Money to Be Made

For All Russia's Woes, It Offers Quick Riches To Deft Entrepreneurs

Locals Open Banks and Cafes, Sometimes Skirting Laws And Fending Off the Mob

Stashing Cash in Switzerland

A1

By Adi Ignatius
Staff Reporter of The Wall Street Journal

MOSCOW — No one likes dealing with Russian mobsters, but Grigory Nersesyan, a literary agent turned entrepreneur, finds he is coping just fine.

"The Mafia is the only thing in this country that works," says Mr. Nersesyan, who recently opened a Tex-Mex restaurant in the shadow of the Kremlin. "Protection money is a service. You pay it, and the small-time hooligans stay away. It's a fair deal, and it doesn't cost that much."

There is a new class of entrepreneur in Russia, made up of hardy souls like Mr. Nersesyan who aren't daunted by the rough fabric of the local business world. Russia's headlines scream out that business is doomed: economic depression, runaway inflation, rackets, tanks in the streets, failed free-market reforms. But don't let that fool you. There is big money being made here, and some of it is even legitimate.


Grigory Nersesyan

For Russia's bravest entrepreneurs, the country's crises amount to new ways to make a fortune. It isn't for the skittish; much of the fast money is in traditionally volatile markets like real estate, and some of these entrepreneurs could lose everything as quickly as they made it. Long-term investment is rare. And Russia's mobsters can be violent, even deadly. Still, Russia's chaotic economy has created astonishing opportunities for instant wealth.

"I like a volatile market," says Roman Miagkikh, a self-styled Russian financier and Mel Gibson look-alike who favors expensive Italian fashions. "It creates an environment for superprofits."

Mr. Nersesyan, casually stylish in Levis and a tweed jacket, raised a few eyebrows when he decided to plunge into the restaurant trade. For years, he had been a typical intellectual. Quietly dissatisfied with the Soviet system, he toiled in the literary world at a fixed state salary and did English translations on the side to earn pocket money.

When the system collapsed, Mr. Nersesyan watched as several friends launched primitive, but successful, business careers. With $30,000 borrowed from friends and banks, he finally took the plunge himself last year.

Mr. Nersesyan quickly learned to profit from the sorry condition of Russia's former state-run sector. He was able to pry prime space away from a grand turn-of-the-century theater that relied on subsidies and that now is in dire need of cash. Besides paying rent and utilities, Mr. Nersesyan agreed to provide 50 free meals a day to the theater's cast — in return for a storefront space on Tverskaya Street, the closest thing Moscow has to a Fifth Avenue.

He didn't need to spend much to fix up the restaurant, either. He hired a construction crew — former Soviet rocket designers desperate for extra cash — to build a reasonably authentic swinging saloon door, and he had a Western piano-bar tableau painted on the wall. He found some sombreros and put a big blowup Corona bottle in the window.

"Business is like theater," says Mr. Nersesyan, who also manages an international theatrical exchange program. "You put in a few touches like the saloon door, and people think you must have spent a million dollars."

Business has taken off. Mr. Nersesyan says he recouped his investment in full after just six weeks. "Everything in this country is in short supply," he says, sitting in a booth as a Red Hot Chili Peppers tape blares in the background. "Anything you do is doomed to success."

Russia's turmoil doesn't faze this crew of optimists. Though free-market reformers Yegor Gaidar and Boris Fyodorov have quit the government and many fear that Premier Viktor Chernomyrdin will halt reforms and pursue inflationary policies, Russia's entrepreneurs are shrugging off the threat. "The only serious risk would be a fascist government that nationalizes banks and stops market reform," says Sergei Ovsiannikov, a bank chairman, who views such a scenario as unlikely. "But a cabinet reshuffle? A shift in economic reform? That won't affect business."

Only 32, Mr. Ovsiannikov four years ago helped co-found Mezhcombank, which has quickly become one of Russia's most respected financial institutions. Banking is perhaps Russia's largest entrepreneurial activity; there are 2,000 banks, with 6,000 branches in all, up from next to none a few years ago. Mezhcombank's latest shareholders' report sums up the Wild West spirit: "Despite persistent national recession, we confidently look forward to continued growth."

Much of that growth is fueled by speculative transactions. The bank bought up thousands of privatization vouchers—given to citizens to invest in former state companies — at just over the face value of 10,000 rubles. It sold out near the market's peak of 50,000. The voucher price has since slipped to about 20,000 rubles.

In a market full of scoundrels, Mr. Ovsiannikov tries hard for an image of respectability. He has a spacious office fitted with sleek black Scandinavian furniture. On the walls hang works of Russian abstract artists. His client list includes such top-name foreign companies as McDonald's Corp., Reuters Holdings PLC and AB Volvo.

As a beneficiary of reform, Mr. Ovsiannikov voted for Mr. Gaidar's party in December's parliamentary elections. But as industrial output slips to 50% of its 1989 level, the bank is just as happy to see Russia do without reform programs such as strict monetary policy. "I'd love to see Gaidar back in power," says Mikhail Alekseyev, who runs the bank's securities department. "But only after Chernomyrdin saves Russia's industry."

For Andrei Barinsky, Russia's easy money is in property. A soft-spoken 24-year-old who studied computers in college, he is director of the Center of International Exchanges and Development. The private company, two years old, presides over a growing stable of prime Moscow office space that it rents out, at top dollar, to the expanding foreign-business community.

The potential seems nearly limitless, but so is the risk, given the murky legislation on property rights. Though the government recognizes private property, it often isn't clear who owns former state property or whether it can be resold.

To Mr. Barinsky, these are minor annoyances. "Investment should be pouring in," he says as he describes Moscow's undersupply of good-quality office space. Conceding that he can't fully nail down ownership rights, he says his lawyers are able to build up what he feels is an airtight legal paper trail clarifying ownership.

THE PRESIDENT HAS SEEN
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THE WALL STREET JOURNAL TUESDAY, MARCH 1, 1994

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"Western businessmen spend millions on lawyers and on trips to Russia," says Mr. Barinsky, shaking his head in disbelief. "But without 100% guarantees, they won't invest even $1,000. It must be something about the Western psyche."

Recently, Mr. Barinsky stepped in to help rescue a state dental college that can't pay its bills, but that happens to own some attractive real estate. The developers worked out a deal: They will renovate part of the college, buy it medical equipment and help it pay its salaries and student stipends. In return, they get a 25-year lease, with the right to sublet, on a five-story building. After renovating it at a cost of $500,000 – mostly raised from Russian banks flush with money – they plan to rent it out to foreign businesses, for a potential annual revenue of about $800,000. "It's a good business," says Mr. Barinsky, flashing a smile.

Nikolai Lisai is another of Russia's cocky new businessmen. His success selling computer-software systems to Russian banks attracted the attention of Russian mobsters, he says, who made him a remarkable proposal.

The mobsters, Mr. Lisai says, wanted equity, and offered to provide him whatever he needed in return: investment capital, a Mercedes, a huge salary. After one year, they expected his company, Lieks Ltd., to be successfully working at world-class levels. But there was a catch. If the company didn't produce results, he says they told him flatly, they would kill him. He declined – but only after keeping discussions open for several weeks, he says.

"Ultimately," Mr. Lisai explains, "my wife wasn't crazy about it."


Nikolai Lisai

Mr. Lisai, 38, earned his stripes helping to develop the Soviet counterpart of America's Strategic Defense Initiative, or Star Wars, weapons system. He controlled the activity of six big military enterprises with 75,000 workers and a budget of about $12 million a year, he says.

In 1991 he left to try private business, rounding up several partners from among the state enterprises he had worked with. He began producing software for computer-aided design and manufacturing.

For a year, business was slow. Mr. Lisai even had to sell one of his prized computers to meet payroll. A breakthrough came, however, when he decided to begin marketing software systems for Russia's surging banks. "They have all the money, and they are just looking for ways to spend it," he says. Third Wave Network Ltd., a British software consultant, apparently agrees. It invested $300,000 in Lieks last year.

At the cutting edge of Russian business are people like Mr. Miagkikh, the self-proclaimed financier. He takes advantage of the fact that so many of Russia's laws on business and finance are murky.

Mr. Miagkikh, 28, dropped out of Moscow State University in 1989 to get in on the ground floor of Russian capitalism. He sold computers for two years before starting a trading company. Working with emigres in the West, he imported everything from track suits and sneakers to car stereos and video equipment. In an economy of shortages, it was like printing money. As the trucks pulled into his shop, people lined up, ready to buy whatever he had, he says.

As business developed and Mr. Miagkikh's hard-currency holdings multiplied, he decided to move into finance. Now he manages billions of rubles – millions of dollars – for clients, including a number of Russian trading companies, he says.

"A good banker never works with his own money," says Mr. Miagkikh. "Mine is all in Switzerland." He also facilitates clients' use of offshore accounts, which he has established in Switzerland, the Virgin Islands, the Cayman Islands and the Bahamas.

As the ruble nose-dived earlier this year, Mr. Miagkikh made a quick profit swapping currencies. He bought dollars at 1,300 rubles to the dollar and sold them at nearly 1,700, then bought rubles again when the market settled down. "It's primitive," he says, "but it's big business."

Mr. Miagkikh insists that most of his business dealings are legal, though some of his methods clearly push the envelope. When the dollar surges, he says, he can sometimes buy rubles at the previous day's rate from a friendly bank dealer. "I give

THE WALL STREET JOURNAL TUESDAY, MARCH 1, 1994

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THE PRESIDENT HAS SEEN

THE WHITE HOUSE

WASHINGTON

February 24, 1994

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MR. PRESIDENT:

Attached is a decision memo from Bob Rubin on bank regulatory consolidation. Secretary Bentsen is testifying about our proposal Tuesday, March 1 before the Senate Banking Committee and wants to transmit our legislation at the same time. To make it possible to get that legislation into final form, Bob is hoping to get your decision tomorrow on the one remaining open issue.

That issue, set forth in two options, is whether the President (1) should have the power to remove the chair of the new Federal Banking Commission, as he would with regard to any executive agency, or (2) should be limited to removing the chairman only for cause, as is typical for independent agencies. The two options also differ in that Option 1 would provide for White House review, but not clearance, of FBC regs, while Option 2 would require White House clearance.

[redacted]

Treasury, NEC, Leg Affairs and Ickes support Option 1. Counsel, OMB and Justice (OLC) support Option 2.

Because this memo just came in tonight, we have not yet received comment from George or the Vice President. But, given the tight time frame, we wanted to get it to you tonight to let you start reviewing it.

Todd Stern

THE PRESIDENT HAS SEEN

THE WHITE HOUSE

WASHINGTON

94 FEB24 P10:01

February 24, 1994

MEMORANDUM FOR THE PRESIDENT

FROM: **BOB RUBIN**

SUBJECT: **Presidential Oversight over Proposed New Federal Banking Commission**

I. ACTION-FORCING EVENT: On Tuesday, March 1, Secretary Bentsen will testify before the Senate Banking Committee on the Administration's proposal to consolidate regulatory functions of the four federal bank and thrift regulators into a single regulator, the Federal Banking Commission (FBC). Treasury intends to transmit the legislation to Congress at the same time. A decision is needed on the degree of White House oversight over the FBC, as the Secretary will almost certainly be asked the Administration's position on the issue.

II. BACKGROUND/ANALYSIS: On November 23, Treasury, on behalf of the Administration, submitted to Congress testimony proposing that supervisory and regulatory responsibilities of the Office of the Comptroller of the Currency (OCC), the Office of Thrift Supervision (OTS), the Federal Deposit Insurance Corporation (FDIC), and the Federal Reserve Board (Fed) into a new independent agency, the FBC. OCC and OTS, both of which are currently Treasury agencies, would disappear.[1] The FDIC would

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[1] Although the Treasury agencies now regulate banks and thrifts with 62% of total bank and thrift assets, this percentage is likely to diminish substantially over time for four reasons: (i) the thrift charter, regulated by OTS, is becoming substantially less attractive because of higher examination and guarantee fees; (ii) unlike the Fed and FDIC, the OTS and OCC charge fees for examinations to cover their costs; (iii) many banks are putting functions such as mortgage banking that were previously conducted in the bank into holding company subsidiaries, which are regulated by the Fed; and (iv) vigorous enforcement of fair lending and CRA by OCC and OTS is generating flight to the perceived less vigorous enforcement efforts of the other federal regulators. The movement from the OTS and OCC to the Fed and FDIC is possible because under the current system, moving from a national to a state charter changes a bank's **federal** regulator. One of the purposes of this reform is to

retain its insurance functions, as well as a backup examination role for banks and thrifts in trouble. The Fed would retain full jurisdiction over monetary policy, the payments system and the discount window, and would participate with the FBC in examining the most important banks. This consolidation of regulation would eliminate the current inefficient, inconsistent system of overlapping regulators in which responsibility and accountability are blurred and many institutions have to deal with two or more federal regulators.

The FBC would be governed by a five-member board, consisting of a Chair appointed by the President with the advice and consent of the Senate to a four-year term roughly contemporaneous with that of the President; the Secretary of the Treasury; a Governor of the Fed chosen by the other Governors; and two other independent members appointed to five-year staggered terms by the President, with Senate confirmation. No more than two of the three independent members (including the Chair) could be of one political party. Except for the four-year presidentially-contemporaneous term of the Chair, in this respect our proposal is very similar to bills introduced by Senate Banking Committee Chairman Riegle and Ranking Member D'Amato and by House Banking Committee Chairman Gonzalez.

The Fed's opposition to the Administration's proposal is largely based on concern about its own role. However, others who have expressed opposition or "concern," such as the Council of State Banking Supervisors, the Independent Bankers Association of America, the American Bankers Association and the Bankers Roundtable, assert that "the regulation and supervision of banking institutions should be removed from political forces to the maximum extent possible," and that the Administration's proposal does not meet that standard. A number of members of the Senate and House banking committees, including the bi-partisan leadership, feel strongly that insulation of a single bank regulatory agency from political influence is critical.

III. ISSUES AND OPTIONS: One issue -- the scope of the President's authority to remove members of commissions -- has long been seized on by the courts and others as the essential defining element of an agency's independence. If the President could remove the Chair and other independent members of the FBC only "for cause", this would be a clear signal that the entity is an independent agency, like the SEC, FCC or the FTC, notwithstanding the presence on the Board of the Secretary of the Treasury. OLC (Walter Dellinger) has advised us that, under these circumstances, unless explicitly authorized or directed by the legislation, the President could not force such an agency to

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eliminate that anomaly.

submit legislation, testimony or regulations to the White House (OMB) for review.

On the other hand, stating that the Chair and other members serve at the pleasure of the President, who could remove them "upon reason communicated by him to the Senate" (the current standard for removal of the Comptroller of the Currency) would indicate the entity was subject to Executive Branch authority, particularly on policy matters. This would, of course, also preserve the President's ability to remove a member who consistently ignored the President's guidance. Silence would, according to the Justice Department, generate substantial ambiguity on the issue.

Option 1 - State in the bill that all three independent members, including the Chair, would be removable only "for cause," FBC legislation and non-oversight testimony would be subject to White House (OMB) clearance, FBC regulations would be subject to White House (OMB) review, and control of FBC litigation in the federal courts would be with the Justice Department (as is the case currently with the OCC and Fed).

Pros

- Since few on the Hill expect us to propose removal for cause, by doing it explicitly we may be able effectively to blunt the "political influence" debate and get back on the high road with this legislation.

- By putting a compromise position in the legislation (rather than remaining silent on removal), the Administration would set the terms of debate.

- We would be better able to emphasize the balanced nature of the bill, under which operational issues are totally under the jurisdiction of an entity only one of whose members (the Secretary of the Treasury) serves at the pleasure of the President, while banking policy issues, which are covered by legislation, testimony, regulation and federal court litigation (which is rare) would remain, as they always have been, appropriate subjects of presidential responsibility.

- Avoids the ambiguity of whether we're for consolidation at all costs or only with a structure that maintains some degree of executive branch oversight.

Cons

- Creation of another federal regulatory agency headed by a Chair removable only for cause would be an erosion of presidential power, and should not be proposed by any administration. Since 1946, only the Consumer Product Safety Commission and the Federal Election Commission have been created as quasi-legislative multi-member independent agencies. (Neither of these is subject in any way to White House review of policy.)

- Those who object to "politicization" may not be placated by the removal standard, given the continued presidential influence through (i) White House review; (ii) the presence of the Secretary of the Treasury on the Board; and (iii) the presidentially-coterminous term of the Chair.

- By explicitly conceding the removal issue, we may be putting ourselves in a weak negotiating position concerning maintenance of White House review.

- OLC thinks that if the bill were silent on removal authority, a court might well determine that the independent members serve at the pleasure of the President. We would be giving up the possibility of such a finding.

Treasury (including OCC), OMB, Legislative Affairs and NEC support Option 1. CEA supports this option, but believes that testimony should be subject only to review, not clearance.

Option 2 -- State in the bill that the Chair is removable under the standard currently applicable to the Comptroller of the Currency (the President may remove "upon reasons communicated by him to the Senate"), and that the other two Presidential appointees are removable only "for cause." Also provide in the bill for White House clearance of FBC legislation, regulation, and testimony, and for DOJ control of FBC litigation in the federal courts (as is the case currently with the OCC and the Fed).

Pros

* Strikes a balance between independence (three of five members) and Executive authority (while preserving greater Executive authority than Option 1).

* Since Administration will be held accountable for FBC's performance, permits degree of Executive Branch authority over the Commission, including White House clearance of regulations, legislation, and testimony.

* Would avoid the ambiguity of whether Administration is for consolidation at all costs or only with a structure that maintains a substantial degree of Executive oversight.

Cons

* Although this position would explicitly make some independent members removable only for cause, the combination of the OCC standard for the Chair and the requirement for White House clearance is still likely to elicit a negative reaction in Congress from those, including the Democratic banking committee leadership, who think independence is critical. There is a risk that the reaction would be strong enough to kill the bill or generate an even more independent FBC (e.g., without the Secretary).

* Forces the independence issue onto the table immediately and explicitly, when bank regulatory independence is a hot topic.

* The Administration's chief spokesman on the issue, the Secretary of the Treasury, is opposed to this position on policy, as well as political, grounds.

White House Counsel, OMB and OLC support this option.

IV. DECISION:

___Option 1 ___Option 2 ___Discuss with me

EXECUTIVE OFFICE OF THE PRESIDENT

COUNCIL OF ECONOMIC ADVISERS

WASHINGTON, D.C. 20500

THE PRESIDENT HAS SEEN

MEMBER

February 28, 1994 '94 FEB 28 P7:10

MEMORANDUM FOR THE PRESIDENT AND
THE VICE PRESIDENT

FROM: ALAN BLINDER

SUBJECT: JAPANESE BOND SALES

On Friday, the Vice President asked us about reports that the Japanese might be selling U.S. Treasuries in order to force U.S. interest rates up. Conversations with executives of two Japanese securities firms in New York and the head of the Fed's international division suggest that:

1. There probably have been some large sales of U.S. Treasuries by Japanese sources, but

2. There is no evidence of any massive movements of capital, and

3. There is certainly no evidence that the Japanese government is orchestrating any selling. Indeed, market participants and the Fed doubt this very much.

[YOU MAY WISH TO STOP READING HERE; DETAILS FOLLOW.]

FACTS:

Each of the two American executives either had personal knowledge of or had heard rumors of "some large bond sales" by Japanese insurance companies during the period surrounding the February 11th summit. The amounts do not seem very large, however—perhaps $1 billion (a guess). For reference, you can compare this to:

* the daily trading volume in the market for Treasuries, which is around $60-70 billion. (However, the daily trading volume in 30-year bonds may be below $1 billion.)

* total Japanese holdings of Treasuries, which are estimated to be around $140 billion.

ANALYSIS:

* No one thought the Ministry of Finance was behind these sales.

* The Japanese fiscal year ends next month, so financial institutions are dressing up their accounting statements at this time of year.

  -- Japanese accounting rules require booking of losses if the yen appreciates 15 percent over the year (March-to-March)—including any losses accrued (but not realized) in previous years.

  -- If they had accrued gains instead, this was a good time to realize them.

* Apart from window dressing, there are good reasons why a rational investor, whether Japanese or American, might have sold U.S. bonds.

  -- The markets have interpreted some recent Administration statements as "dollar bashing," which normally drives down bond prices. (If you are a foreign holder of U.S. debt, and you expect the dollar to decline in value, you can avoid a loss by selling your bonds quickly.)

  -- Many market participants may have anticipated that a failed summit would lead to yen appreciation, and therefore "unloaded" bonds before the summit or just after.

[redacted]

FEDERATION OF INDIA ASSOCIATIONS - CHICAGO
300 S. Wacker Drive, Room 200
Chicago, Illinois 60606

Sandy

THE PRESIDENT HAS SEEN
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The President
The White House
1600 Pennsylvánia Avenue N.W.
Washington, D.C. 20500

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FEDERATION OF INDIA ASSOCIATIONS
CHICAGO

300 S. Wacker Drive, Room 200 • Chicago, Illinois 60606 • (312) 922-5168

February 28, 1994

The President
The White House
1600 Pennsylvania Avenue N.W.
Washington, D.C. 20500

Dear Mr. President:

On behalf of the Federation of India Associations, I would like to convey the concern of over one million Americans of Indian origin regarding U.S.-India relations.

At present, there is a strong perception that India-U.S. relations have gone to the lowest point. While this may be the perception, the facts, on the contrary, are quite different. U.S.-India relationship has never been stronger. However, a statement from you identifying some of the following salient points will definitely help to clarify any misconception.

1. India has liberalized its economic policies. More U.S. firms are doing business in India now than at any time in the past, e.g., General Electric. AT&T, American Express, Exxon, and other companies are in the process of signing agreements to supply equipment and plants worth billions of dollars. Trades between India and the U.S.A. have never been stronger. As a matter of fact, the U.S. ranks as number one among India's trading partners as foreign investor.

2. Kashmir has been a difficult issue for not only the India-Pakistan relationship, but also the relationships with each country's friends, particularly the U.S.A.

   While we may have a difference of opinion as to several items regarding Kashmir with India, we have an agreement on a very important matter, i.e., the Kashmir matter should be discussed and resolved between India and Pakistan in accordance with the Shimla Agreement (the U.S. State Department agrees with this position). Clarification of this fact will eliminate some of the misunderstandings of both India and the U.S.

3. Situation in State of Punjab. While there has been violence and unrest in the State of Punjab, the situation has been improving for the last 1½ years. There is an elected state government which is quite stable. I believe the U.S. State Department has recognized this positive change. I think encouragement to the Government of India regarding this positive change will help in further stability.

4. And in the end, there are nearly one million Americans of Indian origin in the U.S.A. Indian Americans are model citizens. They believe in strong family values and hard work. They make outstanding contributions to this nation's business, science, and health care. (Of course, the fact that most of them are Democrats will not be held against them.) They also bring an understanding between the U.S.A. and India.

Mr. President, a positive statement regarding some of these issues can create significant understanding between India and the U.S.A. We seek your support in these matters.

Sincerely,

Niranjan S. Shah

Niranjan S. Shah, Trustee
Federation of India Associations

Bruce Reed — good!

THE PRESIDENT HAS SEEN 3-1-94

E. J. Dionne Jr.

Criminal Mischief

The debate over the crime bill is in danger of hardening into that tired old conflict between conservatives who insist they'll always be tougher on lawbreakers than liberals and liberals who argue that the Draconian measures conservatives are championing won't do a thing to reduce crime. The currency in this debate is the words "tough" and "smart." President Clinton, as is his wont, insists you can be both. Liberal critics of the bill say it looks tough but is really dumb. Conservatives say you can't be smart unless you're tough.

The whole debate is not very smart. Most of it has nothing to do with writing a good crime bill or with honest differences of opinion. Privately, politicians will say all sorts of things about this crime bill they won't say publicly. There are conservatives who acknowledge that some of the new penalties in the bill are useless, and that federalizing a slew of new crimes actually violates conservative principles about the authority of the states. One Republican senator got his amendment into the bill and then laughingly expressed hope to a leading Democrat that House-Senate negotiators would have the sense to knock it out.

There are liberals who will acknowledge that mandatory sentences and "three strikes and you're out" laws are natural reactions to loose sentencing and parole policies that kept too many violent people on the streets. They will also admit that some of the social spending included in the bill, under the rubric of "prevention," was added just so some senator could go home and tell voters that his amendment would "do something" about some fashionable crime problem that gets a lot of headlines.

In fact, the lessons that have been learned about how to fight crime—and how not to—don't fit comfortably inside anyone's preconceptions. James Q. Wilson, a solid conservative who is also one of the nation's leading experts on crime and punishment, offers several examples of where a little nuanced thinking should jar assumptions on both sides.

He says up-front that today's crime rates are higher than those of 30 years ago because of cultural changes that no crime bill will reverse. Family breakdown has much to do with street violence, and no government program will magically put families back together.

On the specifics, Wilson is deeply skeptical of adding a whole series of new crimes to the federal statute books. How much will federalizing street crimes do? "My suspicion is, not much," he replies. Score one for the liberals. But he also says that there are instances involving drug crimes where having federal laws that "are substantially tougher than state law" has helped local prosecutors drive hard plea bargains under state law. Score one for conservatives. Thus, the real issue is where can federalizing crimes actually do good and where is it done simply so politicians can falsely claim that they "did something"?

On giving life sentences to those who commit three violent felonies, Wilson makes the essential point: These laws will keep some violent people off the streets, but they're mostly about sending a moral message that people who repeatedly commit certain heinous, violent acts "forfeit their right to live in society." But if the message is that strong, any three-strikes law—state or federal—has to be "very carefully drawn" to be "sure that the penalty falls where people want it to fall." Certain crimes that carry the legal label "violent felony," he says, don't actually involve any overt violence. It makes no sense to include them under "three strikes."

Wilson is for the $8.9 billion in the bill to put 100,000 cops on the streets in community policing programs. But he argues that 100,000 police officers spread thinly over the country won't guarantee a fair test of community policing. To my mind, the community policing money is the most important spending in the bill. But the money has to be well-targeted so both friends and foes of community policing will learn something about how well it works.

Similarly, there is a strong case for using federal money to encourage local police to take domestic violence and violence against women much more seriously. Women are suffering, and children who grow up in violent households are much more likely to become violent themselves. Programs against domestic violence could thus cut the crime rate in both this generation and the next. But this bill contains a slew of separate programs under the broad rubric "violence against women" for a total of $1.9 billion in spending. Some were added just so senators could have their names attached to such an admirable crusade. One Capitol Hill Democrat who strongly supports new programs in this area says that a little liberal self-restraint could eliminate duplication and reduce spending without losing much of substance.

The bill also includes a Republican proposal providing $3 billion for new federal "regional" prisons that the states could use only if they met certain federal sentencing guidelines. This is an odd suggestion from the party that preaches against "federal mandates." Why not just grant the money directly to states with overcrowded prisons? And do we need the whole $3 billion, or is this a place for a little conservative self-restraint?

Finally, instead of a slew of small experimental programs, why not finance a test of one the most controversial propositions in the crime debate: that unemployment causes crime. Some administration officials want to target a few high-crime areas with substantial resources for job creation to see what impact job programs have on levels of violence. We might learn something.

Some tough penalties are smart and some are dumb. Some prevention programs are tough-minded and some are pork. The debate ought to be about which are which. It ought not be about who is tough and who is smart

Use

Richard Cohen

A Nasty Night at Howard

Washington had a little Nuremberg rally last week. In an event chillingly evocative of the sort the Nazis used to put on, the chant "the Jews, the Jews" was shouted by an audience of about 1,000 people, at least half of them students, at Howard University. Lest you think they were responding to the speaker of the evening, Khalid Abdul Muhammad—a man so mad that even Louis Farrakhan pretended shock—the facts are otherwise. They were led in responsive antisemitism by a law student named Malik Zulu Shabazz, a man we can only hope was born too late for his real calling: a pogrom.

"Who caught and killed Nat Turner?" he shouted to crowd.

"Jews," most of the audience shouted back.

"Who controls the Federal Reserve?"

"Jews."

"You're not afraid to say it, are you?"

"Jews, Jews."

"Who controls the media and Hollywood?"

"Jews."

"Who has our entertainers, our athletes, in a vise grip?"

"Jews."

"Am I lying?"

"No," the crowd yelled.

But in every instance, including the reference to Turner, lying was what he was doing.

This account, taken from the notes of Washington Post reporter Rene Sanchez, was hardly an isolated antisemitic outburst. Other speakers made similar references. Mark Thompson, a leader in the effort to gain statehood for the District of Columbia, suggested that African Americans junk "We Shall Overcome" and replace it with a new anthem: "We shall not sell out to the Jews." Yet another speaker, Henry Jackson-Bey, said Muhammad had exposed "the Euro, Zionist supremacist conspiracy."

Howard University, federally funded and sometimes called the Harvard of the traditionally black colleges, clearly has itself a problem. The Post estimated that two-thirds of the audience that night was composed of students. Howard's dean for student life, Raymond Archer, says fewer than half. I say, who cares? The fact remains that several hundred students acted like extras in a Leni Reifenstahl movie. Moreover, the student government association that night donated $500 to Khalid—which is to say the Nation of Islam, a white-hating, Jew-hating, gay-hating, Catholic-hating group. It's sort of the United Way of bigotry.

It's a safe bet that not a single person in the Howard audience ever met George Bernard Shaw, the Irish-born playwright who died in 1950. But he knew them well. In his play "Saint Joan," he has an exchange between the Inquisitor and the Chaplain during the trial of Joan of Arc. The Inquisitor orders the Chaplain to sit down. When the Chaplain indignantly refuses, the Inquisitor says, "If you will not sit, you must stand." To that, the Chaplain says, "I will *not* stand," and flings himself into his seat.

That theme—I will not do what I am told to do—permeates both the Howard meeting and, to a degree, the refusal of certain African American leaders to repudiate Farrakhan. What seems to matter most is not Farrakhan's bigotry but the venue of the repudiation demand. If it comes from whites, especially Jews, it gets rejected. Never mind right and wrong. Forget morality, history or the sheer lunacy of turning toward antisemitism as an explanation for what ails black America. The thing that seems to matter most is a juvenile sense of manliness. If it weren't so sad, it would be funny.

But maybe the saddest aspect of the Farrakhan controversy is the degree to which the media apply a double standard when the bigots happen to be black. You can only imagine what would have happened had a white university had itself a hate night. Page one could not have contained the story. Yet Howard's sordid evening was played in next day's Post at the bottom of the Metro page (with not a mention of Jew-baiting in either the headline or first paragraph) and a follow-up story was tucked within Metro. The reason for this, I think, is a certain institutional tone deafness to the authentic sounds of antisemitism and an addled version of multiculturalism, including the wrong-headed belief that since blacks are victims, they cannot also be victimizers.

Of course blacks have been—and remain—victims of racism. But antisemitism is not something new, something indigenous to America and its peculiar racial troubles. Without equating Farrakhan to Hitler, it is nevertheless instructive to point out that Weimar-era Germans also considered themselves victims. Hitler supplied the scapegoat, and soon the victims became the victimizers. Only in its particulars is that history unique to Germany. The Serbs, too, genuinely feel themselves aggrieved. So did the poor whites of the old South, the backbone of the Klan. It is one thing to explain, quite another to excuse.

The acceptance or toleration of antisemitism by a new, college-educated generation of black leaders is not, as some would have it, "interesting." It is downright chilling. Farrakhan represents a variant of American fascism. His organization is authoritarian, his message dead-end demagoguery and his dope the bracing narcotic of hate. That Howard University audience, brimming with ignorance and led by Pied Pipers of racism, is going down the sucker's road to nowhere. They are not the leaders of tomorrow, they are the chumps of yesteryear.

TUESDAY, MARCH 1, 1994 THE WASHINGTON POST

Russian Foreign Policy Undergoing Major Shift

Moscow Becoming Newly Assertive

By Fred Hiatt
Washington Post Foreign Service

MOSCOW—A spy scandal erupts, diplomats are expelled, Russian troops fly into Eastern Europe, Moscow politicians spit vituperative rhetoric: No wonder many Americans fear the Cold War is returning.

Viewed from Moscow, it is indeed clear that a new Russian

NEWS ANALYSIS

foreign policy is evolving, more assertive and quicker to claim a right to interfere in neighboring states. The idea of a trouble-free partnership with the United States has been all but discarded, replaced by suspicion of U.S. motives and a pugnacious and often insecure insistence on standing up for Russia's national interests.

But the emerging policy and new tensions differ markedly from the global expansionism and bipolar hostility of Soviet days—and from the aggressive imperialism of czarist times. Policy-making here, as in Washington, is now marked by conflicting tendencies, with fear of foreign entanglements and the reality of empty pocketbooks mixing with bruised pride and superpower dreams.

"I've been saying for more than a year that a certain new stage is inevitable," said Vladimir Kozhemyakin, a former government adviser and now a member of parliament. "People feel not anti-Americanism, but a certain desire to prove that the country is independent, is great, has its own policy.

"This is something that Americans should treat as natural and inevitable and not endangering the relationship," he said. "But I wouldn't say the Russian bear is rising. There's no strength left in the bear."

The tangle of emotions and pressures now reshaping Russian policy poses a complex challenge to the West, according to experts in the former Soviet Union.

Many Russians urge Washington to respond with understanding to Moscow's efforts to estab-

MOSCOW, From A1

ish a new identity for itself on the vorld stage, so Russia will not be ushed further toward nationalism nd resentment. At the same time, nany of Russia's neighbors urge Vestern firmness so that Moscow oes not think it can interfere at vill in their affairs.

For the most part, Russians have eacted with amusement or surrise to Washington's anger at the ncovering of an alleged spy for ussia high in the CIA hierarchy. ergei Rogov, a national security xpert here, said that Aldrich H. mes's alleged crime—betraying American spies to Russian authorities—shows by its nature that both nations play the espionage game.

But Rogov said the calls to cut off aid to Russia and the Western suspicion of Russian peacekeeping in Bosnia show how little substance has been added to the rhetoric of "partnership" between the former enemies. The notion of partnership has been undermined by U.S. failure to build practical mechanisms of cooperation, Rogov said, and by Russian envy and resentment.

"In Russia, a very strong backlash is already in full swing," he said. "The grand design of partnership may totally fail."

The new trends of Russian policy have been clear at least since early November, when the Kremlin adopted a new military doctrine sanctioning the use of Russian troops in the "near abroad"—as Russians refer to former Soviet republics beyond their border.

The's parliamentary election on Dec. 12, in which ultranationalists led by Vladimir Zhirinovsky topped the party-list voting, accelerated the move toward assertiveness. Zhirinovsky promised to expand Russia's borders—albeit by economic pressure rather than military force—and to protect the millions of ethnic Russians living in the "near abroad."

Less than three months later, much of Zhirinovsky's rhetoric is official Russian policy, in many cases embraced by centrists and reformers alike. President Boris Yeltsin, in his state-of-the-union speech Thursday, called the fate of ethnic Russians in other countries "our national affair."

Konstantin Zatulin, chairman of parliament's committee on the "near abroad," said in an interview that Yeltsin's statement did not go far enough.

"Not only the Russians' fate but the fate of all Russian-speakers and their economic, social, political and cultural space is our concern," said Zatulin, who is considered a centrist in the new parliament. "Our task is not in the reduction of those spaces, but in their expansion."

Zatulin said he considers "empire" a positive word, implying peace and equal treatment of all citizens. He said he rejects the use of force to expand Russia's influence, but added that other methods exist.

In recent months, Moscow has backed up the rhetoric with tough economic action. Landlocked countries such as Kazakhstan and Azerbaijan, for example, have found Russia blocking their access to oil-export pipelines unless they fork over bigger stakes of their own oil fields.

But during the same period, Moscow has shown itself a long way from a single-minded rush to restore its lost empire. When a Russian nationalist was elected president of the Crimea, a Ukrainian peninsula with a Russian-speaking majority, there was no surge of emotion within parliament here to bring the region back into the Russian fold.

Similarly, the lower house of parliament almost unanimously opposed a Russian-Georgian friendship treaty, even though the pact would give Russia almost carte blanche to establish military bases on Georgian soil. And when the government was on the verge of an agreement with Belarus to allow that neighboring country to use the ruble as its currency, many politicians in Russia opposed it.

In each case, Russian politicians were not motivated by sensitivity toward their neighbors' feelings, but by an unwillingness to assume other nations' burdens at a time of great hardship at home. No matter how nationalistic, most politicians in this fledgling democracy are more concerned with their voters' unpaid salaries and threatened jobs than with Russia's strategic interests, analysts said. And no matter how hard life is in Russia, most here believe that things are worse in other former Soviet republics.

"Of course, politically, militarily and psychologically, people want to see Belarus allied with Russia," said Kozhemyakin. "But on the other hand, no one needs a poorer Russia. So it's a question of cost."

Unlike in Soviet days, Moscow today makes no claim of global leadership and hardly pretends to keep up the two-ocean navy, overseas bases and other badges of superpowerdom that provided the rationale for much U.S. military spending during the Cold War.

Even within the former Soviet Union, the military's dreams of expanding influence continually run into the hard reality of bankruptcy—the same reality that forced the Soviet withdrawal from Eastern Europe under president Mikhail Gorbachev.

"Defense integration is ruled out by political and economic disintegration," Russia's Col. Gen. Viktor Samsonov, now chief of military coordination among the former Soviet republics, complained in an interview with Pravda last month. "To tell you the truth, not a single decision is being carried out."

The army's resolution to maintain a force of 2.1 million also has run into budget realities, with generals now having to postponem hiring 150,000 contract soldiers, according to defense analyst Pavel Felgengauer. With many officers desperately underpaid and poorly housed, army leaders oppose costly adventures abroad. The brass was not consulted about—and was not pleased by—Yeltsin's decision to send 400 soldiers as peacekeepers to Bosnia, Felgengauer wrote in the Moscow Times.

Not surprisingly, perhaps, resentment of the West runs deep in the military, as within Russian society. NATO speaks "as if we are the closest of friends," Samsonov said, "and suddenly its southern theater commander goes to Greece and Turkey . . . to shore up NATO's southern flank," which faces Russia's Black Sea coast and controls its access to the Mediterranean.

Rogov, the national security specialist, said Russian resentment today focuses on the onslaught of U.S. television programs and advertising, on what is widely seen as broken promises of massive aid, and on what Rogov called one-sided support for Yeltsin in Moscow's political battles.

Many Russians also believe Washington used human rights as a club against the Soviet Union but now ignores discrimination against ethnic Russians in the Baltic republics, he said.

And they resent what is seen here as a NATO effort to expand into Eastern Europe, Rogov said. "We didn't leave [East] Germany so that the American army could walk in," Zatulin said.

In general, many Russians cannot accept that Ukraine, Belarus and Kazakhstan—all of which were part of Russia long before the Bolshevik revolution—now are independent, Kozhemyakin acknowledged.

"One of the successes of Zhirinovsky is to say what many people feel," the lawmaker said.

But in this exhausted nation, there is little will to pick a fight with those neighboring states, let alone with the United States, Kozhemyakin said. "The strength doesn't exist," he said, "but the desire doesn't exist either."

THE PRESIDENT HAS SEEN
3.1.94

Sandy Berger
[redacted]
Good
worth reading

TUESDAY, MARCH 1, 1994 THE WASHINGTON POST

Morality and Homosexuality

The following statement, excerpted from the March issue of First Things, was authored by the Ramsey Colloquium, a group of Christian and Jewish scholars sponsored by the Institute on Religion and Public Life.

Homosexual behavior is a phenomenon with a long history, to which there have been various cultural and moral responses. But today in our public life there is something new that demands our attention and deserves a careful moral response.

The new thing is a gay and lesbian movement that variously presents itself as an appeal for compassion, an extension of civil rights to minorities and a cultural revolution. This movement aggressively proposes radical changes in social behavior, religion, morality and law.

As committed Christians and Jews, we share the uneasiness of most Americans with the proposals advanced by the gay and lesbian movement, and we seek to articulate some of the reasons for the largely intuitive and pre-articulate anxiety of most Americans regarding homosexuality.

Definition by Desire

While the gay and lesbian movement is indeed a new thing, its way was prepared by the so-called sexual revolution. That revolution is motored by presuppositions that ought to be challenged. Perhaps the key presupposition is that human health and flourishing require that sexual desire, understood as a "need," be acted upon and satisfied. Any discipline of denial or restraint has been popularly depicted as unhealthy and dehumanizing.

We insist, however, that it is dehumanizing to define ourselves by our desires alone. Nor does it seem plausible to suggest that what millennia of human experience have taught us to regard as self-command should now be dismissed as mere repression.

At the same time that the place of sex has been grotesquely exaggerated by the sexual revolution, it has also been trivialized. The mysteries of human sexuality are commonly reduced to matters of recreation or taste, not unlike one's preferences in diet, dress or sport. This peculiar mix of the exaggerated and the trivialized makes it possible for the gay and lesbian movement to demand, simultaneously, a respect for what is claimed to be most constitutively true of homosexuals and tolerance for what is, after all, simply a difference in "lifestyle."

It is important to recognize the linkages among the component parts of the sexual revolution. Permissive abortion, widespread adultery, easy divorce, radical feminism, and the gay and lesbian movement have not by accident appeared at the same historical moment. They have in common a declared desire for liberation from constraint—especially constraint associated with an allegedly oppressive culture and religious tradition. They also have in common the presupposition that the body is little more than an instrument for the fulfillment of desire, and that the fulfillment of desire is the essence of the self. Finally, they all rest on a doctrine of the autonomous self. We believe it is a false doctrine that leads neither to individual flourishing nor to social well-being.

Marriage and the family—husband, wife and children, joined by public recognition and legal bond—are the most effective institutions for the rearing of children, for the directing of sexual passion and for human flourishing in community. At the same time, it remains true that there are legitimate and honorable forms of love other than marriage. Indeed, one of the goods at stake in today's disputes is a long-honored tradition of friendship between men and men, women and women, women and men.

In the current climate, it becomes imperative to affirm the reality and beauty of sexually chaste relationships. We do not accept the notion that self-command is an unhealthy form of repression on the part of single people, whether their inclination is heterosexual or homosexual. Put differently, the choice is not limited to heterosexual marriage on the one hand and relationships involving extramarital or homogenital sex on the other.

We cannot settle the dispute about the roots—genetic or environmental—of homosexual orientation. Although some scientific evidence suggests a genetic predisposition, we must still ask whether such a predisposition should be acted on or whether it should be resisted.

In a fallen creation, many quite common attitudes and behaviors must be straightforwardly designated as sin. Although we are equal before God, we are not born equal in terms of our strengths and weaknesses, our tendencies and dispositions, our nature and nurture. We cannot utterly change the hand we have been dealt by inheritance and family circumstances, but we are responsible for how we play that hand.

Inclination and temptation are not sinful, although they surely result from humanity's fallen condition. Sin occurs in the joining of the will, freely and knowingly, to an act or way of life that is contrary to God's purpose. Religious communities in particular must lovingly support all the faithful in their struggle against temptation, while at the same time insisting, precisely for the sake of the faithful, on the sinfulness of the homogenital and extra-marital heterosexual behavior to which some are drawn.

Public anxiety about homosexuality is pre-eminently a concern about the vulnerabilities of the young. This is a matter of legitimate and urgent public concern.

Since there are good reasons to support the heterosexual norm, since it has been developed with great difficulty, and since it can be maintained only if it is cared for and supported, we cannot be indifferent to attacks upon it. The social norms by which sexual behavior is inculcated and controlled are of urgent importance for families and for society as a whole.

Advocates of the gay and lesbian movement have the responsibility to set forth publicly their alternative proposals. This means more than calling for liberation from established standards. They must clarify for all of us how sexual mores are to be inculcated in the young, who are particularly vulnerable to seduction and solicitation. Public anxiety about homosexuality is pre-eminently a concern about the vulnerabilities of the young. This, we are persuaded, is a matter of legitimate and urgent public concern.

Gay and lesbian advocates sometimes claim that they are asking for no more than an end to discrimination, drawing an analogy with the early civil-rights movement. The analogy is unconvincing and misleading. Differences of race are in accord with—not contrary to—our nature, and such differences do not provide justification for behavior that is otherwise unacceptable.

Certain discriminations are in fact necessary within society; it is not too much to say that civilization itself depends on the making of such distinctions (between, finally, right and wrong). In our public life, some discrimination is in order—when, for example, in education and programs involving young people the intent is to prevent predatory behavior that can take place under the guise of supporting young people in their anxieties about their "sexual identity."

Support for Marriage

It is necessary to discriminate between relationships. Gay and lesbian "domestic partnerships," for example, should not be socially recognized as the moral equivalent of marriage. Marriage and the family are institutions necessary for our continued social well-being. In an individualistic society that tends to liberation from all constraint, they are fragile institutions in need of careful and continuing support.

To endure (tolerance), to pity (compassion), to embrace (affirmation): That is the sequence of change in attitude and judgment that has been advanced by the gay and lesbian movement with notable success. We expect that this success will encounter certain limits and that what is truly natural will reassert itself, but this may not happen before more damage is done to innumerable individuals and to our common life.

THE PRESIDENT HAS SEEN
3-1-94

Hadley Arkes Amherst College
Matthew Berke First Things
Gerard Bradley Notre Dame Law School
Rabbi David Dalin University of Hartford
Ernest Fortin Boston College
Jorge Garcia Rutgers University
Rabbi Marc Gellman Hebrew Union College
Robert George Princeton University
The Rev. Hugh Haffenreffer Emanuel Lutheran Church (Harford, Ct.)
John Hittinger College of Saint Francis
Russell Hittinger Catholic University of America
Robert Jenson St. Olaf College
Gilbert Meilaender Oberlin College
Jerry Muller Catholic University of America
Fr. Richard John Neuhaus Institute on Religion and Public Life
Rabbi David Novak University of Virginia
James Nuechterlein First Things
Max Stackhouse Princeton Theological Seminary
Philip Turner Berkeley Divinity School (Yale University)
George Weigel Ethics and Public Policy Center
Robert Wilken University of Virginia

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[redacted]

TOM FOERSTER CHAIRMAN
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THE PRESIDENT HAS SEEN
3-1-94

Bob Rubin
(need to reply
B.

The Honorable William J. Clinton
President United States of America
The White House
1600 Pennsylvania Avenue
Washington, DC 20500

[redacted]

[redacted]

February 28, 1994

The Honorable William J. Clinton, President
United States of America
The White House
1600 Pennsylvania Avenue
Washington, DC 20500

Dear President Clinton:

The people of this county and the people of this tri-state region have a great stake in the successful completion of a USAir-British Airways alliance. If the alliance succeeds, it may mean thousands of jobs. If the alliance is not permitted, it may mean the loss of precious existing jobs.

A successful resolution of the outstanding issues and a mutually satisfactory agreement between Great Britain and the United States will have a positive impact in several ways.

For the people of this region, a USAir-British Airways alliance will open the world market for our products and services. The workers of this region are ready, willing, and able to compete in a global marketplace. They simply need access to other markets. The United States government has repeatedly denied direct flights from Pittsburgh to Europe and beyond. The USAir-British Airways alliance will provide needed access for our goods and services.

The future financial stability of this major local employer, USAir, is dependent upon British Airways' investment in the company. There are 16,000 Pennsylvanians, of which 12,000 live in Southwestern Pennsylvania, who are employees of this airline. Failure to consummate the agreement will have a negative impact on the airline and probably plunge it into serious financial difficulty. It is our hope that the agreement can be completed and USAir can take its place as a lasting competitor in the domestic airline industry.

The USAir-British Airways agreement is critical to the success of the new Pittsburgh International Airport. Pittsburgh International Airport is the first major airport to be built in the last twenty years. The airport has capacity for significant growth for USAir and other airlines. The plan depends heavily upon world air traffic directly from Pittsburgh. The people of this county, commonwealth, and the federal government together with the major airlines made an eight hundred million dollar ($800,000,000) investment and commitment to our economic growth through the development of this key economic generator. The people of this area seek growth not reduction in international traffic at the new airport.

In November 1992, at one of the last campaign stops of your election campaign, you addressed the people of this region from Downtown Pittsburgh. In those remarks, you assured us that you would take a serious look at the USAir-British Airways agreement and had expressed your concern about the financial health of USAir as a major airline. Commissioners Tom Foerster and Pete Flaherty presented you with a letter on that date, urging your approval of the alliance. We are extremely grateful for your subsequent approval of the USAir-British Airways alliance. However, there are now indications that the continuation of this deal may not receive the required approvals from your administration.

As you visit Pittsburgh again, we revisit this issue and urge you to personally review the bilateral negotiations and arrive at a conclusion that permits the USAir-British Airways alliance.

We request an opportunity to meet with you to discuss this issue. Senator Harris Wofford has been the leader and representative of our view on this issue. The Senator would be the appropriate person to contact to arrange such a meeting.

As always, the people of Allegheny County are extremely honored to host a personal visit by you to this area. Three visits in one year by a President have never happened in the history of this county.

Sincerely,

Tom Foerster

Tom Foerster, Chairman
Allegheny County Board of Commissioners

T Murphy

Tom Murphy, Mayor
City of Pittsburgh

Pete Flaherty

Pete Flaherty, Commissioner

TJF/TM/PF/bng

Mississippi Delta still in dark

Victims feel overwhelmed and ignored

By Michael Tisserand
Special for USA TODAY

TUTWILER, Miss. — When the ice storm first knocked out the power here, the worst problem workers at a Roman Catholic-run clinic had was finding enough candles, blankets and food.

But power has been out for almost three weeks, and now workers are coping with people sick from contaminated water and food, burned by makeshift heaters and bewildered by their predicament.

"The hardest part for people was the constant darkness," says Sister Maureen Delaney. "There's no news from the outside world, and then when people did start hearing news ... they only heard about how terrible it was in Washington, D.C., and New York."

The problems are much the same across this part of the Mississippi Delta. Since a Feb. 9 storm dumped six inches of ice, many in northern Mississippi haven't had light, heat, telephones or electrically pumped running water.

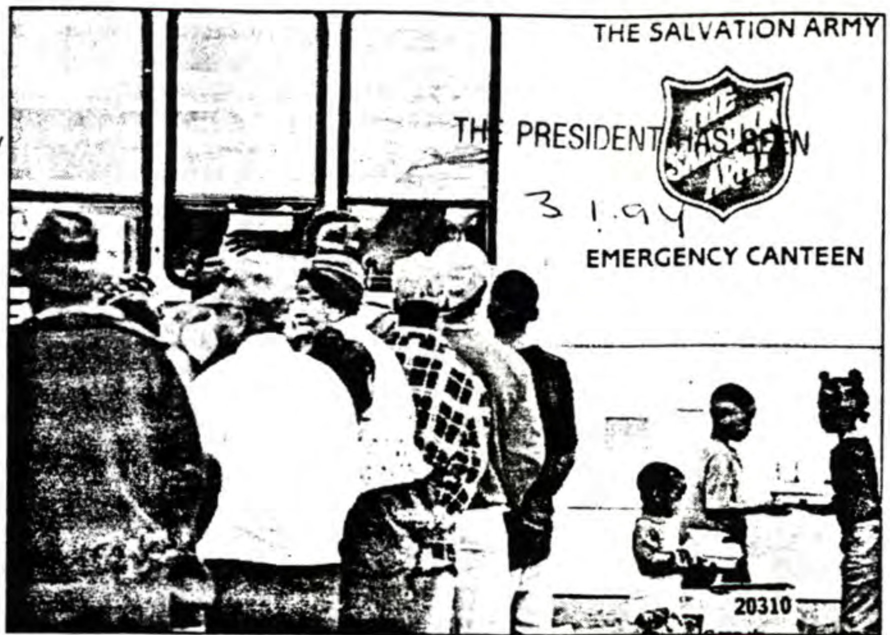
Restoration of power is taking so long, in part, because homes are far apart in many of the affected areas.

It wasn't until last weekend that President Clinton declared 26 Mississippi counties and 13 Arkansas counties federal disaster areas.

As power comes back, the disaster may not compare to the Los Angeles earthquake or the Midwest floods. But in America's poorest state, victims feel overwhelmed and largely ignored.

"Nobody gives a hoot if we survive it or not," says Carolyn Bednar, a secretary in Ruleville, Miss. "Whatever we did we had to do it on our own. We were called a national disaster area, but we already knew that."

"We'll come out of it all right," says Dodie Danehowr, who had to move 92 residents of a local retirement home to relatives' or friends' homes.



Photos by Tannen Maury, AP

FOOD LINE: Leland, Miss., residents queue up for food at a Salvation Army truck. The Salvation Army has been bringing hot meals to people left without power for almost three weeks.

AP

POWER WAIT: Shaw, Miss., farmer Bobby Irby, with mother Elenore, says, 'There's not much to do' without electricity.

AP

ESPY: Agriculture secretary returned to his home state at the urging of his brother, Henry, mayor of Clarksdale, Miss.

USA TODAY

'Fairly sizable' storm forming

A winter storm that moved out of Texas Monday is threatening to become "fairly sizable," but it's too early to tell where it'll end up.

Forecasters say the mass could dump heaps of snow on the winter-weary Northeast by mid-week, or run along the Carolinas' coast and disappear in the Atlantic Ocean.

"Right now it's 50-50," said meteorologist Vinny Moise, of Weather Services Inc.

Today and Wednesday, the eastbound storm is expected to visit the Mississippi region, still rebounding from a Feb. 9 ice storm.

Heavy showers are predicted. Highs near the upper 50s could melt remaining ice, but experts warn the delta's problems could be compounded by oversaturation.

Mack
This is bad — Why did it take so long — why didn't we have someone there — not good

THE PRESIDENT HAS SEEN
3-1-94

...se good people are going ...me out of Washington di... / to check on us. They go ...d to everywhere else, ... they?"

...es supports a household ..., including children and ...children, on less than ... a month. His wife filled ...o freezers with fruits, ...ables and meat to feed ... household during the ...r but, without electricity, ... all lost.

...e'll get by," said Jones. ...ot to just live. That's all ...n do, just live."

...ntributing: Patricia Ed...s

New rem... , Jews

By Sandra Sanchez
USA TODAY

More anti-Semitic remarks Monday by a aide to Nation of Islam leader Louis Farrakhan seemed to intensify a rift between the group and black leaders, who have called for the rhetoric to stop.

Monday's latest round of remarks by Khallid Abdul Muhammad downplayed Jews' suffering during the Holocaust.

Muhammad made his comments in Trenton, N.J., after viewing *Schindler's List*, a film about the World War II treatment of Jews by the Nazis.

The film "certainly reminded me of the 600 million who were killed in the African holocaust in a history of ... 400 years," Muhammad said.

"We, the African nation, not only experienced a holocaust but paid a hell of a cost," he said.

New York Newsday reported that Muhammad over the weekend told a women's group in Baltimore, in a closed-door meeting, that he would never renounce anti-Semitism.

Leaders from the Anti-Defamation League of B'nai B'rith, who have said they won't meet with Farrakhan until anti-Semitism remarks end, were again angered.

"Without question, blacks have suffered grievously from discrimination and slavery over centuries," said Jess Hordes, the league's director in Washington. "I don't think we're in a game of trying to one-up the victimization of one group over another."

African-American studies professor Russell Adams of Howard University said the Nation of Islam "is playing off the sense of rage and suffocation and alienation that the black community" feels.

By Mike Derer, AP

IN WINDSOR, N.J.: A bodyguard pushes away a cameraman as Shahid Watson, left, and Nation of Islam member Khallid Abdul Muhammad enter a mall to view 'Schindler's List.'

And Adams speculated this is the Nation of Islam's way to make "a move on younger, more fiery subordinates."

New Jersey's political establishment turned out en masse Monday to denounce bigotry in anticipation of a speech Muhammad was to give at Trenton State College.

This was to be Muhammad's first public speech in New Jersey since a Nov. 29 speech in which he called Jews "bloodsuckers of the black nation."

Panel discussions, speeches and prayer vigils were attended by politicians, including Gov. Christie Whitman and Democratic Sen. Bill Bradley.

And the state Legislature convened a special session to allow members to speak out against hate speech.

"Since any group can be the target of hate, all groups need to learn from one another," Whitman told a panel discussion for survivors of Nazi concentration camps.

At least 100 protesters waited in subfreezing temperatures outside Trenton State College. Two members of a Jewish War Veterans group were arrested.

Contributing: Desda Moss

Mississippi Delta still in dark

Victims feel overwhelmed and ignored

By Michael Tisserand
Special for USA TODAY

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But power has been out for almost three weeks, and now workers are coping with people sick from contaminated water and food, burned by makeshift heaters and bewildered by their predicament.

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"We'll come out of it all right," says Dodie Danehowr, who had to move 92 residents of a local retirement home to relatives' or friends' homes.

"But this just shows us again that we're on our own."

After the two-day storm, more than 200,000 customers lost power. Thousands may remain without electricity into the middle of March. Water systems failed, people huddled in cold homes.

"It's been real hard, especially at night," said Joyce Talbert, who — with her six children — faced temperatures below 30 last weekend. "It gets terribly cold, and we just get all bundled up and try to stay warm together."

Says farmer Bobby Irby: "There's not much to do but sit and watch the walls, what we can see of them," until power returns.

Long after much of the ice has thawed, the storm's effects remain varied and vast:

▶ Children missed a dozen days of school in rural areas like Batesville, where bus routes were impassable. When most of the 4,600 students returned to class Monday, one in five still didn't have electricity at home.

▶ The area's pecan crop has been devastated. Groves are twisted and broken, and it could take five years for some to come back into production.

▶ Along the Natchez Trace Parkway — the 450-mile scenic highway stretching from Natchez to Nashville, Tenn. — it could take years and more than $1 million to repair damage.

▶ Salvation Army trucks have been out in hard-hit communities like Leland, supplying hot meals.

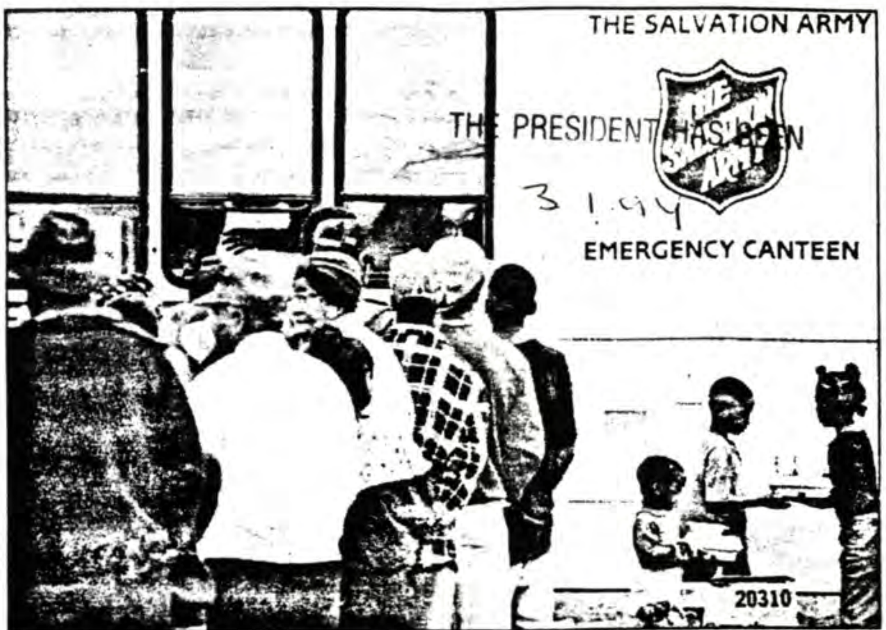
Over the weekend, Agriculture Secretary Mike Espy returned to his home state to pledge Clinton administration support.

George Jones, a 77-year-old retired Clarksdale farmworker, said he hopes "some of those good people are going to come out of Washington directly to check on us. They go around to everywhere else, don't they?"

Jones supports a household of 11, including children and grandchildren, on less than $1,000 a month. His wife filled up two freezers with fruits, vegetables and meat to feed their household during the winter but, without electricity, it was all lost.

"We'll get by," said Jones. "We got to just live. That's all we can do, just live."

Contributing: Patricia Edmonds



Photos by Tannen Maury, AP

FOOD LINE: Leland, Miss., residents queue up for food at a Salvation Army truck. The Salvation Army has been bringing hot meals to people left without power for almost three weeks.

POWER WAIT: Shaw, Miss., farmer Bobby Irby, with mother Elenore, says, 'There's not much to do' without electricity.

AP

ESPY: Agriculture secretary returned to his home state at the urging of his brother, Henry, mayor of Clarksdale, Miss.

USA TODAY

'Fairly sizable' storm forming

A winter storm that moved out of Texas Monday is threatening to become "fairly sizable," but it's too early to tell where it'll end up.

Forecasters say the mass could dump heaps of snow on the winter-weary Northeast by mid-week, or run along the Carolinas' coast and disappear in the Atlantic Ocean.

"Right now it's 50-50," said meteorologist Vinny Moise, of Weather Services Inc.

Today and Wednesday, the eastbound storm is expected to visit the Mississippi region, still rebounding from a Feb. 9 ice storm.

Heavy showers are predicted. Highs near the upper 50s could melt remaining ice, but experts warn the delta's problems could be compounded by oversaturation.

New remark widens rift between blacks, Jews

By Sandra Sanchez
USA TODAY

More anti-Semitic remarks Monday by a aide to Nation of Islam leader Louis Farrakhan seemed to intensify a rift between the group and black leaders, who have called for the rhetoric to stop.

Monday's latest round of remarks by Khallid Abdul Muhammad downplayed Jews' suffering during the Holocaust.

Muhammad made his comments in Trenton, N.J., after viewing *Schindler's List*, a film about the World War II treatment of Jews by the Nazis.

The film "certainly reminded me of the 600 million who were killed in the African holocaust in a history of ... 400 years," Muhammad said.

"We, the African nation, not only experienced a holocaust but paid a hell of a cost," he said.

New York Newsday reported that Muhammad over the weekend told a women's group in Baltimore, in a closed-door meeting, that he would never renounce anti-Semitism.

Leaders from the Anti-Defamation League of B'nai B'rith, who have said they won't meet with Farrakhan until anti-Semitism remarks end, were again angered.

"Without question, blacks have suffered grievously from discrimination and slavery over centuries," said Jess Hordes, the league's director in Washington. "I don't think we're in a game of trying to one-up the victimization of one group over another."

African-American studies professor Russell Adams of Howard University said the Nation of Islam "is playing off the sense of rage and suffocation and alienation that the black community" feels.

By Mike Derer, AP

IN WINDSOR, N.J.: A bodyguard pushes away a cameraman as Shahid Watson, left, and Nation of Islam member Khallid Abdul Muhammad enter a mall to view 'Schindler's List.'

And Adams speculated this is the Nation of Islam's way to make "a move on younger, more fiery subordinates."

New Jersey's political establishment turned out en masse Monday to denounce bigotry in anticipation of a speech Muhammad was to give at Trenton State College.

This was to be Muhammad's first public speech in New Jersey since a Nov. 29 speech in which he called Jews "bloodsuckers of the black nation."

Panel discussions, speeches and prayer vigils were attended by politicians, including Gov. Christie Whitman and Democratic Sen. Bill Bradley.

And the state Legislature convened a special session to allow members to speak out against hate speech.

"Since any group can be the target of hate, all groups need to learn from one another," Whitman told a panel discussion for survivors of Nazi concentration camps.

At least 100 protesters waited in subfreezing temperatures outside Trenton State College. Two members of a Jewish War Veterans group were arrested.

Contributing: Desda Moss

Stanley K. Sheinbaum THE PRESIDENT HAS SEEN 3/1

3-1-94

Stanley K.

DETERMINED TO BE AN ADMINISTRATIVE ~~CONFIDENTIAL~~

MARKING INITIALS: OB DATE: 5/15/18

MEMO TO: President Bill Clinton

SUBJECT: Telephone Conversation with Arafat and Nabeel Shaath re Hebron. Sunday, February 27, 1994

DATE: February 28, 1994

Never before have I had a telephone conversation with Arafat, but he and Nabeel Shaath, his main negotiator in Cairo, called from Tunis at about 11 a.m. Los Angeles time, Sunday the 27th. Shaath did all of the substantive talking.

He told me that Arafat had agreed but only *in principle* with President Clinton to return to Washington. However, merely a continuation of the negotiations is not sufficient. The pressure on him from his supporters is that Israel with the urging of the U.S. take strong believable steps to protect the Palestinians in the territories. When translated that means doing something about the settlements and about the arms in the possession of the radical Israeli settlers.

Your quick move to invite the negotiators to Washington was absolutely essential. Nevertheless, you should know that the Palestinians have grown increasingly wary of negotiations in Washington. The Palestinians have been increasingly dissatisfied with the role played by the Clinton administration's peace team, as you recently put it, and felt they were actually dragging their feet. When the Rabin government came into office some of their negotiators began to sense the same. A brief description of what then happened is that they both packed their bags and went to Oslo where something indeed got accomplished. For that very same reason the current Palestinian-Israeli negotiations were held in Cairo where again there seems to have been some progress. (See below.)

The point of raising all this is that Arafat is becoming reluctant to come to Washington for other reasons as well--including his own political survival. He is fearful of running into State Department resistance again. This is a moment when he has to show the Palestinians that Washington is taking a more active hand. This little mini-history indicates that it has not been the mindset within your peace team to do so. My personal judgement is a more activist approach from Washington could salvage this thing.

345 North Rockingham Avenue Los Angeles California 90049 Telephone (310) 472-9541 FAX (310) 476-9853

(Since this phone conversation Rabin independently has made some good moves especially aimed at the radical settlers in Hebron and the two most right wing and troublesome settlements in the Gaza.) Whether this is enough to overcome the strong PLO resistance to negotiate in Washington given the above remains to be seen.

Shaath then told me something startling but for its validity you should have your peace team check it out. He said the talks in Cairo had virtually been totally completed last Wednesday. It was to be announced in Cairo on this Monday, today, that the signing would take place in Cairo on March 13th, next Sunday. Under its terms the Israelis would complete their oft-delayed withdraw by April 12th. Further, the American Ambassador in Cairo had been informed of this.

Shaath also pointed out that in the September 13th Declaration of Principles as signed on the White House lawn by both Rabin and Arafat, arms should/could (?) be prohibited in the settlements and that only the Israeli army and the Palestinian police would be allowed to have arms.

According to Shaath the DOP also allows for an international presence, however vaguely put. However, from another source I was told that your team just nixed that possibility.

Quite expectedly Shaath reported to me that unless Washington could provide visible assurances Arafat's political position among the Palestinians now had become very dubious, and that the movement itself probably could not survive. To repeat, continuing the negotiations is not enough.

Then the oft-repeated point was made about how the marketplace killing in Sarajevo had led to a major response by the powers. Why now with almost an identical number of Muslims killed does Washington only with a token reconvening of the negotiations--especially since the Cairo talks had virtually been completed anyway.

cc: Secretary of State Warren Christopher

clinton.37

Mack / Russo fyi - wjc

THE PRESIDENT HAS SEEN 3/1/94

James E. Burke

24 FEBRUARY

MR. PRESIDENT —

YOUR REMARKS WERE VERY WELL RECEIVED BY THE BUSINESS COUNCIL. WHILE THERE IS DISAGREEMENT ON THE SOLUTIONS TO SOME OF THE NATIONS MOST COMPLICATED PROBLEMS... THERE WAS A CLEAR CONCESUS IN THE ROOM THAT YOU ARE THE MOST ARTICULATE AND KNOWLEDGEABLE PRESIDENT WE CAN REMEMBER. THIS BODES WELL FOR THE NATION!

(OVER)

THANK YOU ALSO FOR MENTIONING THE DRUG PROBLEM ... AND MY INTEREST IN IT. YOUR COMMENTS WILL MAKE IT EASIER FOR US TO ACCOMPLISH WHAT WE HAVE SET OUT TO DO.

PLEASE CONVEY MY VERY BEST WISHES TO THE FIRST LADY —

Jim

AIRBILL
PACKAGE 1275104320

1275104320

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1655-1903-5 2/25/94

James E. Burke 212-973-3514

PARTNERSHIP FOR DRUG FREE AMER

405 LEXINGRTON AVE 16TH FL

NEW YORK NY 10174

The Hon. William J. Clinton
Attn: Nancy Hernrieck
THE WHITE HOUSE

1600 Pennsylvania Avenue, N.W.

Washington D.C. 20500

x

Y

1275104320

1275104320

REVISION DATE 12/92

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THE PRESIDENT HAS SEEN 3/1

Harold/Ira

fyi—

BC

THE PRESIDENT HAS SEEN 3/1

MEMORANDUM

COUNCIL OF ECONOMIC ADVISERS

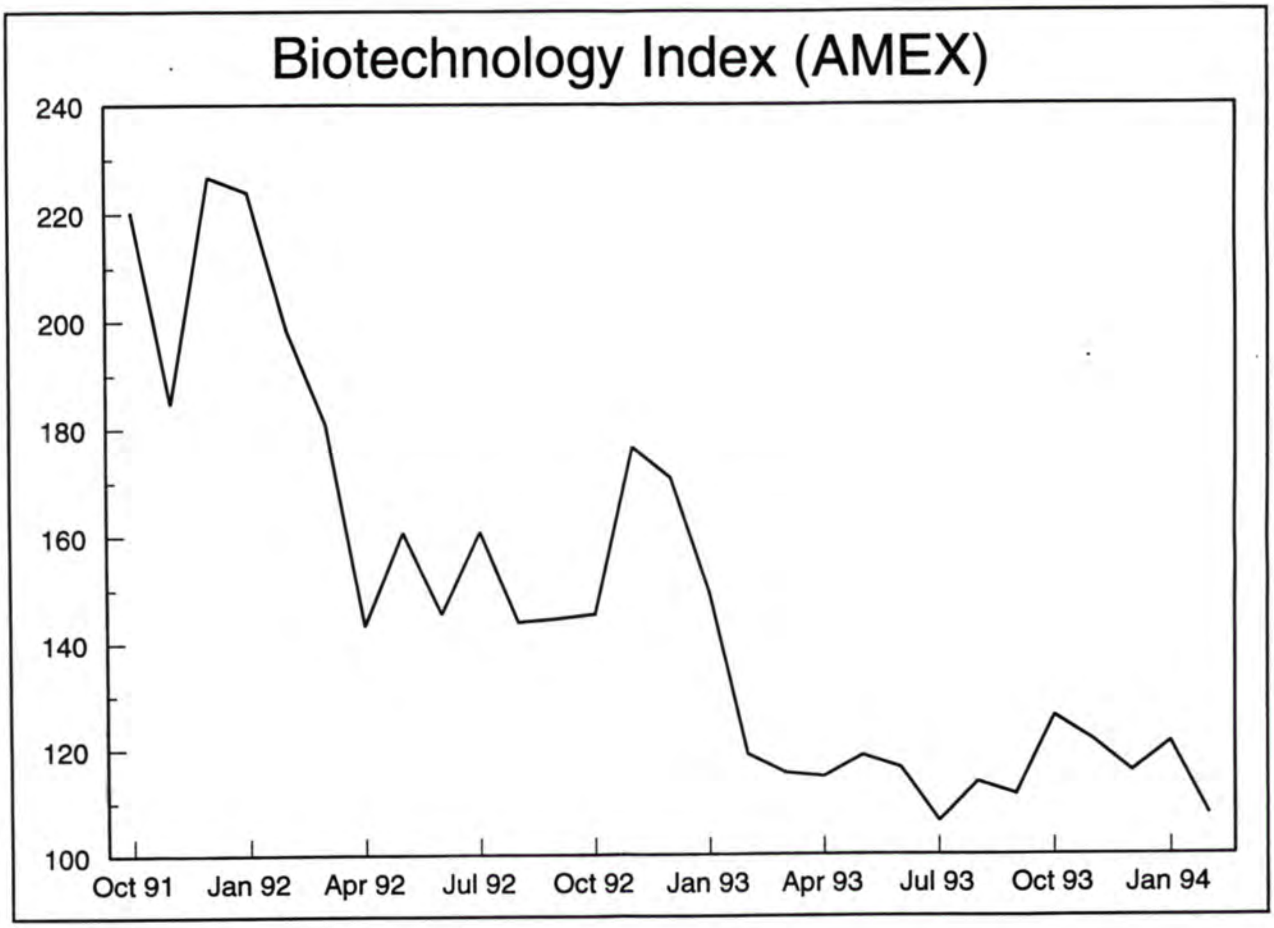
February 28, 1994

TO: LAURA TYSON
ALAN BLINDER
JOE STIGLITZ

FROM: MATTHEW SHAPIRO M.S.

SUBJECT: Biotech Stock Prices

Here is the AMEX index of Biotech stock prices that Kevin Murdock obtained last Friday. Data are last day of month (with February 24, 1994 as last datapoint). The index shows an almost uninterrupted decline in prices since the end of November 1992.



cc: TOD, KM, WF

THE PRESIDENT HAS SEEN 3/1/94

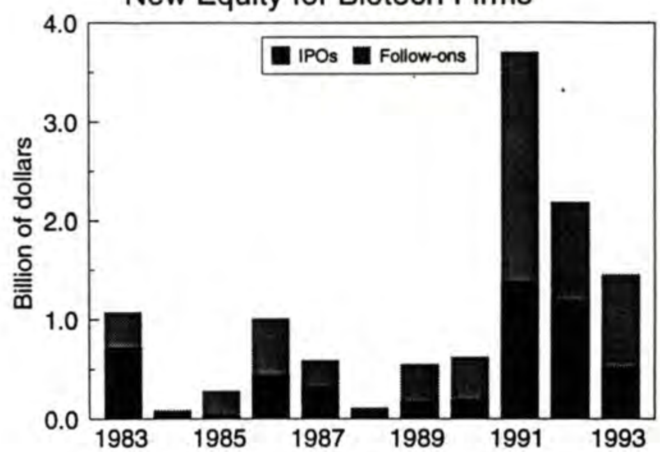
EYES ONLY

CURRENT DEVELOPMENT

Why are Biotechnology IPOs Slumping?

Biotechnology firms are raising equity at a much lower rate today than two years ago. Between 1991 and 1993, the total volume of initial public offerings (IPOs) and follow-on offerings by biotech firms declined over 60 percent (see chart). (A large portion of the decline in public offerings from 1992 to 1993 has been made up by private placements, however.) Over the same period, IPOs in other industries have risen strongly. From an historical perspective the recent pattern is not terribly unusual. Twice in the past decade, the rate of new equity capital infusions into the biotech industry dropped off steeply.

New Equity for Biotech Firms



Analysis. Some industry participants attribute these developments to investor concern about the potential regulation of drug prices under health reform. No one can say for sure whether this is true or not. Stock markets are one place where views on such matters are registered. Biotech stock prices did plunge more that 35 percent from November 1992 to February 1993, but they have since recovered some of those losses.

depends on mkt.

AmEx: even lower now

THE PRESIDENT HAS SEEN 3/1

Mexico — anything to our mil?

POTUS
To: Bob Rubin
Tony Lake

Fr: George S.

FYI

U.S. Department of Justice

United States Attorney
District of New Hampshire

Federal Building
55 Pleasant Street, Room 312
Concord, New Hampshire 03301

603/225-1552

February 24, 1994

Hon. George R. Stephanopoulos
Assistant to The President
The White House
1600 Pennsylvania Avenue, N.W.
Washington, D.C. 20006

Dear George,

I am writing to give you a heads up about a case which we have been working on in this office since last March. In view of the recent developments in this country's trade relationship with Japan, I thought you would want to be in a position to know what's going on before the press and the targets find out.

I may have mentioned to you last summer that American Honda Co. was involved in a nasty civil suit in the district court in Concord. After sitting through endless hearings, the presiding judge, Judge Steven McAuliffe, sent a letter in which he pointed out several violations of criminal laws. The case was assigned to an Assistant U.S. Attorney here and he began to investigate.

To make a very long story short, it became quite clear that bribery and corruption were endemic within the Honda dealership group. We issued a grand jury subpoena to Honda for personnel records, and after they thought about it for a while, they not only complied but, proclaiming their innocence from any wrongdoing, directed their local corporate attorneys to cooperate with our investigation.

Thus far, we have secured six guilty pleas and have entered into agreements which will result in two or three more guilty pleas. So far, the highest ranking official charged so far the former senior vice president in charge of sales. At first, we thought that this was as far as we would be able to go.

We were wrong. We have reason to believe that corrupt practices extend beyond all local executives into the hierarchy in Japan. For example, we have determined that it was company policy that when sales figures for the Honda Accord would fall below expectations or quotas, the president of American Honda Co. would get on the "Golden Telephone" (their expression, not ours) and tell dealers to fill out and mail in false warranty cards. This would make it appear that Honda sales were better than they actually were. Therefore, the Accord may not have been the best selling car in the country some years back. Other corrupt practices include forcing dealers into providing expensive gifts to corporation executives. Since we are still investigating, we don't know for sure how high this would reach. What we can say with certainty is that we have more than enough evidence at this point to indict and convict the president of American Honda as well as two other executives who we believe have returned to Japan. Since this action would probably have some repercussions within the State Department and the trade representative's office, not to mention your office, I thought you would like to know. I really don't think that I am exaggerating the significance of this case, but I would rather that you make that decision.

I enclose some other materials which give some more background. I also am sending some copies of press reports. At my request, Judge McAuliffe had noted in one of his orders in the civil case that he had referred the matter to this office. This worked well, since it caused dozens of former and current Honda employees to contact us. It also naturally made the newspapers curious about what we were doing. Fortunately for the investigation, they have completely underestimated the nature of the violations and have only periodically made some noises about the case. By keeping the investigation as quiet as we have, we have been able to both get the guilty pleas and interview witnesses without any disruption.

If you need more information, contact me at any time.

Sincerely,

PAUL M. GAGNON
United States Attorney

By:
Peter E. Papps
First Assistant U.S. Attorney

UNITED STATES DISTRICT COURT
DISTRICT OF NEW HAMPSHIRE
55 PLEASANT STREET, ROOM 216
CONCORD, NEW HAMPSHIRE 03301

Chambers of
STEVEN J. McAULIFFE
District Judge

Telephone
603-226-7304

March 2, 1993

Peter Papps, Esq.
United States Attorney
District of New Hampshire
James C. Cleveland Federal Building
Concord, New Hampshire 03301

Dear Mr. Papps:

As presiding judge in the case of Nault's Automobile Sales, Inc. and Richard M. Nault v. American Honda Motor Co., Inc., Civil Action No. C-89-384-M, it has come to my attention that several violations of federal and state laws may have been committed, warranting investigation by the appropriate federal and state authorities. I write to inform you of these matters in your capacity as chief federal law enforcement officer for this district, as well as to request that you assume responsibility for assuring that all appropriate law enforcement authorities are fully informed. I trust you will take whatever enforcement action is appropriate.

The pertinent facts, in summary form, are as follows.

1. Mr. Thomas Bohlander executed an affidavit, filed in this Court, in which he asserts that he paid gratuities to one David Pedersen. The gratuities took the form of college tuition for Pedersen's son, and a new automobile sent directly to Pedersen, all without obligation and without expectation of repayment. Bohlander is an automobile dealer with commercial ties to American Honda Motor Co., Inc., while Pedersen worked for American Honda as an assistant northeast zone manager and, later, zone manager for the southeast region. The pleadings filed and evidence submitted during recent hearings suggest that commercial favors might have flowed directly and indirectly to Bohlander because of the payments he made to Pedersen. Bohlander testified during the hearings held on February 22 - 24, 1993. He reaffirmed the facts set out in his affidavit. He also testified that before his deposition was taken in this matter, he was

called by Pedersen, who in substance requested Bohlander not to tell the truth should he be asked questions related to the gratuities during the course of his deposition.

2. Pedersen was deposed in the case (videotape), and, under oath, denied any knowledge of the alleged gratuities.

3. Damien Budnick was deposed in this case, and he testified in court during the referenced hearings. Budnick stated that he learned of the tuition and car gratuities paid to Pedersen from Pedersen himself, while on a business flight some years earlier.

4. Budnick also testified that he once picked up a package from a Florida automobile dealer for delivery to Pedersen. Budnick said he later learned that the package contained $100,000.00, which represented, in the apparent vernacular of some American Honda personnel, a "football," by which was meant a payoff or bribe intended to facilitate general access to top management, favorable corporate decision making, or other favors. The package was given to Budnick for Pedersen by a Frank Holtham, who apparently operates an automobile dealership in Cocoa Beach, Florida. Pedersen denied receiving such a "football." No direct evidence indicates that other corporate executives were involved, but such an inference might arise from the level at which substantive decision making occurred. American Honda seemed to imply that Budnick might have extorted the "football" from Holtham for his own personal gain. Other evidence suggests that Holtham may have admitted that the football was intended for people further up the chain, and that Budnick had no authority within the company that would justify any payment of bribes or other gratuities. Holtham may have told several different versions of the same events.

5. The evidence presented, and the pleadings on file, would seem to call for further investigation with regard to the ultimate destination of the particular "football" referred to in this case, and any other footballs that may have been thrown or received.

For your preliminary review I am enclosing the following:

a. The Bohlander affidavit filed with the Court; and

b. Two copies of a video tape containing excerpts of depositions taken in the case, including testimony by Pedersen and senior executives of the Acura Division, American Honda.

I would also refer you to the transcript of hearings held on February 22 - 24, 1993.

Counsel to plaintiffs and defendants, as officers of the court, will no doubt cooperate to the fullest extent possible in any investigation that is conducted, limited only by their attorney-client obligations.

Those pleadings of record that were previously sealed, which was most of the record, might well be amended and some exhibits may be returned to counsel upon request, under the order unsealing the file, all to occur within thirty (30) days from February 22, 1993. Accordingly, you may wish to direct a member of your staff to review the material before that time.

You may consider this letter as authority to review all documents in the file without regard to sealed status, and to make such copies as you or your staff deem appropriate.

Very truly yours,

Steven J. McAuliffe

Enclosures

U.S. Department of Justice

United States Attorney
District of New Hampshire

Federal Building
55 Pleasant Street, Room 312
Concord, New Hampshire 03301

603/225-1552

February 16, 1994

The Honorable Janet Reno
Attorney General
U.S. Department of Justice
10th & Constitution Avenue, N.W.
Room 5111
Washington, D.C. 20530

Re: **Honda Investigation**
Inv. 93-00061

Dear Attorney General Reno:

I would like to give you advance notice concerning a significant fraud and commercial bribery investigation my office is conducting with the F.B.I. The principal targets of the investigation are current and former employees of American Honda Motor Company, Inc. ("American Honda"), who have engaged in a two-part scheme. The first part entailed fabrication of inflated sales data provided to American Honda's ultimate parent corporation, Honda Motor Co. Ltd. of Japan, and the American public. The second part of the scheme involved American Honda employees who extorted bribe payments from Honda and Acura dealership owners in New Hampshire and other states. In March, we expect to indict five individuals and to unseal the guilty pleas of nine individuals who are cooperating with the government.

The investigation originated from a formal referral directed to this office by United States District Court Judge Steven J. McAuliffe of this District on March 2, 1993. Judge McAuliffe presided over a civil action filed by an Acura dealer in Concord, New Hampshire against American Honda, during which the Court received evidence of unlawful gratuities paid to American Honda employees and perjury intended to cover-up the bribes.

The investigation has revealed that American Honda sales employees were directed by senior executives to have dealers generate inflated sales data so that the company could report that it had achieved sales objectives when it had not. The investigation also disclosed that individuals seeking Honda and Acura dealerships paid American Honda employees bribes of $100,000 or more in order to be awarded dealerships. Existing dealers also purchased favorable treatment from American Honda salespersons with regular cash payments and expensive gifts, such as jewelry and automobiles. Further, outside vendors of advertising and sales training services made unlawful kickbacks to American Honda employees.

The charges we plan to bring against the principal targets include racketeering, conspiracy to violate RICO and conspiracy to commit mail fraud. We also will pursue the forfeiture penalties available under the RICO statute. We are working closely with Paul Coffey of the Organized Crime and Racketeering Section and his staff to obtain their valuable guidance and approval.

The targets of this investigation include the current president of American Honda, Koichi Amemiya, and two Japanese former senior executives of American Honda who since have been transferred to the parent corporation's operations in Tokoyo. These three individuals have not been notified of their status as targets of the investigation and they are not among the individuals we expect to charge in March.

Since Judge McAuliffe disclosed the fact that he referred the matter to this office in a public order, there have been some news reports regarding the investigation. Although many of the reports are inaccurate, they have stirred some interest. It is my hope that this brief summary will allow you to field any inquiries you may receive about this matter.

Prior to the issuance of any public statements from this office, we will provide advance notice to the United States Attorneys in the other districts where defendants and victims involved in this matter reside. I will update you in advance of any such public announcement as to the timing of the announcement and the specifics of the charges. In the meantime, I will be happy to provide you with any additional information concerning this matter that you desire.

Sincerely,

PAUL M. GAGNON
United States Attorney

MJC/jc

MEMORANDUM

To: **Paul E. Coffey**
Chief, Organized Crime and Racketeering Section

From: **Michael J. Connolly**

Date: **February 14, 1994**

Re: **Proposed Guilty Plea of Robert N. Rivers to RICO**

This memorandum is submitted pursuant to our telephone conversation of this past Friday, February 11, 1994, concerning the proposed guilty plea of Robert N. Rivers to a one count Information charging him with violating the Racketeering Influenced and Corrupt Organizations Act, 18 U.S.C. § 1962(c). The proposed Information was telefaxed to you on Saturday, February 12, 1994. This presents an overview of the case and the status of the investigation.

A. OVERVIEW OF THE CASE

This case resulted from a year long investigation conducted by this office and the FBI into an alleged bribery scheme involving employees of American Honda Motor Company, Inc. ("American Honda"). The matter was referred to this office by United States District Court Judge Steven McAuliffe of this District. Judge McAuliffe requested this office to investigate evidence revealed in a civil matter before him (**Nault v. American Honda**) involving alleged kickbacks and perjury intended to cover-up kickbacks to American Honda employees.

The investigation has developed evidence showing that, from 1983 through 1993, American Honda employees responsible for sales and marketing, from the lowest to the highest levels, routinely solicited and received kickbacks from Honda dealers and Acura dealers. (The Acura line of luxury automobiles was introduced by American Honda in 1985). Kickbacks were received also from certain outside vendors under contract with American Honda. It is important to note that Honda and Acura automobiles were in high demand among consumers in this country during the relevant time frame; thus, Honda and Acura dealerships were extremely lucrative businesses.

As to kickbacks from dealers, the investigation has developed evidence that prospective dealers paid American Honda employees between $100,000 and $500,000 in order to be awarded dealerships. The payments were made up front in some cases, i.e. at the time the dealership was awarded. In other cases, employees were given hidden ownership interests in new dealerships. Existing dealers would also pay or give expensive gifts to American Honda salespersons in exchange for favorable treatment, such as large allocations of models in high demand. All such arrangements clearly violated American Honda's conflict of interest policy.

The American Honda employees involved in receiving kickbacks from dealers include:

John W. Billmyer	Senior Vice President Auto Field Sales
Stanley James Cardiges	Senior Vice President Auto Field Sales
Robert N. Rivers	Regional Sales Manager Western Region
Edward A. Temple	Zone Sales Manager Western Region
Dennis Josleyn	Zone Sales Manager Western Region
Frederick W. Meiss, Jr.	Zone Sales Manager Southwestern Zone
James Mortimer	Zone Sales Manager Rocky Mountain Zone
Hugh P. Cooper	Zone Sales Manager Mid-Atlantic Zone
Robert Mazzitelli	Zone Sales Manager Southeastern Zone
Roger Novelly	Zone Sales Manager Atlantic Region Zone
Francis O'Neill	Zone Sales Manager Northeastern Zone
Mark Benson	Assistant Zone Sales Manager Northeastern Zone
David Pederson	Zone Sales Manager Northeastern Zone

Damien C. Budnick	Assistant Sales Manager Northeastern Zone

As to outside vendors, illicit kickbacks to American Honda employees were made by a group of related companies that provided advertising services and sales training services. The outside companies were either owned by or affiliated with Gary Don Josleyn, the brother of Dennis Josleyn who was a Zone Sales Manager for American Honda. The advertising part of the scheme involved a direct mail program whereby American Honda provided matching funds to regional associations of Honda dealers on the condition that the dealer associations retained the services of Bergman & Associates in Yorba Linda, California. More than $2,000,000 of the funds contributed by American Honda and regional advertising dealer associations were diverted to American Honda employees. The American Honda employees involved in this scheme include an Advertising Manager, Thomas Caulfield, as well as the following members of the American Honda sales force:

Stanley James Cardiges	Senior Vice President Auto Field Sales
Dennis Josleyn	Zone Sales Manager Western Region
Hugh P. Cooper	Zone Sales Manager Mid-Atlantic Zone
James Mortimer	Zone Sales Manager Rocky Mountain Zone
Robert Mazzitelli	Zone Sales Manager Southeastern Zone

The sales training kickback scheme involved a sales training seminar administered by Garey & Associates of Yorba Linda, California (owned by Gary Don Josleyn). Honda dealers across the country, including all Honda dealers in New Hampshire, were urged to send their sales force to these training seminars, which were conducted in various hotels around the country. One such seminar was held at the Nashua Marriott Hotel, Nashua, New Hampshire on November 8, 1990.

Part of the funds dedicated to pay for the seminars by American Honda and Honda dealers were kicked-back to American Honda employees, including a $50,000 payment to Robert N. Rivers on May 28, 1991. Other American Honda employees to receive kickbacks in connection with this program include:

Stanley James Cardiges	Senior Vice President Auto Field Sales
Dennis Josleyn	Zone Sales Manager Western Region

B. <u>STATUS OF INVESTIGATION</u>

We have negotiated plea agreements with eight targets of this investigation, four of which have been entered and accepted by the Court. All of those individuals are actively assisting the investigation. The status and relevant charges concerning these eight individuals are as follows:

Target	Violation	Status
Edward A. Temple	Conspiracy to Commit Mail Fraud	Guilty Plea entered 10/28/93
Hugh P. Cooper	Conspiracy to Commit Mail Fraud	Guilty Plea entered 12/13/93
Mark Benson	Mail Fraud	Guilty Plea entered 12/13/93
Thomas Caulfield	Conspiracy to Commit Commit Mail Fraud	Guilty Plea entered 2/4/94
Frederick W. Meiss, Jr.	Conspiracy to Commit Mail Fraud	Plea Hearing scheduled for 2/18/94
Robert N. Rivers	RICO	Plea Hearing scheduled for 2/14/94
Robert Mazzitelli	Conspiracy to Commit Mail Fraud	Not yet scheduled
Roger Novelly	Conspiracy to Commit Mail Fraud	Not yet scheduled

We are scheduled to meet with James Mortimer and his counsel on Wednesday, February 16, 1994, at which time we expect to negotiate a plea agreement for Mr. Mortimer.

As to the remaining principal targets, we are in the process of preparing an Indictment and Prosecution Memorandum to submit to the Racketeering Section in approximately one week. The proposed charges will include:

Target	Violation
John W. Billmyer	RICO; Conspiracy to Commit Mail Fraud
Stanley James Cardiges	RICO; Conspiracy to Commit Mail Fraud
Dennis R. Josleyn	RICO; Conspiracy to Commit Mail Fraud
David L. Pederson	RICO; Conspiracy to Commit Mail Fraud; Obstruction of Justice (perjury and subordination of perjury)
Damien C. Budnick	RICO; Conspiracy to Commit Mail Fraud; Obstruction of Justice (perjury)

Please advise me if you require additional information at this time.

MJC/jc

The Washington Post Writers Group
1150 15TH STREET, N. W., WASHINGTON, D. C. 20071-9200
TEL: (202) 334-6375 (800) 879-9794

THE PRESIDENT HAS SEEN 3/1

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^bc-yoder-column advIMMEDIATE<

^EDWIN YODER COLUMN<

^(FOR IMMEDIATE RELEASE--Normally advance for Monday, February 28, 1994)<

^(For Yoder Clients Only)<

^By EDWIN M. YODER, JR.=

WASHINGTON--It is a given in today's media fishbowl that a juicy spy story will tempt senior members of Congress charged with intelligence oversight to speak first and think later.

But the exceptional inanity of some Capitol Hill comments on the Aldrich Ames case at the CIA makes you wonder whether those doing the talking ever saw ''Dr. Strangelove'' or got the point of it if they did.

In Stanley Kubrick's satirical masterpiece, American and Soviet leaders are forgathered in a frantic effort to stop the ticking Doomsday Machine from blowing up the planet. Amid the panic, damned if you don't see at least one Russian snapping spy photos of the war room with a miniature camera--the ultimate minuet on the decks of the Titanic.

In the interval since the Soviet Union fell apart in 1991, we have had ample evidence that the spooks are still active in Moscow--including the attempt of underemployed KGB alumni and survivors to peddle fantasies to the more gullible American press. There was a story that FDR's key aide Harry Hopkins was an ''agent of influence,'' for instance, and another that Soviet spooks had penetrated Los Alamos months before it was selected as the site of U.S. atomic research.

The Russian obsession with spying would seem an historical constant, and in any case an argument for rather than against steady persistence in the current effort to lure or drag Russia finally into the open society.

Are the senators and congressmen who want to put U.S. aid for the denuclearization and democratization of Yeltsin's Russia on hold over a spy story really serious? Are they implicitly confessing that they thought the end of the Cold War had ended espionage--theirs or ours? The chief business

(more)

of U.S.-Russian relations today isn't spying; it is the containment of nuclear weapons and the defusing of rampaging nationalism.

A serious failure is implied in the charges against Ames and his wife--a failure by internal CIA policing to detect a major lapse of counterintelligence security. When a key counterintelligence functionary begins buying half-million-dollar houses and expensive autos for cash, and otherwise splashing cash around, something has to be fishy. Either he's a decoy or a fool or he's being paid more than his $70,000 salary. But there's a lot about this story we still don't know.

Counterintelligence is, in any case, a notoriously loopy branch of the spy trade. CIA counterintelligence became a breeding ground for serious disorientation during the Cold War years under the direction of the late James J.W. Angleton. By the time Angleton was forced out as counterintelligence chief in the 1970s, senior colleagues thought his judgment had been seriously impaired by the duplicities of counterintelligence. One notorious symptom was his treatment of Yuri Nosenko, a high-level Soviet defector who was treated for years like a caged animal because Angleton suspected him, incorrectly, of being a Soviet plant.

Aldrich Ames, the three-decade CIA veteran who is accused in the latest scandal was also in counterintelligence work. His alleged successes--compromising all sorts of sensitive secrets in exchange for more than $1.5 million over several years--make one wonder whether there is something intrinsic to the counterintelligence game that defeats good judgment and security.

But the big danger here (apart from missing the point in the race to the television cameras) is overreaction. Senators who think that spying was suddenly called off two summers ago should be relieved of oversight duties for which incurable naivete plainly disqualifies them.

And when, pray, did we get the strange idea that there is necessarily a connection between what governments are officially doing and what spooks and spies are up to in their back alleys and dark corners? If the Cold War taught us anything, it is that intelligence people are often on eccentric

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errands of their own that have little relation to official initiatives and may even contradict or undermine them. As John F. Kennedy said when a U-2 plane strayed over Soviet territory during the 1962 Cuban missile crisis, there's always some SOB who doesn't get the message.

Wherever the truth lies about the Ames affair, a comparatively minor item of the Russian-American agenda, it should be kept on the distant back burner where it belongs.

Ricki — You should make sure Cisneros gets invited

94 FEB 28 P4:55

ROUTING SLIP

DATE: 2/25/94

FROM: **Ricki Seidman**
Assistant to the President
Director of Scheduling and Advance

SUBJECT: White Dinner on Urban Issues.

TO:

Rahm Emanuel	___	Pat Griffin ~~Howard Paster~~	✓
Mark Gearan	✓	John Podesta	✓
David Gergen	✓	Jack Quinn	✓
Marcia Hale	✓	Carol Rasco	✓
Alexis Herman	✓	Bob Rubin	✓
Nancy Hernreich	✓	George Stephanopolous	✓
Anthony Lake	___	Ann Stock	✓
Bruce Lindsey	✓	Christine Varney	✓
Mack McLarty	✓	David Watkins	___
~~Roy Neel~~ Phil Lader	✓	Maggie Williams	✓
Bernie Nussbaum	___	Bill Galston	✓
		White Open Binder	✓
		Anna Windenbaum	✓

FOR YOUR:

Information ✓ Advice___ Action___

COMMENTS:

Open/pending decision

open
2.22memo.

SCHEDULE PROPOSAL Date: 12/21/93

-----ACCEPT -----REJECT ~~-----~~PENDING

TO:	Ricki Seidman
FROM:	David Gergen DG Bill Galston WAG
REQUEST:	White House Dinner on Urban Issues
PURPOSE:	This event would give the President an opportunity to exchange ideas in an informal setting with a group of distinguished scholars and practitioners in the field of urban policy.
BACKGROUND:	In the wake of the initial dinner with scholars of the presidency, the President expressed to David Gergen a desire for similar events on important issues. The recent spotlight on the problems of urban America--economic decline, violence, family disintegration, neighborhood blight, among others--suggests that the time is right to explore these issues informally, off the record, and in depth.
DATE AND TIME:	Open; ~~preferably before the end of January~~.
DURATION:	Evening (two to three hours)
LOCATION:	Suitable room in the residence
PARTICIPANTS:	Ten to fifteen distinguished urban scholars and practitioners chosen from a list prepared by Galston and Gergen after consultation; appropriate members of the White House staff.
OUTLINE OF EVENTS:	After introductions, each participant offers brief (2-3 minute) opening remarks, followed by informal discussion.
REMARKS REQUIRED:	None. Briefing materials will be prepared by DPC and Gergen's office.

MEDIA:	Closed
FIRST LADY'S ATTENDANCE:	Preferred; at her option
VICE PRESIDENT'S ATTENDANCE:	Preferred; at his option
SECOND LADY'S ATTENDANCE:	Not required
RECOMMENDED BY:	David Gergen, Bill Galston