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DOCUMENT NO. AND TYPE	SUBJECT/TITLE	DATE	RESTRICTION
001. memo	Sandy Berger and Bo Cutter to POTUS re: Tactical Plan for the Japan Issue (10 pages)	02/24/1994	P1/b(1)

COLLECTION:
Clinton Presidential Records
Staff Secretary
John Podesta (Chron Files)
OA/Box Number: 2245

FOLDER TITLE:
February 27-28, 1994

2018-0662-S
rs3089

RESTRICTION CODES

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

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

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

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b(7) Release would disclose information compiled for law enforcement purposes [(b)(7) of the FOIA]
b(8) Release would disclose information concerning the regulation of financial institutions [(b)(8) of the FOIA]
b(9) Release would disclose geological or geophysical information concerning wells [(b)(9) of the FOIA]

THE WHITE HOUSE

WASHINGTON

94 FEB28 P10:22

Sent sew

OFFICE OF THE STAFF SECRETARY

Fax Transmittal Sheet

TO: VIVIAN/ KEVIN THURM'S OFFICE - HHS

Fax Number: 690-7755

Phone Number: 690-6133

FROM: SHARON/ JOHN PODESTA'S OFFICE

SUBJECT: attachment per your request

DATE: 02/28/94

NUMBER OF PAGES (including cover sheet): 2

MESSAGE:

If all pages are not received, please call 202/456-2702

ROSS S. DELSTON

5331 Nevada Avenue, N.W.
Washington, D. C. 20015
(202) 879-5456 (O) • (202) 362-2207 (H)

LEGAL EXPERIENCE:

JONES, DAY, REAVIS & POGUE

Of Counsel November 1991 - present

- Principal expertise in administrative law, with focus on bank regulatory issues, mergers and acquisitions, and corporate finance.
- Advise clients on regulatory aspects of major transactions, including acquisition by Chemical Bank of First City banks and senior debt offering by Anchor Savings.
- Counsel major financial institutions on regulatory matters before Federal Deposit Insurance Corporation, Office of Comptroller of the Currency, Office of Thrift Supervision, Federal Reserve Board and Resolution Trust Corporation.
- Frequent speaker and co-chair of conferences around the country sponsored by Banking Law Institute, Practising Law Institute, trade associations and professional groups on regulatory and compliance issues.

FEDERAL DEPOSIT INSURANCE CORPORATION

Assistant General Counsel - Assisted Acquisitions July 1988 - October 1991
Counsel (Assistance Transactions) May 1986 - July 1988

- Involved in all aspects of multi-billion dollar assisted acquisitions in New England and the Southwest, including structuring, negotiating and documenting transactions.
- Advised FDIC Chairman on legal issues with respect to regulatory matters, bid procedures and negotiating strategies.
- Transactions included acquisition by Fleet of Bank of New England, NationsBank acquisition of First Republic, and open bank recapitalizations of First City and BancOklahoma.
- Created, organized and managed twelve-attorney section of the FDIC legal division responsible for regulatory and transactional work on mergers and acquisitions, sales of stock and warrants, and general corporate matters.

EXPORT-IMPORT BANK OF THE UNITED STATES

Counsel August 1976 - May 1986

Drafted complex financial agreements, including multi-bank Eurodollar syndications, guarantees and insurance. Negotiated with commercial banks, major corporations and foreign governments. Lead attorney on $1.5 billion Brazil trade credit facility. Negotiated Paris Club multilateral debt rescheduling for Brazil. Drafted documentation for Exim-guaranteed bonds. Represented Eximbank on interagency working groups relating to the global environment and the export of hazardous substances.

MEMBER: District of Columbia Bar, 1976

EDUCATION: THE GEORGE WASHINGTON UNIVERSITY LAW SCHOOL
J.D., 1976, with honors

THE GEORGE WASHINGTON UNIVERSITY
B.A., 1973, with special honors

PERSONAL: Forty-two years old; married, two children.

THE WHITE HOUSE
WASHINGTON

DATE: 02/28/94

TO: THE VICE PRESIDENT
MACK MCLARTY
DAVID GERGEN
GEORGE STEPHANOPOULOS
MARK GEARAN

FROM: **JOHN D. PODESTA**
Assistant to the President and
Staff Secretary

The attached has been forwarded
to the President.

THE WHITE HOUSE

WASHINGTON

February 28 941998 28 P8:46

MEMORANDUM FOR THE PRESIDENT

FROM: ROBERT RUBIN RER

SUBJECT: G-7 JOBS CONFERENCE OVERVIEW

Preparation for the March 14-15 G-7 Jobs Conference in Detroit is intensifying, with key substantive issues decided and logistical plans in place. This memo provides an overview of the conference and related activities as well as themes your administration will emphasize in conjunction with the conference.

Format and Agenda

After extensive consultations with the other G-7 nations and the European Union, the format of the one and one-half day conference is set. In keeping with G-7 practices, the sessions will be closed to the press and public to allow a frank and substantive exchange of views. However, your speech opening the conference and the closing press conference will be covered by the media. Delegations will be free to brief reporters after the sessions concerning their presentations.

The conference's four chairs -- Secretaries Bentsen, Brown, Reich, and CEA Chair Tyson -- will each lead a session by making a presentation and then moderating discussion. Three non-U.S. discussants will make short presentations in each session, after which other participants will comment. This is a uniquely **interdisciplinary** gathering: although each of the four chairs will address the conference topic most familiar to him or her, all ministers will participate in all of the sessions.

The session topics follow (a fully developed agenda is attached):

- Tyson -- The World Employment Problem
- Bentsen -- Creating Employment Opportunities in the Global Economy
- Brown -- Technology, Innovation, and the Private Sector
- Reich -- Labor Markets, Investment in Human Capital, and Social Safety Net

The fifth and final session, a working lunch on the second day, will build on earlier discussion and enable ministers to share country experiences as they focus on lessons learned and identify next steps. After this session's conclusion Secretary Bentsen, on behalf of the conference, will present a Chairman's Statement summing up the conference, followed by a press conference. The statement may include a few small initiatives we have proposed, which would provide a link for you to discuss jobs issues with your summit colleagues in Naples.

Conference Participants

Reflecting the interdisciplinary nature of the conference, ministers participating in the conference will represent labor, finance, trade and industry, economics, and social affairs ministries. Each G-7 country and the European Union will have two to four senior ministers seated at the conference table.

Vice-President Gore will host a working dinner for the ministers Monday night, which he will address. He will also attend the conference sessions, though he will make no presentations.

Following up on your January invitation to European Union President Jacques Delors, we have asked whether he would like to lead a Tuesday morning breakfast discussion of the EU's white paper on unemployment. He seems agreeable to this, and would also attend the Monday dinner as the Vice-President's guest. President Delors would be attending in his private capacity and would not attend the regular conference sessions. A letter has been prepared from you to him confirming this invitation.

Other G-7 nations made it clear that broader conference participation -- including leading academics, business and labor leaders, for example -- is unacceptable if we want to have candid discussions. Instead, your administration is consulting with these groups and others through pre-conference outreach efforts (see below). Otherwise, the G-7 minsters are approaching the conference with a mixture of interest and concern: interested in your efforts to bring growth and employment issues to the center of the international economic agenda; concerned because they recognize that the conference will not provide a "magic solution" and may highlight the poor performance of their own economies.

You should also know that the conference will reveal differences in opinion among the G-7, particularly on how to respond to change, with some (eg. France) more sympathetic to protection and others (eg. Britain) more in favor of free markets. We are developing contingency plans to manage disruptive policy differences.

Your Participation

Although the administration is working hard to set reasonable expectations for the conference, in Detroit this gathering is very big news (Ambassador Blanchard says this is the biggest thing to happen in Detroit in ten years). In order to respond to the local excitement, you are scheduled to arrive in Detroit the night before the conference. You will attend a Sunday evening reception sponsored by the Detroit Host Committee, which will also welcome prominent local labor and business leaders, members of your Cabinet, and ministers from the other delegations. At some point before your Monday speech you will meet privately with the visiting ministers.

You will open the conference with an address Monday morning to a large audience, with the ministers attending as VIPs (themes for the speech are described below in the message section). Following the speech, you will visit a Detroit-area plant or other facility that highlights your jobs creation agenda. Many area facilities demonstrate innovative approaches to training and re-employment, close labor-management cooperation, or the recent resurgence of American manufacturing.

Message and Themes

The overall objective of the conference is to enable these industrialized nations -- all facing a common problem of stubborn unemployment in the context of an increasingly global economy -- to learn from each other's experiences. Delegations will share successes and failures in the effort to identify policies that will create good jobs by expanding economies, opening markets, increasing productivity, training and educating workers, and improving the functioning of labor markets.

The meeting itself is an important part of your message: you are showing global leadership by bringing this international, interdisciplinary group together to wrestle with a difficult, modern problem. At the same time, it is also an opportunity to convey to the American people that **you do have an agenda for creating good jobs.**

The conference will follow the introduction of your Re-employment Act of 1994, and it will reinforce your efforts to improve the skills of American workers and the functioning of U.S. labor markets. It also will be critical to demonstrate that you are working to increase demand for jobs -- boosting exports by fighting to open markets, expanding the economy through low interest rates brought about by deficit reduction, and enhancing our competitive posture by raising productivity.

Your speech to begin the conference should be a major address, the highest profile element of the conference. Senior staff has discussed the idea of "preparing America for the jobs of the twenty-first century" as the encompassing theme of the speech. The four conference co-chairs will push this theme in pre-conference press appearances, conference briefing sessions, and through the Chairman's Statement and press conference that will close the gathering. In elaborating on this theme, you and the conference delegation will want to push the following ideas:

- At a time of rapid economic change, we cannot promote prosperity by erecting walls of protectionism; the only way to protect our middle class is to invest in our people, to give them the skills and opportunities they need to compete in open markets.

- Growth-oriented macroeconomic policies are essential to world employment; overly restrictive policies retard world employment.

- Policies to improve the skills of the workforce are critical -- including education and training, school-to-work transition policies, worker adjustment systems, lifelong learning programs, and reforms of public welfare programs.

- All of our firms must have the incentive and the means to innovate and use technology to create jobs.

- This conference is part of a historic development for the G-7, which is putting ever greater emphasis on economics and growth instead of cold war security issues.

- It is significant that the conference is being held in the industrial Midwest, which suffered many of the maladies now experienced by other industrial nations and has learned how to produce better products for expanding export markets.

<u>Outreach Efforts</u>

Following your comments of early January, staff has organized outreach to a number of constituencies in preparation for the jobs conference. While much of the outreach is being done at the departmental level, I am soliciting input from a number of key individuals on behalf of the White House. We also are conducting extensive pre-conference consultations with Congress, including a special briefing for members of the Michigan delegation.

Several outside organizations, including the Economic Policy Institute, will be holding events related to the jobs conference that highlight a range of views, some of which are different than your administration's. Outreach efforts are in part directed at participants in these events.

Department Level -- The NEC staff has been working with the departments to coordinate a comprehensive program of outreach to the full range of opinion leaders, experts, and stakeholders on conference-related issues. Over the next two weeks, Secretaries Bentsen, Brown, and Reich are each conducting several jobs conference-related meetings with trade association heads, business leaders, academics, labor leaders, and civil rights/community leaders.

White House -- I am hosting a series of small discussion dinners to address specific issues related to jobs creation in the global economy. These dinners will continue beyond the jobs conference as a means of soliciting new ideas and differing perspectives on substantive policy questions. They will include people from diverse organizations and backgrounds, and will include political leaders. The first such dinner, which dealt with the subject of black male unemployment, included: Richard Freeman (Harvard), Harry Holzer (Michigan State), Ronald Mincy (Ford Foundation), and Hugh Price of the Rockefeller Foundation (William Julius Wilson was also invited but he is in Japan for several weeks). Administration participants, in addition to myself, included Ron Brown, Carol Rasco, and others. This week we are planning the second dinner with Jesse Jackson, Felix Rohatyn, Lester Thurow, Rep. Kweisi Mfume, Rep. Jose Serrano, and Bill Lynch.

Congressional -- We have asked House and Senate leadership to host jobs conference-related meetings at which several members of the cabinet, Laura Tyson, and I will exchange ideas and information about conference issues with interested members. We anticipate that the extent of these consultations will exceed previous pre-G-7 meeting interactions with Congress.

cc: Tony Lake

THE PRESIDENT HAS SEEN 2/27

Mack/VP
[Showing I have received [illegible] on these numbers - so are these numbers wrong - admin numbers did our people [illegible] out have

Revised Clinton Plan Saves More Forest

Administration Concedes It Underestimated Logging's Job Losses

By Tom Kenworthy
Washington Post Staff Writer

The Clinton administration yesterday modified its plan for managing public forests in the Pacific Northwest, proposing additional restrictions on logging to protect the threatened northern spotted owl, salmon and other wildlife that depend on old growth forests.

The modified plan—in the form of an environmental impact statement to be presented to federal courts that have blocked new timber sales in the region—calls for wider buffers around streams and owl nesting areas and additional reserves where logging would be sharply restricted.

As a result, timber harvests in the region encompassing parts of Oregon, Washington and northern California are projected to be 1.1 billion board feet per year on average over the next decade, a drop of 100 million board feet from the administration's earlier proposal announced in July. During the 1980s, an average of about 4.5 billion board feet of timber was taken each year from federal lands in the region.

In unveiling the plan, the administration conceded that it had grossly underestimated the loss of timber industry jobs stemming from the effort to preserve some of the Northwest's remaining blocs of ancient forest. The administration now predicts 9,500 jobs directly related to the industry will be lost, about double its earlier estimate.

The plan for managing forest land controlled by the Interior Department's Bureau of Land Management and the Agriculture Department's U.S. Forest Service is designed to break through a political and legal impasse that has paralyzed forest policy and the timber industry in the Northwest for years. Responding to lawsuits brought under several environmental laws, federal courts have enjoined the government from offering new timber sales in the region for the past three years.

Meeting those court tests demands protections beyond those proposed last July, said Tom Tuchmann, the administration's forest policy director. "We felt those were needed so it could pass legal muster," said Tuchmann at a news conference in Portland, Ore. "We are trying to get ahead of the curve for species that are not listed [under the Endangered Species Act] now, like salmon."

But representatives of conservation organizations, though pleased by the tougher restrictions on timber cutting, said the plan falls short. "It's an evolutionary step in the right direction," said Brock Evans, a vice president of the National Aubudon Society. "But it still leaves one-third of the ancient forest open to logging. It's still not a legal plan."

Timber industry spokesmen also were critical. "We were hard pressed to call the draft a balanced solution," said Mark Rey, vice president of the American Forest and Paper Association. "Ergo, I guess you'd say we are even harder pressed to call this a balanced solution, since it reduces allowable harvest by another 10 percent."

Rey said implementation of the forest plan will be so complex and expensive that it is unlikely that any significant new timber sales will go forward this year and perhaps even in 1995, adding to the woes of an industry that has seen 16 mill closures in the Northwest since July.

Under the plan, about 4 million acres of forest in the region would be open to logging, about 7.4 million acres would be in protected reserves where only some thinning and salvage logging could take place, 1.5 million acres would be open to experimental logging techniques, and 2.6 million acres of land adjacent to rivers and streams would be off limits to logging.

[redacted]

THE PRESIDENT HAS SEEN 2/27

Rubin

(1) What about Pres Carter's "wise men" suggestion
(2) I'm worried about Eur. fallout

THE WHITE HOUSE

WASHINGTON

February 25, 1994

MR. PRESIDENT:

The attached is a memo from Bo Cutter and Sandy Berger laying out a tactical plan for the Japan trade issue. The memo, among other things, discusses both long-term objectives -- the "end game" -- and more immediate action proposals.

In part, Bo and Sandy are seeking your reaction and guidance on overall strategy and long-term objectives.

There is one key decision point -- whether to go forward with a "Super 301" Executive Order that takes a more measured approach than the prior Super 301 legislation or the new Super 301 recently introduced by Senator Baucus. The NSC and NEC recommend doing this. CEA dissents.

NSC and NEC also suggest a series of additional steps to put pressure on Japan in the short term.

We have circulated this memo to relevant staff, but forwarded it to you immediately at NEC's specific request.

Todd Stern

(3) Need to brief press clearly
(4) Need to illustrate more convincingly why our interpretation of framework is [not] quotas & all those other bad buzzwords

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THE PRESIDENT HAS SEEN 2/2 7

THE WHITE HOUSE

WASHINGTON

MEMORANDUM FOR THE PRESIDENT

FROM: Phil Lader PL

DATE: February 16, 1994

SUBJECT: **BOB STRAUSS -- POLITICAL APPOINTMENTS ADVISORY GROUP**

I met with Bob Strauss to secure his views about whether and how we should proceed with the Strauss-Howard Baker inquiry into the political appointments process. After we considered a variety of approaches, he recommended the following:

* Entity: A Presidential advisory or study group (not a formal commission), would consist of five-to-seven Presidential appointees with national reputations but no personal political ambitions; (He suggested, only to illustrate, Barbara Jordan, Melvin Laird, Warren Rudman, a Dean of a prestigious School of Government, and a Hispanic leader. Strauss reports that Baker is still willing to take this assignment.)

* Mandate: Findings and recommendations (but not specific legislation) would be developed, (a) based on existing studies, data from this Administration's Presidential Personnel experience, and interviews, and (b) focused on, among other topics, the vetting and confirmation processes; ethics, disclosure, and divestiture requirements; and the number and level of positions requiring confirmation;

* Logistics: The Group would have a one-person staff housed in a Lafayette Park office, be given a 90-day mandate, meet once with the Vice President and once with the President before the final report meeting, and not require any new expenditures;

Strauss emphasizes that the outcome would "probably be nothing more than a statement, rather than concrete actions, but that alone could help the President."

Mack and I recommend that you approve this initiative. If so, I would promptly submit a list of proposed members and oversee the effort.

Approve ___✓___ **Disapprove** _________ cc John P — 2/23

LAS VEGAS SUN

THE PRESIDENT HAS SEEN 2/27

Brian L. Greenspun
800 South Valley View Blvd.
Las Vegas, NV 89107
(702) 259-4003 PH.

-FAX COVER-

DATE:	February 23, 1994
TO:	**Nancy Hernreich** **Deputy Assistant to the President**
PAGES:	4
FAX:	(202) 456-1121
FROM:	Brian L. Greenspun

Hi, Nancy. Please see that he gets this ASAP. It's part of my sanity therapy. Myra & I will be in Washington Wednesday evening. We'll call Thursday to say hello. Regards, Brian

Nancy/cc VP
I have a memo about FCC action too-
B.

LAS VEGAS SUN

BRIAN L. GREENSPUN, President
800 S. VALLEY VIEW BLVD., LAS VEGAS, NV 89107-4411
702-259-4003

P.O. Box 4275
LAS VEGAS, NV 89127-0275
FAX: 702-259-4143

February 23, 1994

The President
The White House
1600 Pennsylvania Avenue
Washington, D.C. 20500-2000

VIA TELEFAX

Dear Mr. President,

It has been a considerable time since I have written with comments about the way you are or should be running this country. The reason is quite simple and one which harkens back to an old childhood punch line: "Everything's been just fine until now."

Well, thing's aren't fine anymore. Admittedly, I am real angry with the news from the Federal Communications Commission. On a personal basis, the FCC's decision has cost me more money than I ever thought a person or family could accumulate in a lifetime. So while many people would find tens of millions of good reasons to complain about the cable rate rollbacks announced this morning, my issue revolves around a different aspect of that decision. While I am mindful of the significant financial loss I have incurred, it is not my main motivation today.

I supported your candidacy for a number of reasons. Besides being a friend from school and someone in whom I'd remembered a certain passion for doing the right thing, you rekindled in me a belief that government could perform a role in changing the direction of this country so that people on the lower end of the hopes and dreams ladder could see a way to better themselves and their families.

You sold yourself as a different kind of Democrat, one who believed in personal responsibility and the rewards of hard work and risk-taking; a person who wasn't prisoner to the concept that government owed people a living and those less successful a redistribution of the fruits of others' labors. In other words, you sounded like I had been talking for many years.

I still want to believe. But, admittedly, it is difficult. It is difficult because I know the truth about why the FCC ruled the way it did. It is difficult because the Commission's ruling will do exactly the opposite of what you and Vice-President Gore say you want for this country - a thriving information superhighway with many competitors. And it is difficult because the decision this morning belies everything I thought you believed about job creation and growth.

LAS VEGAS SUN

President Clinton
Page 2,
February 23, 1994

This letter only gets worse. But you should read it because it comes from someone who has a deep respect and fondness for you. Those who have no need for you or your dreams will not tell you what you should know. I will.

First, let's talk about the huge consumer outrage that resulted in this second rollback of rates. Close to 8,000 people wrote to the FCC to complain. These included not only rate complaints but also concerns about the confusion that resulted from the first FCC action. That's 8,000 out of 57,000,000 subscribers! That represents four complaints for each of the 2,000 systems in America. Hardly a groundswell.

For the FCC minions to suggest that consumers forced them to act is an outrage and a lie. The truth is that some powerful congressmen got into a contest with some of the larger cable entrepreneurs about who had the most clout in Washington. Guess who won. And now they are re-emphasizing the point so no one else will dare question their legislative authority.

Second, the FCC would have us believe that investors in industries like cable will throw their money into the ground for an 11.25 percent return on their capital. That statement alone shows the naivete of the commission staff who conceived this rollback and the commissioners for accepting it without question. I can get an 11.25 percent return by investing in government-backed, fully-insured bonds. Why would I ever risk money in the cable business for the same level of return when the risk is greater by a factor of three? Especially now, when an added risk is government confiscation of capital!

Mr. President, your FCC has sent a message to the cable industry that is exactly the opposite of the one you and Al Gore are sending to the public. You want cable entrepreneurs to take substantial risks by investing in new technologies along the superhighway so that they and others can provide competition to the phone companies which are lumbering down the road. At the same time you send a message today that says whatever investments our government thinks in hindsight should have been made, are forfeited and cannot be recovered. And that goes for a large part of the $43 billion the industry has borrowed to build the existing infrastructure. Has anyone even considered the cost to the industry to cure the hundreds of bank defaults that will occur as a result of this action? If, indeed, they can be cured!

This is madness.

What the FCC has done is hasten the time in which the phone companies will swoop in and buy - now at very depressed prices - those thousands of cable companies which can no longer finance their growth or which can no longer justify the risk to potential investors. Simply put, that is not the way to encourage growth of the industry and the jobs that could have been created.

LAS VEGAS SUN

President Clinton
Page 3,
February 23, 1994

I suppose what frustrates me most is that I came to Washington to meet with Reed Hundt and others to describe what I thought would be the result of a further increase in rates. While he and others listened, they did not hear. Either that or they didn't believe me which is even worse.

The move today was not the result of consumer complaints. It was not the result of a government desire to increase jobs and spur growth. And it was not the result of a vision for an information superhighway with multiple competitors. It was the result of personal and political pique which your administration did nothing to stop or even mitigate. And now an entire industry will pay the price which, ultimately, will be borne by the very consumers you sought to help.

Your administration failed to act on this one when to do so would have given substance to your vision for jobs and technology growth along the information highway. I am disappointed because I believed and I sold many others on that belief.

I hope that you personally had little to do with this result because there are more pressing matters to attend to and because I want to believe just that.

I have been accused of being too naive when it comes to spreading what I believe is your message. I still don't think so. Perhaps it is just a matter of focus. If that's the case, it is not too late to rectify this big mistake because to ignore it is to ignore one of the defining issues of your presidency ... jobs, growth and responsibility.

There are many ways to handle greedy cable operators just as there are ways to do so in any other industry. There is just one way to destroy one of the few functioning and growing industries in America. And the FCC has found it.

If I haven't done so already, I can't tell you how profoundly disappointed I am in the way government has not worked this day.

Respectfully,

Brian

Brian

LAS VEGAS SUN

Brian L. Greenspun
800 South Valley View Blvd.
Las Vegas, NV 89107
(702) 259-4003 PH

-FAX COVER-

DATE: February 23, 1994

TO: Nancy Hernreich
Deputy Assistant to the President

FAX: (202) 456-1121

PAGES: 3

FROM: Cindy Robinette

EB-23-1994 12:14 FROM Las Vegas Sun TO 12024561121 P.02

Cable ruling hurts industry

THE LORD GIVETH and the Lord taketh away. So does the government.

The difference is that in the first case there is a certain faith that any give and take will be done according to some master plan. In the second, there is no faith and the certain knowledge that there is no plan beyond that which is politically expedient.

Tuesday morning, the Federal Communications Commission issued an order that commanded cable companies across the country to reduce their rates by a total of 17 percent from the level that existed in September 1992. The move, according to FCC Chairman Reed Hundt, was in response to cable consumers who were unhappy about the rates being charged for their favorite television programs.

On the surface, most people should applaud the government's effort to roll back cable rates which have grown steadily since Congress first deregulated the industry in 1984. After all, what is good for the consumer is lower rates and what is bad for those greedy cable companies

BRIAN GREENSPUN

is lower rates. Too simple and too bad.

As a vitally interested consumer as well as a cable company owner, I awoke bright and early Tuesday to watch the FCC hearings in anticipation of some Solomon-like ruling that would placate those politically powerful consumer groups calling fo[r] of the industry w[...] time, encouragi[n] growth of cable c[...] prepare for a ride superhighway.

What I heard l[...] The FCC, like m[...] agencies, lives i[...] Wonderland worl[...] and reality has n[...] Chairman Hund[...] companies have l[...] the public with r[...] relationship to ei[...] And it is the FCC[...] to single-handedl[...]

SEE **WHERE, 2A**

NEIGHBORS SAY SPY SUSPECT IS 'JOE AVERAGE' – PAGE 6B

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Where

CONTINUED FROM 1A

freedom no matter what the cost. Even if it means disabling the one industry which has created jobs and growth during some of this country's worst economic times. This is the same industry which proponents of the information superhighway expect to play a major competitive role.

The truth is far more simple. It is also disappointing to those of us who still, somewhat naively, believe government is supposed to work to encourage growth and job creation in a world that needs much more of both.

The single, most compelling reason the FCC ruled as it did was in response to the political pressure placed upon it by a few congressmen whose sole desire has been to show some of the major cable players that the politicos, not the captains of industry, are the bosses.

Remember the games we played as kids? Well, that's exactly what happened in Washington, D.C., when one congressman's power and ability to effect legislation was challenged by some cable entrepreneurs who misjudged the political power of former President George Bush.

I am not of the belief that this is the first time such a result has happened when a politician got his ego bruised. This is the first time, though, that I have been intimately involved in the outcome. And, as is the case during most intimacies, someone other than the politician was on the receiving end.

The good and bad news is that I am not alone. The very people who the FCC claims to have helped with this ruling – the consumers – will pay the lion's share for this government action. While it is too early to make solid predictions of the future of cable, it is not beyond the realm of probability that cable rates will go up once the industry consolidates into the hands of those players who can afford to borrow the money necessary to sustain growth.

Nor is it unreasonable to expect that planned advances in technology and programming will be put on hold because the dollars available for investment will be harder to find. To the extent that Prime Cable of Las Vegas was planning a multimillion-dollar upgrade of its system to provide for many more channels and fiber-optic capability and investments in new programming, those plans may have to be put on hold. When they are finally completed, they will cost more. And guess who pays?

The FCC blamed the need for its action on the many consumer complaints filed with that agency. I believe the number of complaints from Las Vegas numbered close to three – out of 230,000 subscribers! No wonder the FCC acted as it did. There was a virtual groundswell of consumer unhappiness.

The lesson to be learned from this action will, unfortunately, be learned during the next few years as the phone companies come in to do battle against cable competitors less able to fight. That is when the real monopolies will result and that is when the rates travel upward at the speed of fiber optic light.

And that's when everyone who thinks the FCC did them a favor Tuesday will reflect on who should be responsible for the give and take in our lives – and who shouldn't.

BRIAN GREENSPUN is editor of the Las Vegas SUN.

TOTAL P.03

THE PRESIDENT HAS SEEN 2/27

1. cc Mark B. 2/24
2. The Pres.

THE NEW YORKER

February 24, 1994

The Honorable William Jefferson Clinton
The White House
Washington, D.C. 20500

Dear Mr. President:

I thought you might be interested in an article I wrote on the proposed balanced budget amendment for the February 28 *New Yorker*. I hope you find it useful.

Sincerely,

Sidney Blumenthal
Washington Editor

GS
should
get this to
swing Senators
B

1156 15TH STREET NW, SUITE 1016, WASHINGTON, DC 20005 (202) 296-5840

COMMENT

SIMON'S SIMPLE PIE

SENATOR PAUL SIMON, of Illinois, with his pert bow tie, still looks like what he once was: a crusading small-town newspaper editor who pecked out his stories on a manual typewriter. He is a decent liberal, who idolizes Lincoln and eulogizes Hubert Humphrey. But now this inveterate reformer has proposed a bill that, if it were to be enacted, would virtually outlaw social reform. Senator Simon hardly resembles a vandal with a spray can, but his amendment for a balanced budget would be an ugly swirl of graffiti on the Constitution.

The balanced-budget panacea was a rhetorical favorite of that great deficit spender Ronald Reagan. It was his genius to have it all ways: endorsing a balanced budget, though never presenting one to Congress, after gaining the benefits of an enormous federal stimulus to the economy by cutting taxes—especially for the wealthy. Reagan's effect (and, by some accounts, his intent) was to cripple the capacity of government for action (or, as he saw it, for mischief). As a political matter, his advocacy of a balanced-budget amendment was of a piece with his approval of an amendment that would have criminalized abortion. While supporters of these conservative causes felt that Reagan shared their passions, his senior aides and the Republican leaders in the Senate adroitly managed to keep the amendments lost in the legislative labyrinth; the constituencies remained roiled, but nothing happened.

Paul Simon's balanced-budget amendment reverses the classic wisecrack of Karl Marx that history repeats itself, the first time as tragedy, the second time as farce. At the moment when President Clinton has brought the Reagan deficits down to manageable levels—slicing the deficit almost in half as a percentage of the gross domestic product by 1996, according to the Congressional Budget Office—a liberal Democrat has proposed a mechanism that would sanctify Reagan's social deficits and frustrate Clinton's plans for public investment.

The heart of the amendment, which will be debated this week on the Senate floor, seems perfectly straightforward: "Total outlays for any fiscal year shall

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not exceed total receipts for that fiscal year, unless three-fifths of the whole number of each House of Congress shall provide by law for a specific excess of outlays over receipts by a rollcall vote." This simple formula, however, is simple in more ways than one. It is denseness masquerading as homespun honesty.

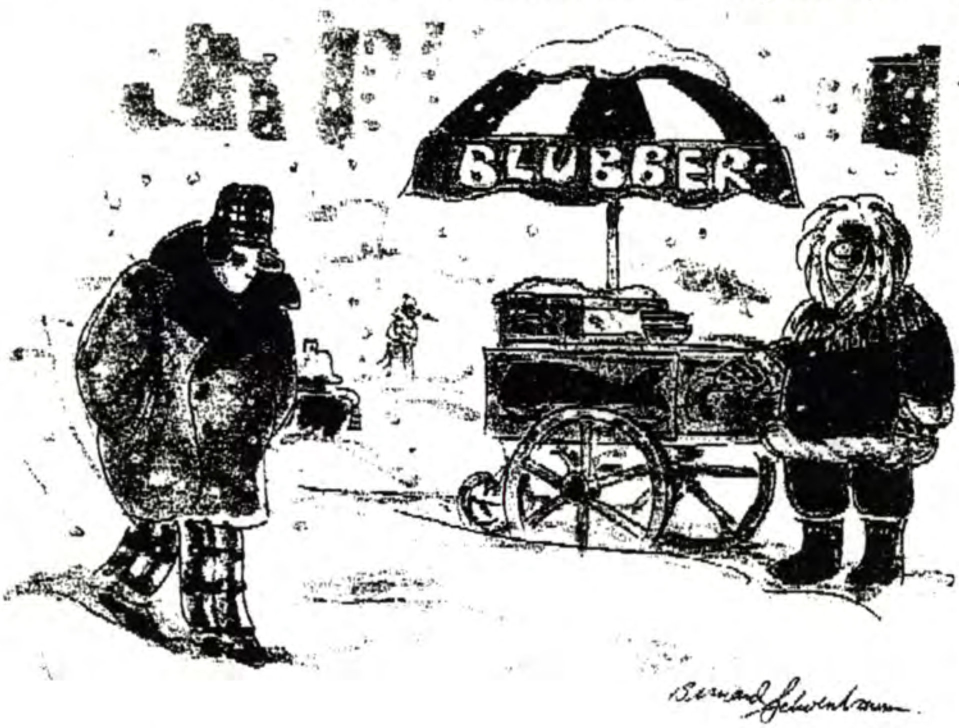
The amendment is not merely a green-eyeshade calculation, making the federal ledger books balance. It is an attempt to enshrine an economic dogma, crippling pragmatic response to changing conditions. The fiscal flexibility that has enabled the country to sustain prosperity through much of the post-Second World War era would be hobbled. Policies structured into the economy, such as unemployment insurance and stimulative fiscal policy, have kept economic downturns from spiralling off the edge of a cliff. Keynesianism, in effect, enabled conservatives to profit politically from their denigrations of government while the social contract was held together by the liberal legacy. Reaganism was a mutant variety of Keynesianism pretending to be its contrary.

The balanced-budget amendment has more to do with cultural atavism than with economic policy. It presumes that the national economy can be organized like a household economy, and this fallacy is even more perverse than it seems, since the household it analogizes is not the modern one. Ours is the age of the mortgage, not the mattress: businesses, families, and individuals borrow to invest in goods or services. To be creditworthy is to be a good citizen, a candidate for further loans. The amendment would institutionalize a vision of an orderly, bucolic past without restoring it.

Forcing a balanced budget would deprive families and businesses of federal resources that now support them, for on the national balance sheet the Treasury's outflow is income to the private economy. Therefore, recessions would inevitably be deep and long. Even natural disasters, such as earthquakes and floods, would foster fiscal crises. Senator Simon's logic suggests that the catastrophes the amendment would foster would lead to the political result he wishes. He seems, indeed, to encourage precisely such crises. Faced with ruinous cuts in public investments, education, infrastructure, defense, and entitlements, Congress, having no alternative, would presumably raise taxes to keep pace with the social spending he favors. But under Simon's plan more votes would be required in the House and the Senate to raise taxes than to slash programs. The likely political dynamic would be a bacchanalia of cutting, further disabling the government's capacity to cope with economic cycles and widening the social deficit. In the ensuing struggle of each against all, tax-subsidized businesses and industries would be more protected politically than programs for the middle class and the poor. Increased inequality would be the outcome. And the annual deficit-reduction frenzy would continue to fall heaviest on those not in the upper income brackets.

But why should this happen, when forty-six states have some version of a balanced-budget requirement? Why can't the federal government have the discipline of a state? To conflate the national government with the states is to misunderstand the federal system. Many of the states have to balance only operating budgets, not total budgets. Unlike the federal government, they have capital budgets to account for public investments, which are financed by floating bonds and by other borrowing techniques. All the states draw on the federal purse, without which none of them would have balanced budgets. The states are not accomplishing their feat alone, as though they were separate countries. The amendment, then, would place extreme stress on the federal system.

But perhaps the most pernicious consequence of the balanced-budget nostrum would be to imperil what James Madison, in *The Federalist* No. 58, described as "the fundamental principle of free government": majority rule. The federal system was carefully devised to protect the rights and the representation of minorities, but it was not created for "the power" to be "transferred to the minority," in the words of Madison. The balanced-budget amendment erases the fundamental principle, replacing it on all matters of money with rule by the minority. In this case, a particular minority's interest would be served. The amendment favors those who wish to obstruct, to stymie national action, or, as Madison warned, "to screen themselves from equitable sacrifices to the general weal, or, in particular emergencies, to extort unreasonable indulgences." The entire effect would be to throw into doubt the legitimacy of the idea of majority rule, which, Madison argued, would lead to "public convulsions and the ruin of popular governments." By unbalancing the Constitution, the balanced-budget panacea would unbalance the country. •



THE PRESIDENT HAS SEEN 2/27

GS
Pls review
then call us
on their mtg req

M E M O R A N D U M

To: President Clinton

From: Derek Shearer and Richard Rothstein

Re: **Relations with the AFL-CIO after NAFTA**

Date: November 19. 1993

Your NAFTA victory demonstrated political skill, purposefulness and strength. However, there is danger if rifts caused by this battle are not repaired, not just superficially, but in fact. Many of those who supported you on NAFTA will likely oppose you on issues like health care, job training, public investment, the minimum wage and job creation, while your most determined supporters on these issues were on the other side in the NAFTA debate.

We are particularly concerned about the AFL-CIO, without whose commitment, enthusiasm, and renewed personal loyalty it will be difficult to enact health care reform with universal access. While AFL-CIO leaders behaved irresponsibly in the NAFTA debate, NAFTA supporters also made mistakes. Suggestions from Administration supporters that the unions' leaders did not reflect the attitudes of rank and file members caused the deepest wound, since they implied a lack of respect for the unions' legitimacy. In any democratic organization, it is always easy to find members who disagree with the leadership but, certainly in the case of NAFTA, there can be no doubt that union leaders were reflecting the fears and concerns of the majority of union members.

One of the dangers of a breach with the AFL-CIO is that union leaders' legitimacy will be critical to mobilization on behalf of your health care program. AFL-CIO leaders' commitment to your health care plan is probably not yet reflected in the rank and file (many of whom fear losing their present benefits) to nearly the extent that leaders' opposition to NAFTA was reflective of the membership. Countering perceptions of a split between union leaders and members is therefore very much in the Administration's immediate interest.

As you pointed out in your speech to the AFL-CIO convention, while the unions' opposition to NAFTA may have been misguided, this opposition reflected legitimate anxiety about losses of well-paid jobs to low wage nations and about our nation's failure to create new "good" jobs to replace the losses. Unfortunately, your understanding and passion about the legitimate reasons for AFL-CIO fears is not shared by many of your supporters in the NAFTA fight or even by many prominent members of the Administration.

In your press conference following the Vice-President's Perot debate, you pointed out that both supporters and opponents of NAFTA made wild and irresponsible claims about job gains or losses. We know that NAFTA itself will have a relatively small effect on jobs, positive or negative; manufacturing jobs will continue to relocate, with or without NAFTA. Your leadership of the NAFTA fight was based on a vision of the country's future, not on a belief that NAFTA itself would create large numbers of jobs. While AFL-CIO claims of job losses were grossly exaggerated, so too were many supporters' claims of gains. Unfortunately, here too your broader perspective is not widely shared by NAFTA supporters and by many in the Administration, who continue to insist that economists who projected job losses from NAFTA are less credible than those who projected equally unrealistic gains.

One recent development is disturbing and illustrates our concerns. As you know, the Economic Policy Institute, an AFL-CIO supported think tank with a record of responsible and insightful economic analysis, recently issued a report proving that your health care reform proposal will have a positive impact on job creation, since its contributions to high wage job creation in manufacturing will more than offset its harm to low wage job creation in personal services. This EPI report, however, has been attacked as lacking credibility because it was produced "by the same people who claimed jobs would be lost from NAFTA," and the Administration has been hesitant to use the report for the same reason.

This incident illustrates why it is essential that the credibility of your opponents in the NAFTA fight be restored.

As the victorious President in the NAFTA fight, you can easily afford magnanimous gestures to your long-term allies like the AFL-CIO. We have some specific suggestions about steps you could take to demonstrate a desire to heal wounds, a recognition of mutual interest, and a respect for union leaders and their overall agenda.

Three suggestions build on your NAFTA victory and enable you to reinforce your reasons for leading this fight:

1) Caterpillar was one of the most prominent supporters of NAFTA because the firm expects greatly increased export sales to Mexico as that nation industrializes. Caterpillar also continues to be the center of the most bitter dispute in labor-management relations today. The company continues to claim that it "can't afford" the "pattern" agreement which the UAW seeks. The fight has become one of pride and principle, not interest, and may well lead to another strike in the near future. You might consider using your private influence to urge Caterpillar to negotiate a settlement with the UAW, suggesting that some of the benefits from NAFTA's contribution to expanded export markets should be shared with the union. Should you be successful, you will be able to claim evidence that an export-focused free trade orientation also creates conditions for better wages and more security at home.

2) President Salinas has pledged increases in the Mexican minimum wage in concert with productivity growth, but has so far

offered no specifics on the implementation of this pledge. Meanwhile, your Administration has had to defer a proposal for a much needed increase in our own minimum wage, in part because of the need for Republican support in the NAFTA fight. You might consider, in the wake of NAFTA's approval, a joint initiative of both nations' presidents to seek increases in both nations' minimum wage levels in concert with productivity growth in each nation.

3) You were unsuccessful, during the NAFTA debate, in getting major corporations to pledge not to move jobs to Mexico. However, in the wake of the NAFTA victory, now might be the time to organize a new set of voluntary "Sullivan Principles" for American firms which invest in Mexico and other developing countries. Levi-Strauss has been creating such principles to govern its conduct in Third World locations, and has involved Jack Sheinkman of the Amalgamated Clothing and Textile Workers in their development. You might consider embracing this effort and helping to expand it.

4) The failure of the original NAFTA to deal with labor rights and standards was not only due to the Bush Administration's lack of interest, but also to institutional weaknesses in our trade policy. To remedy these, and to help assure that labor rights and standards are routinely considered in future trade policy, you might consider appointment of a "Deputy U.S. Trade Representative for International Worker Rights and Standards." Such an official could not only assist Mickey Kantor in future negotiations, but have responsibility for implementing present trade policies which concern worker rights (like worker rights provisions of the GSP) and could also be responsible for consulting union leaders in the development of trade policy and giving them assurance that policy will not be developed without their input. Had such a mechanism been in place, perhaps their opposition to NAFTA might have been avoided, or at least muted.

Our other suggestions are not directly related to NAFTA, but involve actions you could take which demonstrate your respect for the AFL-CIO and your conviction that it shares most of your agenda.

1) We understand that your nomination of Bill Gould to be Chairman of the NLRB may be in difficulty. Gould's nomination is very popular with the AFL-CIO. An effort on your part to push this nomination through would be well received by the unions.

Another appointment which you might consider is the appointment of a labor-oriented economist to the next open slot on the Council of Economic Advisors.

And related to NAFTA, you might consider appointment of a union official as a member of the Board of Directors of the new North American Development Bank.

2) Two Congressional bills of interest to organized labor could benefit from your support. One is the OSHA reform bill, which promotes your commitment to a "new workplace" by requiring worker involvement in companies' compliance with health and safety regulations. The other is the Harkin-Brown "child labor deterrence" act which forbids the import of products manufactured by child labor.

We do not urge you to make the striker replacement bill a priority at this point, unless you believe its ultimate passage is achievable. The AFL-CIO needs to be shown that alliance with your presidency pays off in victories. It is not desirable, at this point, to demonstrate that you can stand by their side in defeat, unless the issue is of overwhelming importance, which we don't believe this is.

3) You might consider establishment of a regular schedule for meetings with union leaders at the White House. While this schedule need not (and should not) be as frequent as your regular meetings

with business leaders, the lack of a regular channel for communication with you leaves union leaders without a sense of being fully part of the administration, especially when compared with your regular business leader meeting schedule.

4) Another potential crisis in the Administration's relations with the AFL-CIO may present itself next spring, when the Dunlop Commission on labor law reports to Secretaries Reich and Brown. It is our impression that commission members would be inclined to propose union-advocated labor law reforms if the members believed such proposals would be embraced by the Administration. We do not necessarily suggest that the Administration now commit to do so but urge that you begin developing a policy, with input from AFL-CIO leaders, so that the Administration can guide the commission or, at the very least, be adequately prepared for the issuance of the commission report.

Clearly, all the above pales in comparison to the need for a comprehensive jobs program. While the filibuster of your "stimulus" proposal last spring suggests the difficulty of this endeavor, it also suggests another approach. If the possibility of even a token compromise like last spring's "stimulus" is non-existent, perhaps in this case the Administration should consider endorsing and fighting for a maximum program even if there is little realistic chance of its passage. (We understand that such a program is currently being drafted by a group of liberal and labor-oriented congresspeople.) This might be especially necessary if the Administration wants to make a comprehensive job training program a high priority for next year, since many in the liberal and labor communities will be skeptical of a job training program which, they believe, can only train displaced workers for good jobs which don't exist. It is also important to have a revived Clinton jobs program for political purposes in the 1994 mid-year elections and, of course, for the 1995-96 presidential election.

THE PRESIDENT HAS SEEN 2/27

February 14, 1994

MEMORANDUM TO THE FIRST LADY

From: Gene Sperling

Subject: Economic Talking Points

Gene Sperling

We put out talking points on Friday to the members of Congress going home so that they had the facts they needed to talk about their role and ours in bringing about a declining deficit and an improving economy.

We did three documents. The first starts with a page that lays out the main facts on the budget agreement passed last year as well as this budget. Then it has a page on tax fairness. Quotes from H&R Block and others are used for validation of the fact that only the most well-off are facing higher rates. The H&R Block analysis has a nice break down: the top 1.2% pay higher income tax rates; 82.2% pay the same, and 16.6% get a tax cut from the EITC.

The third page of the first document shows what we have done on key investments from Bush's last budget (FY93) to the FY95 budget you just proposed. By showing the two year differential, it shows more clearly how much key investments have gone up under your first two budgets and decisively answers those who claim that our budgets have been similar to those that the past Administration might have proposed.

The second document is simply an up-to-date list of the signs of an improving economy -- with facts from the CEA and other economists in the Administration.

The third document has 7 quotes I have collected that explicitly validate the connection between your economic plan and the improving economy. These quotes are all from non-partisan sources. Greenspan, who some try to give all the credit to, clearly states that the deficit reduction package is at least substantially responsible for lower interest rates. The quotes from the Lehman Brothers weekly report of January 10, 1994 are exceptional. I added quotes from today's Washington Post editorial -- which is excellent.

THE PRESIDENT HAS SEEN 2/27

THE WHITE HOUSE

WASHINGTON

94 FEB 25 P2:03

February 24, 1994

MEMORANDUM FOR THE PRESIDENT

FROM: MACK McLARTY

SUBJECT: Commission on Roles and Missions of the Armed Forces

I received your note regarding Les Aspin possibly being a member of the Commission on Roles and Missions (attached). There are a number of aspects regarding Aspin's serving that we need to discuss. Also attached is a list of names from Bill Perry and John Deutch for your consideration.

If you have any additional names or thoughts, please get them to me promptly so that we may get them into the mix earlier rather than later.

Mack

cc: Phil Lader

Mack to discuss

THE UNDER SECRETARY OF DEFENSE
3010 DEFENSE PENTAGON
WASHINGTON, D.C. 20301-3010

ACQUISITION AND
TECHNOLOGY

Ca. 5
Phon
D.w-d

February 16, 1994

Dist

Thomas F. McLarty, III
Chief of Staff
First Floor, West Wing
The White House
Washington, D. C. 20500

Dear Mack,

Here are the names of the two finialists Bill Perry is considering for Chairman of the "Roles and Mission" Commission:

John White
Phil Odeen

Other candidates he has considered include:

Harold Brown
Frank Carlucci
Jim Schlesinger
Jeff Smith

We await your reaction and/or other suggestions.

Best regards,

John Deutch

Mack — we need to determine (quickly) if Aspin would be [illegible] — B

THE PRESIDENT HAS SEEN
2/22/94 [illegible]

THE WHITE HOUSE

WASHINGTON

February 7, 1994

(A COPY OF THIS DOCUMENT WAS SENT TO YOU ON THE ROAD)

P.T.

① Gergen / Podesta
② Desk / Cos

MACK

We need to discuss — I think Aspin would be a good soldier here. — B

MEMORANDUM TO MACK McLARTY
PHIL LADER

FROM: JOHN PODESTA JDP

SUBJECT: Commission on Roles and Missions of the Armed Forces

Phil
Desk

The Department of Defense Authorization Act P.L. 103-160, contained a section establishing the Commission on Roles and Missions of the Armed Services. As the attached conference report language indicates, establishment of the Commission grew out of the House Armed Service Committee's dissatisfaction with Chairman Powell's recommendations on the subject in his 1993 triennial report.

The Commission is composed of seven members, all private U.S. citizens, appointed by the **Secretary of Defense.** The Chairman is designated from amongst the members by **the Secretary.** The legislation directs the Commission to review the efficiency and appropriateness of the current allocation amongst the Armed Forces of roles, missions and functions, and make recommendations to Congress for changes in view of the post-Cold War environment.

The Commission legislation directs the Secretary to appoint the Commission members within 45 days of enactment (November 30, 1993), a date which has passed. Once appointed, the Commission is directed to meet within 30 days, send a work plan to Congress within 90 days and issue a final report within one year of its first meeting. The final report is to be sent to the Armed Services Committees, the Secretary of Defense and Chairman of the Joint Chiefs.

The Commission members are eligible to be paid for their days of service and receive travel and per diem expenses. The Commission can hire an executive director and other staff as necessary and hold hearings.

Funds for the Commission are to be made available from the DOD civilian employment, travel and per diem accounts. The Secretary of Defense is directed to furnish administrative and support services requested by the Commission.

Per your instructions, I have not contacted DOD about this; let me know what else you need.

f of Naval Operations (sec.

a provision (sec. 903) that
:tion 5038 of title 10, United
›r of Expeditionary Warfare
val Operations.
: provision.

Fund (sec. 945)

›n (sec. 1008) that would in-
[NC Initiative Fund by $5.0

ɪo similar provision.
dment that would authorize
ɪant to Defense-wide activi-

Commission on roles and missions (secs. 951–960)

The House bill contained provisions (title XIV) that would establish a commission on roles and missions of the armed forces. This action stemmed from a dissatisfaction with the scope of the roles and missions reforms recommended by the Chairman of the Joint Chiefs of Staff earlier this year in his triennial report. The provisions would require the President to appoint commission members for five-year terms. The provisions would also establish procedures by which the commission would annually review the implementing actions of the Department of Defense.

The Senate amendment contained no similar provisions.

The Senate recedes with an amendment that would shorten the commission's term, provide for the appointment of its members by the Secretary of Defense, and delete the requirement for the commission to review the actions of the Department of Defense. The conferees expect the commission to provide an adequate basis for further action on roles and missions and believe that it will energize the Department of Defense to address these issues more comprehensively.

LEGISLATIVE PROVISIONS NOT ADOPTED

Student loads at war colleges and command and staff colleges

The House bill contained a provision (sec. 422) that would require the number of students at the senior war colleges and command and staff colleges to remain at the same level as enrolled on October 1, 1992. The intent was to ensure that enrollment at the colleges would not be reduced as the size of the services decreased.

The Senate bill contained no similar provision.

The House recedes.

The conferees agree on the continuing importance of professional military education (PME), especially at this time of great political change in the world. The end of the Cold War has taken away the certainties that guided American defense policies for more than two generations. If a smaller military is to handle the challenges of the late 20th and early 21st centuries, it must do so

THE PRESIDENT HAS SEEN 2/27

THE WHITE HOUSE

WASHINGTON

94 FEB 24 P9:00

February 24, 1994

MEMORANDUM FOR THE PRESIDENT

FROM: RAHM EMANUEL

Subject: IL/MO/TN Crime Leadership Day

On Wednesday, February 23, we hosted our third Crime Leadership Day for police and community leaders from Illinois, Missouri, and Tennessee. All Democratic members of the House were asked to submit invitation lists.

In addition, Reps. Lane Evans, Jim Cooper, Bob Clement attended the event.

Attached please find an agenda for the event, a list of participants, and a breakdown of the regional media that attended the stakeout after the event.

THE PRESIDENT HAS SEEN 2/27

THE WHITE HOUSE

WASHINGTON

February 25, 1994 '94 FEB 25 P7:53

Send [illegible]

MEMORANDUM FOR THE PRESIDENT

FROM: MARCIA L. HALE MLH

SUBJECT: INTERGOVERNMENTAL AFFAIRS BI-MONTHLY REPORT

GUARD AND RESERVE INACTIVATION ANNOUNCEMENT

DoD will announce specific National Guard and Reserve unit inactivations on Monday, February 28. These inactivations are a direct result of the previously announced down-sizing plan. Most of the key states affected have been notified by DoD. A DoD representative will brief the governors' Washington representatives on Monday at their weekly meeting.

FEDERALISM

Working with The Vice President, Carol and NGA on federalism issue. NGA requests a meeting with you to discuss the mandates issue. Carol and I will discuss this with you when we have a resolution. we need to give some relief

BALANCED BUDGET

Distributed talking points on the balanced budget amendment to all democratic governors. Coordinating efforts with Legislative Affairs.

CRIME BILL

Continuing to work with the NGA to develop a proposal that the governors can support.

TRP AWARDS

The final round of TRP was announced on February 4. Early calls were made to priority governors and the list of winners were delivered to their offices. With the advance notice, Governors Roberts, King and Chiles were able to announce the news at a previously planned defense conversion media event. Did Gov. Richards UTX project get [illegible]?

IMMIGRATION

Participated in a meeting with OMB and seven governors' representatives to discuss the impacts of illegal immigration.

DFAS

There are rumblings at DoD that this announcement is just around the corner.

I want to know [illegible] announcement before Final decision

TRIBAL LEADERS

Hosted briefing for the National Congress of American Indians on health care, environmental issues and the budget while they were in town for their annual conference. Also held private meetings with several tribal leaders. [illegible]

IGA representative attended the Affiliated Tribes of the Northwest Winter Conference in Spokane, WA. [illegible]

Continuing to organize the White House spring event with Tribal Leaders. [illegible]

[illegible]

HEALTH CARE

A number of governors have lobbied congress in support of the HSA. Rossello testified before the Senator Finance Committee, Dean testified before the Domestic Policy Committee and met with Rep. Waxman, and Chiles wrote a letter to Sen. Mitchell in support of our position on alliances.

Distributed talking points to intergovernmental health care surrogates on the HSA's benefits to seniors, as part of seniors week. Also distributed information from the Urban Institute Report, released last week, citing the positive financial impact of the HSA on the states.

NEW YORK

Continuing efforts with Harold to analyze the administration efforts on behalf of New York, including the ramifications of the release of the impact analysis of the HSA on the state.

TEXAS

The Laredo Bridge will probably be approved by DoD next week.

V. important to DoD [illegible] including Richards

CALIFORNIA

Continuing to work with the Earthquake Interagency Task Force on the long-term recovery of California. All relevant California elected officials were invited to your announcement this past week.

MISSISSIPPI

Notified Mississippi of their disaster relief assistance.

ALABAMA

Coordinated Governor Kirk Fordice meeting with FEMA to discuss disaster assistance for the state.

INDIVIDUAL ELECTED OFFICIALS

Working with Nancy to arrange for **Governor Gaston Caperton** to spend the night or run with you at some time in the future. the Governor is also interested in being appointed to the National Railroad Passengers Board.

Governor Bruce Sundlun requests to be appointed to the National Railroad Passengers Board.

Governor Brereton Jones withdrew his name from consideration for appointment to the Historical Preservation Committee.

ADMINISTRATION PARTICIPATION IN UPCOMING CONFERENCES

- Laura Tyson and Ira Magaziner will address the National Association of State Treasurers (NAST). At a White House briefing we will announce the state impact analysis and the individual state reports to the NAST. Roger Altman will address the Democratic State Treasurers.

- Secretary Brown will keynote the National Association of Counties (NACO) conference next week.

DIRECTORS MEETINGS

- Met with Mayor Asher to discuss the selection of the new Executive Director of the Advisory Commission on Intergovernmental Relations (ACIR).
- Met with Secretary Babbitt and Mack McLarty on grazing.
- Met with Ambassador Kantor on intergovernmental affairs recommendations for USTR Commission.

THE PRESIDENT HAS SEEN 2/27

THE WHITE HOUSE

WASHINGTON

February 25, 1994 94 FEB 25 P6:35

MEMORANDUM FOR THE PRESIDENT

FROM: CHRISTINE A. VARNEY
Secretary to the Cabinet

SUBJECT: Summary of Weekly Cabinet Reports
February 25, 1994 through March 4, 1994

CABINET-WIDE ACTIVITY

HEALTH CARE

The focus of Cabinet activity has shifted exclusively to targeted Congressional districts. Several Members of the Cabinet will travel to Congressional home districts, and many more Cabinet Members and sub-cabinet officials will engage in regional media activity on behalf of Health Care Reform.

ADMINISTRATION CRIME INITIATIVE

This past Tuesday, Vice President Gore and Mack McLarty hosted a working lunch on crime issues for Secretaries Bentsen, Reich, Ron Brown, Shalala, Cisneros, Pena, Attorney General Reno and Dr. Lee Brown. The Cabinet Officers were briefed on our political, legislative and communications strategies. Mack then asked them to participate in three ways in our crime efforts:

1) Travelling in the coming six weeks to key Congressional districts: The Cabinet is beginning their crime bill travel with a series of events focussing on Brady Law implementation. Secretaries Bentsen, Shalala, Pena, Riley and the Attorney General and Dr. Lee Brown are participating in such events.

2) Participating in weekly Leadership Days in which top Administration officials brief police chiefs and other leaders invited to the White House by key Members of

Congress: We have completed three Leadership Days thus far, participants include the Vice President, Attorney General Reno, and Secretaries Riley, Cisneros and Dr. Lee Brown.

3) Developing crime policy initiatives which can be announced in the short term: Each of these Members of the Cabinet are working to put together policy initiative(s) that can be announced in the coming six to eight weeks. The Departments are coordinating these policy proposals through Mack McLarty and Carol Rasco over then next week.

In the first such announcement, this Tuesday Vice President Gore will join Attorney General Reno and Secretary Bentsen in announcing the Anti-Violence Initiative which coordinates our anti-gang initiatives and strengthens our efforts against violent crime with state and local forces.

** ** **

DEPARTMENT SUMMARIES

Department of the Treasury

o **Gun Control:** On Monday, February 28, Secretary Bentsen will announce that he has directed the Department's Bureau of Alcohol, Tobacco, and Firearms to end the uncontrolled public sale of two widely recognized military-style assault weapons. ATF can ban the uncontrolled public sale of these weapons, which have no sporting purpose, by placing them in the same legal category as machine guns. Dealers will require a special, $4,000 license to sell the weapons. There will be a $200 tax on each sale, and buyers will first have to undergo finger printing and rigorous background check.

o **Regulatory Consolidation:** Secretary Bentsen will testify before the Senate Banking Committee on Tuesday, March 1 regarding the Administration's plan to consolidate bank regulation. Comptroller of the Currency Gene Ludwig and the Secretary are working aggressively on the Hill to promote the initiative.. Supportive op-eds are expected to run in The New York Times and other papers.

o **WACO Anniversary:** Monday, February 28, will be the anniversary of the ATF raid on the branch Davidian compound in Waco, where four ATF agents died. ATF Director John Magaw will attend a memorial service for the slain agents in

Washington. The verdict in the Branch Davidian trial may come as early as today, thus enhancing attention on the anniversary of the raid.

- **New Treasurer:** Vice President Gore will administer the oath of office to Mary Ellen Withrow on March 1.

Department of Labor

- **Reemployment Initiative:** Labor is working vigorously to line up support for its reemployment initiative, the Reemployment Act. March 8, Secretary Reich will testify before the House Ways and Means Committee on the initiative. The legislation is expected to be introduced the first part in March.

Department of Transportation

- **Major Grant for Southern Maryland:** February 25, the Department will announce the signing of a Full Funding Agreement with the Washington Metropolitan Area Transit Authority for the Branch Avenue Line in Prince George's County. With the execution of the Full Funding Agreement of the remaining 13.5 miles of the 103 mile Metrorail system in the Washington metropolitan area will be completed.

Department of Justice

- **Three Strikes Proposal:** On Tuesday, March 1, Acting Deputy Attorney General Jo Ann Harris will testify before Congressman Schumer's subcommittee on the Administration's "Three Strikes" proposal.

- **Base Closing Case:** On March 2, the Solicitor General will present oral argument in <u>Secretary of the Navy vs. Specter</u>. Senator Specter and others are challenging the closure of the Philadelphia Navy Yard under the Military Base Closure Act. Senator Specter is also scheduled to argue. The Department will argue that the recommendations of the Base Closure Commission are not subject to review.

- **Nomination of Deval Patrick:** The Senate has scheduled a hearing for March 10.

Department of Health and Human Services

- **Waivers:** Next week, the Department will act on waiver requests from California and South Dakota. The California project includes provisions to require pregnant and parenting teens to participate in a program that includes cash incentives and sanctions to keep them in school and earning passing grades. The South Dakota project would time-limit adults by assigning aid recipients to an employment track of up to 24 months or an employment and training track of up to 60 months.

o **First National Survey of Hospital Emergency Departments:** This first national survey will be released next week and will show that 55% of all visits to emergency rooms are not for emergency treatment.

o **<u>Day-One</u> Tobacco story:** <u>Day-One</u>, ABC's news magazine is doing an investigative piece uncovering evidence that cigarette manufacturers manipulate the amount of nicotine in cigarettes to keep people addicted. The story may suggest that FDA has a responsibility to regulate cigarettes as drugs. Must watch this one

o **Sexual Harassment Case Against NIMH:** On February 28, trial begins in the NIMH sex harassment suit.

Department of Housing and Urban Development

o **Vidor, TX:** Five more African-American families have moved into the public housing development in Vidor, bringing the total to nine families. A tenth family will move in the next few weeks. The Ku Klux Klan has a rally outside the development last weekend, however, only 25 KKK members showed up and local and federal law enforcement far outnumbered them.

o **Performance Agreement:** On Thursday, the Department will announce its performance agreement and the field reorganization of its individual program offices.

Department of Education

o **ESEA Reauthorization:** The Improving America's Schools Act went to the House floor yesterday. The Department expects a vote next week.

o **<u>60 Minutes</u>:** On Sunday, CBS will air a <u>60 Minutes</u> segment on the Kansas City, MO, school system. A major focus of the story is that despite a substantial increase in spending for education there, student test scores have continued to decline. There is no mention in the story of the Department. Deputy Secretary Kunin will visit Kansas City on February 28.

Department of Interior

o **Grazing:** At Congressman Synar's request, Secretary Babbitt has agreed to hold off further grazing announcements until Synar has had a chance to review the draft line-by-line. Secretary Babbitt expects Synar to complete his review shortly and the announcements should continue by the middle of next week.

o **Gnatcatcher:** On Friday, March 4, Secretary Babbitt will address the San Diego Association of Governments to discuss preservation efforts relating to the California gnatcatcher. He will announce federal efforts to help local governments including National Biological Survey research initiatives, federal funding for land acquisition and conservation planning.

- **Speech:** On Saturday, March 5, Secretary Babbitt will gave a major speech to the National Wildlife Federation on the Administration's vision and goals.

Department of Agriculture

Good!

- **Loan Rates:** At a press conference this morning, Secretary Espy announced average price supports and advance deficiency payments for the 1994 crops of wheat and feed grains. Specifically, the wheat rate was increased by 13 cents ($2.45 to $2.58 per bushel) and the corn rate was increased by 17 cents ($1.72 to $1.89 per bushel). Secretary Espy expects these announcements to be roundly supported by farmers, agricultural groups and members of Congress in the midwest. This is the first time since the current statutory formula was established in 1986 that the Secretary of Agriculture has not reduced loan rates to the minimum levels. Secretary Espy points out that this announcement enables the Administration to help small and mid-sized farmers without great cost to the Treasury. Because prices are high due to the floods, farmers will be able to sell at a high price and also be able to repay the government with interest.

- **Federal Crop Insurance Reform:** Next week, Secretary Espy will release USDA's plans for federal crop insurance reform before the press, commodity groups and land crop insurance and banking interests.

Department of Energy

- **International Energy Agency:** On Tuesday, March 1, Secretary O'Leary will meet with the Executive Director of the IEA. Among other things, Secretary O'Leary will urge the director that continued DOE support for the IEA may depend upon IEA's ability to develop an updated strategy for responding to international energy emergencies in the current marketplace.

Environmental Protection Agency

- **Clean Air Act** On Tuesday, February 29, Administrator Browner will announce six proposed or final regulations required under the Clean Air Act. All of these rules, which were held up by the Bush Administration, will have significant public health benefits. The rules will curtail toxic emissions from chemical manufacturers, cut utility boiler emissions that contribute to acid rain and control numerous other air pollutants. EPA has incorporated many economically beneficial components in these rules, including emissions trading and other innovative mechanisms.

- **International Trade in Hazardous Waste** Next week, Administrator Browner will announce the Administration's position on international trade in hazardous waste.

The policy, which has been developed with the White House and several agencies, will call for a ban on the shipment of U.S. hazardous and other wastes overseas. The Congress must pass legislation on this issue to make the U.S. a party to the Basel Convention on the Transboundary Movement of Wastes. EPA will work with the Hill to ensure that the implementing legislation reflects the Administration position.

Department of State

o **China MFN:** Winston Lord presented a mid-term review on China to the House Ways and Means Committee yesterday. He told Congress that Chinese actions in the human rights arena have been less than expected and that China must do more if MFN is to be extended.

o **Bosnia:** Reaction on the Hill to the withdrawal of Serbian heavy artillery from around Sarajevo in response to the NATO ultimatum has been very positive. However, Republicans continue to question the efficiency of decision making on airstrikes, which, they argue, amounts to a United Nations veto. Congressional focus is shifting to next steps with considerable interest in expanding the Sarajevo model to other areas of Bosnia.

United Nations

The upcoming week will probably require tough decisions on three fronts at the United Nations:

o **Bosnia:** How to respond to an anticipated resolution by the Bosnian government and Non-Aligned representatives proposing sanctions against Croatia because of the continued presence in Bosnia of Croatian army troops.

o **Haiti:** Whether to move the tough sanctions resolution toward a vote.

o **Georgia:** Whether to authorize a peacekeeping force in Abkhazia. The Russians are expected to press hard for a force.

Department of Defense

o **Somalia:** The U.S. military withdrawal is entering its final stage. During the next two weeks, over 1,000 US Marines will go ashore to cover the withdrawal of remaining U.S. Army units from Mogadishu. All US combat forces will be withdrawn by March 31.

o **North Korea:** While the US/North Korean working level group meets in New York this week, there is still some concern that the North Koreans will delay

USTR sent a letter to Japanese Foreign Minister Hata and Transportation Minister Ito urging Japanese flexibility in multilateral shipbuilding negotiations. In particular, urged Japanese acceptance of the U.S. compromise proposal on the home credits program, the key issue blocking progress in the negotiations.

- o **Seafood Exports:** Following Ambassador Kantor's conversations with French Trade Minister Longuet, senior USTR staff will identify possible retaliation options to the discriminatory embargo of U.S. seafood at French ports, worth $100 million annually, .

- o **NAFTA Developments:** USTR staff conducted two days of intensive consultations with their Canadian counterparts to attempt to attempt to resolve outstanding issues regarding the beer memorandum of understanding reached last August. Issues including distribution, transportation and warehousing were for the most part resolved, but on the issue of discriminatory Canadian minimum price requirements, there was no movement. Absent a resolution of this issue, the U.S. will provide Canada with notification on March 7 that the MOU will be terminated in 30 days.

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cc: Vice President Gore
Mack McLarty

THE PRESIDENT HAS SEEN
2/27

Berg
Is Sandy with Lee?
B

Bomb Scares

By Lee H. Hamilton

WASHINGTON

American nonproliferation policy in South Asia isn't working. Both India and Pakistan have the capacity to develop nuclear weapons in short order. The barn door is open, the horse long gone.

This troubling fact should guide Congress and the Clinton Administration in the next few months as they reconsider the Pressler amendment, which has driven U.S. policy on the issue since 1985. The amendment, sponsored by Senator Larry Pressler of South Dakota, bans most U.S. aid to Pakistan unless the President certifies that Pakistan does not possess a nuclear explosive device.

The aim was to induce Pakistan to forgo its nuclear capability. Unfortunately, the premise is obsolete. Since 1990, U.S. officials have been unable to make such a certification, and U.S. assistance and military sales to Pakistan have all but dried up.

This policy has damaged U.S. relations with Pakistan. A long partnership has been undermined by feelings of suspicion and betrayal. As U.S. influence in Pakistan has declined, Chinese and Iranian influence has increased. Our impact on democracy and human rights has diminished at a time when Pakistan is trying to break with its authoritarian past. Our ability to stem the flow of drugs from the region — the second-largest supplier of heroin to the U.S. — has been undercut.

These costs might have been acceptable if our nonproliferation policy were working. But it isn't. Pakistan clearly has no intention of complying with the Pressler requirements. Instead, our policy risks pushing Pakistan into the arms of renegade states like Iran, Libya or North Korea, which would pay handsomely for Pakistani nuclear secrets. And the policy encourages India to avoid meaningful negotiations with Pakistan, since it is content with a policy that punishes only Pakistan.

Why is Pakistan (but not India) a nuclear outlaw?

The solution is not to abandon our nonproliferation goals for South Asia, but to pursue attainable ones. Recognizing that both India and Pakistan have nuclear capacities, we need to offer both of them incentives to work toward a nuclear-free South Asia.

The need could hardly be more urgent. James Woolsey, the Director of Central Intelligence, recently named South Asia as the most likely place for the outbreak of a nuclear conflict. And failing to stop the spread of nuclear weapons in South Asia would make it harder to keep such weapons out of the hands of Iran, Iraq and other would-be nuclear powers.

A realistic nonproliferation strategy for South Asia would start out with these four objectives:

First, it would focus on negotiating a comprehensive test ban, something the U.S., Pakistan and India can all agree on.

Second, it would work for a global ban on the production of nuclear material — another area where there is considerable agreement among the three countries.

Third, it would seek a ban on deploying missiles in the subcontinent — a substantial step toward a nuclear-safe South Asia.

Fourth, it would try to draw the Chinese into the South Asian dialogue, since our nonproliferation efforts in South Asia can succeed only if India's concerns about China are adequately addressed.

There are other ways to advance our nonproliferation agenda. We should urge both India and Pakistan to be full participants in next year's conference to review the Nonproliferation Treaty. And we should hold out South Africa's decision to disclose and abandon its nuclear weapons program as a model for the Asian subcontinent.

Once India and Pakistan are cooperating on nonproliferation, we can pursue other important goals — cooperation at the U.N. and on global hot spots, drug control, democracy and human rights.

Repealing the Pressler amendment would be controversial, as the Clinton Administration learned when it raised the possibility last November. But by revising our policy to reflect reality in South Asia, we stand a much better chance of achieving not only our nonproliferation objectives but other important goals. □

Lee H. Hamilton, Democrat of Indiana, is chairman of the House Foreign Affairs Committee.

On My Mind

A. M. ROSENTHAL

From: Richard C. Eden To: President Bill Clinton

GS | cc T Lake
FYI - fr. Leopoulos
B

THE PRESIDENT HAS SEEN 2/27

February 25, 1994

Dear Mr. President,

Congratulations on the Bosnia deal. It seems (cross my fingers) that there is a little movement there. I hope things work out. Good luck. I think your caution has paid off.

As you might expect I have heard from and spoken to several Greek Americans who were hurt, surprised and very angry about the recognition of the Y. Republic of Macedonia. They said to me that they know you are a good man and you must understand how they feel - but why did he do this when Carter and Bush did not.

These same Greeks tell me that even though the Greeks are presently upset with the name aspect of this problem they feel that will pass and everyone would live with it. I have spoken to several Greek Americans who tell me that Prime Minister Papandreou would probably open the boarder with Y. Republic of Macedonia. and begin talks with them if a deal is made removing the star from the flag and the appropriate changes were made to their constitution before diplomatic relations were set up after these two weeks. I was also told that those in Macedonia have already stated that they would make those changes to everyone except the Greeks.

I am sure you know all this stuff. Anyway that's what I have heard from the front lines. Seems fair to me.

Judy Steelman called me and said they could use something signed by you and Hillary for their Jefferson Jackson dinner this Sat., if it is legal and appropriate to do. The Arkansas Demo. Party is over 200,000 in debt she said. If you can help them please FEDX the stuff today.

PREDICTION for this Sat. game.

HOGS 103 TIGERS 79

THE WALL STREET JOURNAL WEDNESDAY, FEBRUARY 23, 1994

Disappearing Act

West Pledged Billions Of Aid to Poland— Where Did It All Go?

A1

Not, Mostly, to the Poles; The Advisers Got Some. Some Was Never Sent

Lend to Business? Too Risky

By BARRY NEWMAN
Staff Reporter of THE WALL STREET JOURNAL

WARSAW—The idea was to do it fast, to do it cheap, to make it pay and to make it stick. Designed and underwritten in the West, the restoration of capitalism in Eastern Europe would be, in 1990 rhetoric, the task and the triumph of the century. Businesspeople were going to put the victims of communism back into business.

People like Barbara Lundberg. She was 36 in 1989, a Wharton M.B.A. and a former vice president at Kidder, Peabody & Co. Now she's at work in the old Central Committee Building of Poland's Communist Party, running the U.S. government's fund for reinventing the enterprise culture. "I knew nothing about Poland," she says. "I wanted to get back into venture capital."

Barbara Lundberg is no aid worker, but when the West recruited an army to mop

First of two articles

up after the Cold War, it didn't want aid workers. It wanted a corps of corporate role models—consultants, bankers and entrepreneurs—to clinch a friendly takeover. With no new enemy shaking its missiles at Europe, Western leaders were convinced that business would soon boom and prosperity bloom; the Communists would never be seen again.

By early 1993, the 24 richest nations of the West had made paper pledges of $70 billion to East European countries from Estonia to Albania. Poland alone got a chit for $25 billion.

What happened to it? Fair question, given that the West now must decide whether to toss billions more into Russia's maelstrom.

The answer is discouraging: Aid has been fired like scattershot at a flitting bird. Replacing communism with capitalism has been far trickier than the bricks-and-mortar salvaging of postwar Europe. Many aid dollars benefit donors more than donees. And many, laden with conditions, sit unused.

Skimpier in quantity and quality than it appears, Western aid hasn't done enough to promote mass enterprise or allay mass poverty. The market machinery it is helping to install in many countries hasn't provided the political breathing space to prevent the rise of a nationalist right or a socialist left.

Aid Without Comfort

Poland ought to be aid's showcase. First to revolt, this country got more care and was promised more cash than any other place in the old East Bloc besides Russia itself. By early 1990, it had gladly met the brutal economic austerity that Russia still resists. Poland freed prices, checked inflation, beat recession.

Yet the West, reluctant to give handouts or take big risks, has withheld large-scale aid to the small businesses that are fueling Poland's transformation; millions go it alone. Nor did the West channel aid to make life any easier for millions more as unemployment shot up to 16%, welfare crumpled and living standards collapsed.

The bottom line: The West has been stingy. Strip out canceled debt, plus loans and grants that go undispersed, and pure gifts to Poland come to under 10% of the $25 billion total. When a highway costs $4 billion and cleaning the air $50 billion, Poles can feel rooked.

The impact came clear last September. Three months before the Russians gave a shocking election victory to the far right, the Poles voted in the old left. Former Communists run the government today, and hold as many seats in Parliament as they did after the rigged 1989 election.

An Old World Order

Not every Western cent has gone for naught, of course. Plenty of Polish businesses and bureaucracies have gained from it. While acknowledging this, though, many Poles have come to feel that aid has played only a bit part in their escape to capitalism. "With or without assistance, we would have been able to start reforms and reach the point we're at now," says Pawel Samecki, who runs Poland's office for tracking Western grants. "It's an illusion that foreign aid is changing the economic situation in the East."

The illusion had a joyous birth. On Nov. 15, 1989, Lech Walesa, not yet Poland's president, was the first private citizen to address a joint session of the U.S. Congress in 165 years. Recalling Stalin's refusal to let Poland take part in the Marshall Plan, he said, "Now is the moment when Eastern Europe awaits an investment of this kind . . . an investment adequate to the greatness of the American nation."

Cheers and applause stopped him 24 times. Congress swiftly voted Poland and Hungary four times what President George Bush had asked.

"We all started with tremendous optimism," says a manager at one aid agency. Thrilled by the potency of Poland's 1990 price shock, Western governments expected a torrent of private capital to wash away communism's slops. Nobody knew that the whole system, from courts to banks, had to be scrubbed out before this tidal wave rose.

Nobody knew much of anything. Because they assumed the market would do the work, the industrialized world's donor nations and aid institutions never set up a think tank or command center to coordinate aid to the East. Their purpose was in part political: to put on an extravagant show, and buy a quick fix.

"Aid agencies were out to produce a laissez-faire economy at great speed," says a Western consultant.

Breathless promises, however, produced winded deliveries. Aid was not only poorly thought through, there was less of it than the Poles were led to believe, and it took forever to get here.

Even loans arrive by slow boat. The European Bank has dispensed just 15% of $600 million it pledged to Polish ventures. The World Bank and others have committed themselves to lending $8.5 billion for telephones and gas fields and railroads; the Poles estimate that $1 billion of it has budged. Under conditions attached by donors, more than half the country's potential credits must be spent on Western exports—from corn to economists—a practice called "tied aid" long frowned on in the Third World.

The West's more generous grants don't come any faster. Of $1 billion promised by the European Union (the former European Community), 30% has arrived. Another $8.5 billion isn't fresh money at all; it cancels debt that Western banks pumped into Poland 20 years ago. An unused $1 billion fund meant to steady the zloty is still in limbo instead of being distributed as agreed to Poland's banks.

Excuses for the delays abound on both sides. Paperwork holds up everything, due as much to rusty Communist laws as to Western fears of real or imagined fraud. The World Bank makes credits conditional on progress in reforms. Polish state companies decline loans they dearly need but fear they can't handle.

But if there is one thing the West has delivered quickly and in abundance, it's advice.

A Green Revolution

Revolution was still rolling across Eastern Europe when the West's advisers began pouring into Warsaw. They entered a world none of them knew, and took on jobs no one could tell them how to do. In hindsight, much of their work seems naive. When their advice was on target, Poles numbed by communism often didn't take it. But nothing has stopped the advisers from charging their usual fees, paid for by Western aid, and helping themselves at least as much as they have helped Poland.

Steve Buckley was in the San Francisco office of Bain & Co., a consulting firm, when the wall fell in Berlin. At 34, he had a Harvard M.B.A. and a yuppie's salary. "I'd have had a hard time finding Poland on the map," he says. "But when the wall came down, I said, 'Gee . . . .' "

He quit his job and flew to Warsaw in May 1990, found some British and American aid money, and started riding the rails. "Nobody had seen the inside of a Polish factory before," he says, or at least not many like him. He visited 350, and soon won an aid contract to "stop the bleeding" at 20 of them.

He asked factory managers, "What do you need?" The reply: "You tell us."

A year later, Mr. Buckley and two partners opened a consulting firm, Company Assistance Ltd., with an Irish office to tap the vein of grants from the European Union. CAL hired 35 staffers, mostly Americans between college and business school. They piled file boxes into the t[illegible] floor of a student residence and got down scrambling for work against an armada [of] advice-spouters from the West.

The tide washed in 143 U.S. agencies, the Department of Labor, the Securities and Exchange Commission, Fannie Mae. Aid-paid advisers from the U.S. and the [illegible] tell Poles how to grade meat, tax pow[illegible] burn biobriquettes, plug into e-mail. Th[ey] explain how to confront xenophobia, standardize measurements, run parliaments.

Packing 500 Poles into a room for a slide show in English on garment-industry macroeconomics is one way to scatter advice. Another way is to write a report, advancing the transition from Communist double-talk to capitalist techno-speak.

The names of EU advisory programs read like a list of late-model cars: Tempus, Fiesta, Sierra. Their jargon-laden reports favor things like restructuring sectoral component systems with market-oriented financing mechanisms in horizontal institutional frameworks of competitive structural solutions.

"Many times," Mr. Buckley recalls, "people said, 'What do we know about this?' I said, 'What's the alternative?' "

Tools of Misfortune

Ignorance was no obstacle to consultants hired to rescue and sell state industry. An EU adviser can make $1,200 a day. Brussels awarded 546 contracts worth $256 million in 1991; Polish consultants got half a percent of that. Yet, a London adviser figures 80% of his firm's Eastern revenue comes from aid agencies.

Along with every other firm working in Poland, CAL first expected to parlay the aid money it got for reviving state companies into success fees for flushing out Westerners to buy them. But rivals plucked plums like the soap-powder industry, with its ready-made domestic market. For the 28 machine-tool and 35 shoe companies that CAL has tried to flog in endless calls to the West, not a single bid has come in.

"Nobody here understood the unattractiveness of Polish assets," Mr. Buckley says. "After five minutes on the phone, either you have a compelling story or it's 'click.' "

To compound his frustrations, many an unattractive Polish company has slammed the receiver on his consultants. CAL, for example, wrote a report for Hydomat, one of its less-hopeless machine-tool clients. The report was full of ideas to clear the way for privatization. Whether or not the advice was good became a moot point. Along with many another consultant's report in Poland, this one never found a reader.

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The ground floor of Hydomat's sullen office on Warsaw's edge displays a small sign of CAL's inspiration: A trader has rented it as a showroom for German desks and executive chairs. Upstairs, though, the furniture is strictly Stalinist. The new go-getter Mr. Buckley thought he was working with is gone. Miroslaw Paduch, in the old guard's name, has retaken the director's office.

"The workers' council fired the previous management," he says. Doesn't this affect his relationship with CAL? Mr. Paduch's face darkens. "They don't work for us now," he says. "They gave us a report. These materials don't fit Polish reality." Mr. Paduch won't be taking Hydomat private for now. "There's no need," he says, "for drastic steps like selling state wealth."

Helpers Help Themselves

Just as aid for Western advice has mostly aided Western advisers, Western business has been the biggest gainer from the West's business loans. Aid agencies have a pronounced preference for safe bets. The money they are supposed to lend to inspire enterprise in the East often goes to Westerners, or it goes nowhere at all.

At his office window, Adam de Sola Pool takes in a vista of steeples and warehouses. He says, "This makes me think of Poland," but his view is of London's East End, seen from the headquarters of the European Bank for Reconstruction and Development.

Mr. Pool is 36, and got his M.B.A. at MIT. Two years ago, he was at Salomon Brothers in New York, a private banker with profits in mind. In London, he is a public banker with Polish profits in mind. "Most of my clients are foreign companies interested in investing in Poland," he says, pouring a glass of spring water. "You'd be surprised how many pass through Heathrow."

A taste for Carrara marble that adorns the bank's halls drove his bank's president, Jacques Attali, to quit last June; in its three years of existence, the EBRD had spent more on constructing lavish headquarters than it had dispensed in loans. A new president and a new organization chart are sorting things out, but the critics won't stay mute. They say the premier institution created to speed the advent of capitalism still does more for the West than the East.

The EBRD's record in Poland makes it look that way. The bank has wrapped up 26 deals. Government borrowers and one chicken processor aside, the rest have Western partners, and borrow on hard terms, as they would from any commercial bank. Some Westerners in Poland wonder how this pattern fits the definition of aid. The EBRD, they say, should be lending to Poles, not to foreigners who can get their money elsewhere.

"How can anybody there say they won't bank on Polish companies?" says one Western consultant. Adds another: "They were supposed to blaze trails, but they do joint ventures with Westerners. Why? Because it's safe."

Mr. Pool sips his spring water.

"I don't think we do very safe projects," he says. "Any project in Eastern Europe has risk. I will do a deal for any company that demonstrates competence to run a business and repay a loan. It happens that to date most of those companies have been Western."

The EBRD sees itself as a beacon in the void. Western banks are still leery of the East, notes Mr. Pool. Only the EBRD, say its bankers, lends to vital Western investors. Otherwise, some wouldn't come at all.

Reflections of Opportunity

Yet many do. At least 90 big foreign companies have invested $2 billion in Poland without the EBRD. Its bankers assume, for instance, that Britain's Pilkington would never have floated its float-glass plant without their $50 million. Pilkington assumes it would. "Probably yes," says its spokesman, Tony Cove. "We wanted to get into Poland anyway. Poor old EBRD. It's had a bit of a knocking. . . . They were good to us."

But who is good to the ordinary Poles? Not the EBRD, or any of the West's other big public benefactors. Two million businesses have started here since 1989. They employ half the work force and turn out half the national product. Small entrepreneurs are laying the concrete of the moderate, stable democracy the West wants here. Yet, because they are considered high risk, most of them can't get a dime of Western credit.

Direct loans from the EBRD are out of the question. "It's very difficult for us to make individual loans," says Yves Fortin, the bank's administrator in Warsaw. "We'd lose our shirt."

But the EBRD's attempts to deal through middlemen don't work; they won't stick their necks out, either. The $100 million it handed commercial banks has never been passed on to private business. The EU tried, too. It asked Polish banks to distribute $60 million. They didn't. The World Bank also gave those banks $700 million, and also flopped.

Who is to blame? Westerners say the Poles won't take chances. The Poles say Westerners won't share the risk. Both may be right.

"They shifted responsibility for the poor use of their money onto us," says the credit chief of Poland's development bank, Maciej Stanczuk. His bank would have to pay back the aid-givers if small borrowers defaulted. That's why it has lent just 5% of a $55 million World Bank credit. That bank, Mr. Stanczuk says, "creates illusions" that Western money is available for the mass of Poles.

"Our procedures aren't the issue," replies Ian Hume, who heads the World Bank in Warsaw. "If we disburse funds in Africa, we can damn sure do it in Poland." Polish banks, he contends, scare off borrowers by demanding collateral worth twice the amount of a small-business loan. The Poles, says Mr. Hume, need "greater courage" to take on new customers denied a track record by 45 years of history.

So the aid-givers and Polish bankers bicker on. Meantime, one tiny minority of new entrepreneurs has at last found some cash on the way to the free market. The newly designed pocket it comes out of belongs to Uncle Sam.

Funds and Games

When the Bush White House set out to deliver aid to the East, it wanted to promote enterprise in an enterprising way. Its new idea was the Polish-American Enterprise Fund, invented to finance small business while maximizing profit for itself and its own managers. But is maximizing an aid-vehicle's profit the way to help the maximum number of Polish entrepreneurs? The answer, it seems, is no.

In the eyes of the West's other aid givers, at least, the fund has worked wonders. "It's the most successful effort in Poland," says Mr. Hume of the World Bank. Against his own small-loan record, the Enterprise Fund's numbers shine. Of the $240 million bestowed by Congress, it has sprinkled $164 million among 2,510 companies. But those numbers don't tell the full story.

"Three years ago, enterprise funds were a silly American idea," says Ms. Lundberg, the fund's general director. "Nobody imagined we'd make money."

Making money, however, is what the Enterprise Fund is about, and not just for Poles. The silly idea was to hire real capitalists to make smart investments. Once they paid off, the U.S. taxpayer could disengage, and the real capitalists would get real money.

Congress had the impression that a salary ceiling of $150,000 a year would duly "incentivize" its M.B.A. aid workers.

Not quite.

The managers in Poland have found a way to enhance their rewards still further without offending anyone in Washington. After consulting with Congress, they created an Enterprise Fund clone, the Polish Private Equity Fund. This fund raised $51 million from private investors, took $50 million of U.S. money from the original Enterprise Fund and got $50 million more from an admiring EBRD.

To run the new private fund, a management firm was formed. Its officers are the same people who manage the Enterprise Fund. They make the same investments for both funds. If the private fund makes good money, though, the officers get a piece of the profits.

The Washington aid establishment wasn't convinced this was entirely ethical. "If you try to explain it, a lot of the time they don't understand," Ms. Lundberg says. "We had discussions with enormous sensitivity to the conflict-of-interest possibilities."

Washington did understand, though, that the setup would help ease the U.S. out of spending much more on Polish free enterprise. If the funds prosper, they sustain themselves. If the managers prosper, they won't rush back to Wall Street. Once it was convinced that no one was siphoning off money, Congress was happy. But how many Poles would be happy, too? Not many.

The Enterprise Fund's boast of staking 2,510 companies with $164 million turns out to be a tad misleading; in fact, just 43 companies got $120 million. These tenderly nurtured investments range from $15 million for a Polish-American printer down to $199,000 for a boat builder. The other 2,467 companies got their loans, averaging $24,000, from a much smaller Enterprise Fund spinoff, the Enterprise Credit Corp.

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Small Wonders

What may be the prickliest job — and the greatest success — of the whole $25 billion aid effort falls to the young Polish bankers who do the credit corporation's scut work. Jerzy Gliniecky and Slawomir Wasowski pass their days driving from copy shop to dentist to bakery. Now they are showing off a place on Chlodna Street that fixes flats. The owner borrowed $50,000 from the Credit Corp. for a computerized German leak detector.

"From a sophisticated flat fixer, we're turning into a more sophisticated flat fixer," the owner says. "Cappuccino?"

Across the street, in a rival repair shop, Halina Wisniewska watches skeptically. "Americans lending money?" she says. "That's good, but I'd be afraid. You take it and you don't sleep at night."

Poles are as suspicious of banks as Polish banks are of them. The Credit Corp. sent its flier to every laundry in Warsaw. All but three ignored it. They didn't know its bankers make house calls.

"Laundries always pay well," says Mr. Wasowski, pushing open the door of Stefania Nocun's sunny shop. She washes sheets now, and wants $10,000 for a dry-cleaning machine. The bankers sit her down and grill her for 45 minutes. All she can show is a scribbled cash book. She has no collateral. She finagles her taxes.

And she gets her loan. "Strong cash flow, experienced owner," Mr. Wasowski says on his way out. "She has good contacts. Probably, she bribes. We have no problems with such a business."

The Credit Corp. approves 100 loans a month this way, steering more money to ordinary Poles than any other aid giver. It would lend more if it had more to lend. But its parent, the Enterprise Fund, gave it just $28 million, plus $20 million in loans that can be re-lent to Poles. And the fund's new partner, the Private Equity Fund, won't give it anything.

The reason is that labor-intensive lending at the grass roots of Poland's restoration—a service no Polish bank can afford—won't make the kind of money that the Enterprise Fund's venture capitalists believe they need to make their operation self-sustaining in this extremely risky frontier of capitalism.

"They're looking for a 20% return," says Marek Kulczynski, the Credit Corp's Polish president, "and from us they can't expect more than 4%. Don't forget, microlending isn't very profitable. We consider ourselves a development institution. Our objective isn't to earn money."

A Direct Route

As the West enters its fifth year of tutoring Eastern Europe in the ways of capitalism, it may finally be learning one lesson: Recognizing that a good chunk of aid is going to be dissipated on Western consultants with no measurable results, perhaps it's better to let the Poles spend it, for better or worse, on themselves.

In January 1990, Hubert Szlaszewski sat at an empty desk in a bare state office. A 32-year-old lawyer raised in the West, he had returned to pitch in as Poland tried to cope with the West's sudden benevolence. "We need all kinds of assistance," he said then. "All of it is welcome. The delicate part is making sure it is well spent."

Mr. Szlaszewski has a desk piled with paper today. Guiding a batch of aid activities, he still tries to see that the money is well spent — and that still is the delicate part. "You have to be reasonable," he says, but donors often aren't. "Poles should be in charge," he says, but donors usually are.

Poland's bureaucrats are no longer unschooled in the ways of foreign aid. Yet the West won't allow them a major say in the way aid is used. Poles wait months for the EU to clear ideas they approve. Their sole brush with the U.S. aid program consists of dropping by the embassy to pick up annual reports.

The Poles have borrowed a wad of money and listened to a load of lectures as the West has directed them toward capitalism. In hindsight, they and many Westerners also now accept that despite the success of some individual aid efforts, something meatier—more direct grants, in particular—might have saved Poland's poor and jobless much grief, given growing room to their fish farmers and software writers, and helped avoid the four years of political slapstick that finally brought the Communists back.

Today, Poles have stopped waiting for Western aid to match the rhetoric of generosity that greeted their revolution. They would simply prefer more trade and fewer loans, more investment and less advice. Experts still fly in to improve Polish cherries, while Western duties kill Polish cherry exports. The Poles politely wonder if a tariff cut wouldn't lessen the absurdity. If a small loan finds no takers, they ask, why not sugar it with a grant to the jobless coal miner who wants to open a car wash?

Two years ago, Poland asked the EU to think over such things. Cherries seem to have no hope, but the car wash finally does: $90 million in grants are slowly rising from the Brussels bureaucracy. It makes Mr. Szlaszewski feel as cordially grateful today as he did in 1990 for whatever goodwill the West has to offer. But he is 36 now, and four years the wiser.

"Foreign assistance isn't a panacea," he says. "Here and there, it helps. I hate judging it by how many millions are spent. It's much better to think, 'Does this make sense?' "

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THE PRESIDENT HAS SEEN 2/27

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Reaching Out

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Under Strong Pressure Banks Expand Loans For Inner-City Homes

Mellon Seeks Out Borrowers In Philadelphia Program; Groups Teach Budgeting

It's 'Everything I Wanted'

By KENNETH H. BACON
Staff Reporter of THE WALL STREET JOURNAL

PHILADELPHIA — When Rubbie Clark set out to buy her first home, she had three strikes against her — a blemished credit record, low savings and the prospect that she could find an affordable house only in an inner-city neighborhood where banks have long been reluctant to lend.

But after completing a financial-counseling program with a community group, Ms. Clark repaired her credit record and in 1991 qualified for a mortgage from Mellon PSFS, the Philadelphia unit of Mellon Bank Corp. The 43-year-old office worker borrowed 95% of the cost of her $36,000 row house, where she lives with her foster-daughter and nephew.

Her loan is part of a quiet revolution at American banks, which are rewriting their lending rules to make it easier for minorities and lower-income people to borrow. The banks are being shamed into action by community groups and threatened by federal regulators policing fair-lending laws.

High-Priority Issue

The Clinton administration has placed a high priority on the issue. Just last week, the Treasury Department's Office of Thrift Supervision rejected applications from four thrifts in New Jersey and Ohio to trade in their federal charters for state licenses. The agency ruled that they hadn't met the provisions of the 1977 Community Reinvestment Act, which requires banks and savings and loans to lend in all areas in which they take deposits.

Increasingly, banks such as Mellon are working with the Association of Community Organizations for Reform Now, churches and other community groups to reach out to new borrowers. It was after attending a church meeting on how to buy a house that Ms. Clark decided to apply for a loan. Despite her dream of home ownership, she had never sought a mortgage from bankers because "there was nothing that made me think they would have given me one."

Now, her house in a North Philadelphia neighborhood called Nicetown "has everything I wanted — hardwood floors and an enclosed front porch," she says. And it has one advantage she didn't expect: Her monthly mortgage payment, including taxes and insurance, totals $319, compared with the $425 a month she had paid to rent a one-bedroom suburban apartment.

Financial System Changing

Slowly, it seems, the U.S. financial system is changing. Mellon Bank seeks out applicants from inner-city neighborhoods and has more than doubled its loans to low- and moderate-income people. A decade ago, Acorn says, it wrapped a Mellon office in red tape in protest of alleged red lining; now Acorn and the bank work side by side. Fleet Financial Group Inc., after years of pressure, has just announced a program to boost lending to such home buyers and to minority-owned businesses. NationsBank Corp. and Chemical Banking Corp. already have launched similar programs.

The banks are learning that they can make a profit on such lending and develop new customers as well through counseling and other programs. "We believe it's the right way to get at this issue of neighborhood investment," says Paul Beideman, president of Mellon PSFS. Mellon has similar programs throughout its business area in Pennsylvania, Maryland, Delaware and Boston, Mass., but the Philadelphia program is the most aggressive.

The outreach efforts follow three years of damning studies by the Federal Reserve Board that were based on racial-lending data collected under the Home Mortgage Disclosure Act. The figures showed that blacks were more than twice as likely to be turned down for mortgages as whites with similar incomes.

Bankers initially criticized the reports as misleading because they focused on the race, rather than the credit risk — as measured by other loans outstanding, income stability and savings — of mortgage applicants. But the reports gave new evidence of discriminatory lending patterns to community groups and galvanized regulators and the Justice Department to act.

In response, lenders, while denying conscious discrimination, are changing their practices. "The era of finger-pointing has long passed," says Stephen Ashley, president of the Mortgage Bankers Association. "We must address discrimination head-on. We must increase our outreach and marketing efforts to communities."

Mellon's Program

Ms. Clark owes her mortgage to a cooperative effort by Philadelphia banks and community groups to help minorities and low- and moderate-income people buy houses. Mellon PSFS, which made Ms. Clark's loan, extended 573 loans to low- and moderate-income borrowers under its Neighborhood Banking Program last year, up from 223 such mortgages in 1990. The Mellon unit, which operates only in the Philadelphia area, says 55% of these loans went to minority borrowers last year.

Overall progress is slow, however. Despite efforts to expand minority lending, the Fed numbers show that in 1992, the last year for which federal figures are available, blacks were rejected twice as often as whites for loans. But the rejection rates don't reflect an increase in credit because such rates measure only denials as share of total applicants; the figures don't focus on lending volume. Moreover, the banks trying hardest to serve the inner city are, by reaching out to less credit-worthy applicants, more likely to have high rejection rates. So, despite such stubbornly high rates, more credit is flowing to people and areas that banks had avoided.

Loans to lower-income people have risen. In 1992, conventional home-purchase loans to borrowers with incomes below the local median rose 27.1%, more than double the growth in loans to borrowers whose incomes are equal to or greater than the median, according to the Federal Reserve Board's latest data. And in 1992, the number of loans to blacks rose faster than those to whites.

Part of what is changing is the perception that poorer borrowers necessarily carry greater risks of default. That just isn't true, bankers increasingly say. A low-income homeowner will go to unusual lengths to keep from having a house repossessed. "Customers really don't want to lose their property," Mr. Biedeman says. And while poorer people are more likely to miss payments than wealthier people, the "higher delinquencies don't necessarily mean higher losses," he says, because Mellon works closely with delinquent borrowers and credit counselors to help get payments back on track.

Another myth is that poor people can't afford mortgages. Indeed, many, as Ms. Clark once did, are paying rents that are higher. In parts of Philadelphia, a Mellon official says, "you can buy a house for $20,000 easily and pay $180 a month."

How Consortium Works

The consortium formed by Mellon and seven other Philadelphia lenders, called the Delaware Valley Mortgage Plan, works with community groups to help people with incomes of $36,000 or less purchase houses that cost $57,000 or less (in any neighborhood with homes at that price level). Frequently, the borrowers require extensive credit counseling from community groups before they qualify for loans. The counselors help them work out payment plans for old debts, design savings plans to assemble down payments and teach basic budgeting skills.

The loan terms are adjusted to fit low-income borrowers, about 80% of whom are single mothers. A key to the program's success is flexible underwriting standards that allow welfare, Social Security or food-stamp benefits to count as income and allow borrowers without bank accounts or credit cards to prove their credit-worthiness by showing that they have reliably paid their rent and utility bills.

Since the government began to highlight racial disparities in rejection rates, the Federal National Mortgage Association and the Federal Home Loan Mortgage Corp., the two government-chartered, stockholder-owned agencies that purchase mortgages from lenders, have launched new programs to help finance home buying in inner cities and poor rural areas. A 1992 law requires these companies to devote more of their resources to low- and moderate-income programs.

In its Neighborhood Banking Program, Mellon waives a demand that applicants work for two years in the same job or industry. All that is required is a steady income. Mellon also lets loan applicants use cash for down payments, an arrangement that helps low-income applicants who, in many cases, don't have bank accounts. And applicants also get a break on interest rates. Ms. Clark's 7.126% rate was 1.5 percentage points below the market rate when she got her mortgage — with a down payment of only 5%.

"Mortgages are the spine of the neighborhood" because homeowners encourage investment and development, says Bruce Dorpalen, Acorn's director of banking programs in Philadelphia. "If you can maintain property values, then people can borrow on their houses to get their roof fixed or to send their kids to college," he says.

Benefits of Counseling

Ms. Clark got her loan from Mellon after going through a credit-counseling program at Acorn. Her income as a

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service associate at Penn Mutual Insurance Co. was under $30,000 when she bought the house. But without counseling, some delinquent student-loan payments and other credit problems probably would have prevented her from getting a loan.

Since many low-income borrowers need help getting their finances in line, Mellon recently hired Nelson Acevedo, a former community worker, to help borrowers who are having problems meeting their payments. He meets with people who miss a payment, and, if necessary, he helps them work out alternative payment plans to avoid foreclosure. Sometimes he arranges assistance with energy bills or other temporary help from state and local agencies to pull people through periods of unusual financial strain.

The counselors and community groups seem to help bankers bridge the cultural gap that has long made the financial system inaccessible to poor or minority areas. "Bankers have very little in common with people in poor communities," Rep. Joseph Kennedy says. But, the Massachusetts Democrat says, banks in Boston and elsewhere are beginning to realize that they can build strong customer bases in communities once spurned – despite "a tremendous amount of suspicion on both sides of the street."

Even though expanding into once-shunned neighborhoods, Mellon still performs badly when measured by denial rates. Even in its Neighborhood Banking Program, it rejected 19% of the applications from black applicants last year, compared with 6% of white applications and 8% from Hispanics. "Because of our outreach, we're going to see more applications and we're going to lend more, but we're also going to turn down more," Mr. Beideman explains. All rejected applications receive a second review.

But while the disparity between rejections rates remains high, the number of loans Mellon PSFS makes to minorities has risen sharply. In 1990, Mellon made 51 loans to blacks and 39 loans to Hispanics through its Neighborhood Banking Program; last year, it made 165 loans to blacks and 128 to Hispanics. In the Philadelphia area, in fact, Mellon is making more than twice as many loans through its Neighborhood Banking Program as it does through its conventional mortgage program.

When Cynthia Henderson went to Mellon to discuss a loan, the lending officer quickly decided that she wouldn't qualify for a normal loan because she had held her current job only six months. But the Mellon lending officer recommended that she go to Acorn for help.

Learning the Ropes

There, Allison Hughes learned that Ms. Henderson had just returned to work after a divorce, reclaiming a job at a General Electric Co. plant that she had held for several years before her marriage. Ms. Hughes was able to sort out her employment record and help Ms. Henderson plan to assemble the 5% down payment on a $44,000, two-bedroom house. She ultimately got a mortgage from Mellon and lives in an attractive row house with her three-year-old daughter.

"I love Mellon," she says, noting that she also has a car loan from the bank.

Often, financial counseling can get applicants past the rejection threshold. "It's our belief that discrimination, where it occurs, often affects applicants with some blemishes," Comptroller of the Currency Eugene Ludwig says. "In many cases, such assistance – requesting explanation of derogatory credit information, suggesting ways to improve an applicant's reported income or reduce the applicant's current debt, or offering an applicant loan options that might improve his or her ability to meet underwriting standards – can mean the difference between denial and acceptance."

More people are dropping by Acorn's second-floor walk-up office in a battered building next to a former opera house now used as a church. Richard Saffold, a relatively new counselor, is helping a 37-year-old mother of two who is interested in a loan.

"How many single parents do you deal with?" she asks.

"A lot. Maybe 70% to 80%," he says.

Relieved, she begins to answer questions about her finances and credit record. She concedes that she has more than $1,000 in unpaid bills, some of them delinquent for several years. Mr. Saffold tells her that she has to settle the bills and get them removed from her credit report before she can get a mortgage.

"For anyone who has negative comments on their credit report, the bank does require that you come to budget class," he adds. He signs her up for a series of three classes to teach her how to set up a monthly budget and manage credit.

—Steven Lipin in New York contributed to this article.

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THE PRESIDENT HAS SEEN

Rubin / GS / Greenspan

~~Good~~ Good news —

showing capability & clarity w/

good examples.

B

CAPITAL JOURNAL
By Gerald F. Seib

Mixing Abortion, Health Reform Could Be Perilous

With all the problems facing his health-care reform plan, President Clinton doesn't need any new ones. Yet Robert Casey stands as a reminder of how the president could stumble across a whopper.

Mr. Casey is the governor of Pennsylvania. He's also one of those rare creatures, a Democrat who is ardently opposed to abortion rights. And for more than a month, Gov. Casey has been quietly yet openly defying the Clinton administration's position on publicly financed abortions. "We're dead serious about this," he says. "My sense is that they've got to back off."

Pennsylvania's standoff with the White House might appear to be an arcane lawyers' dispute, with little relation to the the nation's much broader health-care debate. But in fact, the Pennsylvania case is a cautionary tale for those who might want to use health-care reform as a vehicle for expanding access to taxpayer-funded abortions.

The saga began last year, when Congress changed the "Hyde Amendment," which restricts use of federal funds for abortions. The law, named for Illinois Republican Rep. Henry Hyde, had allowed the federal government to reimburse states for costs of Medicaid abortions for poor women when the life of the mother was in jeopardy. Lawmakers expanded that to allow abortion funding in cases of rape and incest, a compromise offered by Rep. Hyde to keep abortion-rights forces from killing his amendment.

As it happens, Pennsylvania passed legislation several years ago agreeing to pay for just such abortions. But Pennsylvania's lawmakers also decided they would fund the abortions only when the rape and incest had been reported to law-enforcement agencies.

~~In the wake of the new~~ Hyde Amendment, the federal government's Health Care Financing Administration arrived on the scene with its interpretation of the new law and shook up this finely tuned balance. The feds declared that state-reporting requirements such as Pennsylvania's have to be waived, and Medicaid abortions financed, if a doctor certifies that a patient was unable for physical or psychological reasons to report to law-enforcement agencies.

Gov. Casey put his foot down. In a remarkably blunt letter to fellow Democrat Bill Clinton, Mr. Casey said Pennsylvania had no intention of following the federal interpretation. "Implementing this directive would require me to disregard a validly enacted state statute, serving important public policy goals, based solely on the unfounded legal interpretation of a federal official," Gov. Casey wrote. "This I cannot and will not do . . . ."

Legally, Pennsylvania argues that the administration's directive doesn't reflect the intentions of members of Congress, who didn't want to override state-reporting requirements. In this, it is supported by Rep. Hyde himself. Moreover, Pennsylvania argues that the guidelines never should have been implemented without first allowing states a period to comment on them.

Politically, Gov. Casey argues that the administration's abortion maneuver has simply put Bill Clinton, a former governor, in an embarrassing position. "It flies in the face of the continued assurances of the president that he would consult with, give deference to, states," Gov. Casey says. "This is not his style."

By all accounts, President Clinton agrees. He hit the White House roof when he found out, belatedly, about the abortion directive. But now he has to live with it. The administration could cut off Medicaid funding to Pennsylvania and other states taking similar stands, though nobody is talking of that. Instead, administration aides, who insist their interpretation is on solid legal ground, are holding quiet discussions in hopes of working work out a compromise. They stress that they don't want to overturn Pennsylvania's reporting requirement, but simply allow for waivers in selected cases. Still, there's little reason to expect a cave-in from Gov. Casey, who just survived a heart-liver transplant and presumably doesn't scare easily.

So what does this standoff have to do with health reform? Strictly speaking, not much, as Clinton administration aides hasten to point out. But indirectly, Gov. Casey says it should send the administration a powerful warning: "The same fate awaits any attempt to include abortion in the health-care plan."

President Clinton and Hillary Rodham Clinton are trying hard to keep abortion from creeping into the health debate. The Clinton health bill skirts the issue: Its section describing the services to be provided under a basic health-benefits package, extravagantly detailed in other areas, calls simply for "services for pregnant women," leaving others to define that term.

Yet there's no doubt that some will try to use health reform to expand abortion coverage. If nothing else, Gov. Casey has demonstrated peril for the administration down that path.

THE WALL STREET JOURNAL WEDNESDAY, FEBRUARY 23, 1994

THE PRESIDENT HAS SEEN 2/27

Mayo
Surely this can
be worked out –
Don't they have to
be reporting anyway
under almost all
state laws

BIG MONEY

A Deficit That May Not Matter

Targeting Japan on Trade Hurts Us—and Misses the Point

By James K. Glassman
Special to The Washington Post

It may be great politics, but playing Mr. Tough Guy with the Japanese on trade is lousy economics. Already, the nastiness seems to be playing a role in pushing up long-term interest rates and roiling the U.S. stock market. Worse could come.

President Clinton's "gratuitous brinkmanship"—as Sen. Bill Bradley (D-N.J.) aptly termed his trade policy—is encouraging Congress's worst protectionists to come out of the woodwork, where they'd been hiding for months after their defeat on the North American Free Trade Agreement. Bashing Japan, especially with the president's backing, is great sport in an election year.

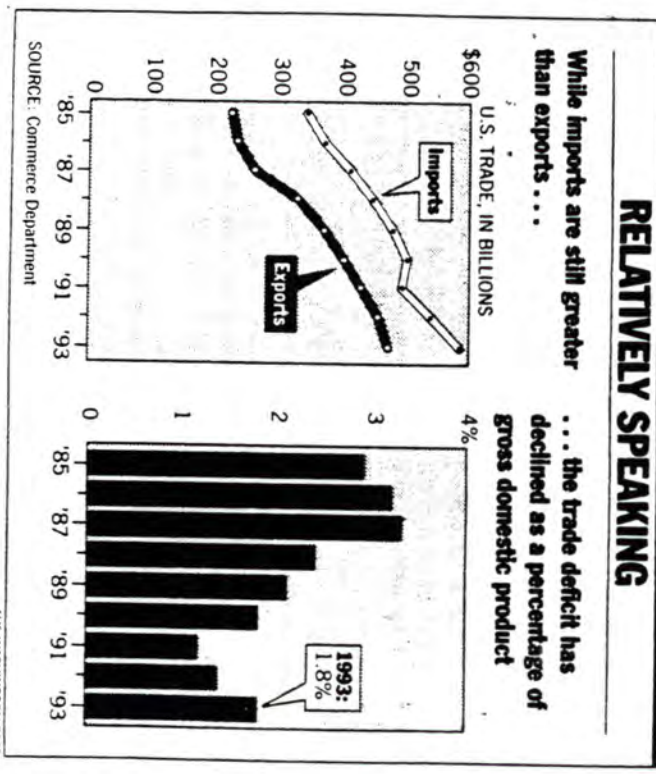
COMMENTARY

The Clinton administration, embarrassed by a worldwide trade deficit that widened last year to $116 billion, has been pressuring Prime Minister Morihiro Hosokawa's government to accept numerical targets to "prove" that his country's markets are open.

There's no doubt the Japanese aren't making it easy for some U.S. companies to sell their goods, but country-to-country targets run counter to the basic principle behind the General Agreement on Tariffs and Trade and every other broad trade agreement—that all countries should keep barriers low so that consumers can decide for themselves what they want to buy, and that governments shouldn't keep bilateral scorecards.

Last year, for example, we ran a $6 billion trade deficit with Italy and

See BIG MONEY, B4, Col. 1



SOURCE: Commerce Department

THE WASHINGTON POST

BIG MONEY, From B1

a $7 billion surplus with the Netherlands. Americans believe Italian shoes, jewelry and furniture are great values, and the Dutch are inordinately fond of U.S. computers and aircraft. There's nothing wrong with such "imbalances." This is the way world trade is supposed to work.

"To put U.S. behavior in perspective," wrote Michael Prowse in Britain's Financial Times, "suppose France analyzed U.S. wine consumption and found an unfair bias in favor of inferior Californian brands. Would Mr. Clinton be happy if President Mitterrand unilaterally set a numerical target for increased U.S. imports of French Burgundy?"

In fact, from 1986 to 1993, U.S. exports to Japan have increased 78 percent while our imports from Japan have risen just 30 percent. Yes, we started way behind, and there's still a big gap ($59 billion), but the lopsided part of the equation comes from our own addiction to Japanese goods—especially autos and home electronics—not from their restrictions on ours.

Look at the numbers: Our exports to Japan are roughly in line with our exports to other large industrial countries. Last year, we sold Japan $48 billion in goods—which comes to 1.2 percent of its gross domestic product. Our exports to Germany amounted to 1.1 percent of that country's GDP; exports to France, 1.0 percent.

Ah, but our purchases from Japan. They came to $107 billion, or about 1.8 percent of our own GDP.

In recent years, the biggest obstacle to increasing our exports to Japan has been something that Americans find hard to imagine—the Japanese economy is in the dumps. Last year, retail sales in Japan fell 4 percent. It was quite an achievement that we still managed to sell them $100 million more in U.S. stuff than we did the year before.

During the 1980s, Japan's economy grew roughly twice as fast as ours, but no longer. The United States is now king of the hill. Caterpillar Inc. is outperforming Komatsu Ltd. in heavy machinery; Intel Corp. is outdoing Hitachi Ltd. in semiconductors. Even our auto companies had a great year while theirs had a rotten one.

In the most recent quarter, industrial production in the United States was up 8 percent, while in Japan it was down 14 percent. Four years ago, Japan was the world's most dynamic industrial economy; now it's the flattest.

In the latest blow, a top Japanese regulator this week indicated his government was ready to give up on the country's high-definition television system. He later recanted somewhat, but the damage was done. Thirty years in the making, HDTV was once Japan's pride and joy. Now Tokyo may be switching to a new, more sophisticated digital technology: ours.

What's happened? One big problem is that Japan's government-business partnership, which so many American politicians and economists still view with awe, seems unsuited to the modern world. "The premiums today are on flexibility and imagination," said Clayton Yeutter, who served as U.S. trade representative from 1985 to 1989. "The Japanese system is slow. Any time you get the government into the act, it slows things down."

Never have the assets of our own rough-and-tumble style of capitalism been clearer. Other countries are aware of our success; they're deregulating and privatizing, and they're starting to restructure their companies the way we have. Hosokawa's reformist government is even trying to fire up the engine that's driven the U.S. economy for years: consumer demand.

That's why it's so ironic—and disturbing—that Clinton seems bent on emulating the old ways of the laggards.

Last week, for example, he announced with great fanfare that, thanks to his own personal efforts and those of top Cabinet officials, Boeing Co. and McDonnell Douglas Corp. had closed a deal to sell 50 jets to Saudi Arabia's airline. In the past, we bristled when other countries employed this sort of government arm-twisting. Now, we're doing the same thing.

The consequences of this sort of confrontation could be dire, to both countries. John Mueller, chief economist of Lehrman Bell Mueller Cannon, a consulting firm with an uncanny record of accuracy, is among those who believe talk of a trade war is already pushing up U.S. interest rates.

The market hates threats to the flow of goods across borders. Lots of smart people believe that the Smoot-Hawley Tariff precipitated the Great Depression. And there's a more recent precedent, the tiff between American and German officials that, in the view of many analysts, triggered the 1987 stock market crash.

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THE PRESIDENT HAS SEEN 2/27

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a written response
published

THE WASHINGTON POST TUESDAY, FEBRUARY 22, 1994

1993 SOFT MONEY: BY THE NUMBERS

THE HOLLYWOOD CONNECTION Producers, actors and actresses were among big contributors to the Democrats.

David Geffen
PRODUCER
$100,000

Jeffrey Katzenberg
WALT DISNEY
$100,000

Steven Spielberg
DIRECTOR
$100,000

Barbra Streisand
ACTRESS/SINGER
$25,000

Chevy Chase
ACTOR
$25,000

Democratic National Committee (CONTRIBUTIONS ABOVE $50,000)

Beneficial Management Corp.	Finance	Washington	$265,000
Lindner, Carl N.	CEO, American Financial Corp.	Cincinnati	250,000
Davis, Marvin	CEO, the Davis Cos. (finance)	Los Angeles	210,000
Lerach, William S.	Lawyer, Milberg, Weiss, et al.	San Diego	150,000
National Education Association	Labor	Washington	148,450
American Federation of State, County and Municipal Employees	Labor	Washington	130,650
Ernst & Young	Professional	Washington	115,300
Integrated Health Services Inc.	Health	Owings Mills, Md.	115,000
Rollnick, William D.	Finance	Miami	109,000
Shorenstein Co.	Real estate	San Francisco	107,785
Rich, Denise	President, Zarem Inc.	New York	105,000
United Steelworkers of America	Labor	Washington	100,150
Food 4 Less Supermarkets.	Food products	La Habra, Calif.	100,000
Geffen, David	Producer	Los Angeles	100,000
Katzenberg, Jeffrey	Chairman, Walt Disney Studios	Burbank, Calif.	100,000
Mashantucket Pequot Tribe	Ideological	Ledyard, Conn.	100,000
May, Peter W.	President, Triangle Industries (investment)	New York	100,000
Morton, Peter	Owner, Hard Rock America (restaurant)	Los Angeles	100,000
Panic, Milan	President, ICN Pharmaceuticals	Costa Mesa, Calif.	100,000
Pierce, Alfred R.	Lawyer	Camden, N.J.	100,000
Sheffer, Ann E.	Consultant	Westport, Conn.	100,000
Sheinberg, Sidney J.	President, MCA	Los Angeles	100,000
Spielberg, Steven	Film producer/director	Los Angeles	100,000
Tisch, Steven E.	Film producer	Culver City, Calif.	100,000
Ziff, Dirk	Publisher, Ziff Communications	New York	100,000
Archer Daniels Midland Co.	Agriculture	Decatur, Ill.	95,000
Norton, Peter	Computer/electronics	Santa Monica, Calif.	95,000
Kaye, Walter	President, Kaye Insurance	New York	85,258
Service Employees International Union	Labor	Washington	84,500
Bell Atlantic	Communications	Washington	76,000
American Airlines	Airlines	Washington	75,000
Anheuser-Busch	Food/liquor	Washington	71,000
American Postal Workers (PAC)	Labor	Washington	70,000
Bakke, Dennis	CEO, Applied Energy Services	Arlington, Va.	70,000
MCI Communications Corp.	Communications	Washington	66,000
Brandt, William A., Jr.	President, Development Special	Fernandina Beach, Fla.	65,000
General Electric Co.	Defense contractor, manufacturing	Washington	61,000
American Greetings	Greeting cards	Cleveland	58,117
Andreas, D. Inez	Chairman of the board, Barry University	Miami Shores, Fla.	55,000
Friedkin Industries Inc.	General manufacturing	Boca Raton, Fla.	50,550
Chevron Corp.	Energy	Washington	50,150

Republican National Committee (CONTRIBUTIONS ABOVE $50,000)

National Rifle Association	Political Victory Fund	Washington	$275,000
Fertitta, Frank J. Jr.	Chairman, Station Casinos Inc.	Las Vegas	230,000
Golden Nugget	Casino	Las Vegas	230,000
Integrated Control System	Professional	Punta Gorda, Fla.	101,000
Flaherty, William E.	Chairman/CEO, Horsehead Industries Inc.	New York	100,000
Integrated Health Service Inc.	Health	Owings Mills, Md.	100,000
Malek, Frederic V.	Finance	McLean, Va.	100,000
Ernst & Young	Professional	Rutherford, N.J.	85,000
Marnell Corrao Associates	Architectural, general contracting firm	Las Vegas	80,000
Fogg, Joseph G. III	Managing director, Morgan Stanley & Co.	Syosset, N.Y.	75,000
Williams, Carl M.	CEO, Televent Inc. (cable firm)	Denver	60,000
Bessemer Trust Co.	Money management firm	New York	55,000

SOURCE: Federal Election Commission

Compiled by Lucy Shackelford

THE WASHINGTON POST

TODAY IN CONGRESS

SENATE

Meets at 10 a.m.
Committees:
Budget—10 a.m. Work Reemployment Act. Labor Sec. Robert B. Reich. 608 Dirksen Office Bldg.
Energy & Natural Resources—9:30 a.m. Nomination of Gordon Eaton to be director of U.S. Geological Survey. 366 DOB.
Foreign Relations—10 a.m. International economic policy, trade, oceans & the environment subc. Foreign aid reform. 419 DOB.
Foreign Relations—3 p.m. Ambassadorial nominations: Josiah Beeman to New Zealand & W. Samoa & March Fong Eu to Micronesia. 419 DOB.
Labor & Human Resources—10 a.m. Provisions of admin.'s health care reform plan relating to persons with disabilities. 430 DOB.
Small Business—2:15 p.m. Proposed FY95 budget for Small Business Administration. 428A Russell Office Bldg.

HOUSE

Meets at 2 p.m.
Committees:
Appropriations—10 a.m. Energy & water development subc. FY95 approps. for Army civil works & engineering programs. 2362B Rayburn House Office Bldg.
Appropriations—10 a.m./1:30 p.m. Interior & related agencies subc. FY95 approps. for energy programs under its jurisdiction. B-308 RHOB.
Appropriations—10 a.m. Treasury-Postal Service-general government subc. FY95 approps. for General Services Administration & its Federal Buildings Fund & Federal Property Resources Services. H-163 Capitol.
Appropriations—2 p.m. Agriculture, rural development, FDA & related agencies subc. FY95 approps. for Farm Credit Administration. 2362A RHOB.
Armed Services—10 a.m. FY95 defense authorization request. Defense Sec. William Perry; Joint Chiefs of Staff Chmn. John Shalikashvili. 2118 RHOB.
Banking, Finance & Urban Affairs—10 a.m. Economic growth & credit formation subc. Federal Reserve's semiannual Humphrey-Hawkins report on monetary policy. Fed. Reserve Board Chmn. Alan Greenspan. 2128 RHOB.
Budget—2 p.m. FY95 budget request for Transportation Dept. Transportation Sec. Federico Peña. 210 Cannon House Office Bldg.
Education & Labor—10 a.m. Labor-management relations subc. Health care needs of children with mental health problems. 2175 RHOB.
Government Operations—2 p.m. Human resources & intergovmt relations subc. Markup to require that payments for victims of Nazi persecution be disregarded in determining eligibility for federal benefits. 2247 RHOB.
House Administration—10 a.m. Accounts subc. Committee funding resolutions: Merchant Marine & Fisheries; Banking, Finance & Urban Affairs; Select Intelligence; Judiciary; & Agriculture. H-328 Cap.
Judiciary—Crime and criminal justice subc. Crime Prevention and Criminal Justice Reform Act. HUD Sec. Henry Cisneros. 2237 RHOB.
Natural Resources—1 p.m. National parks, forests & public lands subc. FY95 Bureau of Land Management budget proposal. 1324 Longworth House Office Bldg.
Public Works & Transportation—8:30 a.m. Public buildings & grounds subc. John F. Kennedy Center Act Amendments. 2253 RHOB.
Science, Space & Technology—2 p.m. Technology, environment & aviation subc. Environmental Technologies Act. 2325 RHOB.
Ways & Means—10 a.m. Trade subc. GATT Uruguay Round trade agreements. 1100 LHOB.
Permanent Select on Intelligence—2 p.m. Public disclosure of intelligence budget. CIA Director R. James Woolsey. 2212 RHOB

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THE PRESIDENT HAS SEEN 2/27

Marty
Have all these
Govs been written
him ?

How School Choice Improves Public Schools

By Robert J. Barro

School-choice programs that include private schools are a promising way to deliver improved education, especially for children from poor families. Experiments such as Milwaukee's have shown some success, but systems that include any funding for private schools are rare. Not coincidentally, in 1990 only 12% of elementary and secondary students attended private schools, with only 12% of the private enrollment in nonsectarian institutions (8% at the primary level and 14% at the secondary level). Catholic schools were the dominant private provider, with about 70% of overall private enrollment.

The overwhelming choice of public over private education does not, of course, mean that most people view public schooling as superior. Various studies, notably those by sociologist James Coleman and his associates, have found that students with a given level of native ability do better when they attend private institutions, especially Catholic schools in inner cities.

What sustains the dominance of public schools is that individual consumers regard the public option as free and the private one as expensive. Catholic schools are able to thrive in spite of this obstacle because church subsidies maintain low levels of tuition.

Nonsectarian schools—including elite places such as Andover and St. Paul's—typically have to rely on high levels of tuition and limited amounts of financial aid and therefore can serve only a small, privileged market.

The central element of school-choice plans is the use of vouchers or tax credits to level the playing field between public and private schools. Vouchers would increase the demand for private education and, hence, improve the average performance of graduates. The most dramatic change would be predicted for poor families, who now typically lack access to private schools or high-quality public schools.

A substantial part of the opposition to school-choice plans comes from two groups: well-off suburbanites and public-school employees. Suburbanites are usually at least somewhat satisfied with their local public schools and do not wish to pay higher taxes to give money to people who already use private schools. Public-school employees do not want to lose an entrenched position that ensures a reasonable income even when their performance is bad. For these opposition groups, a key concern is how a school-choice plan and the consequent expansion of private alternatives would affect the public schools. Would the quality and levels of funding diminish, or would the increased competition force the public schools to do better?

Recent research by Caroline Minter-Hoxby in her doctoral dissertation at the Massachusetts Institute of Technology ("Do Private Schools Provide Competition for Public Schools?") offers evidence on this issue. The main information in her study comes from the interaction between an area's use of private schools—especially Catholic schools—and the quality of public education. The information in these data is better than that provided by existing school-choice programs because in the latter case it is hard to discern long-run responses to experiments (such as the one in Milwaukee) that are relatively new and perceived as temporary. Moreover, existing school-choice plans tend to contain serious restrictions on the options of schools and students.

The key challenge is to isolate the effect of greater availability of private schools on the performance of the public schools. This work is a challenge because the simple relation between an area's private-school use and the quality of the public schools could, in theory, be positive or negative.

First, if an area's public schools are performing badly, then more families would be motivated to use private schools. This response tends to generate a negative relation between public-school quality and private-school use. Second, if an area's families are wealthier and better educated, then private-school use and public-school quality are both likely to be higher. This interaction tends to generate a positive relation between public-school quality and private-school use. Finally, if an increased availability of private schools provides competition that motivates the public schools to perform more efficiently, this creates a positive relationship. It is this relation that we would like to measure if it exists.

The Minter-Hoxby study shows how cross-county differences in the costs of providing private education affect the quality of public schools. In practice, the U.S. experience dictates a reliance on information about sectarian private schooling. The cost differences for operating these sectarian schools come from variations across counties in the population density of Catholics or of other religious denominations that run significant numbers of private schools.

The key conclusion is that greater use of private schools, driven by differences in costs, leads to improved performance by public-school students and to greater per-pupil spending in the public schools. These results remain true after adjusting for an array of individual and county differences, including levels of income and parental education and a person's religion and race.

One finding is that an increase of 10 percentage points in the share of a county's enrollment in private secondary schools adds 0.3 years to the highest grade completed by the average public-school student by age 24. This increase in the share of private enrollment is also estimated to raise a public-school student's probability of receiving a high-school diploma by age 19 by 2% and to increase the wage earned by the average public-school student at age 24 by 5% (partly because the student is more likely to move to a more prosperous area and partly because the student's position in the earnings distribution improves). Thus the presence of private alternatives means that the students who remain in the public schools achieve at higher levels.

The data also show that governments respond to greater competition from private schools by raising teachers' salaries and overall spending per student in the public schools. An increase by 10 percentage points in the share of a county's enrollment in private secondary schools is estimated to raise the starting salary for a teacher with a B.A. by $460 in public secondary schools and to raise per-pupil spending in these schools by $340 (all measured in 1980 dollars). Hence, at least the public-school teachers who retain their positions—presumably the most qualified—ought to be happy when private schools become more available.

If we combine the Minter-Hoxby evidence with previous results on the performance of private schools, then the inference is that full school-choice programs would improve student achievement whether the students shift to private schools or stay in the public system. In other words, school choice is a good idea.

Mr. Barro, a Wall Street Journal contributing editor, is a professor of economics at Harvard.

THE WALL STREET JOURNAL THURSDAY, FEBRUARY 24, 1994

THE PRESIDENT HAS SEEN 2/27

To Bill Galston

What are your
thoughts about this?

96

Richard A. Epstein

A Takings Exception

Jessica Mathews's venomous attack on what she calls my "poisonous" view of the takings clause of the Constitution [op-ed, Feb. 14] calls for a clear response.

Her column ignores my oft-stated conviction that the takings clause was carefully crafted to strike a balance between individual rights and social needs. Unfortunately, Ms. Mathews misconstrues my position to hold that the state is obligated to compensate owners in cash whenever its regulations reduce the value of their land. But this characterization overlooks my view that two justifications for uncompensated takings are in principle available to the government in all cases. It can show that regulation is reasonably calculated to prevent the infliction of some present or threatened harm to others; or it can show that the in-kind benefits the regulation provides the landowner offset the losses that it imposes.

In the recent *Lucas* case (to which she refers, but not by name) South Carolina sought to prohibit the construction of an ordinary single-family home on a beachfront lot worth more than $500,000 with building rights, but worth nothing without them. Ms. Mathews insists that it is unconscionable for any landowner to demand compensation for the total wipeout in value if he is left in possession of land he cannot use.

Why? Surely this building prohibition does not offer reasonable protection against any present or threatened harm. The environmentalists argued in *Lucas* that the building ban prevented flying bits of a house from damaging nearby land. This improbable claim would at most authorize uniform building codes for specific purposes. However, this logic unwisely justifies ripping down without compensation every home along the South Carolina Coast, or preventing any new ones from being built.

Ms. Mathews then makes the odd suggestion that no compensation is required because Lucas has benefited from the construction of Interstate 95 and the availability of subsidized flood insurance. Her I-95 argument makes at least three errors. First, I-95 was built years ago, and yet the value of Lucas's buildable lot surged nearly 30 percent in the four years after he bought it. Surely this increase in value is attributable to changes in local conditions, not to a preexisting highway. Second, whatever value Lucas received from the highway he has paid for through federal income and gasoline taxes, like his neighbors. Yet Ms. Mathews never explains why he should pay twice while his more fortunate neighbors pay but once.

Most ominous, her argument justifies the outright confiscation of all or part of Lucas's land, for if these supposed highway benefits compensate him for loss of use value, then they also compensate him for the loss of possession. What a royal road to constitutional evasion: Build one public highway and the just compensation clause is nullified forever after.

Ms. Mathews's unlikely rendition of the takings clause undermines any constitutional effort to discipline indirectly through a price mechanism the "arrogant, blundering bureaucracies" whose misdeeds she acknowledges. Having to pay just compensation rightly forces elected officials to compare the public benefit obtained with the private costs imposed. Without this principle of take and pay, the state sidesteps these comparisons with extravagant claims of supposed benefits for stopping Lucas from building. Losing the case in fact converted the Coastal Commission into honest brokers. Having paid for Lucas's lot with hard cash, the commission sold it off to the highest bidder, who of course got the same right to build that Lucas had demanded!

Oh, as for subsidies by flood insurance? That's just the kind of government abuse for the wealthy that my positions prohibit. Ms. Mathews and I do agree on at least one issue—the further need for open and robust debate on the takings question. Perhaps that debate will be reinvigorated next month when the Supreme Court considers *Dolan v. City of Tigard*, its first major takings case since *Lucas*.

The writer is James Parker Hall distinguished service professor of law at the University of Chicago, and author of "Takings: Private Property and the Power of Eminent Domain."

Wednesday, February 23, 1994 The Washington Post

THE PRESIDENT HAS SEEN 2/27

Crasso — Write an exp. Doing about this?

William S. Cohen

Playing Social Security for a Sucker

It would make Norm Peterson from "Cheers" put down the beer nuts and sit up on his bar stool: The federal government has sent checks totaling more than $160,000 per year directly to a Denver liquor store owner, who then uses those taxpayer dollars to run a tab for 40 alcoholics who are supposed to be using the government money to get help for their problem.

That's just one example of how a federal program has gone startlingly wrong. Across the country, the government is paying hundreds of millions of dollars each year to feed the habits of drug addicts and alcoholics. Under this cockeyed policy, addicts and alcoholics receive federal benefits because they are disabled by their substance abuse. But the benefits often are then used to perpetuate the addictions, rather than cure them, and the addicts and alcoholics ride along on a drug-laden train fueled by their continuing disabilities.

This disturbing program has come to light as a result of a year-long investigation by my staff on the Senate Special Committee on Aging and the General Accounting Office. The investigation examined the payment of benefits under the Social Security Disability Insurance (SSDI) and Supplemental Security Income (SSI) programs.

The GAO has estimated that last year the federal government paid $1.4 billion to 250,000 drug addicts and alcoholics who receive benefits under these two programs. But only 78,000—less than one-third—are required to receive treatment or have a third party manage their benefits for them, and those controls are so lax that abuses abound. The other 172,000 are not required to receive treatment and often use their cash benefits to buy more drugs and alcohol.

The director of a homeless shelter in Denver reported that SSI is, in effect, "suicide on the installment plan" because the program provides ready cash to addicts and alcoholics with no strings attached for follow-up or treatment. In San Francisco, a drug addict used his disability benefits to buy high-grade drugs, then diluted them into small doses and realized huge profits by reselling them on the street. One mental health worker said his caseload of illegal drug users was 99.5 percent SSI recipients, and he reported several deaths from drug overdoses.

The purpose of the Social Security disability programs is to provide benefits to people who can't work because of medically certified physical or mental impairments. Drug addiction and alcoholism are qualifying disabilities under both programs. Determining disability is a five-step process, and if benefits are denied, there are avenues of appeal. Since it often takes a year or more to award benefits, and because benefits are retroactive to the date of application, it is not unusual for lump sums as large as $15,000 or $20,000 to be awarded to substance abusers—sometimes with devastating results.

The investigation determined that some of these lump sums are used for binges that have life-threatening or fatal consequences. One SSI recipient died of a lethal drug overdose bought with thousands of dollars in retroactive benefits. An alcoholic was awarded lump sum benefits of $26,000. After buying two cars and a van, he went on a drinking binge, wrecked the cars and landed, penniless, in a veterans' hospital.

Congress has tried with little success to build controls into the system. To stop payments from feeding addictions, it required that all SSI payments to addicts and alcoholics be paid to a third party—or "representative payee"—a friend, relative, social service agency or other responsible person. Congress also required that a disabled drug addict or alcoholic participate in a substance abuse treatment program, if such treatment is available, as a condition of receiving SSI benefits.

Neither of these policies applies to SSDI recipients, however, and the controls in place for the SSI program have not been well enforced. The investigation revealed widespread reports of representative payees who were addicts themselves or, like the liquor store owner in Denver, less than trustworthy guardians of cash payments.

The Social Security Administration has abdicated its responsibility by failing to adequately monitor whether recipients receive treatment. Maine, for example, is one of many states that have never had an agency approved by SSA to refer addicts and alcoholics to treatment and monitor their attendance.

The investigation also uncovered cases in which addicts who received benefits were actively engaged in criminal activities such as drug dealing and armed robbery. To make their case for benefits, they openly admitted they were supporting their habits through criminal activity. Astonishingly, a recent court decision upheld the right of a known drug dealer to receive benefits.

Clearly, reform is needed. In conjunction with a number of other senators, I will be introducing legislation today to strengthen the treatment requirements and revamp the disability program by:

- Stopping the practice of putting cash directly in the hands of substance abusers. Benefits would be directed to an institution or approved agency to manage.
- Prohibiting distribution of lump sum retroactive payments to substance abusers until treatment is completed.
- Requiring that all addicts and alcoholics receive treatment.
- Requiring the Social Security Administration to conduct continuing reviews of individuals' eligibility and all state governments to have agencies to monitor addicts and alcoholics.
- Making additional treatment available for substance abusers.
- Removing from the rolls those who profit from such illegal activities as drug dealing, and setting tough penalties for those who defraud the disability programs.

The writer is a Republican senator from Maine.

THE PRESIDENT HAS SEEN 2/27

SS Stiglitz
work to
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Secular Muslim Countries Watch Bosnia

To the Editor:

The United States and the West often show little understanding of the impact of their actions or inaction on other countries. Take Bosnia. While there has been much concern — and little action — about the atrocities committed daily against the citizens of Bosnia by the Serbs and Croats, Americans do not stop and think how their actions affect countries other than the former Yugoslavia.

My country of Azerbaijan is, like Bosnia, a secular Muslim country. The same is true of several other former republics of the Soviet Union. All of these countries, having been freed of Soviet bondage, immediately looked to the West and the United States as models for democracy and free market reforms. We looked to the West for its history of defending human rights, territorial sovereignty and independence. We remember the West's role in the world wars, the cold war and the Persian Gulf war.

But these former Soviet republics — all of them secular and most of them emerging democracies, concerned about their independence and sovereignty — feel great disappointment with the way the West has reacted to the horrors of Bosnia. Some wonder if the West believes Muslim democracies and independence are less worthy than Christian ones.

If these countries come to believe the West does not care about their freedom and independence, it can only encourage the growth of radical Muslim fundamentalism, which is spreading in other parts of the world. This radical fundamentalism is probably the greatest threat to world stability over the next decades.

The United States and the West fervently hope that Muslim countries will follow the example of Turkey and maintain secular governments committed to democracy and free markets. That is certainly the desire of Azerbaijan and other emerging democracies of Central Asia. But the supporters of secularism are not helped when the United States and the West by deed or inaction indicate that they are unwilling to help Bosnia defend its basic right of survival.

More than just Bosnia is at stake.

HAFIZ MIR JALAL PASHAYEV
Ambassador of Azerbaijan
Washington, Feb. 10, 1994

In America

BOB HERBERT

Counting the Jobless

The Government has changed the way it determines the national unemployment rate, which has resulted in a number that is marginally higher. But the new and supposedly improved methodology does not provide anything close to an accurate picture of a devastating jobs crisis that is becoming ever more entrenched.

Legions of Americans who once felt secure in the workplace are now stunned to find themselves caught in the hideous undertow of long-term unemployment. You don't hear much from them after that. The jobless tend to go quietly. One day they're at their work station, the next day they're not. When enough time passes, they're no longer even counted as unemployed.

If you take this group, which increasingly includes middle-class and middle-aged men and women, and link it up with the people who have been forced into part-time or temporary work, and with people who are calling themselves self-employed but who are really making little or no money, and with the underclass of inner-city Americans who have long been among the permanently unemployed, you have a problem with frightening implications.

You cannot deal effectively with public safety, health care reform and welfare reform without engaging the employment crisis.

In November 1991, when President Bush signed a bill extending jobless benefits, there were 1.3 million Americans officially designated as long-term unemployed, meaning they had been out of work for six months or longer. Those benefits have been cut back, but last month the number of long-term unemployed was 1.7 million.

Inevitably the official rates of unemployment are much lower than the true rates. The Government is not concealing the real numbers. In fact, the Bureau of Labor Statistics does a remarkable job of documenting those who are working and those who are not. But the raw numbers get whittled down by the complex procedures and definitions used to arrive at the official statistics.

For example, discouraged workers — people who have given up looking for a job — are not counted as unemployed. The bureau will readily tell you how many people fall into the discouraged category, but that number will not be factored into the official unemployment rate.

And even the discouraged category is being shrunk by the bureaucracy. Under the bureau's new rules, a discouraged worker who has not looked for a job for a year is no longer considered discouraged. That worker falls off the statistical charts. Actually, there were a lot of them. Before the change, the bureau counted 1.1 million discouraged workers. After the change, 600,000.

There are endless examples of people who are out of work but not counted as unemployed. Laid-off workers have traditionally been considered unemployed, even though there was a time when they could reasonably expect their jobs to return. Now laid off pretty much means fired. But during the survey that is used to determine the unemployment rate, laid-off workers are asked how active they have been in looking for a new job. If the answer is that they have simply

Statistics tell only part of the story.

been checking the want ads, they are not counted as unemployed. They sure are out of work, but officially they're not unemployed.

The jobs crisis is not limited to the unemployed. Recent statistics show that college-educated men in their 40's and 50's — ordinarily considered an elite group at the peak of their earning powers — are experiencing a sharp decline in wages.

Katherine Newman, a social anthropologist at Columbia University, was quoted in The New York Times as saying: "This was the first generation to be widely educated in college. They followed the recommended path, but their education has failed to insulate them."

The official unemployment rate for January was 6.7 percent. The more we focus on it, the less we understand the extent of the problem. A better indicator of prevailing conditions would be a statistic that showed the number of people who wanted a job but could not find one. That number would be astonishingly high.

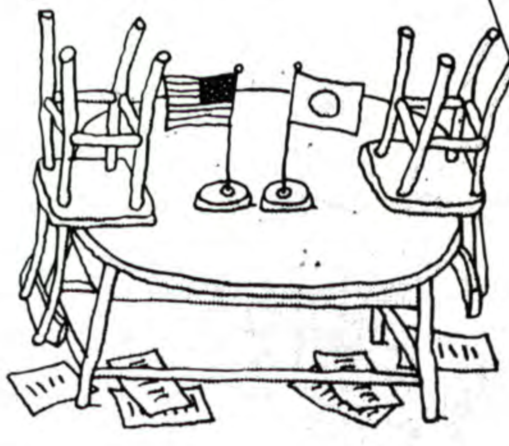
Keith Brooks, director of the New York Unemployed Committee, made the essential point: "Does our Government recognize the depth of the jobs crisis in this country? I think not." □

THE NEW YORK TIMES, WEDNESDAY, FEBRUARY 23, 1994

22

Economic Scene | Peter Passell

After tough talk, can the U.S. and Japan get back to business?



Niculae Asciu

THE President's line on trade with Japan apparently played well with corporate America — and for that matter, with the public. Typical of the reaction was the comment from Kenneth Kay, spokesman for a trade association of computer makers: President Clinton was "smart to let the Japanese Government know in no uncertain terms that the lack of progress is unacceptable," he cheered.

But now that the adrenaline rush is winding down, a lot of people are wondering how the interdependent economies are going to get back to the all-important business of business. For unlike earlier trade disputes, this one does not offer an obvious way out.

• • •

In their meeting in Washington, President Clinton and Prime Minister Morihiro Hosokawa agreed to disagree — and then sent aides scurrying to control the damage. Senior White House officials volunteered soothing words to a group of visiting Japanese executives. And Tokyo is reportedly busy drafting a plan to show this Saturday to finance ministers meeting in Germany.

But ideas for a fix are scarce, and optimism that the scars from the confrontation will soon disappear is even scarcer. "One reason we can't solve this problem is that we don't seem to know what the problem is," said Robert Z. Lawrence of Harvard's Kennedy School of Government.

Under Mr. Hosokawa's predecessor, the issue was access to the Japanese market. Now the Administration is making no effort to correct the impression that the problem is the ballooning bilateral trade deficit — a deficit that has little to do with trade barriers and much to do with the fact that the American economy is growing while Japan remains hubcap-deep in recession.

Another reason this wound is likely to fester, argues Robert Hormats, vice chairman of Goldman Sachs International, is the inconvenient loss of a mutual enemy. Trade relations could become quite bitter in an era when the American-Japanese alliance was seen as the first line of defense against Communism in Asia. But in the end, geo-politicians in both countries would always reassert cold war priorities. "Japanese prime ministers were judged at home by how well they got along with the Americans," Mr. Hormats recalled, with just a trace of nostalgia.

Last, though hardly least, is the emotional subtext of the seemingly technical debate over "numerical indicators." Unhappy with earlier trade deals that never seemed to bear fruit, the Administration wants "targets" for market share. The Japanese argue that would amount to a big step down the road to "managed trade" in which world markets would be carved up by cartels.

For what it is worth, even most economists who believe the Japanese market is difficult to crack sympathize with the Japanese: As a comparable 1986 deal on semiconductors suggests, trade targets have a way of metamorphosing into entitlements. But Mr. Hormats thinks the point is beside the point. "The real issue is trust," he says: If policy makers in the two countries were sure their counterparts could be held to explicit commitments, there would be less haggling over semantics and more discussion of how to use numbers as benign indicators of market opening.

What, then, is to be done? Diplomats, like physicians, are inclined to temporize on the theory that problems often solve themselves. And there is certainly something to be said for allowing Mr. Hosokawa some room to patch his perilously weak political coalition.

But delay here is full of peril, if only because the Clinton Administration raised expectations that tough deeds would follow tough talk. Mr. Clinton is under pressure to invoke his broad powers to punish alleged Japanese trade perfidy. And even if he resists, Congress probably will not. That, among other reasons, is why many experts would like to see a fresh initiative from the American side.

"We already have an agreement on objective indicators," Mr. Lawrence noted. The trick now, he says, is to be creative in reassuring the Japanese that the numbers would only be used to level the playing field.

Fred Bergsten, the head of the Institute for International Economics, would like to "recover the high moral ground" by using very different policy weapons to force market access. In the case of auto parts, for example, he would like to see an antitrust suit charging collusion in restraint of trade. And in other products, he would like America to take the Japanese to a GATT dispute panel for a ruling.

• • •

But Job One, almost everyone agrees, is getting the Japanese to spend their way out of their own recession, thereby increasing demand for imports and sucking potential exports back into the Japanese market. "The big money is in macro-stimulus," Mr. Bergsten said.

Indeed, the big hope is that the very same action that would diffuse trade tensions would also shore up the Japanese Government's standing among recession-weary voters. "If we have the wits, we could still be allies with Hosokawa," Mr. Bergsten concluded.

Giuliani May Seek Change In Timetable for Recycling

A deputy mayor says recycling goals from a 1989 law are no longer affordable.

By ALISON MITCHELL

A day after New York State's highest court ordered New York City to comply with its own 1989 recycling law, a senior official in the Giuliani administration said the Mayor might seek to renegotiate the law's timetables with the City Council because of the costs of complying with the statute.

Deputy Mayor Peter J. Powers suggested that the recycling goals set forth in the law were no longer affordable given the fact that the law was passed "when the finances of the city were nicer."

He said the administration wanted to talk to Council leaders to see if it were possible to change the law, which originally called for the city to be collecting 4,250 tons of recyclable material a day by this April, or about 25 percent of the city's total waste. The city currently is collecting about 15 percent, said Sanitation Commissioner Emily Lloyd.

'Got to Get Realistic'

"We've got to get realistic about things," Mr. Powers said at a breakfast forum with business executives. "We set goals with certain economics in mind. We no longer have those economics. So we've got to revisit those goals. The Mayor's in favor of recycling. He wants to achieve it. He wants to achieve it as fast as we can. But he also has to put a lot of services out there for the people of the city with not enough money to do it."

But City Council Speaker Peter F. Vallone yesterday hailed the ruling by the State Court of Appeals and said the money could be found for recycling. "The job of the executive branch now is to comply with the recycling law," he said. "If it can't comply with the law, it has to come back and tell us why."

The 1989 law, signed by Mayor Edward I. Koch, requires the city gradually to increase the amount of residential garbage that is recycled. But as the recession took hold, Mayor David N. Dinkins imposed budget cuts that delayed the expansion of the recycling program.

The Court of Appeals found in a ruling on Tuesday that the recycling measures in the law are mandatory and not goals that could be delayed by fiscal constraints as the Dinkins administration had argued. The ruling sent the Giuliani administration and the plaintiffs — the Natural Resources Defense Council and two City Council members — back to court to draw up a new schedule for meeting the recycling requirements.

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U.S. Aid to Russia Is Quite a Windfall— For U.S. Consultants

While They Reap Millions Sowing Capitalist Seeds, Russians Feel Left Out

A Target of Ire Over Spying

By JOHN J. FIALKA A1
Staff Reporter of THE WALL STREET JOURNAL

WASHINGTON – The U.S. has pledged $5.8 billion in aid to the former Soviet Union, most of it destined for Russia; there is dancing in the streets – though not the streets of Russia. The chief celebrants? Hordes of U.S. consultants who are gobbling up much of the U.S. aid pie.

Consider one example of how the money is being spent: Last year, about 95% of Russian television viewers saw this flash of capitalist enthusiasm. A camera closes in on a cluster of schoolchildren in a playground. "My dad is a shareholder in a whole biscuit factory," trumpets a young boy. "So there!"

For most Russians, commercials like this, produced by Sawyer/Miller Group, a Washington consulting concern, were the first visible evidence of the U.S. billions that have begun to flow to Russia as part of a three-year aid package approved last year. And for many, the expensive, flashy TV campaign could be the last.

Second of two articles

For though the package is outwardly generous, in reality little of the money is targeted toward easing the economic strains of ordinary Russians. Instead, reflecting notions that Russia needs expertise, not handouts, the program seeks to stretch aid dollars by teaching Russians how to privatize their industries and cobble together a free-market economy.

This may work in the long run. But short-term, it is galling to many Russians, who find the U.S. attitude both patronizing and stingy—while enriching scores of U.S. consultants who are pocketing between 50% and 90% of the money in a given aid contract. With cash-starved Russians trying to jump-start their fledgling businesses and economy – and antireform politicians gaining ground – "we don't need 90% of technical-assistance money going to American experts," says Aleksandr A. Jitnikov, head of a Russian commission coordinating foreign aid.

Some U.S. policy experts share those concerns. Marshall Goldman, a Russia specialist and professor at Wellesley College, recently told the Senate Banking Committee that Russian aid in the hands of U.S. consultants and "beltway bandits" benefits Russians "minimally, if at all." He added, "I look for a scandal down the road that's going to upset the American taxpayer."

Spy Scandal

Aid to Russia, already under criticism because of waste and meager results, faces new pressures in the wake of this week's spy scandal, in which Moscow is alleged to have paid a U.S. intelligence official for secrets. Yesterday, lawmakers called for a freeze in U.S. aid to Russia until Moscow cooperates with the U.S. in assessing the damage from the affair, including withdrawing from Washington a number of Russian diplomats said to have been involved. (See page A3.) Ironically, though, any attempt to punish Moscow by freezing the aid pipeline would mainly hurt the droves of U.S. consultants who are delivering the assistance.

With so much aid money involved, there has already been a veritable feeding frenzy in Washington. The Agency for International Development, or AID, which is overseeing the bulk of the U.S. package, says 1,200 consultants applied to get into the program, a record for the 33-year-old agency.

The American helpers don't come cheap. Sawyer/Miller got $7 million to put together its ad campaign promoting privatization on Russian television. Mark Malloch Brown, who oversaw the effort in Moscow, also did some self-promotion in Washington. He requested that AID pay him $1,150 a day, not the $320 he was getting, according to documents obtained under the Freedom of Information Act. AID refused. It allows consultants in Russia no more than $380 a day, which rises to about $800 by figuring in pension benefits and overhead.

Where Does the Money Go?

A look at other contracts gives an indication of why little of the program has filtered down to average Russians:

- KPMG Peat Marwick assembled and manages five huge clusters of consultants that garnered $98 million in contracts to help privatized businesses.
- Burson-Marsteller, the public-relations giant, is getting up to $15 million for various schemes to promote private enterprise. One of its jobs involved sending teams on predawn treks to collective farms near Nizhni Novgorod in central Russia to press the benefits of privatization to milkmaid brigades.
- Haglar Bailly, an Arlington, Va., consulting firm, won a $20 million contract by lashing together 34 subcontractors, including four different law firms. "We need a lot of redundant capability" because exact tasks haven't been worked out yet, explains Neils DeTerra, a vice president. The firm plans to help privatize Russian utilities and encourage them to install U.S.-made equipment. At the same time, it

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hopes to spawn a viable Russian private-sector consulting operation that can then win contracts from other foreign aid providers, such as the World Bank.

- Citizens Network for Foreign Affairs, an agribusiness trade association, was hired by AID to help pick firms to advise Russia's farm sector. It went on to pick eight of its own members to receive $23.4 million in AID money. AID quickly ratified the group's choices, which included Monsanto Co., Grand Metropolitan PLC's Pillsbury Co. unit, ConAgra Inc., W.R. Grace & Co. and Cargill Inc.

Russians See Red

The Russian backlash is predictable. Some Russian officials are beginning to flex their authority by exercising veto power over contracts awarded to U.S. concerns. Russia's Privatization Center, for example, scaled back the AID contracts awarded to Sawyer/Miller after Russians began questioning the wisdom of its TV-advertising campaign.

"All of my friends were saying, 'Why are you putting those stupid ads on TV?' " explains Maxim Boycko, the 34-year-old economist who runs the center. Mr. Boycko also was upset that the U.S. firm hadn't hired Russian experts to help plan the project. Sawyer/Miller says it believes it lived up to its contracts, but the matter has raised eyebrows among other U.S. consultants, who recognize that the Russian agency is the funnel for about $90 million of aid money each year.

The contrast of struggling Russians and well-paid U.S. consultants is sharpest at Moscow's Radisson-Slavianskaya Hotel. One recent evening, a string quartet was performing in the marble-floored lobby as a crowd of American businesspeople—many of them aid consultants – dined and drank in pampered splendor. In the freezing darkness nearby, a hundred or so elderly men and women milled about in dirty slush, each trying to sell passersby a prized belonging – a bottle of vodka or perhaps a favorite pair of shoes.

Marshaling Opposition

This is exactly the kind of dichotomy that architects of the Marshall Plan, the postwar project that rebuilt Europe, avoided by deliberately playing down the role of U.S. consultants. James M. Silberman, an 80-year-old World Bank consultant and architect of the Marshall Plan's technical-aid package, recalls that planners found it more effective and cheaper to bring 26,000 European business and social leaders to the U.S. to learn rebuilding skills, which they then brought back to Europe. The notion of big-spending, well-paid U.S. consultants raking in aid "was resented then and it is resented even more now," Mr. Silberman says.

AID's tilt toward American consultants is rooted in the agency's belief that Americans can best deliver capitalist expertise to a country with few native notions of free enterprise. But there is also a political component. Backers of a generous Russian aid package found it easier to win votes for the plan by convincing Congress that, by being generous to the Russians, it would be helping American business, too.

"One of the ways we get congressional support for the program is that it does help American jobs and American businesses," says Ambassador Thomas W. Simons Jr., who oversees AID's Russia program for the State Department. He plays down the resentment and the strength of antireform Communist and fascist movements in Russia. "Everyone in Moscow these days is alarmist," he says, adding that the Russia aid program is delivering aid five times faster than a normal one.

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Layers of Advice

What is indisputable is that the U.S. consultants seem to come in layers. World Learning Inc., a Brattleboro, Vt., firm that has worked on AID's Africa programs for 20 years, was hired – with AID money – to teach the art of writing AID grant proposals to 200 U.S. volunteer groups eager to provide help to the former Soviet Union. In addition, the firm won a contract to vet proposals on building a "social safety net" for the newly unemployed. "People were calling saying where's the money? How can we get into it?" recalls Margo Minnini, the firm's senior program officer.

Although Russian volunteer groups wanted to participate, World Learning picked only American concerns, with much of the money going to big, name enterprises like the United Way, the U.S. Red Cross and the YMCA. Most took on Russian partners. But Russian groups lacking American partners didn't make the cut.

Size and clout matter, even among the U.S. bidders. Take Citizens Network for Foreign Affairs, the agribusiness association, which lists former Defense Secretary Frank Carlucci as chairman of its executive committee. By letting the trade group include some of its largest members in the program, AID figured it could make its money go further. "We're leveraging over $100 million," explains one AID official, noting that the companies had already sunk that much in various Russian private ventures.

The trade group's president, John H. Costello, declared recently that "the former Soviet Union does not need foreign aid the way we delivered it in the past. They want partners who can work with them in a sustainable fashion to improve the food system and create economic opportunity."

Jolly Green

While these partnerships are designed to create "pockets of efficiency" among emerging Russian companies, they also use taxpayer funds to help American businesses expand in Russia. One of the pockets getting the money belongs to Pillsbury's Green Giant unit, which already had invested in a project to grow, can and sell its peas in Russia. Under its $3 million AID grant, Pillsbury will teach a Russian cooperative how to grow peas to Green Giant specifications – while enlarging its presence in the potentially huge Russian canned-food market.

No one has gotten a bigger slice of the program than KPMG Peat Marwick. To help newly private firms manage the various challenges of free enterprise, KPMG wired together J.P. Morgan & Co., Bain & Co., Bechtel Corp., Land O' Lakes Inc. and Young & Rubicam's Burson-Marsteller unit, among others.

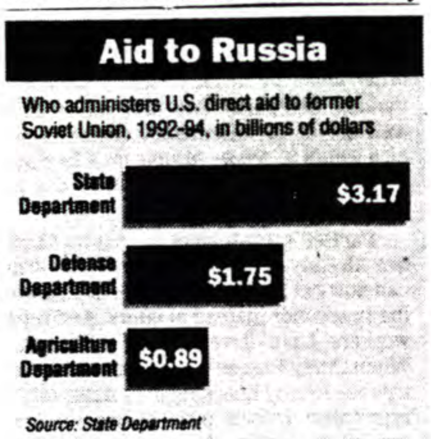
Exactly what this all-star agglomeration will do for Russia hasn't been fully specified – and that shows another peculiarity of the U.S. aid program. In trying to commit money quickly, AID uses a device known as an "indefinite-quantity contract," which leaves the details of a particular project to be determined later by Mr. Boycko, on the Russian side, and AID officials in Washington. IQCs, as they are called, require an "omnibus contractor," a firm like KPMG that can handle the heavy accounting requirements that come with AID money. Layers of subcontractors are then folded in.

KPMG's expanding Moscow operation is housed in tastefully refurbished offices in a former Communist Party office. The firm figures that after the AID funds run out, it will have a strong client base here. "This is a huge market," explains Peter Jovic, the partner in charge. The accounting firm has trained more than 200 Russians to do the books for banks and big government-run companies.

But Russians won't see much of the AID money that flows through the firm, Mr. Jovic adds. "The AID money is almost exclusively for consultants who fly in and out."

Still, the Russians have figured out how to redirect some aid to social needs. Mr. Jitnikov, for example, sold donated U.S. equipment and food for rubles that he used to complete Russia's first germ-free maternity hospital in Saratov, 200 miles southeast of Moscow. "People in Russia know about this program," he says. "It is not experts coming from the U.S. to investigate what is going on here. It is real support."

Supporters of the aid package as designed contend that some AID projects are already producing tangible results as well. Price Waterhouse, which snagged $34 million in contracts, set up a system to sell Russians shares in several thousand newly privatized companies. Now the Russians are pressing the firm to design a registry system and a Russian securities and exchange commission.



And a 10-man team from Boston Consulting Group spent three months struggling to help a privatized vegetable wholesaler in Perm manage its markets and inventories. They found stores in the gritty, industrial city in the Urals starved for vegetables, yet the wholesaler was floundering in rotting piles of beets and cabbages. Even after the consultants introduced sales commissions and other Western incentives, not much changed. "They bought into everything we said on a theoretical level, but there was still a psychological barrier," explains Martin Reeves, the BCG team leader.

Then BCG, which AID is paying $1.7 million for this and other privatization missions, discovered it had brought one of the problems with it. The workers suspected the consultants were fixing up the business to buy it and become absentee bosses. So the BCG team put on old clothes and led the Russians on a day-long cleanup of a stinking warehouse. "That seemed to do it," explains Mr. Reeves. Now fresh cabbages, even kiwi fruit, are showing up on the shelves in Perm.

Shut Out

These bright spots don't offset the disillusionment felt in Russia, whose companies are eligible to bid on U.S. AID contracts but are consistently shut out. Most have little experience in grant writing and find themselves unable to comply with arcane accounting regulations, or to meet AID's unprecedentedly tight 30-day deadline for filing grant applications.

Nowhere is the disappointment more acute than in the aid targeted for nuclear disarmament – a field where Russians have considerable unemployed expertise. There was much excitement in Russia when Washington unveiled a $1.2 billion program to help dismantle Russia's aging nuclear arsenal and re-employ its scientists in civilian research.

The Russians thought much of the money was coming to them, but it hasn't. So far, the Pentagon, which runs the program, has contracted for $754 million of U.S. goods and experts. Defense officials say it was Congress's suggestion to use Americans where "feasible"; they have taken the admonition a step further by making it a "guiding tenet."

John H. Birely, assistant secretary of defense for atomic energy, recently told a group of cheering defense contractors that one of the program's goals was to show Russians "the spirit of free enterprise." One proposal getting serious consideration: spending $60 million to build copies of Russian railway tank cars in a U.S. plant for export to Russia. Nearly everyone agrees that the cars, needed to haul corrosive rocket fuel, could be built much more cheaply in Russia.

Vadim A. Simonenko, a shy, smiling man who heads the theoretical division at Chelyabinsk-70, a formerly secret Russian base where nuclear warheads are designed, seems resigned. "What we have learned is that the Americans have a great tendency to keep this money in their own country," he says.

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