKE SET	EA	55	35.36	1,944.80
035-158	0	ADMIN SET W/CART. 78" LVP	EA	50	111.17	5,558.50
052-039	0	DIAL-A-FLOW IV REGULAR 48/CS	EA	26	19.30	501.80
800-004	0	CATHETER INJ CAPS	EA	50	4.40	220.00
NON-INV	0	RED CAP LL R2000 (61-045)	EA	25	1.22	30.50
NON-INV	0	RED CAP LL R2000 (61-045)	EA	20	1.22	24.40
NON-INV	0	RED CAP LL R2000 (61-045)	EA	20	1.22	24.40
		* Group Sub-total *				14,379.85
		Medical Supplies				
042-015	0	DRESSING-TEGADERM 4X5" 50/4/CS	EA	24	7.33	175.92

Continued

INSURANCE COPY

INVOICE AMT. DUE

INVOICE

Critical Care AMERICA

50 Washington Street
Westborough, MA 01581-5030
508/836-3610
800/344-5500

PLEASE REMIT TO

ORDER NO.	PAGE
125566	3

PLEASE REFER TO THIS NUMBER WHEN MAKING PAYMENT OR INQUIRY

WEBER, SARAH
2508 EUCLID HEIGHTS BLVD

CLEVELAND HEIGHTS, OH 44118
Phone: 216-229-2126

CUST. ACCOUNT NO.	PAYOR CLASS	THERAPY	SALES REP.	INVOICE DATE	
WLAK-CW0042	3014	HGG	2F	03/31 /93	NET DUE

ITEM NUMBER	RX NUMBER	ITEM DESCRIPTION	U/M	SHIP QTY.	UNIT PRICE	EXTENSION
042-023	0	SPONGE STERILE 2X2"100/30/CS	BX	1	20.25	20.25
042-038	0	SPONGES STERILE 2"X2"	EA	100	.23	23.00
042-092	0	SPONGE GAUZE 4X4" 50PKG/BX #2315	EA	350	.52	182.00
043-007	0	TAPE DURAPORE 2" 6/BX 3M	EA	6	10.62	63.72
043-018	0	TAPE-TRANSPORE 2" 6/10/CS	EA	5	10.95	65.70
044-001	0	ALCOHOL PREP PADS 100/10/CS	BX	1	14.56	14.56
044-003	0	PVP SWABSTICKS 3/PK 25/10/CS	BX	4	49.12	196.48
044-032	0	PVP SWABSTICKS 3/PK	EA	100	1.94	194.00
044-046	0	BENZOIN TINC SWABSTICK #1231 50/BX	EA	50	.85	42.50
045-006	0	CHUX PAD 17 1/2 X 24"	EA	160	.42	67.20
045-011	0	STERILE APPLICATOR COTTON-TIP	BX	1	13.56	13.56
045-020	0	HYDROGEN PEROXIDE 8OZ	EA	1	2.12	2.12
045-069	0	NON STERILE VINYL GLOVE MED	EA	500	.53	265.00
045-109	0	UNIWASH SKIN CLEANSER 8OZ	EA	3	22.68	68.04
049-007	0	ACTIVER LIFE SYSTEM	EA	45	23.54	1,059.30
049-013	0	STOMAHESIVE PASTE	EA	6	42.38	254.28
060-042	0	SHARPS CONTAINER X-LARGE 23 QT.	EA	1	49.94	49.94
060-112	0	SPEC CONT 4OZ STERILE	EA	147	1.91	280.77
060-143	3020085	BACTROBAN OINT 2% 15GM TUBE	EA	4	45.66	182.64
060-191	0	TUBE DECOMPRESSION 24FR - 2.4CM	EA	1	32.47	32.47
NON-INV	0	CRITIC AID PASTE	EA	1	48.54	48.54
NON-INV	0	STERILE VINYL GLOVES	EA	100	2.03	203.00
		* Group Sub-total *				3,504.99

INVOICE AMT. DUE 95,825.90

INSURANCE COPY

THE PRESIDENT HAS SEEN 5/24

TO HRC

[illegible] [illegible] Korton

~~[illegible]~~ meeting
[illegible]
[illegible] [illegible] - Fyi.

BGS Egg

THE PRESIDENT HAS SEEN 5/24 Governor Clinton from Arthur Schlesinger Jr

THE SOCIAL LEFT TODAY

Address by Professor John Kenneth Galbraith

at the Institute for Public Policy Research

House of Commons, London, England, November 24, 1992

I have no great sense of novelty in saying that this is a time for introspective pause and thought by those of us who proudly assemble on the social left -- the Labour Party here in Britain; liberal democracy in the United States. From a long-standing association with the British left, I still reflect with both wonder and regret at the Labour defeat earlier in this economically unfortunate year. These feelings are not lessened by the subsequent performance of Mr. Major's government. Was it for this that the British electorate voted? Why in painful recession and in mere months after the fall of the poll tax did British voters remain so stolid? What, to be more relevant to this morning's discussion, was the fatal flaw on the left?

The recent situation in the United States is more complex. Mr. Bush was discharged from public office; Mr. Clinton will be the next President and with a Democratic majority in the Congress. Governor Clinton was blessed by an inordinately weak and feckless opponent, even by recent Tory standards. But that was not the central fact. If the American economy had been functioning in anything like satisfactory form, Mr. Bush, his wonderfully evident inadequacy of syntax notwithstanding, would have been returned in triumph. And Mr. Clinton, it should be noticed, was careful to align himself in many matters with relatively conservative positions. There was much talk in the recent elections of the middle class. There was almost none of the underclass.

These are all matters to which I will return. Let me give attention, first, to the larger political situation, to the present fact in both our countries.

(SPACE)

There is, to begin, what we on the left have done to ourselves. In the last half century, and here in Britain rather more, we have been the initiators and leaders in the social revolution that has taken the cruel edge off capitalism and that has made a large part of our voting population comparatively comfortable and secure. Old age insurance, unemployment compensation, medical care, public housing, improved public services, the ending of the once-cruel exploitation of women and children, the minimum wage and effective trade unions have made capitalism, more precisely the modern mixed economy, an acceptable economic system. The bitter anger and the militant political antagonisms that it once provoked are gone forever.

This change which saved capitalism, which brought a substantial part of the voting population to its acceptance and support, was, to repeat, what we on the left did to ourselves. We authored and initiated, always over motivated and sometimes militant opposition, the legislative and other action that saved capitalism from itself. The lesson here is clear: we must learn to live with our own achievement.

That means we are no longer in search of an alternative economic system. Nor is it any longer clear that one exists. We are concerned with improving, making more effective and, in social effect, more tolerant and equitable the economic system we have. Our claim is not to violent change, certainly not to revolution. It is to a socially better performance by the existing system.

To this end, we must give up some of the guiding attitudes of the past. In dealing with the economic system we can no longer believe that there are controlling principles -- socialist principles, social democratic principles, in the United States liberal principles -- with greatly beloved debate as to their nature and application. Ours, we must recognize, is an age of constructive pragmatism. Issues must be decided on their merits. In modern economic life there can be no escape from thought into theology.

Thus our attitude toward public ownership. We are not committed to it in principle any more than we accept the theologically based conservative commitment to privatization. We are for what works best in the particular case. Similarly as to regulation: there is no general case for or against government intervention. Here, too, decision must be on the social merits of the particular case.

Because we accept a large pragmatic role for the state, we must be concerned with the efficiency and general effectiveness of state action. In the public agency, as in the private corporation, there can be bureaucratic stasis and incompetence. We must, where public action is in order, stand firmly for effective and compassionate service. We value the public servant; we resist firmly the conservative commitment, where public servants are mentioned, to condemnation and insult. But we also stand strongly for effective public performance.

In assessing and deciding the appropriate role of state action we must be aware of a major dysfunction in the modern mixed economy. Those who pay and those who need are divided into two different and differently motivated communities. The modern mixed economy as an inescapable feature depends on what I have elsewhere called the functional underclass -- the large community which does the harsh, tedious, often ignoble work that later generations of the more favored community no longer wish to do or those who from location or lack of training, education or opportunity do not have work and income at all. It must be strongly a part of our purpose to speak for this underclass. And to accept that much of the support and affirmative help that it needs can come only from the state. Job creation, welfare payments, education, job training, drug counselling, housing -- all urgent needs of the underclass -- are at public cost. Acceptance of this obligation may lose us some support from some of the fortunate, the community of personal contentment. So be it. A democracy that deserves the name cannot leave any large and needful group without representation and voice.

This is not as serious a matter here in Britain as it is in the United States, where, as I've said, there was in the recent election, amidst much mention of the middle class, virtually no reference to those below. The not surprising result was that those so ignored did not think it worthwhile even to vote. In our election, which has been celebrated for its high turnout, only a little more than a half of those eligible went to the polls. Only by a generous interpretation of the word can this be called democracy.

(SPACE)

Tnere is a larger problem here: that is the distribution of income in the modern mixed economy. Left to itself, this distribution is, in the nature of the system, greatly, even intolerably, unequal. And it is becoming more so. In the United States, the extreme case except perhaps for Japan, 70 percent of the income gain in the years from 1977 to 1988 went to the top 1 percent of the population. The share accruing to the poor actually declined. This, to repeat, is socially intolerable; a firm stand for a more equitable sharing of income must be strongly a part of our platform. The rich will desert us; to speak more precisely, they already have. That the interests of the average citizen are different must be the focus of our persuasion. We do not accept the arguments so elegantly contrived to protect the financially privileged -- the case that the rich need the incentive of more income as the poor need the spur of their own poverty. (The rural Canadian version of a slightly different point, one with which I grew up, was: if you feed the horse enough oats, some will pass through to the road for the sparrows.)

The progressive income tax was one of the civilizing and sustaining supports to capitalism. In pressing effort to sustain after-tax income and living standards we must note that it also has affirmative economic effect. A reasonably equitable distribution of income is a stabilizing economic influence -- is macroeconomically functional. The poor and the middle class spend their income; their support to aggregate demand is stable and assured. Only the affluent have the privilege of withholding income from the spending stream for the uncertainties of investment use. Some of the present economic difficulties of the United States must be attributed to the Reagan largesse to the rich.

(SPACE)

I turn now to our major task. That is to assure that we are the political community that can make the modern mixed economy work. The prime weakness of the conservative position, as present American and British experience both affirm, is the inability to deal effectively with economic depression. I use the word "depression" advisedly; the term recession implies an automatic tendency of the economy to a high-level equilibrium. The modern reality is an underemployment equilibrium like the one experienced more severely in the decade of the 1930s. It will not, as conservatives believe or assume, correct itself and return the economy automatically to full employment. Our political future depends more than anything else on our ability to keep the economy at reasonably full employment and to assure the voting public that we are the political force that can there sustain it. We do not accept, as do Conservatives and Republicans, that the economy has inherent restorative powers; we do not imagine that high-level stability can be assured by the magic of monetary action -- that involving no bureaucracy, no public cost, no public effort, just the right decision by the central bank. The magic of monetarism. It is not our belief that there is some unique association between money, banking and human intelligence. Ours must be a continuing program with a commitment to real and effective action.

It is, to repeat, basic to our political reputation and success that we make the modern economy work. To this end, when there is unemployment, we must provide the alternative of work. This we must do by having a wide range of needed public investment -- public wealth creation -- available as an alternative. And to this end we must accept as necessary a deficit in the public accounts; that is the other name for public investment. Then, when the private market is functioning adequately, we must reverse this course. Ours must be the course of intelligent disciplined and economically supportive budget policy.

To those who say that this design has a slightly antique sound, only one answer is possible: there is no other. Those who in depression, as now, urge reduction of taxes do so on the hope, or more often the glib assertion, that the money so saved will be spent -- or invested. Of this there is no certainty of any kind. Much of the case for tax reduction as a counter-cyclical measure derives not from its probable effectiveness but from its compelling appeal to those whose income would be so enhanced.

The disutility of monetary policy has already been mentioned. It does work against inflation -- by creating unemployment, soft business conditions, a recession _cum_ depression. Not often is a cure so visibly worse than the disease. As a weapon against recession, it is nearly worthless. This, as often before, we are now seeing. One cites the old metaphor: you can pull on a string, but you cannot shove on a string.

(SPACE)

There is a further requirement for basic business stability that must be part of our program, must be central to our economic reputation. That is a wage-negotiating process that is consistent with overall price stability. In urging this, I have no great sense of originality; this is a matter on which it has been adequately observed that the English-speaking countries and their trade-union tradition have lagged behind our European and Japanese counterparts. But it is a matter on which there has been a major change in modern times. Once this was seen as a surrender to corporate power; now it must be seen as a counterpart of corporate weakness and not infrequent incompetence. This means that the modern trade union has a cooperative, even protective role it did not have in the past. This a party and government allied with labour must now accept and avow. It is essential to our claim that we offer stable, progressive government. It is essential also that we offer a macroeconomic policy which does not rely in dealing with microeconomic inflation on repressive monetary and depressive fiscal policy. It accommodates to an age when we on the left must see ourselves and be seen as a strongly affirmative, not merely a protective, economic force.

There is a final and greatly disputatious matter with which we must be concerned. That is our international position and role.

(SPACE)

On the social left, needless to say, we reject narrow, mindless nationalism as we reject ethnic and racial conflict. All give voice to the emotionally aggressive but mentally deprived. We are sensitive to the repression, death and destruction that have emerged from such emotion in this century and that continue in our own day. We accept that the modern advanced economy, in trade, capital movements, travel, communications and corporate management, is international in its effect. That it draws participant nations closer together is its undoubted virtue. It is the poor countries that now slaughter each other and, notably, their own people. Economic determinism, we cannot doubt, can be a benign force. That it diminishes the authority of the nation-state and moves toward international unity we cannot doubt. This we approve and applaud.

But all things must be in their own time. There cannot be exchange stability and a common currency until there is an alignment of domestic fiscal and monetary policy. The latter, in turn, are an expression of internal social need and more general economic policy. These have a strong, even primary claim. As I've observed, they were what made capitalism tolerable, saved the market system.

So we must take things in their order -- first, the alignment of social policy and other internal policy, then the unifying currency and other action that become possible. We do not stand against the broad thrust to an international order. We accept the trade adjustments that this requires, reserving only the need on occasion to soften their human effects. But internal social action and the move to larger international authority must be in step with each other. It renders no service to international order that it be seen as a cost to civilizing domestic social action.

(SPACE)

I conclude and stress again: ours is not an age of broad theory; it is an age of pragmatic thought and action. We are not the advocates of revolution; our past achievements removed this from consideration. The broad outlines of the modern mixed economy are here to stay. What remains is the task of making the system work better and for all the people. That does not mean that we take comfort in the status quo; we do not appeal to the economically contented community that does. We are the agents of responsible, compassionate change with a special sense of our responsibility for those -- the many in the United States and the not few in Britain -- who now subsist outside the larger system. We are the advocate and voice for those who, accepting the present system, believe that it can be more truly in the service of all.

THE PRESIDENT HAS SEEN 5/24

M E M O R A N D U M

To: THE PRESIDENT Mack

From: Nancy Hernreich

Date: May 21, 1993

Re: RICK KAPLAN'S HOME NUMBER IS 201-930-0116

He said some interesting thing & should tell you

THE PRESIDENT HAS SEEN
4.13.93

THE WHITE HOUSE

WASHINGTON

93 APR 12 P7:21

~~April 12,~~ 1993

THE PRESIDENT HAS SEEN
5/24

MEMORANDUM FOR THE PRESIDENT

FROM: CHRISTINE A. VARNEY CAV
Secretary to the Cabinet

Secretary Brown forwarded the attached memorandum from Dave Barram last Thursday. In a cover note, he stated that you had requested this memorandum.

The memorandum outlines Mr. Barram's concerns regarding any international tax proposals being put forth by the administration.

Mack

Worth reviewing
again — w/ Larry,
to fix the deferral issue
in Senate —

B.

Barram should know
personally we supported
changing royalty prov
& will work on scaling down
deferral —

The Proposed International Tax Provisions

1. Serious political issue

A. I don't think the Administration realizes what effect this issue is having

1. Our industry doesn't see ourselves as "asking" for anything except smart decisions
    - eg. Sculley supported the President's plan because we all had to sacrifice
        - many CEO's were strongly against the tax rate increase or other parts of the Plan
2. We made the case for the folly of the deferral and royalty proposals. It was rejected. The Administration's decision does not feel 'smart'
    - the proposals will not accomplish their objectives
        - raising revenue
        - keeping jobs in the USA
3. The President said his proposals were not intended to affect the "good guys".

B. I fear that BC will lose a chunk of the euphoric support he so beautifully built.

1. I am stunned; others had less faith that he would always do the right thing.
2. I hope none of the high tech CEO's actively oppose his Economic Plan
3. They have stopped working with the Administration and are now lobbying Congress, which I consider a terrible shame. That's they way it was before Clinton.

2. The subject is the proposed new international tax policies

A. Deferral

1. Global companies produce overseas and make profit (and cash)
2. Global companies (like us) have good deal of cash overseas, which we keep there "deferring" U.S. tax on it. Hundreds of companies are involved in this complicated international tax practice.
3. This proposal would tax that income at the current rate <u>and</u> tax the cash we already have
4. It won't work:
    - companies won't pay much tax; they'll invest overseas - unfortunately, maybe in assets that don't increase American manufacturing competitiveness

B. Royalties

1. Companies (like IBM, HP, movie companies) license intangible assets overseas.
2. This "royalty" has been treated as regular income and subject to deferral rules.
3. This proposal changes that and treats it as passive income (like interest).
4. This won't work, either ...
    - because it would behave like a disallowed expense, companies will put the real expense overseas and it will drive jobs offshore

C. The general principle

1. All the leading companies are global.
2. We decide on location for non-tax and non-expense reasons.
    - mainly local presence and efficient distribution
3. Any proposal that tries to use tax policy to keep jobs here is destined to failure.
    - requires too many rules that are anti-"commerce"; we'll figure a way around
    - the solution is a high skilled workforce that can compete in the world and a trade policy that leans on all economies to have a level playing field

3. Chronology

A. In the campaign .. BEFORE the high tech endorsement ...

1. The corporate tax folks heard BC speak about stopping companies from exporting jobs and they assumed that he would resurrect this languishing idea to tax profits overseas
2. I thought they were making up a crazy idea; that BC would never do that
   - I argued that all this concern and tax lawyer/lobbyist money was being spent for something that wasn't 'on the table.'
   - This was a new, centrist Democrat; not an anit-business Democrat
3. They were so insistent that I arranged a phone call with Rob Shapiro last fall
   - he said 'no promises'; they would look at it

B. After the election, the corporate tax people got feverishly working on it

1. I sent you a letter on January 13 ...
   - saying they were wasting lots of time and money and the Administration had a chance to show business it was serious about stopping foolish efforts
   - asking you to stop it before it got "legs"
2. The tax people kept their concern alive – in spite of my apparent lack of concern. I still did not believe the Administration would do this.

C. After the inauguration

1. Tax folks looked to Apple to stop this
   - I refused to publicly join their angst (I look stupid in retrospect)
2. The State of the Union (written plan) apparently had these proposals in it.
3. John and I briefed BC on Air Force One on February 21 - on the way to the dinner.
4. BC mentioned it at the Silicon Valley dinner; said he wasn't aiming at the technology industry; he was concerned about other industries (Smith Corona ?)
5. After dinner, BC came up to Lew Platt and brought it up. He asked Lew to come up with a proposal to get the "bad guys" and spare the "good guys" - us.
6. Meanwhile, BC sent handwritten letter to John Sculley. "We're working at it."
7. And, Sculley talked with Altman. Roger said they were working at it.

D. Treasury came up with 25% of assets exclusion idea

1. Probably at Clinton's request
2. Rather than get rid of this whole idea, the tax proposal writers probably feel this is a good compromise

E. HP (with Apple help) came up with a proposal (met on March 12 with Altman)

1. It responded to Bill Clinton's request. It was designed to provide a surgical solution
   - $10,000/employee excise tax for jobs moved offshore
   - mitigated if company provides extensive training, etc. benefits
2. Probably too complicated, but at least it was an alternative

F. John Young met with Bentsen and described why the Administration proposals would not accomplish their apparent goals (mid-March)

1. John Young believed he was presenting a completely logical argument
2. Bentsen listened without committing

G. Altman called Stu Eisenstat (the lobbyist the companies had) **and said NO**

1. They had taken it to the highest levels (everyone assumed BC) and it came back

4. Why the proposal in the first place?

A. Is it designed to raise revenue?

1. Treasury estimates deferral will raise $700M over 5 years. That would be too low if it worked. It is probably too high because it won't.
2. We'll all be able to avoid it - by doing something that doesn't help US competitiveness
   - we will be compelled to invest offshore cash in offshore manufacturing and distribution facilities
   - or worse, in some other asset
3. Royalties would raise more. I don't know the amount; the Plan seems to show $6B for both royalties and deferral over 5 years.
   - I got this from Table 6 - a line called International Tax Provisions

B. OR - Is it designed to stop companies from producing overseas?

1. Many reasons why this will not be the effect
2. In fact, it could have the opposite effect
   - this was what John Young told Bentsen - in great detail

C. Who is giving this Administration advice?

1. John Young is an experienced guy who gave his advice - directly to Bentsen
2. John Sculley's company has been leading the fight
3. Whose opinion is more astute than these two *friends?*

5. The Politics

A. Administration in a box?

1. Probably don't want to give in now; want to stand firm against lobbying efforts?
2. That's why I wanted to get it out of the mix early.

B. The high tech endorsement - unusual support for a Democratic candidate and President

1. We really weren't looking for anything but smart government that understood the importance of technology in the global economy - and was willing to act
2. Not for 'payback' -- REALLY !
3. But not to get kicked in the teeth
4. We've all taken lots of heat; some criticism for so much visibility for John Sculley
5. My response has been that this Administration will do the smart thing.

C. Support for the Economic Plan

1. We probably have to oppose this provision and work on Congress
2. We can't deliver the high tech industry support
3. If the package eliminated the deferral and royalty provisions, we could probably get HP and IBM to support it
4. If not, we have a tough decision to make
   - HP and IBM will probably oppose without much debate
5. ... **and that should be a big problem for BC**
   - It puts John Sculley in a tough spot. He doesn't want to oppose BC on this. He also has the Apple shareholder's interest to weigh.
   - John Young has already begun to work on the alternative strategy of taking the issue to Congress.
   - Young waited 10 days after meeting with Bentsen - as a courtesy

D. The High Tech Opponents

1. A few high tech CEO's have recently become visible opponents
   - TJ Rodgers, CEO of Cypress Semiconductors, testified to Congress last week.
   - He claimed others' support (eg. Scott McNealy, Gil Amelio)
2. We know TJ, so we can let him rant and rave
3. But this episode has made it hard to speak out in support of BC
   - like how you don't feel like fighting after getting kicked in the stomach

6. What can you do?

A. See this from your position as a close political advisor to BC

B. I just want to be sure BC knows what the high tech industry is feeling

1. My own loyalty is unchanged! I still believe BC can be America's greatest president
2. If BC knows the whole story and still wants it this way, I can accept that.
3. I can't sell it, however, without some good reasons.

C. Are there solutions?

1. Maybe Bentsen and Altman could work out a solution with our industry
   - eg. call Young in and ask him to help them make a compromise
2. Maybe forget the proposed new ITC (for large companies) and get rid of these 2 international tax provisions
   - The ITC is designed to cost $9B, I believe.
   - Large companies don't want the large company Investment Tax Credit; they'd rather have a lower rate (although the numbers are nowhere near the same)
   - These international tax proposals together are designed to raise $6B over 5 years

THE PRESIDENT HAS SEEN 5/24

TO: MR. ~~PRESIDENT~~ Debi

FROM: DEBI SCHIFF

DATE: MAY 10, 1993

SUBJECT: SCHEDULE OF UPCOMING EVENTS FOR THE PERFORMING ARTS FOR MAY AND JUNE.

I THOUGHT THIS MIGHT BE OF INTERST TO YOU AND/OR MRS. CLINTON. I HAVE ALSO SENT A COPY TO SCHEDULING.

Marcia

I checked something I'd be interested in

THE PRESIDENT

May 1993

PERFORMING ARTS SCHEDULE OF EVENTS

SUNDAY	MONDAY	TUESDAY	WEDNESDAY	THURSDAY	FRIDAY	SATURDAY
"FIVE GUYS NAMED MOE" (FORD'S THEATRE) 5/1 — 7/31			GUYS AND DOLLS W/ LORNA LUFT (KENNEDY CENTER) 5/1 - 5/30			1
2	3	4	5	6	7	8
9 MOTHER'S DAY	10	11	12	13	14	15
16	17	18	19	20	21 LEE RITENOUR W/ACUSTIC ALCAMY + YELLOW JACKETS JAZZ (WARNER THEATRE)	22 DUKE ELLINGTON (KENNEDY CENTER)
23	24	25	26 SAVION GLOVER ALL TAPP AND JAZZ REVIEW (KENNEDY CENTER)	27 NSO W/ ROBERTA FLACK ←→ (KENNEDY CENTER)	28	29 DWIGHT YOAKUM (WOLF TRAP 8:00)
30	31					

* Tentative

4/23/1993

June 1993

SUNDAY	MONDAY	TUESDAY	WEDNESDAY	THURSDAY	FRIDAY	SATURDAY
		1 THE JOFFREY BALLET 6/1 – 6/6 (KENNEDY CENTER) LOVE LETTERS W/ STEPHANIE POWERS ROBT. WAGNER (WARNER THEATRE)	2	3	4	5
6	7	8	9	10 NEW YORK CITY OPERA "LA BOHEME" WOLF TRAP - 8:15p	11	12
13	14	15	16 LIZA MINNELLI AND CHARLES AZNEVOUR 6/16 – 6/20 (WARNER THEATRE) CAROLE KING Pop Singer (WOLF TRAP - 8:00p)	17 NSO W/ DUDDLEY MOORE (WOLF TRAP)	18	19 NSO Brass Broadway (WOLF TRAP)
20 FATHER'S DAY LYLE LOVETT (WOLF TRAP) 8:00	21	22 JAZZ EXPLOSION SUPERBAND LARRY CARLTON (WOLF TRAP - 8:00)	23 JOHN LEE HOOKER BLUES (WOLF TRAP)	24 GROVER WASHINGTON MICHAEL FRANKS (WOLF TRAP)	25	26 BRADFORD MARSALIS (WOLF TRAP) *
27	28	29	30 PHANTOM OF THE OPERA 6/27 – 10/2 (KENNEDY CENTER)			

* Tentative

4/23/1993

THE PRESIDENT HAS SEEN 5/24

THE WHITE HOUSE

WASHINGTON

93 MAY 20 P3:35

May 18, 1993

MEMORANDUM FOR THE PRESIDENT

FROM: MARCIA HALE

SUBJECT: SOCIAL EVENT

You have been invited by Peatsy Hollings to a special performance of the musical Five Guys Named Moe. The special performance is being hosted by the trustees of the Ford's Theater for members of congress on June 17. I have also sent a copy to Patti to ask HRC.

The play is a musical celebration of the songs of the alto sax Louis Jordan. It is a wonderful, lively play and I understand from those that have seen it that you would enjoy it. If you do not wish to attend this special performance I am sure you could go on a regular performance night.

Would you like to attend?

____ congressional performance

____ regular performance

____ none of the above

ask HRC
prob will be good

PRESIDENT'S FY 1994 BUDGET IN BILLIONS

	BA	Outlays (CBO)
Supercollider	0.640	0.320
Space Station	2.300	1.334
SDI	3.800	1.790
Intelligence	N/A	2.000
TOTAL	N/A	5.444

Possible cut

THE PRESIDENT HAS SEEN 5/24

Mack / Bowles

See Hadley's possible ways to keep Adventures budget from being gutted

Bruton / Stern
We need to
decide what our
position is on this

THE PRESIDENT HAS SEEN 5/24

BOBBY L. RUSH
1ST DISTRICT
ILLINOIS

CONGRESS OF THE UNITED STATES
HOUSE OF REPRESENTATIVES
WASHINGTON, D.C. 20515

COMMITTEES:
BANKING, FINANCE AND URBAN AFFAIRS
GOVERNMENT OPERATIONS

SYNOPSIS OF THE "Community Development Financial Institutions Act of 1993" (5-6-93)

TITLE I. The National Community Development Administration (NCDA, a mixed-ownership government corporation) will be created. The NCDA, toward its goal of stimulating broad-based and long-range community development in our nation's disinvested urban and rural areas, will:

A. through a variety of types of assistance to be determined by its Board of Directors, **facilitate expansion and capacity-building of existing Community Development Financial Institutions** (CDFI's, including Community Development Banks, Credit Unions, Loan Funds, and Microloan funds), and **recognize that new institutions may need to be carefully and gradually established** in communities whose needs are not met by existing CDFI's

B. **engender secondary market activities to recycle community development funds** by certifying nonprofit secondary market intermediaries to operate such markets; providing capital and technical assistance; and issuing tax-exempt bonds to provide funds for such market activities

C. **make a wide range of technical assistance available** for community development entities

D. **approve assistance** for activities described in Title IV **on a matching basis and through utilization of a rating system** devised by the Board of Directors that looks to the strength of the applicant and the impact that the application's approval will have on the target community

E. **be overseen by a Board of Directors** comprised of federal officials, officers of existing community development and conventional financial institutions and national consumer or public interest organizations, local government officials and members of the general public

F. **be funded by a combination of public** ($200 million first year federal appropriation, half of which is allocated for purchase of NCDA stock) **and private funds** (all federal grants will be matched by private funds on at least a 1:1 basis)

TITLE II: CERTIFICATION PROGRAMS (for CDFI's and providers of technical assistance)

TITLE III: TYPES OF ASSISTANCE NCDA WILL (and will not) MAKE AVAILABLE TO EXISTING AND NEW CDFI's: a variety of funding and other assistance for Community Development Financial Initiatives, examples of which include starting and strengthening small businesses and microenterprises, real estate endeavors like construction and rehabilitation of affordable housing, and establishment, capacity-building and operations refinement of CDFI's

TITLE IV: TYPES OF ASSISTANCE FOR COMMUNITY DEVELOPMENT SECONDARY MARKET INSTITUTIONS: including provision of capital and of technical assistance

TITLE V: ESTABLISHMENT OF COMMUNITY DEVELOPMENT INDIVIDUAL INVESTMENT CERTIFICATES (CDIIC's): CDIIC's will be offered by Community Development Credit Unions and Banks and may be utilized by individuals, institutions or corporations; they will have fixed terms of duration and will receive lower than market interest rates but tax-deferred treatment; individuals may draw amounts from CDIIC's without penalty before the expiration of the certificate term for educational expenses, first time home purchase, retirement and business capitalization; and CDFI's will be required to attract a percentage of the amounts in these accounts from within their target community

WASHINGTON OFFICE:
1725 LONGWORTH H.O.B.
WASHINGTON, D.C. 20515
(202) 225-4372

CITY OFFICE:
655 E. 79TH STREET
CHICAGO, IL 60619
(312) 224-6500

SUBURBAN OFFICE:
9730 S. WESTERN AVENUE
SUITE 237
EVERGREEN PARK, IL 60642
(708) 422-4055

Beyond Handouts

New Social Programs Emphasize Flexibility And Self-Sufficiency

A Shelter Gives Job Training; Therapy Mends Families; Welfare Gets a New Twist

Ideas Rise From Local Level

A1

By LAURIE MCGINLEY
Staff Reporter of THE WALL STREET JOURNAL

LITTLE ROCK, Ark. – Three years ago Patricia Bagwell, destitute and having trouble breathing, lived out of her car at highway rest stops. Today, she has a computer job at a hospital and rents her own apartment.

Ms. Bagwell owes her newfound good fortune to Our House, an innovative shelter here that gives the homeless computer training instead of just handouts. Using donated equipment, Our House's 22-month-old program has helped dozens land jobs previously beyond their reach.

"They really saved my life," Ms. Bagwell says. "The training changed everything for me."

Patricia Bagwell

The shelter is one of several new programs quietly emerging at state and local levels that have made some impressive progress in handling intractable problems: homelessness, family breakups and long-term welfare dependency. At a time when many traditional programs seem stale, these new efforts offer innovative models for changing the way government delivers social services.

Thanks to a four-year-old state counseling program in Tennessee, 13-year-old Tonya Pool remains at home rather than in foster care or in an institution after striking family members. And in Forestville, N.Y., Michelle Szwejbka, a mother of three, has worked her way off welfare under an experimental state program overhauling government assistance to single-parent families.

Unlike some social programs of the past, these recent successes rely on grass-roots support instead of top-down funding or directives from Washington. Instead of unending handouts and state paternalism, they stress self-sufficiency and personal responsibility and look to the private sector to provide jobs. They also offer broader and more flexible support – often whatever it takes to get the job done.

Such programs "empower people rather than just serving them, and they push the solutions out of the bureaucracy and into the community," says David Osborne, co-author of "Reinventing Government" and now a senior adviser to the Clinton administration's effort to streamline the federal bureaucracy.

None of these programs offer miracle cures. And some will probably lose their allure over time. "Things get hot on a little bit of evidence, they get pushed, and then later we find out they don't really work," says Michael Bailin, president of Public/Private Ventures, a nonprofit group based in Philadelphia.

Michelle Szwejbka

But these new islands of success have won some important followers. President Clinton has praised Our House as a "model program" and urged governors and local officials to continue their "bold, persistent experimentation" in search of solutions.

Our House was founded by churches and synagogues in 1987 in downtown Little Rock. Its dormitory-style facility was much like other shelters, except that it gave the homeless a place to stay for a longer time and tried to find some of them jobs.

After a while, Joseph Flaherty, a determined Boston transplant who is the shelter's director, realized that for the place really to change lives, it would need to provide job training. After more than a year of nagging and legal wrangling, he got the federal government in 1990 to fork over seven vacant buildings. Corporations, foundations and the federal government provided funds, and International Business Machines Corp. donated the first of 28 computers.

Tin Cups to Keyboards

Among the first students was Ms. Bagwell, now 38 years old. Her marriage of 16 years had ended, and she had lost her longtime job as a book-store manager. She also had a thyroid condition that caused her heart to race and gave her shortness of breath. With Mr. Flaherty's help, she got medical treatment and a semiprivate room at a second Our House shelter and enrolled in the computer course. (Participants must have a high-school education and be able to type 30 words a minute.)

In the 14-week course, Ms. Bagwell learned eight computer languages and programs like Lotus 1-2-3 and Microsoft Works. Three weeks after graduating in

Please Turn to Page A9, Column 1

THE PRESIDENT HAS SEEN 5/24

Bc
Interesting article
from WSJ on, among
other things, Our House.

CRasco

to good ammo
for health care – B

T

THE WALL STREET JOURNAL MONDAY, MAY 17, 1993

Beyond Handouts: Embryonic Programs Provide Some Innovative Approaches to Intractable Social Ills

Continued From First Page

1991, she landed a job with the University of Arkansas for Medical Sciences hospital, where she now earns $16,000 a year and handles the payroll for 100 nutrition-department employees. "I got my confidence back," she says.

Our House's impact has been limited: Only 81 homeless and long-term unemployed people have graduated from the computer program since it began in 1991 (at a cost of $3,252 per student). But of that group, more than 80% have found jobs, mostly computer-related.

After graduating from the course last fall, 21-year-old Chantel King and 20-year-old John Burnett, a formerly homeless couple, got computer jobs with the Clinton campaign accounting office. The two have since found permanent computer jobs; he works at an art center and she works for a financial company. They can now afford to share an apartment.

Ray Norris stumbled around with a broken ankle and lived under bridges in the days before he came to the shelter in 1990. After taking the course, he worked in an advertising agency and at a medical center before being lured back to Our House to help place residents in jobs — using a computer, of course.

The shelter also opened an appliance repair shop. Those who don't like computers can learn to fix lamps and vacuum cleaners. Participants can stay as long as necessary "to get back on their feet," but Mr. Flaherty, a retired Air Force master sergeant, requires residents who aren't in training to produce proof they have made at least two job contacts each day. Those who do work must save the lion's share of their paychecks; they write money orders to themselves that they get when they leave.

"This has worked here, and it can work elsewhere," says Mr. Flaherty. The program is still one-of-a-kind, but IBM officials were so pleased they recently donated eight computers, plus software and printers, to a Los Angeles group.

Ice Cream, Not Institutions

As Arkansas finds new ways to deal with its homeless, Tennessee grapples with alternatives to foster homes and state custody for troubled children. By stabilizing families in crisis and giving them a chance to recover, the state-run "family-preservation" program, called Home Ties, promises to be more effective and less costly.

Last July, Christine Armstrong, a 30-year-old single mother in Nashville, became alarmed about the behavior of her eight-year-old daughter, Chutney, who was staying out late and getting involved sexually with two older boys in the neighborhood. Ms. Armstrong felt Chutney should be committed to a psychiatric hospital at state expense, where she had been treated two years earlier after setting fires in the house. Instead, the court referred the mother and daughter to Home Ties.

There, therapist Linda Edwards created an incentive system to improve Chutney's conduct, awarding points for good behavior and "time outs" for bad. Accrued points brought trips to a science museum and ice-cream shop; Chutney says she especially liked "going roller skating and playing Frisbee" with Ms. Edwards.

Soon, Chutney's behavior improved: She came home on time, spoke the truth and stopped her sexual experiments. Ms. Edwards also arranged treatment for Christine Armstrong's periodic bouts of depression, and longer-term counseling for Chutney. Today, the Armstrongs are doing well—together.

Tennessee created the Home Ties program, which courts refer people to on a voluntary basis, after discovering the state had the second highest rate in the country for placing children under 18 in state hospitals: 97 per 100,000, compared with 37 per 100,000 nationwide. "We were great on building buildings and then saying to parents, 'You give us your kids, and we'll take care of them,' " says Tennessee House Majority Leader Bill Purcell, who has championed the program.

Some 3,000 families have participated in Home Ties since it began in 1989, and 2,400 more are expected this year. More than 30 states now have some form of such family-preservation services, including Washington, Missouri, Kentucky and Iowa. Michigan credits its program for reducing the number of children entering foster care.

Saving Families—and Money

Most of the programs supply intense, sometimes daily treatment and in-home meetings for four to six weeks. Therapists typically handle only two families at a time instead of the 50 or more normally handled by a social-services worker. Home Ties workers will take their clients to the grocery store, help them find jobs, get the electricity restored or do whatever else it takes to reduce family stress.

A University of Tennessee study of 619 children who had been involved in Home Ties found that about 70% were still at home after a year, saving the state an estimated $4.5 million. Placements in foster care and institutions in Tennessee declined 1.9% in 1991 and 3.4% in 1992 after consecutive 9% increases in 1989 and 1990. One month of intervention costs Home Ties $2,255 per family, paid by states and private foundations, but it can save the $3,000 or more a year that foster care would cost and the $10,000 to $100,000 yearly cost of institutional care.

Some critics play down the program's success. John Schuerman, professor of social work at the University of Chicago, believes that many of the families getting the services wouldn't have split up in any case, so it isn't surprising they are still together a year later.

But the Tennessee program has made believers of many participants, including the Pool family of McMinnville. Last year, squabbles between 13-year-old Tonya and her mother, Patsy, were tearing the family apart. In a protracted fit of rage one day, Tonya attacked her mother, her adoptive father and her little brother. Patsy wanted her daughter taken from the home. She and her husband were talking divorce. "It was everybody against everybody," she says.

Tonya Pool

Late last year, a Home Ties therapist began meeting almost daily with the Pools. The therapist discovered that Tonya was anguished over her biological father's refusal to see her and that Ms. Pool, who had a stormy relationship with her former husband, felt hostile toward Tonya for looking so much like him. After more than a month of emotional conversations, tempers cooled. Today, the family is living together in relative peace. "Things are better," Tonya says.

Rethinking Welfare

In another social-policy arena where failure is the norm—general welfare—New York's embryonic Child Assistance Program has found a way to help single mothers and their families out of poverty while encouraging work.

Begun in 1988, the CAP program provides low-income mothers guaranteed benefits that, combined with work, will raise the family above the federal poverty line ($11,890 a year for a family of three). Unlike Aid to Families With Dependent Children, the basic welfare program, CAP encourages people to save and to work.

CAP recipients start out with only about two-thirds the benefit level of AFDC. But while AFDC benefits are reduced one dollar for each dollar a recipient earns, CAP benefits drop just 10 cents for every dollar, until income exceeds the poverty level. After that, benefits are reduced 66 cents on every dollar earned until the recipient's income is 150% of the poverty level, making her ineligible.

And while AFDC recipients are penalized if they save more than $1,000 or accumulate assets, this isn't the case with CAP. The program also is different from "workfare" programs, which often provide make-work jobs and have no transition to self-sufficiency.

The CAP formula worked for Ms. Szwejbka, a Forestville, N.Y., mother of three, who had been on and off AFDC for years after a serious car accident. In 1991, CAP officials enrolled her in the program and helped her get a job as a secretary. The job and CAP money raised her monthly income to more than $1,100 from the $580 she was making from odd jobs and AFDC money.

Incentive to Work

By the end of March, Ms. Szwejbka, now 31, had graduated from CAP. "I didn't need help anymore," she says. These days, she works part time for the Postal Service and sells Lady Remington jewelry – doing so well she won a trip to the Bahamas and a $500 cash prize. Someday, she plans to own her own gift store.

Though CAP doesn't have the sort of two-year cutoff for benefits that President Clinton endorses, supporters think it might work as an intermediate step. Two CAP backers have been named to top posts at the Health and Human Services Department, which oversees the nation's welfare system.

The program has some influential critics. "The last thing in the world the U.S. needs is another entitlement program for children born out of wedlock," says Robert Rector, a senior analyst for the Heritage Foundation, a conservative think tank in Washington. Says Paul Offner, chief welfare adviser to Sen. Daniel P. Moynihan of New York: "The jury is still out."

But as with the Our House and Home Ties programs, CAP's early returns a promising. Abt Associates Inc., a C bridge, Mass., policy research firm hi by the state to study the program, found that participants worked 25% more hours and earned 25% more than members of a control group.

After trials in seven upstate New York counties, state officials hope to take CAP to Brooklyn this fall. And as the Clinton administration searches for ways to fix the nation's reviled welfare system, there is little doubt that CAP will get a closer look. Says Abt Vice President William Hamilton: "These results are really pretty good."

Gottschalks April Sales Fell

FRESNO, Calif.—Gottschalks Inc. said April sales fell 3% to $22.1 million from $22.8 million a year earlier, citing customer uncertainties over tax increases and the California economy.

THE WALL STREET JOURNAL FRIDAY, MAY 21, 1993 THE PRESIDENT HAS SEEN 5/24

Rollwagen Withdraws as the Nominee For No. 2 Job at Commerce Department

By ASRA Q. NOMANI
And CHRISTI HARLAN
Staff Reporters of THE WALL STREET JOURNAL

WASHINGTON – John Rollwagen, the former Cray Research Inc. chief executive, withdrew as the nominee for the Commerce Department's No. 2 job, dealing a stunning blow to President Clinton's lofty goal of turning the sleepy agency into a technological "powerhouse."

The resignation comes in the midst of a Securities and Exchange Commission probe into insider trading in the stock of Cray Computer Corp., a Colorado Springs, Colo., spinoff of Cray Research, a supercomputer maker. Earlier this month, people familiar with the investigation said Mr. Rollwagen is among the targets of the SEC investigation.

The probe raised serious concern about the Clinton administration's ability to win required congressional approval for Mr. Rollwagen's nomination. Congressional aides have said senators planned to hold up Mr. Rollwagen's confirmation hearings until the cloud of the investigation had been lifted.

'Has Done Nothing Wrong'

Mr. Rollwagen's successor at Cray Research, John F. Carlson, said earlier this week that the SEC intends to question some employees under oath about trading in Cray Computer in late 1991. Mr. Rollwagen has already been questioned by the SEC. Mr. Rollwagen's lawyer, Charles Davidow of Washington, said he and his client "continue to believe that the SEC process will work itself out."

"He has done nothing wrong," Mr. Davidow said.

Mr. Rollwagen's withdrawal leaves the department a shadow of the image that Secretary Ronald Brown has tried to create in repeated public appearances. Mr. Brown hasn't filled his top trade and technology posts. High-powered people in corporate America, Wall Street and academia have turned down invitations by Mr. Brown to join him at the department. Recently, Derek Shearer, a friend of Mr. Clinton's, left the agency for what he described as personal reasons. And Mr. Brown has appeared to have only a slight role in major policy decisions.

Mr. Brown was certainly proud that he was able to woo Mr. Rollwagen as his deputy secretary nominee. In his first address to Commerce Department employees early in the new term, he introduced Mr. Rollwagen, who was there with his wife. "We have recruited a superstar . . . a giant in the field of trade, technology and innovation," he said. At a semiconductor industry association dinner, he again paraded Mr. Rollwagen with relish, and Mr. Rollwagen responded by standing up and waving to the important hi-tech lobbyists gathered there.

Won't Rejoin Company

Mr. Rollwagen notified Mr. Brown yesterday morning that he would be returning to Minnesota with his family. Mr. Rollwagen's immediate work plans aren't known, except that he won't be returning to Cray Research, based in Eagan, Minn. A spokesman for the supercomputer maker said "we don't anticipate John will rejoin the company in any position."

Mr. Brown told senior Commerce officials about the departure during an afternoon policy meeting. Public relations staffers scrambled through the afternoon to prepare statements to blunt the blow of the departure.

In a brief statement, Mr. Brown said, "We are exploring ways in which John can continue to have a key and valued advisory role to the department and to me personally as the Clinton administration pursues its agenda of a new and productive partnership between the public and private sectors."

An associate said, however, that Mr. Brown took the decision "very hard" because he considered Mr. Rollwagen such a find.

Before this, Mr. Rollwagen privately expressed some regret to friends about taking the job because of difficulty moving through the department's sprawling bureaucracy. Administration officials have said that Mr. Rollwagen has played an important role on policy decisions related to the auto industry and trade with Japan. But friends acknowledge he was tiring of the slow pace of government work.

In his withdrawal letter, Mr. Rollwagen said his decision wasn't prompted by the SEC investigation, but said the delay caused by the investigation gave him time to decide that he would be more effective outside the bureaucracy of the Commerce Department. He wrote, ". . . I now believe that it is from within the private sector that I personally can be most effective in addressing the critical economic issues facing our nation."

The SEC's chief of enforcement, William McLucas, said he couldn't comment on the investigation. In regard to Mr. Rollwagen, Mr. McLucas said SEC investigators "routinely advise persons contacted in an investigation that they should not construe the fact of an inquiry as an indication by the commission or its staff that any violation of law has occurred."

Mack
Urge to find
the right successor
Rollwagen of his
ability soon
B

THE PRESIDENT HAS SEEN 5/24

Mack / Bob R
What's the deal on this?
R

Small Paragraph in Tax Measure Would Mean Bigger Bills for Some

By JOHN H. CUSHMAN Jr.
Special to The New York Times

WASHINGTON, May 20 — A provision of the tax bill, inserted without debate as the House Ways and Means Committee drafted it last week, would draw many taxpayers into the highest tax brackets next year.

It would do this by delaying the usual annual adjustment of the tax tables to compensate for inflation.

At issue is what used to be known as "bracket creep" — the tendency of wage earners to climb into higher tax brackets simply because their earnings were keeping up with inflation. Bracket creep ended in the 1980's, when tax brackets were adjusted to account for inflation.

The provision would reintroduce the risk of bracket creep next year for people whose earnings are near the thresholds of the top two newly proposed tax brackets: one included single people with taxable earnings of $115,000 and couples with taxable earnings of $140,000 and the other includes those earning at least $250,000, whether single or married. It is impossible to say exactly how many people would be propelled into a higher tax bracket by the provision.

Some Republicans on the committee are enraged by the provision, which they said was never discussed during the committee's deliberations or disclosed in any of the papers explaining the bill's technical adjustments.

The provision, inserted as a technical adjustment by the committee's staff after the bill was voted on, would raise $1.6 billion over five years, the Republicans said today.

"There was no mention anywhere," said Representative Bill Thomas of California, who called the change substantive. "I can assure you, as you can imagine, that had that been announced, a debate would have ensued."

The loss of the adjustment for inflation, or indexing, even temporarily, is especially galling to Republicans because its introduction in the 1980's was one of the hallmarks of the Reagan revolution in tax rates. Indexation, it was argued at the time, would eliminate a hidden tax increase that fueled government spending.

"I cannot believe that in the guise of a technical amendment they are raising $1.6 billion from inflation," Mr. Thomas said. "We ended that in the mid-80's."

Staff aides working for the committee's Democratic majority said that the provision was not a subterfuge but rather one of the innumerable compromises in technical language that are inevitable in a bill as complex as the 831-page document that was released today.

Democratic members of the committee, like Republicans, appear not to have given the matter much thought. Representative Charles B. Rangel of Manhattan, who participated actively in the drafting of the bill, said today that he was unaware of the provision.

Accountants poring over the details today said that they were startled to find this one.

Indexing has been mostly retained in the tax proposal issued last week by the Ways and Means Committee after a party-line vote. All Republicans opposed the measure.

But the two new upper income brackets — the 36 percent bracket that affects individuals with taxable income of more than $115,000 and couples making more than $140,000, and the topmost bracket created by a 10 percent additional surcharge on taxes owed by individuals or couples with taxable income of more than $250,000 — would not be adjusted upward to compensate for inflation until after 1994.

That means that an unmarried person whose taxable income is $114,500 in 1993, and who would be taxed at the 31 percent rate this year under the bill, could be vaulted into the 36 percent bracket in 1994 after receiving a raise pegged to the inflation rate.

And although the indexing of brackets would resume the next year, that person would be trapped in the higher bracket as long as the cost of living raises kept coming.

THE NEW YORK TIMES, FRIDAY, MAY 21, 1993

Shot Down

With Cold War Over, The Military-Industrial Complex Is Dissolving

Armed Services Are Taking Work From Contractors; Congress Shuns Old Pals

A Risk to Future U.S. Power?

A1

By THOMAS E. RICKS
Staff Reporter of THE WALL STREET JOURNAL

FORT MCNAIR, District of Columbia — Here at the Industrial College of the Armed Forces, you can eavesdrop on the breakup of the military-industrial complex.

Leaving a seminar, Thomas Whittaker, a vice president at Alliant Techsystems Inc., confronts Lt. Gen. Leo Pigaty, deputy chief of the Army Materiel Command. Mr. Whittaker complains about how things have changed since the old days, when the Army was a steady customer for the tank rounds and other munitions that his company makes. Now, Gen. Pigaty is selling surplus munitions overseas, cutting into Alliant's market. "Our customers are becoming our competitors," Mr. Whittaker grumbles. The general shrugs, noting that his operation is "downsizing," too.

For the first time in decades, the rules of the defense game — not just the budgets — are shifting. From the beginning of the Cold War in the early 1950s, defense spending was dominated by the mutually reinforcing interests of the military, which wanted weapons; the defense industry, which wanted the contracts to build them; and members of Congress, who wanted the resulting jobs in their districts.

This formidable "military-industrial complex," President Eisenhower warned in 1961, could wield "unwarranted influence." In 1981, Gordon Adams, a Washington economist, called the alliance "the iron triangle" in an influential analysis. But now, working as a budget analyst in the Clinton White House, he thinks "the iron triangle has crumbled." Indeed, experts on all sides say it has been beaten down by the end of the Cold War, the budget squeeze and the defense sector's diminishing role in the economy.

Vast Implications

If so, the implications are vast for the U.S. military and for the defense industry. The change suggests that the defense budget, with the congressional floor removed, could plummet to about 2% of gross domestic product, a level not seen since 1940. More important, it raises questions about whether the U.S. can continue to mount a global military presence.

What is clear already is that the alliances that once kept funds flowing to the military are disintegrating, with erstwhile cronies becoming adversaries in a fight for slices of a shrinking pie. Some evidence:

• The Aerospace Industries Association which once talked of a government-industry "partnership," is bitterly accusing the Pentagon of trying to nationalize the defense industry.

• The military, to save money and preserve its own operations, is shutting out contractors and taking more work in-house, work ranging from repainting aircraft to making spare parts to building gun mounts for tanks.

• The military is also treating Congress differently, gleefully using base closings to make the politicians feel the pain of defense cutbacks.

• Many members of Congress are steering clear of defense matters: This year, more than twice as many members of the freshman class in the House bid for seats on the Science and Technology Committee as for the Armed Services panel.

In the short run, the defense industry faces uncertainty, disruption and indecision. In the long run, it faces two options, neither very appetizing. Its endangered sectors, such as makers of nuclear submarines, tanks and combat aircraft, could become regulated monopolies. Or parts of the industry might be taken over by the military, in a return to the pre-World War II arsenal system, when much more equipment was produced and maintained in government plants. In addition, defense work may become less innovative as private-sector competition dwindles.

The positive side, however, is that military spending may eventually become more rational, driven by military needs more than political pressures.

"There's going to be a very different structure when it's all over," says Gary Denman, director of the Advanced Research Projects Agency, the Pentagon's office for supporting cutting-edge technology. "I don't think we know what it's going to be — that's one of the things the new team at the Pentagon is facing."

The Military vs. the Industry

At an industry meeting in Fredericksburg, Va., last fall, Gen. Ronald Yates, who heads the Air Force Materiel Command, declared war: "We are radically changing ways we do business in the United States Air Force. I don't intend to close any depots. I intend to take . . . work away from you to keep my depots open. So, I am a tyrannosaurus. If you're sitting there eating my cabbage, I intend to take your cabbage away from you."

The reaction, recalls one defense lobbyist in the audience, was "stunned silence." After all, the solid base of the iron triangle was the enduring relationship between the Pentagon and the industry. Over the years, more than a few officers and defense officials got in hot water for helping old buddies who had retired and gone to work for the contractors. Others call the

Please Turn to Page A10, Column 1

HE PRESIDENT HAS SEEN 5/24

THE WALL STREET JOURNAL THURSDAY, MAY 20, 1993

1/3

59

Shot Down: With Cold War Over, the Old Alliance Of Armed Services, Contractors and Congress Fades

Continued From First Page

arrangement a *de facto* industrial policy that yielded critical breakthroughs in computers and aviation.

Now the weapons-procurement budget is less than half its 1985 peak of $96.5 billion, when the Reagan buildup was pouring money into new weapons "platforms" such as ships, aircraft and armored vehicles. And it still is declining. Lacking contracts to build new weapons, the industry is trying to stay alive by maintaining existing weapons. The problem is, the services, which operate three dozen facilities employing more than 100,000 people, hunger for the same jobs.

In December, the Air Force's Warner Robins Air Logistics Center in Georgia competed against private contractors for repair work on the wings of 113 C-141s built by Lockheed Corp. Its $62 million bid was estimated to be 50% lower than the next-best offer, supposedly made by the Air Force's old friends at Lockheed. At about the same time, Warner Robins let it be known that it was contemplating doing some assembly work on the F-22 fighter now being developed by Lockheed and Boeing Co.

The Navy has also began eating its contractors' lunches. Since building the Hellcat fighter during World War II, Grumman Corp. has supplied most of the Navy's aircraft, including the F-14 Tomcat fighter and the A-6 Intruder bomber. But in recent years, the Naval Aviation Depot at Norfolk has been nibbling at Grumman's work. First, it took away a Grumman contract to strip and repaint Tomcats, a surprisingly complex job requiring low-radar-reflective paints. Grumman had been charging the Navy $120,000 per plane, a Navy official says; Norfolk's bid was $28,000 apiece.

Then, Norfolk bid for and won a contract to upgrade the F-14. "We actually tear the things clean apart. Grumman didn't think we could do it," says Gerald Hensley, director of Norfolk's F-14 maintenance and upgrades shop. In a Navy hangar overlooking the bay where the Monitor battled the Merrimack, he strides past the stripped-down shells of 30 of the aging fighters, barely recognizable with engines, wings and noses removed. Norfolk spruces them up for $5 million each, compared with Grumman's $14 million.

Even the Army, long considered the least innovative service, is getting into the act. Its Rock Island Arsenal is making half the mounts for the 120mm gun on the M1A2 tank; originally, General Dynamics Corp. made them. The Army may decide next month to shift even more of that work in-house. On a pending sale of 524 tanks to Egypt, the government is making all the gun mounts.

Industry officials complain that there is no fair competition with the services, which, after all, don't have to answer to shareholders or show profits. Ronald Smith, director of Grumman's corporate contracts and business policy, also notes that "they're the judge and the jury" in deciding who gets the jobs. To General Dynamics Chairman William Anders: "It's almost a farce. The playing field is definitely not level."

Level field or not, the game gets intense. Cheryl Pleasant, a former aircraft-instruments mechanic and now business manager of the Navy's Norfolk depot, says that that facility has beefed up its security procedures since the Cold War ended — to guard not against spies but against nosy contractors. "Now we guard our performance and rate information because it's business-sensitive," she says.

Kent Kresa, chief executive of Northrop Corp., warns that because the government-industry alliance is crumbling, contractors may not be around to provide the next generation of weapons systems. Back at the Norfolk Naval Aviation Depot, such pleas draw derision. "Basically, their argument is let us spend your money inefficiently and ridiculously so 10 years from now they'll be open," hoots Mr. Hensley.

Secretary of Defense Les Aspin's office has hinted lately that he recognizes the jeopardy the industry is in. As part of a pending review of how to reshape the U.S. military, he will consider proposals in the next few months to curtail the depot system to throw more repair and maintenance work to the private sector. Such a move would please the industry but not Congress, which jealously guards the tens of thousands of civilian jobs at depots.

The Military vs. Congress

The Pentagon used to know how to handle Congress. "Recognize defense acquisition is a two-way street," teaches a textbook on Pentagon-congressional relations published by the Defense Systems Management College, where Pentagon officials learn how to buy weapons and influence Congress. "Dependence on each other produces a 'win-win' situation. Work toward it."

That, at least, was the way the system used to work: Congress gave the military money, and the Pentagon returned the favor by stuffing key congressional districts with jobs. No project highlighted this approach more than Rockwell International Corp.'s B-1 bomber, in which the Air Force dropped the subcontract manna on 400 of the 435 congressional districts.

For the Navy, the strategy involved "home ports" sprinkled around the country to turn dozens of lawmakers into Navy boosters. Dubbed "home porking" by critics, the approach cost more than $1 billion to disperse ships' berths to a dozen cities. Now the Navy, faced with declining budgets, is consolidating ports and closing excess facilities. In a stunning move, the Pentagon base-closers hit hardest in Oakland, Calif., represented by Rep. Ron Dellums, chairman of the House Armed Services Committee, and in Charleston, S.C., represented by Sen. Strom Thurmond, the ranking Republican on the Senate Armed Services Committee.

Some in the Pentagon have used the base closings as a form of political revenge, making lawmakers share the pain of the budget cuts. In the long run, that may erode the military's influence in Congress. "They may wake up 10 years from now to find they don't have the support they've had," warns Rep. John Spratt Jr., a South Carolina Democrat.

But some military professionals see the loss of support as an inevitable side effect of the generally healthy trend of making the military budget less political. Says one politically savvy Navy officer: "You've got fewer members of Congress with a vested interest, fewer champions. So when you want to get something through, it's going to have to make it on its merits."

With the military on the budget warpath, there is a growing sense in Congress that defense is a specialty best avoided. This year, for example, 19 members of the freshman class in the House asked for seats on the Science and Technology Committee, historically a backwater, while only seven asked for Armed Services, which in the past offered some prestige — and much pork. "With the defense budget being cut back, it's not very pleasant," notes one House aide. The main questions involve which companies go out of business, which communities become ghost towns, which service takes the biggest personnel cuts.

With an even bigger round of base closings looming in 1995, membership on the Armed Services committees actually has become a political liability. This aide notes, "Back home, they'll ask, 'If you're on the committee, why couldn't you do something about it?'"

Finally, Congress is changing as a new generation takes office. "Our side of the triangle increasingly will be people who don't have a military background, and the Pentagon will have to adjust to that reality," says Rep. Glenn Browder, an Alabama Democrat with both a doctorate in political science and a seat on the Armed Services Committee. For military officers, the armed services remain a way of life. But to many in Congress, the Pentagon looks like just another agency with its hand out, not much different than Housing and Urban Development.

Congress vs. the Industry

When the iron triangle was still intact,

THE WALL STREET JOURNAL THURSDAY, MAY 20, 1993

2/3

60

contractors could appeal directly to Congress to fund projects that had lost appeal to the military. As recently as last fall, for example, General Dynamics persuaded lawmakers to shoehorn the purchase of 24 F-16 fighters into the defense bill, even though the Air Force didn't want them. Of course, General Dynamics was quitting the aircraft business, so it could afford to cross old customers in the Air Force.

This year, the V-22 Osprey tilt-rotor troop transport looms as a major battle. The Marine Corps, and its powerful congressional lobby led by Rep. John Murtha, a Pennsylvania Democrat, wants it. To some, it is the test case of the iron triangle's remaining strength. The plane is "very expensive," says one congressional source. "It's crashed three times. It's just a transport helicopter that doesn't fire missiles or drop bombs, but it's going to cost $22 billion." But others argue that if the V-22, which is being built by Boeing and Textron Inc., survives, it may be the industry's last hurrah in Congress.

"It's very difficult when a large number of people in Congress — our friends, they *are* our friends — are working against us," laments Stan Siegel, a vice president of the Aerospace Industries Association.

As the industry's political clout has faded, so has its economic significance. "The economy's changed," observes Barry Blechman, president of Defense Forecasts Inc., a Washington consulting firm. "Defense isn't as economically important in most regions as it used to be, particularly in the industries that are on the cutting edge, like electronics."

Congressional relations with the defense industry are likely to deteriorate further. Stephen Peter Rosen, a Harvard expert on military technology, expects the industry to edge toward becoming a group of regulated "quasi-monopolies," with one producer of submarines, one of tanks, perhaps one or two for fighter planes.

That may make industrial and military sense, but it could also spark new political troubles. These companies would produce high-tech weapons at a very low rate and, consequently, at extraordinarily high cost. Like utilities, they would enjoy guaranteed profits, but unlike, say, electric companies, they would face much debate over the need for their products. Prof. Rosen warns, "If they go down that road, defense companies are going to become more and more the targets of the political classes" and "could wind up very unpopular with the American people."

Zurn Industries Inc.

Zurn Industries Inc.'s stock fell 8.1%, or $3.125, to $35.25 yesterday on the New York Stock Exchange, following the Erie, Pa., company's report of lower-than-expected earnings late Tuesday.

For the fiscal fourth quarter ended March 31, the concern, which makes and designs power generation, air pollution equipment and construction products, earned $8.8 million, or 70 cents a share, on sales of $158 million. But those results included a pretax gain of $4.6 million from the sale of businesses. Without the gain, Zurn earned $5.9 million after taxes, or 47 cents a share, well below analysts' estimates of 68 cents a share.

In the year-earlier quarter, Zurn had a loss of $7.4 million, or 58 cents a share, after a restructuring charge and provisions for receivables Zurn has not been able to collect from cash-strapped customers.

Zurn said it had planned for higher earnings, but sales at its Lynx Golf business were "substantially below expectations" partly because of delays introducing a new line of metal woods. The high-technology golf clubs are an offshoot of Zurn's precision manufacturing method.

THE WALL STREET JOURNAL THURSDAY, MAY 20, 1993

3/3

61

THE PRESIDENT HAS SEEN 5/24

Tony Lake

Jim Hoagland

Bosnia: Atlantic Rift

Containing the war in Bosnia and containing their own sharp divisions over that war have become the principal policy objectives of the United States and its most important European allies. Bosnia is no longer about Bosnia. Bosnia is now about allied unity.

Its approach to Bosnia suggests that the Clinton presidency will set a minimalist agenda in European-American relations. That may not be Washington's intent, but that will be the inevitable outcome if Clinton's foreign policy team replicates the uncertain leadership and wavering objectives it has demonstrated in the Balkans.

A lowered American profile in Europe's daily life was inevitable (and not undesirable) beyond the Cold War. The trans-Atlantic agenda even a short time ago called for an elegantly managed diminution of U.S. troop presence, nuclear weaponry and strategic domination of European affairs by America.

Instead, American influence on the continent now risks being wobbled away as Europeans conclude that the United States is unsure about what it wants, and even less certain about how to get it. American credibility is a potential new victim of the boastful, belligerent Bosnian Serbs.

The Bosnian dilemma has tested President Clinton and his advisers both on performance and on substance. The president rightly argues that on substance he has done no worse than his predecessor and has actually saved lives in eastern Bosnia with humanitarian air drops.

But on performance, a vital part of leadership in foreign affairs, he has succeeded only in heightening the fears of Europeans who have quietly worried since Nov. 3 about having another "inexperienced" southern governor catapulted into the White House.

European editorialists now use Bosnia to link Clinton not only to Jimmy Carter but to an old line from Lewis Carroll: "If you don't know where you are going, any road will take you there." When I mentioned the Clinton foreign policy "team" to a European diplomat here the other day, he replied: "Team is not the word. More like a gathering."

These dismissive judgments are too harsh. They are colored by Europe's undiminished readiness to find fault with American leadership, which is always too strong except when it is too weak.

There is an argument to be made that Carter's foreign policy goals, with their emphasis on human rights and multilateralism, were premature rather than wrong. But chances for accomplishing those goals were doomed by poor management and an early image of indecision and weakness. Gearing down American power and exposure while maintaining American influence is the most difficult imaginable foreign policy task. It is impossible if allies and adversaries have cause to question the White House's competence and resolve.

Genuinely torn over using force to halt the Serb onslaught, Clinton has let this indecision show, making him look far less presidential than the allies and his supporters at home would like. His assumption that trial balloons work in the national security area pretty much as they do in Arkansas politics or on domestic legislation is contributing to the problem.

He has made on-the-record statements about committing troops to Macedonia and other missions that would be life-or-death matters for those who would have to carry them out, only to adjust course when public or congressional opposition surfaced. A belated background press briefing by Clinton aides on the president's determination to lift the arms embargo and use air strikes on the Serbs was delivered just as Secretary of State Warren Christopher was flying back from Europe to put that plan on the shelf.

The administration is now tempted to go into a sulk and withdraw from the front line of diplomacy on Bosnia and blame the Europeans, much as George Bush did. Bush was guilty of mere cynicism. Clinton will stand accused of the far worse sin of ineptness if, having asserted U.S. leadership on this issue, he now abandons it.

That does not mean the president must take military action in Bosnia to show that he is tough or to show "resolve." Clinton has avoided the trap that Lyndon Johnson fell into on Vietnam, and should continue to resist the illusionary option of using military force to solve his own credibility problem.

But it does mean that he must take the lead in fashioning common elements in the British, French and American approaches to Bosnia into a real containment policy. Clinton can build on Britain's "air deterrence" option: The threat of British bombing has kept the Bosnian Serbs from overrunning Srebrenica, where 150 Canadian troops form a human tripwire. Elements of the French "safe haven" proposal for Muslims make sense. And if his own idea of lifting the arms embargo for the Muslims is not acceptable now, it may be at a later stage.

In some ways, the details are less important than the need to convince the Europeans—and, one senses, Clinton himself—that American leadership is both vital and possible on European security issues. America will need Europe, and vice versa, to keep the problems of Russia, Ukraine and the rest of the ex-Soviet empire in manageable condition.

A new Christopher mission that can claim a success in European-U.S. consultation should be an urgent priority for Washington. As Henry Kissinger would have said, if the claim of success has the added advantage of being true, so much the better.

THE WASHINGTON POST THURSDAY, MAY 20, 1993

57

THE PRESIDENT HAS SEEN 5/24

Bruce

On My Mind

A. M. ROSENTHAL

Trickle-Down Mercy

The best way for the U.S. to help the Chinese people win relief from daily oppression is to keep enriching the Chinese economy through trade.

Yes, that will also enrich the treasury of the Communist Government and its ability to enforce Communist order in the country. But a strengthened economy with a flavor of capitalism, however controlled, will lead to liberalization of the dictatorship, help moderates take over when the old men die and so in the long run benefit the Chinese people.

Those two paragraphs are the essential argument of the American China-trade lobby and its supporters against economic pressure on the Chinese Communist Government.

Now, then: Blessed though I am by a disposition aptly described as angelic, that argument for trickle-down mercy is being droned out so often, and so cynically, that I may be forced to bite the next lobbyist who parrots it.

The lobby goal is to edge President Clinton away from using trade penalties to persuade Communist China to give up certain of its customary instruments of governance.

China: telling ourselves lies.

Among these are slave labor built into the economy, political suppression, imprisonment and torture, forced abortion, confiscation, trade barriers and proliferation — the sale of nuclear and missile weaponry or technology to other dictatorships. Instruments like that.

Lobbyists have a right to lobby. And I cherish the daydream that one of them, just one, will get up and say — Look, in China we get labor at bottom dollar, without health care or Social Security fusses, no unions, no guff, and what goes on in political prisons is not our affair; we are a business, not some Human Rights Watch.

That would be more acceptable morally than the drivel that what is good for the Communists is good for the people who suffer under them.

I heard it when I was a correspondent in Communist Poland — help the Communists industrialize because increasedindustrializationleadstoincreasedliberalization, said like that, fast, a one-word mantra.

That lasted until a specific day — when all those liberalizing Communists who were supposed to give Poles freedom decided instead to give them martial law.

And Americans who believe that dictatorships soften in a powerful capitalist economy never got to the point in history class where somebody told them about Adolf Hitler.

But China lobbyists do not embarrass easily. Here they are asking us to worry about China's economy, and it turns out, according to the International Monetary Fund, that it is the third-largest in the world, right behind the U.S. and Japan. Are we supposed to surrender first place, in searing sympathy for Beijing? All right, but then do we sock it to Japan for not getting out of China's way?

We are told we must not "isolate" China, which nobody is asking for. We are told that foreign presence itself ameliorates life in China. That will be of interest to farmers whose crops are confiscated, teachers tied to torture boards in prison — and women forced into abortion 20 years after U.N. population-control people were allowed into the country.

President Clinton will decide in the next two weeks whether to impose economic penalties on China for violating human rights and for proliferation — or give them one more year to be good boys.

One more year is what he will probably decide. But Congressional friends of Chinese freedom expect him to issue an executive order that would make the next 12 months the last year of grace to Beijing unless it behaves with a touch of decency. If he does not do at least that, Congress will.

Under such an order, tariffs would be raised if human rights decencies were not improved in China and Tibet, or U.S. products fairly allowed into China.

That should mean real products made by real American labor, not just parts shipped there from somewhere even cheaper, put together with American investment money and sold to us. And if proliferation continues, trade could be just cut off.

All that may not work. Communist bureaucrats have a personal stake in tyranny — their lives. But Americans will have done what they can for the Chinese, which is better than sitting around year after year, telling ourselves lies about how we are helping the people by helping their tormentors. □

THE NEW YORK TIMES, FRIDAY, MAY 21, 1993

25

THE NEW YORK TIMES, THURSDAY, MAY 20, 1993 THE PRESIDENT HAS SEEN 5/29

End the War in Bosnia — Peacefully

The author of this article is a U.S. official who requested anonymity.

An extraordinary combination of circumstances makes this a propitious moment for a new effort to end the cruel war in Bosnia. It is not a time to step back, although the temptation to do so is strong.

After the defiant vote of Bosnian Serb leaders to reject the Vance-Owen peace plan, and under intense pressure from economic sanctions and President Clinton's credible threat of force, President Slobodan Milosevic of Serbia has suddenly stopped encouraging his allies in Bosnia. Boris Yeltsin has made it clear that he supports international peace efforts and will not throw a life preserver to Serbs in either Bosnia or Serbia. Finally, recent fighting around Mostar has reminded the world that Croatia as well as Serbia must be brought to heel if there is to be progress toward peace.

If the U.S. and its allies can agree on a strategy to take advantage of these circumstances, they can fashion a new approach that could break Bosnia's spiral of death, prevent a spill-over of the conflict to neighboring lands and discourage nationalist extremists who hope to provoke similar conflicts elsewhere. This would have to be a comprehensive strategy, not a piecemeal approach like those attempted so far, and it would have to be given time to work.

In order to be successful, any framework for peace in the Balkans must meet several tests: It must guarantee respect for internationally recognized borders, though it could hold out the possibility of future adjustments through mutual agreement. It must not reward those who have engaged in odious "ethnic cleansing" in pursuit of racially pure nation-states. And it must strengthen rather than weaken NATO by attracting support from both the United States and its European allies, as well as from Moscow.

Unless such a solution can be found, the carnage in Bosnia will worsen and the message of international impotence will encourage similar conflicts in other parts of Europe and in the former Soviet republics.

Whatever the merits of aerial bombardment against Serb supply lines and artillery positions, it is now clear that European governments will not support it. Nor will they accept a lifting of the arms embargo against Bosnia's Muslim-led Government. The challenge in Bosnia is not to introduce new weaponry but to find ways of reducing the vast arsenals already there.

One promising approach is the idea of "safe havens," which has been raised by the Security Council and finds especially strong support in France. Simply declaring certain besieged cities to be havens and demanding that fighting there cease, however, is not enough. A multilateral ground force is needed to enforce peace in these havens and to show warring factions that it is to their advantage to silence their guns.

This ground force could not succeed unless it included troops from the U.S. President Clinton has, until now, opposed the commitment of American troops in the absence of a peace settlement, but if they were used to help protect safe havens, their role would be essentially defensive, rather than offensive. They would, of course, be in harm's way, as were the 40 U.N. soldiers from other lands who have already lost their lives in the former Yugoslavia. European leaders, however, are right when they say that American concern over the killing in Bosnia cannot be taken fully seriously as long as the U.S. is unwilling to share all the risks.

To be credible, such a military force, of 25,000 to 50,000, would have to cooperate with NATO and include Russian troops. It would need a U.N. mandate stronger than the one under which the forces in Bosnia are now operating. The mandate should allow blue-helmeted soldiers to operate under Chapter 7 of the U.N. Charter, which authorizes troops to enforce their will rather than serving simply as observers, mediators and protectors of aid convoys.

This force would first establish a presence in the designated havens, which would include Sarajevo. It would then pursue the urgent goal of silencing the artillery that is pounding these unfortunate communities. To achieve this, the West should introduce a carrot-and-stick policy that, unlike past policies, would seek to increase both the costs of continued defiance and the attractiveness of cooperation.

Within the safe havens, civilian and military authorities would be pressed to comply with the Vance-Owen plan, including disarmament. As soon as they do so, their communities would qualify for protection against further aggression, protection that could include air strikes against artillery positions. In addition, these communities would be offered generous aid for reconstruction. Water and electric supplies would be restored, destroyed homes and public buildings rebuilt and a semblance of normal life restored. Refugees would be invited back.

The considerable costs of reconstruction should be borne by a specially create bank. Since the first havens would be predominantly Muslim, the bank should b financed in large part by wealthy Muslim countries that have expressed willingness t help but have not yet been given a format.

At the same time, hostile forces surrounding the havens must be completely isolate from outside support. Observers with modern monitoring equipment should be poste along Bosnia's borders. No supplies of any kind, with the exception of basic foods an medicine delivered by international agencies, should be permitted to reach fighters who refuse to lay down their weapons or civilian communities that back them. The holdouts would soon find it impossible to grow, produce, buy or sell almost anything at all.

The contrast between relative prosperity within regions that accept the Vance-Owen plan and steep decline in conditions outside them would soon become stark. U.N. troops would seek gradually to expand the size of the havens by promising those outside an end to privation if they cooperate.

President Milosevic should be tested to see if he is really serious about ending support for the Bosnian Serbs. Remembering his record of mendacity, we should proceed warily. But if international monitors verify that he has cut Belgrade's lifeline to the Bosnian Serbs, foreign governments should agree to discuss easing the sanctions that have crippled his country.

President Franjo Tudjman of Croatia should be put to a comparable test. Croatia has regular Army troops fighting in Bosnia, holding down front-line positions against Serb fighters but also terrorizing civilians in Mostar and central Bosnia. Mr. Tudjman should be told that if he does not withdraw them and stop supplying Croatian militias, who are engaged in their own "ethnic cleansing," his country will be punished with sanctions as harsh as those that have been applied against Serbia.

Another incentive should be the presentation of all war crimes cases to the U.N. tribunal to be established for this purpose. Hatred among the three warring sides has reached such a level that there is little confidence in the ability of any of them to prosecute these cases fairly. Turning them over to a body that could guarantee due process would build confidence in the Vance-Owen process and ease fears that the trials would degenerate into orgies of political revenge. The tribunal could also hold out the possibility of amnesty if it could be negotiated by the parties.

This strategy would require re-thinking some assumptions. It would require President Clinton to modify two conditions he has set in the past: He would have to accept the involvement of American ground troops before the signing of a comprehensive peace treaty, since European countries alone would be unwilling to launch such an ambitious new effort. And he would have to permit the deployment of these troops without a firm timetable for their withdrawal.

1/221

Another troublesome question is that of getting aid to the safe havens, which at least at the outset would be encircled by hostile fighters. Some aid could be dropped by air, but much would certainly have to be trucked across unfriendly territory. If Serb fighters continue to block these convoys, U.N. ground troops might have to use force to bring them through, increasing the likelihood of casualties.

There are two important reasons to commit military and economic resources to a multilateral effort to bring peace to Bosnia. The first is one to which Americans have already responded, which is the crying need to relieve unimaginable human suffering. The second is that American national security interests are at stake. NATO and the United Nations, the institutions best equipped to keep international peace, have been badly battered by this crisis. If they cannot act now, the world will be even more poorly equipped when the next similar crisis erupts in Eastern Europe or the former Soviet republics. □

2/2

22

THE PRESIDENT HAS SEEN

Ray, any idea who wrote this?

R.

Embattled Drug Industry Makes Offer To Clinton: 5,000 Summer Youth Jobs

By ELYSE TANOUYE
Staff Reporter of THE WALL STREET JOURNAL

The pharmaceutical industry is handing the Clinton administration a peace offering: 5,000 summer jobs for disadvantaged youth.

The jobs are intended for the administration's "Summer Challenge" program, a pet project of the president. The administration asked private industry to provide an additional 300,000 jobs above the million it usually creates for summer employment. It also sought to double public-sector jobs to 1.3 million, but the funding request has run into trouble in Congress, forcing the administration to rely even more heavily on private industry to salvage the program.

The drug companies' contribution comes as the White House is considering regulating the industry and at the nadir of the industry's public image. But **American Home Products** Corp., which spearheaded the industry drive, said the effort was made out of civic duty and wasn't intended to influence the president's health-care policies.

Still, "it's smart goodwill-building from an industry that normally shoots itself in the foot when it comes to its public image," said an administration official close to the health-care task force.

The drug companies' contribution of 5,000 jobs is the largest from any industry so far, said Keith Poston, spokesman for National Alliance of Business, which is coordinating the private industry portion of the program, called "Meeting the Challenge." The 1,300 jobs pledged by American Home Products is one of the largest from an individual company, he said. The drug industry was the only one to work together to create jobs, he added.

The program is about halfway toward its goal of creating 300,000 additional jobs, Mr. Poston said, adding that the peak hiring will happen in next five to six weeks.

At a breakfast meeting with President Clinton and other business leaders in April, American Home Products Chairman John R. Stafford offered his company's participation and volunteered to urge his industry colleagues to join in. He sent letters to the heads of 33 pharmaceutical companies asking them to commit to the program.

The final tally is still in the works, an American Home Products spokesman said, but the total number of jobs will top 5,000. Among the 20 companies that committed were **Pfizer** Inc. with 500 jobs, **Bristol-Myers Squibb** Co. with 250, and **Merck** & Co. also with 250. **Procter & Gamble** Co. will participate, but hasn't committed a specific number of jobs yet, a P&G spokeswoman said.

Some health-care task force members viewed American Home Products' offer as a deft public relations move, especially because the company had hired 1,000 summer employees last year. An American Home Products spokesman said the new offer was different from previous years because it specifically emphasizes hiring disadvantaged youth.

A number of pharmaceutical companies haven't pledged to the Summer Challenge program. Glaxo Inc., a subsidiary of **Glaxo Holdings** PLC, said it has its own summer jobs program targeted primarily to employees' dependents. Hoffmann-La Roche Inc., a unit of **Roche Holding** Ltd., philosophically supports the Summer Challenge request, a spokeswoman said, but the company isn't participating because it's already involved in a number of similar summer jobs programs.

THE WALL STREET JOURNAL. THURSDAY, MAY 20, 1993

Mack
Need to respond
to this
B

65

THE NEW YORK TIMES, THURSDAY, MAY 20, 1993

THE PRESIDENT HAS SEEN
5/24

Mack/B Nussbaum
we need to review
this carefully
Advise
BC

Essay

WILLIAM SAFIRE

Iraqgate Giveaway

WASHINGTON

If the Department of Justice wins a case to be tried in Atlanta this fall, then the U.S. taxpayer may be forced to cough up over $380 million to a corrupted Italian bank.

Whose side is the Department of Justice on?

Iraqgate buffs will recall how the Atlanta branch of Italy's state-owned Lavoro bank helped finance Saddam Hussein's military buildup with billions in loans guaranteed by the U.S. Department of Agriculture.

Ostensibly to promote grain sales, the guarantees were James Baker's method of providing backdoor financing to Iraq, to which Congress was not about to give foreign aid.

When the flow of U.S. money to Iraq was disrupted by a tipoff to the F.B.I., Italy — our go-between — stood to lose billions. If it turned out that the bank's officers in Rome knew about the corrupt loans, then the Department of Agriculture need not make good when Iraq defaulted.

Italy's Ambassador, Rinaldo Petrignani (now with the law firm of Rogers & Wells), was cabled by Rome to "raise the case to a political level." He met with Attorney General Dick Thornburgh at the White House; our chief law officer, who happened to get a memo briefing him on the case in detail just three days before, said he did not remember the meeting.

The Bush Justice Department — perhaps Mr. Thornburgh himself — denied a request to send investigators to Rome. A couple of long years later, the local Atlanta manager was indicted; Justice's theory is that he alone is guilty and the bank headquarters in Rome is innocent. But the local fall guy changed his mind about taking the fall, withdrew his plea of guilty and charged the C.I.A. knew of Rome's involvement in the Iraqi financing; documents forced out of the C.I.A. by the Senate corroborate that.

So here we are with the Clinton Justice Department going to trial to prove Rome's bankers innocent, when Italian and American investigators know the opposite is true. That smells fairly fishy, and nobody at Agriculture or Justice wants to take the responsibility.

In an act of *faccia tosta* (that's *chutzpah* in Italian), Lavoro sued for its U.S.-guaranteed loan money in Federal claims court. Last week, Justice asked that a decision to pay be dismissed or deferred pending the outcome of the trial of Christopher Drogoul, Lavoro's Atlanta manager.

That covers posteriors at Justice and Agriculture. If Drogoul is convicted in Atlanta and bank headquarters is absolved, the American taxpayer will have to make good on Jim Baker's backdoor financing of Saddam — but our bureaucrats can say, "The claims court made us do it."

Iraqgate — the secret, unlawful American-British-Italian buildup of Saddam — marches on. In London, another front-organization case collapsed when it came out that British intelligence was running Matrix-Churchill, the outfit that supplied Saddam's advanced technology. Paul Henderson, the purported spy heading the front, told me he could say nothing because he was writing a book. A British independent counsel, looking into that end of the global scandal, will presumably buy a copy.

Baker's bills still coming in.

Meanwhile, after a two-year delay by an assistant U.S. Attorney in Miami, Justice is finally moving against Carlos Cardoen, the merchant of cluster bombs to Saddam. According to Alan Friedman of The Financial Times, the arms dealer says this was also with the Bush Administration's guilty knowledge.

Ironically, when Representative Charles Ford of the House Agriculture Committee brought in a witness to brief the new Attorney General on a facet of Iraqgate, they were shunted off to Janet Reno's new assistant from Miami, Richard Scruggs — the same guy who failed to aggressively pursue the Cardoen case.

Catch the pattern: Justice's Public Integrity Section chief, Michael Shepard, last month declined to prosecute the Commerce official who misled Congress on 68 export licenses to Iraq; he was just named U.S. Attorney in Chicago.

Ms. Reno, who spoke up for the Independent Counsel Act before Congress, has no idea how many career officials in her headless Criminal Division fear being called before a grand jury by an Iraqgate special prosecutor. She'll get the necessary new law; let's hope she resists the manipulations of her new colleagues. □

23

THE PRESIDENT HAS SEEN 5/24

copy to Galston

THE WHITE HOUSE

WASHINGTON

May 22, 1993

MEMORANDUM FOR THE PRESIDENT

FROM: BILL GALSTON

SUBJ: PROPOSED GOALS 2000 LETTER

This brief memorandum responds to the question you raised concerning the draft letter of support for the Goals 2000 bill. You are absolutely correct that the administration has acceded to some limited changes in the goals language originally worked out by the governors. Specifically, Secretary Riley agreed to add foreign languages and the arts to the list of the subjects specified by Goal 3 in which competency must be demonstrated.

The issue now before us is different and more far-reaching. Some members of the House Education and Labor Committee want to amend the draft bill further to add wholly new goals--for example, by specifying goals for teacher training and professional development. In the judgment of the Department of Education, with which I concur, this would further move the bill in the direction of specifying <u>inputs</u>, which ought to remain state matters so far as possible, rather than the national <u>output</u> goals that have been at the core of the education movement you and other reform-minded governors have spearheaded. The purpose of Point 4 in the draft letter is to resist these additional, counterproductive changes in the Goals.

NO

agree so forward ASAP