copy to Paul R +
Clerk

3/22 copy to NSC

THE WHITE HOUSE THE PRESIDENT HAS SEEN
WASHINGTON 3.17.94

March 8, 1994

MR. PRESIDENT:

In response to your question on the attached note, the NSC has been pushing for Admiral Howe to receive this award. We were under the impression that it already had your approval. I apologize for any confusion this might have caused.

Paul
R. Paul Richard

✓ Approve award ____Disapprove

____Discuss further

THE WHITE HOUSE

WASHINGTON

THE PRESIDENT HAS SEEN
3.17.94

March 8, 1994

MEMORANDUM FOR THE PRESIDENT

FROM: JOHN PODESTA
R. PAUL RICHARD

SUBJECT: PRESIDENTIAL CITIZENS MEDAL FOR ADM. JONATHAN HOWE

With the imminent departure of U.S. armed forces from Somalia, the NSC has proposed that you award the Presidential Citizens Medal to Admiral Jonathan T. Howe, USN (ret). As you know, Adm. Howe has served at Special Representative of the Secretary-General for Somalia. In that position, he oversaw the transition from the Unified Task Force to the United Nations Operation in Somalia (UNOSOM II).

The Secretary of Defense has also recommended that you award the Presidential Citizens Medal to Admiral Howe. A copy of Secretary Perry's recommendation letter is attached, along with a press release containing the Admiral's *curriculum vitae*. In addition, we have included a draft citition for your approval, should you decide to make the requested award.

✓ Approve award ____Disapprove ____Discuss further need mid-aft.

[redacted] 3/8

'HITE HOUSE

;HINGTON

:h 8, 1994

also propose this? what's the deal?

MR. PRESIDENT:

Attached is a proposed citation for the award of the Presidential Citizens Medal to Admiral Jonathan Howe. The text was reviewed and approved by Jeremy Rosner.

If you approve, our office will have the calligraphers prepare the citation for tomorrow's ceremony.

Paul

R. Paul Richard

_____Approve _____Approve with edits

_____Discuss further

THE PRESIDENT HAS SEEN 3/8

Responsible leadership, combined with a concern for humanity and a deep devotion to duty -- these are attributes that define Admiral Jonathan Howe. From his early days in the Navy defending our waters aboard submarines and the destroyer USS BERKELEY, through his distinguished service in the Department of Defense and the National Security Council, and throughout his tenure at NATO, Admiral Howe has steadfastly upheld the finest traditions of military service. He has used his impressive abilities to bring stability, hope, and the blessings of liberty to millions through his heroic efforts in Somalia, capping an already valorous career. Americans bestow their gratitude and respect upon Admiral Howe, who at great personal risk successfully contributed to the legacy of excellence for which our Armed Forces are renowned.

Copy to J.P.
3/4/94

THE SECRETARY OF DEFENSE
WASHINGTON, DC 20301-1000

3 MAR 1994

The President
The White House
Washington, D.C. 20500

Dear Mr. President:

As you are aware, Admiral Jonathan Howe (USN - Retired), recently stepped down as the United Nations Secretary General's Special Representative in Somalia, a position he had held since 9 March 1993. The United Nations intends to recognize his service publicly through an award of some type, and I believe that he should be duly recognized through a Presidential-level award from his own country.

I would like to recommend to you that an award of the Presidential Citizens Medal, as established under Executive Order 11494 of 13 November 1969, be made to Admiral Howe. Its purpose is to recognize citizens of the United States of America who have performed exemplary deeds of service for their country or their fellow citizens. I believe that his extraordinary efforts in Somalia make him richly deserving of this award.

Admiral Howe accepted a challenging assignment from which many would shrink. As the special representative of the UN Secretary-General, he led the successful efforts of the second United Nations Operation in Somalia (UNOSOM II). It was clear from the outset that managing this operation would present enormous political and military challenges. His acceptance of this responsibility was evidence to the world that Americans, when offered the opportunity to confront daunting problems and overcome significant obstacles for the sake of humanity, are willing to step forward and shoulder the brunt of the international burden.

Under Jonathan Howe's leadership, the UN operation in Somalia has continued to provide food and other humanitarian relief to the Somali people to alleviate their suffering. UNOSOM has also helped Somalis to establish numerous district and regional councils, which are the first step in a transition towards the establishment of a national government. A nascent judiciary has begun to function, trying cases and, through coordination with Somali elders, punishing offenders. The re-establishment of the Somali police, which we view as absolutely critical to the post-March 31 security situation, has made great progress in the past few months, with the international community having already pledged over $60 million in resources toward this effort. Further progress toward political reconciliation and economic rehabilitation was made during the Humanitarian Conference held in November and December 1993 in Addis Ababa; UNOSOM's policy of channeling aid to those areas of Somalia that are peaceful and cooperative has created additional incentive for warring Somali parties to lay down their arms. Admiral Howe's tireless efforts to engage all the factions in constructive talks helped lead to a series of inter-clan discussions which continue to this day. All of Admiral Howe's accomplishments came despite considerable personal risk and at tremendous personal inconvenience in one of the harshest working environments in the world.

In summary, Mr. President, Jonathan Howe should be recognized for his efforts on behalf of both the United Nations and the United States. Operations Restore Hope and Continue Hope have saved literally hundreds of thousands of lives; now, for the first time in three years, there is renewed promise that Somalia can rebuild itself and the Somali people can live again in peace. As an American citizen, Admiral Howe is in large measure responsible for the emergence of this hope.

William J. Perry

UNOSOM II

UNITED NATIONS OPERATION IN SOMALIA

PRESS RELEASE

JONATHAN T. HOWE
SPECIAL REPRESENTATIVE OF THE SECRETARY-GENERAL FOR SOMALIA

Admiral Jonathan Trumbull Howe assumed the post of Special Representative of the Secretary-General for Somalia on 9 March 1993.

Admiral Howe, who retired from the United States Navy in July 1992, has overseen the transition from the United States-led Unified Task Force to the United Nations Operation in Somalia (UNOSOM II). He continues the important tasks of promoting political reconciliation, coordinating humanitarian assistance and paving the way for rehabilitation and reconstruction of the country.

Admiral Howe, who has been a visiting professor at the National War College in Washington, D.C., served as Deputy Assistant for National Security Affairs to President George Bush, from December 1991 to January 1993. Prior to that, from 1989 through 1991, he commanded Allied Forces Southern Europe, a North Atlantic Treaty Organization (NATO) joint command based in Naples, Italy. At the same time, he commanded United States Naval Forces Europe and Eastern Atlantic, with headquarters in London.

From 1987 to 1989, he served as Assistant to the Chairman of the Joint Chiefs of Staff. In 1986, he was Deputy Chairman of the Military Committee of NATO in Brussels. From 1984 to 1986, Admiral Howe commanded Cruiser Destroyer Group Three.

He began his long and distinguished career with the Navy in 1957, graduating from the Naval Academy at Annapolis, Maryland, with a Bachelor of Science degree. His early navy assignments included the USS Bremerton, the USS Tench and the USS George Washington. He was Training Officer and Officer Instructor of the Naval Nuclear Power Training Unit, West Milton, New York. For nearly four years he was Engineer Officer of the nuclear powered missile submarine USS Patrick Henry.

From July 1969 to December 1973, Admiral Howe was a member of the National Security Council staff, serving as Military Assistant to the Assistant for National Security Affairs, Henry Kissinger. He left to command the destroyer USS Berkeley in 1974. From 1975 to 1977, he served as Military Assistant and Assistant for National Security Affairs to Vice President Rockfeller

In 1977 and 1978, Admiral Howe commanded Destroyer Squadron 31. Following that, he was appointed Chief of Staff to the Commander of the Seventh Fleet, a post he held for a year and a half. Returning to Washington in 1980, he became Director of the Politico-Military Policy and Current Plans Division of the Office of the Chief of the Naval Operations. From 1981 to 1982, Admiral Howe was Senior Military Assistant to the Deputy Secretary of Defence. Subsequently, he served as Director of Politico-Military Affairs in the State Department.

Admiral Howe has been awarded a number of distinguished service medals and commendations. In January 1993, he was awarded the National Security medal by President Bush. He has also received awards from the Governments of Italy, the Republic of Korea and Greece, in recognition of his distinguished military service.

Admiral Howe received masters and doctorate degrees from the Fletcher School of Law and Diplomacy, Tufts University, United States. He is the author of Multicrises: Seapower and Global Politics in the Missile Age.

Born in San Diego, Admiral Howe is married and has six children.

MACK- Copy sent to Podesta re co-chairs. PT.

DAN Burkhardt.-Staff Sec

EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF SCIENCE AND TECHNOLOGY POLICY
WASHINGTON, D.C. 20506

March 2, 1994

THE PRESIDENT HAS SEEN 3/19/94

MEMORANDUM FOR MACK MCLARTY

FROM: JOHN H. GIBBONS

SUBJECT: Jack Anderson's "Young Astronauts" Proposal

Following up on your request, I contacted Jack Anderson to discuss the "Young Astronauts" program. Specifically, Jack is interested in the President and First Lady accepting honorary co-chair positions and possibly making an appearance at the organization's July convention to be held in D.C.

In short, the Young Astronaut program is a national education program for pre-school, elementary, middle and junior high school students designed to promote the study of science, technology and math. As a non-profit organization, the program sponsors conferences, contests, workshops and media presentations to further these goals. Last September the program initiated a "space school," transmitting class work and curriculum instructions to elementary schools along with live T.V. interviews with prominent space figures. Jack also pointed out to me that the past two Presidents and First Ladies have served as honorary co-chairs.

I recommend accepting the offer for the President and First Lady to serve as co-chairs, subject to White House counsel concurrence. With respect to a possible appearance in July, we should tell Jack that we will seriously consider this as an option in our overall plan for the Administration's involvement in the twenty-fifth anniversary of Apollo. Though such an appearance would offer an opportunity to underscore our support for the Space Station, we should not make a commitment at this time. Mr. Richard DalBello, OSTP's Assistant Director for Aeronautics and Space, is working with David Dreyer to examine a range of options, including proposals NASA may have, that could be considered. When we have a better picture of the available opportunities for Presidential involvement, we can answer Jack more definitively.

OK to do - esp w/ Chelsea's interest in it -

Sent to Jack on 2/11/93 Jack to send not back on resul.

THE WHITE HOUSE

WASHINGTON

February 9, 1994

Mr. Jack N. Anderson
United Feature Syndicate
1200 Eaton Court, #300
Washington, D.C. 20007

Dear Jack:

I very much enjoyed the time we had together today and our visit. You were thoughtful to bring me an advance proof of "The Second Gulf War" by R.J. Piniero. I am an avid fan of Tom Clancy novels and, thus, David Hagberg's comment on the front cover encourages a prompt reading.

You presented several thought-provoking ideas relating to both your radio talk show and the Parade publication. I will follow on both and be back in touch.

I have asked Dr. Jack Gibbons to review your young astronauts material and work closely with you in insuring continued strong support of this fine program by President Clinton.

You are a legend in your own time, and I have admired you for years. Thus, it has been a particular pleasure to get to know you, both personally and professionally.

Personally,

Mack

Mack McLarty

Jack — Please give my warm regards to Mike. Enjoyed our visit very much.

bcc: JACK GIBBONS
PAUL BEGALA

bbcc: DESK

THE WHITE HOUSE
WASHINGTON

February 11, 1994

MEMORANDUM FOR JACK GIBBONS

FROM: **PAUL TOBACK**
Executive Asst. to the Chief of Staff

SUBJECT: **CALL TO JACK ANDERSON**

Enclosed is the material on young astronauts which Jack Anderson gave to Mack McLarty. Mack asked if you would call Jack about his ideas and then send a note back to Mack to let him know what Jack said.

Thank You.

THE WHITE HOUSE
WASHINGTON

DATE: 3/19/94

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

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

The attached has been forwarded
to the President.

EXECUTIVE OFFICE OF THE PRESIDENT

COUNCIL OF ECONOMIC ADVISERS

WASHINGTON, D.C. 20500

MEMBER

94 MAR 18 P6:48

March 18, 1994

MEMORANDUM FOR THE PRESIDENT

FROM: ALAN S. BLINDER Alan

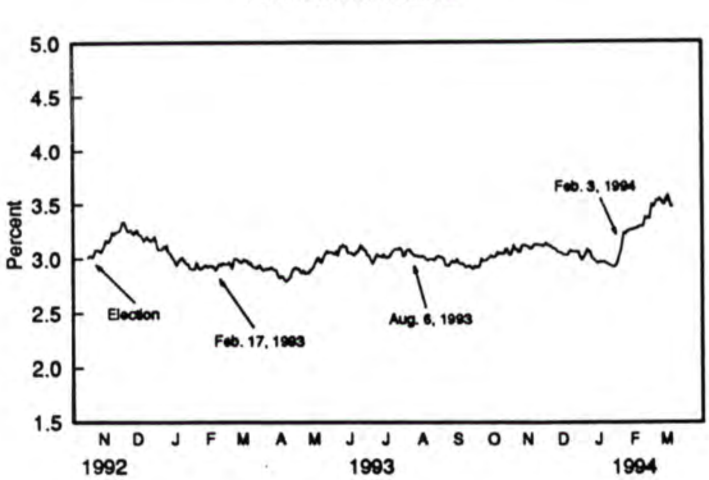
SUBJECT: Interest Rates and the Stock Market, Week Ending Friday, March 18, 1994

Interest rates changed little this week. Long-term rates fell moderately after Wednesday's good report on CPI inflation, but rose again on Friday, ostensibly because of rumors surrounding Chairman Greenspan's White House visit. Changes in Treasury borrowing rates were as follows:

	Close 3/11/94	Close 3/18/94	Change
3-month bills	3.49	3.48	–0.01
10-year notes	6.46	6.49	+0.03
30-year bonds	6.91	6.90	–0.01

The stock market closed higher for the week. The broad-based S&P index closed Friday at 471.06, up 1.0 percent from the preceding Friday's close. The Dow Jones Industrial Average closed Friday at 3895.65, up 0.9 percent for the week.

Three-Month Rates



Thirty-Year Rates

EXECUTIVE OFFICE OF THE PRESIDENT

COUNCIL OF ECONOMIC ADVISERS

WASHINGTON, D.C. 20500

MEMBER

94 MAR 18 P6:48

March 18, 1994

MEMORANDUM FOR THE PRESIDENT

FROM: ALAN S. BLINDER Alan

SUBJECT: Foreign Economic Developments

Exchange Rates: The dollar rose this week. Market participants point to expectations of further Fed tightening following next Tuesday's FOMC meeting as the main reason.

Value of the Dollar in terms of:	Week Ending 3/11/94	Week Ending 3/18/94	Percent change from: Week ago	Year ago
Deutschemark	$1 = 1.6828 DM	$1 = 1.6940 DM	+0.7%	+2.9%
Yen	$1 = 105.05 Yen	$1 = 106.05 Yen	+1.0%	−8.9%
Multilateral (March 1973 = 100)	93.97	94.57	+0.6%	+1.3%

Japan: ► The trade surplus rose to $10.9 billion in February and is 3.3% higher than a year ago. In yen terms, however, the surplus fell by 9.1%, indicating that exchange rate movements are behind the rising surplus measured in dollars. Consumer spending fell 0.6% in real terms in 1993, the first annual decline in 12 years. Wholesale prices fell 0.5% in February and are now 3.2% below a year ago. Industrial production rose 1.0% in January, but is still 3.0% below a year ago.

Europe: ► West **German** wholesale prices rose 0.5% in February but are only 0.3% above a year ago. Retail sales were 2.0% higher in January than a year ago.

► **French** trade union and student groups protested a change in the minimum wage that would allow apprentices between 16 and 25 to be paid 20% less than the minimum wage of $980 per month. Unemployment in this age group is about 25%.

► The **UK** economy gave mixed signals in February: unemployment fell to 9.8% but retail sales fell 0.5%. Producer prices rose 0.1% in February and are 3.3% above a year ago.

► **Italy's** budget deficit fell in 1993 but is currently still almost 10% of GDP. Interest payments by the Italian government amount to nearly 12% of GDP.

Other Countries: ► **Canadian** consumer prices fell 0.8% in January, and are just 0.2% above a year ago. This is the largest drop since 1959 and the lowest year-on-year increase since 1961.

► **Australian** GDP grew by 4% in 1993 and consumer confidence reached a 10-year high.

~~Joel~~

Wofty

March 18/94

THE PRESIDENT HAS SEEN

3.18.94

CHIEF OF STAFF TO THE PRESIDENT

Mr. President:

All you ever wanted to know about NAFTA-related offices. High class problem.

We need to make a prompt decision. Let me know how you would like to proceed.

Mack

Desk

THE WHITE HOUSE

WASHINGTON

March 17, 1994

MEMORANDUM TO MACK McLARTY

FROM: BILL BURTON

SUBJECT: NAFTA entities

After several days of talking with officials from Texas, California, Treasury, EPA, NSC, NEC, USTR, Political Affairs, and other shops, it is clear we really need to come to closure on decisions relating to the NAFTA related institutions. Here is my best political judgment at this point:

The NAFTA Labor Secretariat, to be announced tomorrow, is going to Dallas for reasons related to Cong. John Bryant's vote. Gov. Richards is somewhat miffed that Bryant is disallowing her attendance at the announcement ceremony, and views USTR as a co-conspirator with Bryant on that front. Bryant simply doesn't want Gov. Richards to get the headline, he says. In any event, this is a done deal.

The environmental offices in all likelihood are going to the sister cities of El Paso and Juarez. As mentioned in the attached memo, the EPA Border office is Cong. Coleman's idea, and by all rights ought to be in El Paso. This is the biggest deal for the El Paso officials, they said. The BECC, according to Gov. Richards, has been sited by the Mexicans in Juarez. She says they have the building there and have hired staff. In other words, the BECC is done, Richards says. While we might could possibly convince the Mexicans to locate it in Tijuana, it is a move that would anger the Mexicans and our interagency policy folks, who (as demonstrated in the NEC/NSC memo), think the BECC ought to be in Juarez.

The NADBank answer seems to be to locate the main bank in San Antonio. This is now supported by Treasury as well as Rep. Torres. Torres has added a twist, however, recommending that the 10% of the NADBank that is the Community Adjustment Window be located in LA. Treasury is looking at this idea. Jose Villareal says San Antonio would support this outcome. We can probably get the local communities of San Antonio and LA to fund the buildings and needed tax abatements.

Yes, this is putting most everything NAFTA-related in Texas ... BUT, from a policy standpoint, that's where the policy folks come down. We don't gain much politically from the Labor Secretariat in Dallas, but that's a done deal. We cannot reject San Antonio's bid for NADBank when it is the only spot outside Washington that makes sense (and considering the support for NAFTA out of the Hispanic community there). Plus, it would be a huge plus for the President, along with Gov. Richards, to announce this in San Antonio, where our base is in Texas. And, remember that El Paso (with over a half million people) ain't South Texas, and is a strong county for us (in Coleman's district, Clinton 51%, Bush 35%, Perot 14%).

Yes, this also appears to leave San Diego out in the cold. Remember, though, they opposed NAFTA. Here's what we can do for San Diego, however:

- appoint the Californian supported by Schenk and Filner to the BECC (which will really help San Diego in its sewer funding problems);
- have the POTUS announce the new plan to fund and deal with the Tijuana sewer problems.

THE WHITE HOUSE

WASHINGTON

March 17, 1994

MEMORANDUM TO MACK McLARTY

FROM: BILL BURTON

SUBJECT: EPA Border Office

Another issue regarding environmental entities along the U.S.-Mexican border has arisen. The issue specifically is where a long-planned EPA Border Office should be located. Congressman Ron Coleman, D-Tex., from El Paso, suggested this idea years ago; he's finally getting an EPA border office on the U.S.-Mexican border. Coleman had a contingent from El Paso in Washington yesterday: Mayor Larry Francis, County Judge Alicia Chacon, the UT-El Paso president, Texas Commerce Bank CEO Scott McLean, and others. They all argued that the EPA border office makes sense to be located in El Paso, the mid-point on the border.

It is important to remember that this border office is not officially NAFTA-related, although EPA views it as especially important in light of NAFTA.

EPA strongly supports El Paso as the location for the border office, for several reasons: midpoint along the US-Mexican border, the largest population center along the border (albeit most of the population in Mexico), the IBWC is in El Paso, and the BECC created by NAFTA is (likely?) going to Juarez.

Pat Griffin and Susan Brophy contend that we all but have to put it in El Paso for Coleman's sake.

THE WHITE HOUSE

WASHINGTON

March 16, 1994

MEMORANDUM FOR THE PRESIDENT

FROM: MACK MCLARTY

NEC/NSC recommendation

SUBJECT: Location of Border Environmental Institutions

To make progress on setting up the two border environmental institutions negotiated in the Agreement on the Border Environment Cooperation Commission and the North American Development Bank, we must make a final decision on their location.

BACKGROUND

In November 1993, Mexico and the United States agreed on arrangements to assist communities on both sides of the border in coordinating and carrying out environmental infrastructure projects. A Border Environment Cooperation Commission (BECC) will work with states, local communities, and non-governmental organizations in designing environmental infrastructure projects and will seek to arrange public and private financing for the projects.

A North American Development Bank (NADBank) will provide new bi-national financing for projects certified by the BECC. The Bank will use its own capital (contributed equally by the United States and Mexico) as leverage for borrowing in international capital markets. In response to concerns from Congress about broadening the Bank's agenda, it was agreed that ten percent of its resources will be made available for community adjustment and investment programs in the United States and Mexico.

The BECC may have up to 40 staff positions. The NADBank, as currently conceived, may have as few as two--a General Manager and his/her support staff.

SITING STATUS

Because we are implementing a bi-national agreement, it is expected that one institution will be in Mexico and the other in the U.S., with each party deciding for itself the best location of the institution it hosts. The Agreement specifies that the BECC be located in the border region. The U.S. had originally expressed the desire that the NADBank be located in

Washington, D.C. primarily to minimize bureaucracy and administrative expense, and secondarily to exercise an extra modicum of control. The bureaucracy-minimizing goal is realized by locating the Bank in proximity to or within the Inter-American Development Bank (IDB) which could provide all of the NADBank's administrative and financial needs on a contractual basis.

While the Mexicans will ultimately decide the location of the BECC, they responded favorably to a Treasury suggestion that it be sited in Juarez, across the border from El Paso. Juarez has the benefit of centrality in the border region and proximity to the International Boundary and Water Commission, which is expected to provide engineering services to the BECC. The other logical BECC site, Tijuana, is not desirable to the Mexicans for political reasons (Baja California is controlled by the opposition party). President Salinas indicated to Governor Richards in a meeting in Mexico City on Monday that Mexico has decided on Juarez.

This leaves the U.S. with a final decision on a U.S. NADBank site. Washington, D.C. and San Antonio have both been discussed. The original interagency NADBank negotiating group proposed Washington to provide proximity to the IDB and U.S. implementing agencies. A proposed Washington siting has raised suspicions among some about NADBank's independence. (A few Hispanic interest groups and one congressional member are pushing for a more independent Bank with a broader agenda.)

The advantages of San Antonio include proximity to the BECC (this is not critical, but helpful) and responsiveness to our Hispanic constituency. On the other hand, while a San Antonio siting does not preclude an IDB role, it increases contract expenses and the number of NADBank staff required. Additionally, Texas is already hosting the NAFTA Labor Commission in Dallas.

THE PRESIDENT HAS SEEN
3.18.94
Tyson

WEEKLY ECONOMIC BRIEFING OF THE PRESIDENT OF THE UNITED STATES

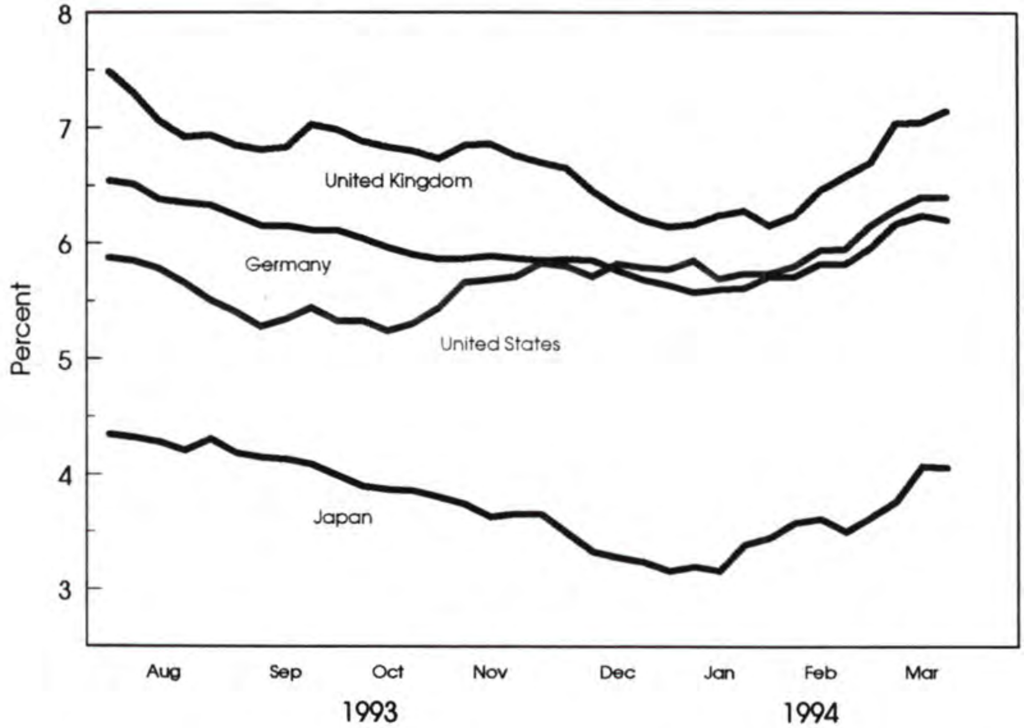
Prepared by the Council of Economic Advisers
with the assistance of the Office of the Vice President

March 18, 1994

94 MAR 17 P9:13

CHART OF THE WEEK

Long-term Interest Rates



Long-term interest rates have increased significantly around the world since the beginning of the year (see Article, page 4).

CURRENT DEVELOPMENT

Five Myths About Inflation

Inflation concerns have been cited as one reason for the recent runup in U.S. interest rates. But there are few signs of change in underlying inflation fundamentals. Perhaps the markets are reacting more to inflation myths than to inflation realities.

LTyson
See me re Tie
curve p. 4

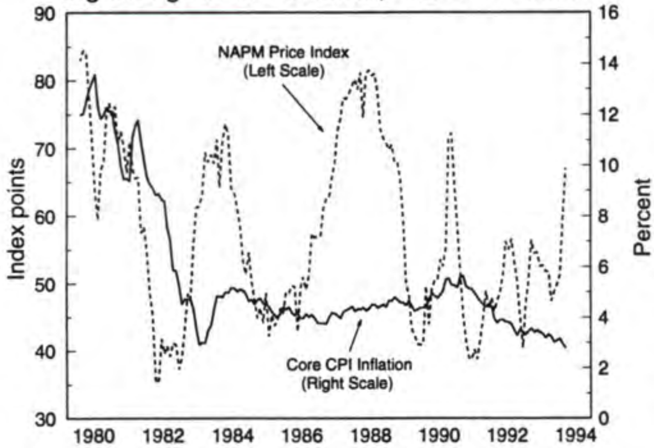
Myth 1: Wage Inflation Will Accelerate

Fact: Wages show no evidence of acceleration. Indeed, because of strong productivity growth, unit labor costs have been falling over the past half year. Nor is it very likely that wage inflation will pick up noticeably until the unemployment rate falls below 5.5 percent (perhaps 6.1 percent on the new basis).

Myth 2: Rising Gold Prices Signal Inflation

Fact: Over the past decade, there has been an inverse relationship between gold prices and inflation.

Big Swings in NAPM Index, Flat CPI Inflation



Myth 3: NAPM Input Prices Predict Inflation

Fact: Higher industrial input prices have been a poor predictor of core inflation over the past decade (see chart of the NAPM price survey index).

Myth 4: Higher Import Prices Will Fuel Inflation

Fact: Although prices of imports from Japan have risen 7 percent over the past year, the dollar is stronger overall and import prices are flat.

Myth 5: Inflation Rates Jump Upward Quickly

Fact: Other than oil shocks and episodes during the Vietnam War, there has been only one year since 1957 when core inflation increased by more than one percentage point.

ARTICLE

Long-Term Interest Rates Rise Worldwide

The rise in long-term interest rates over the past month has not been limited to the United States (see Chart of the Week). Even by the standards of the past few years, during which long-term rates tended to move together worldwide, the recent coincidence of interest rate increases around the world has been striking. Analysts have offered a number of explanations for these increases. Some explanations are more plausible than others.

- **A tight money scare.** The Fed's recent decision to raise short-term interest rates has fueled fears of further increases in the near future, and such fears have caused an even greater increase in long-term rates. Ten-year Treasury rates have now returned to their February 1993 levels. At the same time, investors have been disappointed by the recent pace of interest rate cuts in Germany and France, leading to fears that monetary policy in those countries will be tighter than previously believed.

- **A growth scare.** Interest rates generally rise as economies strengthen since businesses borrow more to finance increased investment. The growing strength of the U.S. economy is commonly cited as a cause of rising U.S. long-term rates. There are also signs that the continental European and Japanese economies may be starting to recover, but forecasts are for slow growth in the near term.

- **An inflation scare.** Inflation fears have allegedly increased in U.S. bond markets since the Fed's February 4th decision. These fears seem exaggerated (see Current Development, p. 1). Concerns about inflation have apparently contributed to rising long-term rates in Britain as well (see box). These concerns should be less important in continental Europe and Japan, where economies remain slack and inflation is falling.

- **A trade war scare.** Increases in long-term rates in Japan and the United States have been attributed to fears of a trade war. This cannot, however, explain a rise in both U.S. and Japanese interest rates. If investors expected the yen to rise relative to the dollar, they would dump dollar bonds and buy yen bonds. If they expected to yen to fall, they would dump yen bonds and buy dollar bonds. In either case, long-term interest rates in Japan and the United States should move in opposite directions.

- **Technical factors.** Highly leveraged institutional investors have reportedly sold large amounts of long-term bonds in markets around the world. Market participants say that institutions that were borrowing short-term funds to finance their holdings of long-term

English-language version of article for Japanese magazine Foresight

PSI-Perth

THE PRESIDENT HAS SEEN 3.18.94

Why No American MITI? — Industrial Policy-Clinton Style

By

Derek Shearer

I recently had lunch with a visiting Japanese bureaucrat—Sozaburo Okamatsu, Vice-Minister for International Affairs at the Ministry of International Trade and Industry (MITI). We met for an informal talk at the Loews Hotel which overlooks the beach in my hometown of Santa Monica. Loews is President Clinton's favorite hotel in the Los Angeles area. He stayed there frequently during his 1992 campaign where he would take an early morning run along Santa Monica beach, often accompanied by my 21 year old son, Anthony, and a few athletic members of the Secret Service.

Mr. Okamatsu mentioned to me that he was having a difficult time deciding who his counterpart is in the Clinton administration. Is it the Under Secretary of Commerce, the Deputy in the Office of the U.S. Trade Representative, or perhaps one of the three members of the President's Council of Economic Advisors? He has been making efforts in Washington , D.C. to meet of all of these officials, as well as the Deputy of the newly created National Economic Council located in the White House.

Okamatsu-san's confusion is understandable. He has no exact counterpart, because there is no American version of MITI. Most of the key economic and trade positions in the U.S. government are scattered among different departments and agencies. This situation is a result of peculiarities of American politics and political history. In the eyes of some policy experts, it hinders the ability of an administration such as President Clinton's to chart an activist course because it makes strategic planning more difficult and policy implementation more defuse.

In the past, business opposition precluded the establishment of a strong government institution like MITI. Conservatives argued that Washington bureaucrats should not tell corporations where or how to invest and that government should not try to pick winners in the marketplace. Industrial policy, however, has existed throughout American history — but it has always been goal not process oriented. Government-business partnerships created the national barge canal network, the transcontinental railway system, highly productive American agriculture through public irrigation systems and the agricultural extension system, the internationally competitive aircraft industry through U.S. mail contracts and government investment in military aircraft, and, of course, numerous high tech weapons systems. During the Cold War, the defense budget and national security goals drove national industrial policy.

During the 1992 campaign, Clinton called for a new post-Cold War national economic strategy and he published a detailed plan called Putting People First that I, as one of his economic advisors, helped to write.

After Clinton's election, some political observers thought that the Commerce Department might become the American MITI. And if not another MITI, then at least the Competitiveness Agency for the new administration. However, to date this has not happened. There are many difficulties that must be faced in transforming any large agency of the federal government. I learned about some of the obstacles when I worked in the Commerce Department during the first 100 days of the Clinton administration, serving as Deputy Under Secretary for Economic Affairs.

One of the obstacles is structural. The Commerce Department does many jobs that have little to do with trade and industry such as run the U.S. Weather Service and the Census Bureau—and it is not allowed to do other jobs such as take the lead on U.S. trade policy. In short, it is not organized to be an American version of MITI.

Another obstacle has to do with personnel. While many Commerce Department employees are dedicated and hardworking, especially at middle and lower levels, the top level bureaucrats are not the nation's "best and brightest." In Japan, the graduates of the elite schools such as Tokyo University, Waseda and Keio, compete to get jobs with the Japanese government, especially with MITI. In the United States, the top graduates of the Harvard Business School or the Wharton Business School do not want to work for the Commerce Department, and in most cases not for the U.S. Government at all. They choose to work in investment banking on Wall Street or for international consulting firms.

The "reinventing government" report on the structure and operation of the federal government prepared by Vice President Al Gore this fall, "Creating A Government That Works Better and Costs Less—A Report of the National Performance Review," did not advocate restructuring the Commerce Department nor reorganizing national economic policy making agencies. Gore's report primarily focused on making the existing Federal agencies more efficient and entrepreneurial, not restructuring or redesigning them.

Some members of Congress and some outside critics have called for abolition of the entire Small Business Administration as a waste of tax payers' money—and one conservative Congressman, John Kasich of Ohio, has called for abolishing the entire Commerce Department!

However, there have been a number of serious proposals for transforming the Commerce Department into a more MITI-like agency from advocates of stronger industrial policies and more strategic trade policies. For example, Wall Street millionaire financier, David E. Shaw, a major Clinton supporter, published a detailed study of the Commerce Department and economic competitiveness in the book, Changing America: Blueprints for the New Administration.

Among the reforms that Mr. Shaw proposed were:

(1) Removing the National Oceanic and Atmospheric Administration (NOAA) from the Commerce Department. NOAA which maps oceans, runs the United States weather service and monitors the atmospheric environment, currently accounts for almost half of the entire Commerce Department budget. Shaw proposed that NOAA be shifted to the Environmental Protection Agency or to the Department of the Interior.

(2) Merging the remaining Commerce Department, minus NOAA, with the Department of Labor and the Small Business Administration. The Labor Department had been merged with the Commerce Department in 1903 under President Teddy Roosevelt, the separated again in 1913 due to lobbying by the union movement.

(3) Modernizing the activities of the U.S. Census Bureau and the Bureau of Economic Analysis—both part of the Commerce Department. The Census Bureau, in addition to surveying the U.S. population, also conducts detailed studies of U.S. economic activity as well as international commerce. The Bureau of Economic Analysis is the primary compiler of the U.S. government's national income accounts and produces such numbers as the Leading Economic Indicators.

Both of these agencies came under my authority while I served as Deputy Under Secretary for Economic Affairs. While they do important statistical functions, they are not policy making bodies, and managing them is a distraction from the important task of making the American economy more competitive. Other countries such as Canada, Australia, and Holland, have a single statistics agency, independent of political control. The Statistics Canada agency was recently ranked number one by The Economist magazine in a poll of statisticians.

In addition to the statistics agencies in Commerce, there are statistical units in over 70 other agencies. There is waste, duplication, a lack of coordination, and problems with analyzing economic activity accurately in the new world economy. Some members of Congress favor removing the Census Bureau and the Bureau of Economic Analysis from the Commerce Department, and merging them with the other federal statistical agencies, into one independent agency call Statistics USA.

The proposal to remove NOAA, the Census Bureau and the Bureau of

Economic Analysis from Commerce could enable the Department to become a more lean and focused competitiveness agency in the domestic arena. It would establish a new Bureau of Industrial Economics to promote sectoral studies of the American economy, and expand its existing programs of technology promotion—in particular the Advanced Technology, the Manufacturing Technology Centers, and the State Technology Extension Program. These programs were started by Congressional, not Presidential, action. In the 1988 Trade and Competitiveness Act, the Congress redesignated the Commerce Department's National Bureau of Standards as the new National Institute of Standards of Technology (NIST). Even before Clinton became President, NIST created seven regional Manufacturing Technology Centers. These provide information and education and display the latest manufacturing equipment; the staff tries to help small and medium sized firms to modernize production processes. NIST also partially funds technology programs of state governments.

By comparison, Japan has 169 regional technology centers (Kohsetsushi). The Japanese government currently spends almost twenty times as much on technical assistance to small and medium sized manufacturing firms as does the U.S. government. Ironically, the Japanese Kohsetsushi were inspired by the example of the U.S. government's highly successful agricultural extension service.

To his credit, President Clinton had advocated a dramatic expansion of the Commerce Department's manufacturing extension effort and he included increased funding in his first Budget, but the Congress cut back the funding significantly.

In the two areas of industrial technology, the Clinton administration is promoting competitiveness by relying on intra-agency task forces and special initiatives that cross departmental boundaries. The National Telecommunications and Information Administration, a division of the Commerce Department, recently issued a report outlining a policy blueprint for the Information Super Highway. The Clinton administration has created an intra-agency Information Infrastructure Task Force headed by Larry Irving, Assistant Commerce Secretary, to promote private investment in telephone and fiber-optic networks that would form the basis for a national electronic communications network between every business, home, and school in the nation.

The Clinton White House has also announced a new government-business partnership to build the "car of the future." The Federal government will provide the Big 3 automakers—Ford, GM and Chrysler—with technology that originated in government weapons laboratories during the Cold War and Detroit would attempt to build a new super fuel economy car that would triple the energy efficiency of American-made automobiles. The project will be headed by Dr. Mary Good, Under Secretary of Commerce for Technology, and include representatives from the Department of Energy, Defense, and Transportation.

The Clinton Administration is promoting the U.S. shipbuilding industry through a $147 million program of guaranteed loans — and a special Presidential commission was appointed to study the competitiveness problems of the domestic airline industry. In the area of Advanced Technology, the Administration will provide $200 million annually for research and development in such areas as flat-panel displays for computers. Industry will be required to put up half of the funds for each project. The Overseas Private Investment Corporation (OPIC) — the U.S. government agency which provides insurance, loans, and advice to American firms seeking to invest abroad — has announced a new environmental growth fund to encourage U.S. "envirotech" companies to seek business cleaning up pollution abroad. The new, dynamic head of OPIC is Ms. Ruth Harkin, a lawyer and wife of Senator Tom Harkin, a Democrat from Iowa who challenged Clinton for the Presidential nomination.

Business Week magazine has labeled such initiatives as "Industrial Policy — Clinton-style." According to Kent Hughes, Deputy Associate Secretary of Commerce, this is "a new era of pragmatic partnerships between government and industry." But there is no one agency, no American MITI, overseeing the various initiatives.

In the area of trade, the Commerce Department does have important responsibilities such as monitoring trade laws and promoting exports. The Clinton administration has announced new initiatives in export promotion such as the removal of Cold War restrictions on the sale abroad of super computers and other American electronic equipment.

While the Commerce Department has a large International Trade Administration with country desks, product specialists, lawyers and statisticians, and the U.S. Foreign Commercial Service which stations employees abroad to promote American business, it is not the major player in U.S. trade policy. The office of the United States Trade Representative, created in 1962, has grown to Cabinet status. Although USTR only has a staff of about 150, it takes the lead in all important trade negotiations such as those involving GATT, NAFTA, and framework talks with Japan.

Mickey Kantor, President Clinton's appointee as U.S. Trade Representative, is the trade policy czar not Mr. Ron Brown, the Commerce Secretary.

Over the past decade, a number of policy experts as well as members of Congress have called for merging the office of the U.S. Trade Representative into the Commerce Department to create the Department of Industry and Trade (DITI), which would then become, in effect, an American version of MITI. Mr. Bruce Stokes, a regular columnist for Foresight, most recently advocated such a reorganization in an important article called, "Organizing To Trade," published in the winter 1993 issues of Foreign Policy magazine. Senator William Roth, a Republican from Delaware, has also advocated such a change.

One objection to such reorganization is that Congress would not approve it because it might mean that trade policy would get less of the President's direct attention if U.S.T.R. were part of a bigger agency. However, Congressman Richard Gephardt, a strong advocate of strategic trade policy, believes that the creation of a new Congressional Trade Office similar to the Congressional Budget Office would provide Congress with needed expertise and objective analysis on trade issues and insure that trade policy did not get lost in a new DITI.

Congresswoman Marcy Kaptur (Democrat-Ohio) has authored a legislative proposal to establish a Professional Trade Service Corps similar to the U.S. Foreign Service to train government employees in international economics, trade law, and negotiations. Kaptur's proposal is one way to deal with the problem of the uneven quality and experience of American civil servants and the "revolving door" problem where the most experienced trade negotiators continually leave the U.S. Trade office for private industry or lobbying jobs with foreign companies. Her bill would ban members of the Trade Corps from working for five years on issues they had responsibility for while in government.

According to economist Pat Choate in his book Agents of Influence, one-third of the USTR officials who held principal trade positions between 1973 and 1990 left to become registered foreign agents — most of them for Japanese companies. Two of the four people who served as Under Secretary for International Trade in the Commerce Department went to work for the Japanese after leaving office. Robert Herzstein, who worked in the Carter Administration, went to work for Komatsu. Lionel Olmer, who served in the Reagan Administration, later worked as an economic and political advisor for Nippon Telephone and Telegraph. Seven of nineteen senior trade officials who left the Commerce Department in the 1980s went to work for Japanese companies. Other top trade and USTR officials have gone to work for Korean firms, Chinese companies, and many European businesses.

During the 1992 Presidential campaign, Ross Perot spoke out against such practices (Pat Choate is a close advisor to Perot). Bill Clinton pledged during the campaign to support new legislation and ethic regulations barring such behavior by his appointees, and as President he has issued a new ethics code for at least the top economic officials.

The Clinton administration—at least in the first term—chose not to expend political capital in reorganizing the Commerce Department into DITI along the lines of the proposals discussed above. However, President Clinton demonstrated his inclination to have more policy coordination by approving a proposal that I had made to him during the campaign to create an Economic Security Council to chart international economic strategy. He called it the National Economic Council and give this office in the White House headed by investment banker Robert Rubin the responsibility of coordinating all domestic economic policy and some international economic policy. For example, the framework talks with Japan are led on the American side by Mr. Bowman Cutter, Deputy Director of the National Economic Council, and the negotiating teams include representatives from the Treasury Department, the Council of Economic Advisors, the State Department, and the U.S. Trade Representatives office. The key "hands-on" negotiators are three officials from U.S.T.R., Mr. Charles Lake, Ms. Charlene Barshevsky, and Ira Wolf; they are nuts-and-bolts experts who will try to achieve "results-oriented" agreements with the Japanese. To date, these talks have brought little agreement and proved frustrating to President Clinton.

Clinton's appointment of the respected former Vice President Walter Mondale is a clear indication of the importance of the US-Japan relationship. Mr. Mondale has been well briefed on US-Japan economic issues, including a long session with Mr. Clyde Prestowitz, President of the Economic Strategy Institute, and former top trade negotiator. An expected addition to Mr. Mondale's staff will be Mr. Ed Lincoln as special economic counselor. Lincoln is an economist at the Brookings Institution, and is considered a leading expert on the Japanese economy, who understands the many informal barriers that exist for foreign firms trying to invest or import into Japan.

For the rest of 1993, President Clinton will spend much of his time trying to pass NAFTA and settle the Uruguay Round of GATT talks, as well as fighting for health care reform. Turning the Commerce Department into an American version of MITI is not on his first term agenda. Instead, the President has adopted "industrial policy — Clinton-style," that provides funds for government-business partnerships in key industries while relying mainly on existing agencies and departments. Such an approach will most likely be successful — both politically and economically — at least in the short term to start to renew the American economy at home. However, such an approach might not work as well on international matters, especially on trade and especially with regards to Japan.

Along with other experts, I have advised the President to appoint an overall coordinator for US-Japan policy similar to his appointment of Strobe Talbott, Clinton's friend from Oxford days who is married to my sister, to oversee both the political and economic aspects of US-Russian relations. Perhaps, if the framework trade negotiations currently underway do not yield any progress, he will take such a step. However, reinventing the Commerce Department as DITI will not happen in Clinton's first term; perhaps it will be on the agenda for a second term.

In the new post Cold War era of geo-economics, the U.S. government will have to reorganize itself to deal more effectively with trade and economics. To be an effective partner with business in the new world economy, the government must have top quality personnel and operate efficiently and strategically. It makes good sense to construct an American version of MITI, and especially to build a new cadre of trade and economic specialists in a Trade Corps; it is also good business for America in the long run.

About the Author

Professor Derek Shearer is Director of the International and Public Affairs Center at Occidental College. He served as a policy advisor to Bill Clinton during the 1992 campaign, and served for a time as Deputy Under Secretary of Commerce. He has also been a member of the Carnegie Endowment for Peace's study group on U.S.-Japan relations, and a U.S.-Japan Leadership Fellow.

Podesta [redacted]

THE PRESIDENT HAS SEEN
3.18.94

Whitewater churns along two fronts

In Little Rock: Accusations a surprise to co-defendants

By Dennis Cauchon
USA TODAY

LITTLE ROCK — David Hale, who accused President Clinton of pressuring him to make an illegal Small Business Administration loan, never mentioned Clinton's role to co-defendants in a fraud case that prompted the charge.

The co-defendants say Hale's accusations surprised them and pushed them unwillingly into the Whitewater spotlight.

"I never heard anything about it until I saw him make the charge on TV," said Eugene Fitzhugh, a lawyer charged with conspiring with Hale to defraud the SBA. "Certainly, he never mentioned anything about it to me."

Charles Matthews, the third defendant, also never heard Hale mention any relationship with Clinton, his attorney said.

"My client has no personal knowledge about any of these allegations against President Clinton," said Bill Bristow, the attorney for Matthews.

Hale, a municipal judge appointed by Clinton, is scheduled for trial on March 28. It will be the first prosecution handled by the office of special counsel Robert Fiske Jr.

Matthews and Fitzhugh are scheduled for trial June 20.

Hale is charged with conspiring to defraud the SBA of $800,000 in November 1988. Matthews, then a stock broker at Prudential Bache, and Fitzhugh, an attorney, are charged with receiving $200,000 and $50,000 respectively for helping Hale transfer the money so it appeared Hale's company, Capital Management Services, was financially stronger than it was.

Capital Management Services had earlier made a $300,000 SBA-backed loan to Madison Marketing, a company run by Susan McDougal, a partner in the Whitewater land deal with the Clintons.

The $300,000 was never repaid. About one-third of the money went to Whitewater Development Co., which bought additional land, apparently without the Clintons' knowledge.

By Rick McFarland, Arkansas Democrat-Gazette via AP

HALE: Former municipal judge, appointed by Bill Clinton, says Clinton pressured him into making a $300,000 government-backed loan.

> "I never heard anything about it until I saw him (Hale) make the charge on TV."
>
> **- Eugene Fitzhugh, charged (along with Hale) with conspiracy to defraud the SBA**

Hale has accused Clinton of pressuring him to make the loan, which was supposed to help minority or disadvantaged businesses.

He says Clinton told him Madison Guaranty Savings & Loan, which later failed, needed financial help. Clinton and former Madison owner James McDougal deny the charge.

Hale says he offered to wear a tape recorder to gather more information against Clinton but prosecutors refused his offer.

Hale was indicted for loans not directly related to the one he accuses Clinton of pressuring him to make. He plans to use the accusations against Clinton in his defense. When FBI agents searched Hale's business in July 1993, the search warrant included files on McDougal's Madison Marketing.

But Hale's co-defendants say Hale never mentioned any connection to Clinton. In addition, Fitzhugh, 68, says neither the prosecutor nor the FBI has ever questioned him about the Clintons or his role in the SBA loan.

Fitzhugh's attorney, Randy Satterfield, said he will ask a judge today to remove Fiske as the prosecutor of his client's case.

"Mr. Fiske is a walking media event," Satterfield said. "My client has no relation to Whitewater. Unfortunately, he's been dragged into the whole thing."

In Washington: Stephanopoulos joins ranks of subpoenaed

By Bill Nichols and Leslie Phillips
USA TODAY

Two more White House aides testified before a federal grand jury probing the Whitewater affair Thursday, while George Stephanopoulos became the seventh White House aide served with a subpoena.

"I welcome the opportunity to give Mr. Fiske the facts," Stephanopoulos said in a statement.

White House aides said they believe documents turned over to Whitewater special counsel Robert Fiske, including phone logs, had prompted the subpoena. They said Stephanopoulos had phone calls on Whitewater but would provide no details.

Fiske has subpoenaed 11 former and current White House and Treasury officials in his inquiry into whether they interfered with a federal probe of a failed Arkansas savings and loans with ties to the Clintons.

White House counsel Bernard Nussbaum and deputy chief of staff Harold Ickes testified Thursday.

"I've testified before the grand jury and I have responded to every question," said Nussbaum, who resigned last week after the subpoenas.

Ickes said the investigation will make it clear that there has been "no unethical conduct or wrongdoing."

AP

NUSSBAUM: Testified on Thursday

Previously appearing before the grand jury: Margaret Williams, chief of staff to first lady Hillary Rodham Clinton; Mark Gearan, White House communications director, and Lisa Caputo, Mrs. Clinton's press secretary. Also Thursday

▶ Fiske met with House Republican leaders but said he still fears hearings could hurt his investigation: "We expressed our position. Everybody understands it."

▶ Republicans on the House Banking Committee want to use a March 24 hearing to also examine aspects of Whitewater. But Rep. Henry Gonzalez, D-Texas, the committee chairman, insisted that he would reject any Whitewater witnesses as irrelevant.

"Tough luck for them," Gonzalez said.

Gonzalez said the only witnesses would be the five members of a board overseeing the S&L cleanup agency, the Resolution Trust Corp.

▶ Rep. Dan Rostenkowski, D-Ill., the day after he angered the White House by saying a congressional inquiry was inevitable, said hearings would be "a serious mistake" and are being supported by Republicans "making a partisan effort to divert public attention" from President Clinton's agenda.

▶ Clinton, asked about the prospect of hearings, said: "It's up to Congress.... They ought to do whatever they think is the right thing." But he indicated he thinks hearings would be a waste of taxpayer money, saying he had read that an early Congress spent thousands looking into a presidential purchase of a $40 mirror.

▶ **Senate votes for Whitewater hearing, 1A**

Russia 'ready' to join Partnership for Peace

By Grigory Dukor, Reuters

'QUAL PARTNERS': Russia's Foreign Minister Andrey Kozyrev, left, meets U.S. Defense Secretary William Perry.

By Steve Komarow
USA TODAY

Russia could be affiliated with former arch-nemesis NATO by the end of the month.

Gen. Pavel Grachev, Russia's defense minister, said Thursday that his government plans to join in the West's Partnership for Peace plan.

Details must be worked out, but Russian troops could soon be standing beside U.S. troops in a peacekeeping force, on a humanitarian mission, or aiding disaster victims.

"At the end of this month we will be ready," Grachev said after a meeting in Moscow with U.S. Defense Secretary William Perry.

The two militaries are cooperating to nudge the war in the former Yugoslavia to a close.

"We agreed to work together as equal partners with the Bosnians, the Croats and the Muslims to work toward peace," said Perry, who also discussed economic aid to the Soviets.

Partnership for Peace, approved at January's NATO summit, offers the former enemies an affiliation, but not the mutual defense guarantees of full membership.

However, it could be a prelude to true expansion of NATO; already a dozen former Soviet states have signed up.

With its effect of making former Warsaw Pact members look increasingly toward the West, the partnership program has been received with antagonism by some in Moscow.

Indeed, one powerful member of the Russian legislature condemned the idea Thursday.

"It can only be described as dictating conditions to others," said Vladimir Petrovich Lukin, chairman of the Duma's International Affairs Committee. He compared it to the "compromise of a rapist" who promises not to hurt his victim if she cooperates.

In Washington, Pentagon spokesman Dennis Boxx said there was no timetable for Russian partnership.

Among those already signed up are Poland, Hungary and the Czech Republic.

85

Kendal Nezan

Turkey's Unwinnable War

THE PRESIDENT HAS SEEN
3-18 94

Hastily promoted from NATO's Cold War bulwark to democratic role model for parts of Moscow's once far-flung empire, Turkey is tearing itself apart in an escalating civil war. Now in its 10th year, Turkey's unwinnable war against its large Kurdish minority cries out for disinterested help from the United States and Ankara's European allies to favor a negotiated end to the violence and promote secular Turkey's strivings toward authentic Western democracy.

Seemingly only yesterday, the allies hoped Ankara would exercise a stabilizing influence in one of the world's most turbulent regions—bedeviled by wars in the Balkans and in the Caucasus and tensions involving Iran, Iraq and Syria. Today Turkey's friends timorously watch the debilitating violence in Turkish Kurdistan without speaking out for fear of provoking Ankara's notoriously thin-skinned establishment.

Privately, they wring their hands about the danger of spreading Islamic fundamentalism perversely encouraged by an increasingly intransigent military's efforts to crush the longest uprising in rebellion-strewn Kurdish history.

Publicly, the allies parrot Turkey's official line placing all blame on the outlawed Kurdish Workers Party, or PKK, denounced as mere terrorists—and Marxists at that. Behind such oversimplification lies a questionable Western conviction that silence is the price for Turkish cooperation in maintaining the allied air cover and humanitarian aid essential to protect Iraq's Kurds from Saddam Hussein's vengeance.

Around a quarter-million troops, gendarmes and often dragooned Kurdish village guards backed by armor, helicopter gunships and planes, operate in 30 percent of the country, extending far inland from Turkey's borders. Turkey's nutcracker tactics leave Kurds no apparent alternatives other than collaboration with the army, joining the guerrillas or emigration—and gradual Turkification—from their homeland to the cities of western Turkey.

Out of Turkey's estimated 15 million Kurds, 5 million to 6 million in the past decade fled to Ankara, Istanbul, Izmir and other western Turkish cities. Another 2 million sought refuge in the slums of Kurdish cities. The death toll doubled between 1992 and 1993 and since the rebellion's onset stands at 13,500, more than half of them civilian.

Mysterious death squads assassinated some thousand intellectuals and notables, apparently for favoring a peaceful solution to the war. The dead included 14 journalists, 66 leaders and one member of parliament belonging to the legal pro-Kurdish party called the People's Labor Party and its successor, the Democracy Party. Recently, seven Kurdish MPs were stripped of parliamentary immunity and arrested on charges of "separatist propaganda." They risk the death penalty for expressing political views if found guilty by the State Security Court under penal code Article 125. Ten other Kurdish MPs risk the same punishment if, as expected, the DP is banned.

The army's frustrations grow apace. Jets bomb and burn remote mountain forests to deny sanctuary to well-ensconced rebels no longer dependent on bases in Iran, Iraq, Lebanon and Syria. Some Turkish military commanders quoted last November by the Turkish Daily News favored using chemical weapons to "definitively clean out" rebels in five inaccessible mountain ranges.

Routinely, Kurds have been killed for refusing orders to evacuate their villages or join the village guards. Government-controlled media automatically blame the PKK for such incidents, although it's often the security forces' handiwork. The PKK, too, has an unquestionable record of atrocities, including assassinating village guards and their families.

Sincere or not, the PKK says it no longer demands independence, and hints that it would settle for an American or Spanish-style federal system. Ankara has not honored such feelers with a response. By maintaining its seven-decade-old ban on using Kurdish in schools and broadcasts—and by threatening the Kurdish MPs, Turkey blocks expression of all peaceful Kurdish aspirations.

Even discreet American help in exploring a negotiated settlement smacks of interference in Turkey's internal affairs. But recall what happened next door. U.S. failure to deal with Kurds and other political opposition forces contributed to Islamic fundamentalism's advent in Iran and Saddam's continued presence in Iraq.

The writer is president of the Kurdish Institute of Paris.

B

THE PRESIDENT HAS SEEN

3.18.94

U.S. Plans Overhaul on Secrecy, Seeking to Open Millions of Files

A1

By TIM WEINER

Special to The New York Times

WASHINGTON, March 17 — At President Clinton's instruction, the National Security Council has drafted an order that would overhaul Government secrecy rules, make public tens of millions of classified documents from the cold war and reduce the number of new secret records, Government officials said today.

The order would create the least secretive policy on Government records since the birth of the modern national security apparatus in 1947.

The order would require the automatic declassification of secret documents after 25 years. Only the head of an agency, like the Secretary of Defense or the Director of Central Intelligence, would have the power to stop a document's release. Newly created secret documents would be declassified after 10 years at most. The new order would also establish a Governmentwide database and directory of declassified documents available to the public.

The policy calls for Government officials to err on the side of openness when weighing whether a document should be classified in the first place. That would reverse the balancing act required under the prevailing executive order issued by the Reagan Administration in 1981. Today the presumption is that documents should be secret; once secret, they can remain sealed indefinitely.

President Clinton ordered a review

Continued on Page B6, Column 5

THE NEW YORK TIMES, FRIDAY, MARCH 18, 1994

Security Council Drafts Proposal on U.S. Secrets

Continued From Page A1

of secrecy rules last April. After nearly a year of heated debate, the council today sent the draft Presidential order to the Central Intelligence Agency, the Pentagon, the State Department and other agencies for comment. If President Clinton signs it, as expected, the new rules could begin to take effect by the end of the year.

By the end of the century, most military and intelligence records from the beginning of the cold war to the end of the Vietnam war would be available to scholars and students of American foreign policy, Government officials said.

Billions of pages of secret records from those decades are locked away at the National Archives, the Pentagon, the C.I.A.'s headquarters, the State Department and in classified document depositories throughout the nation. Scholars of the cold war liken their knowledge of its inner workings to a few islands jutting above the surface of a secret sea.

The ocean of classified documents is so large that no one in the Government knows how many secret records are in it. It includes yellowing papers from 1916, before the American entry into World War I, analyzing that war in Europe. But among its other documents are Pentagon assessments of the benefits of launching a pre-emptive war against the Soviet Union in the 1950's, C.I.A. analyses of the Vietnam war and White House records of plans to recreate a national government if Washington were hit by a nuclear bomb.

Government officials who support the new order gave The New York Times an 18-page summary of its main points, on the condition that the officials not be identified. Historians and researchers expressed guarded pleasure at its tone and content.

"It's very encouraging," said John Lewis Gaddis, a leading cold war historian who serves on a C.I.A. panel that is slowly declassifying some documents from the 1940's and 1950's. "We have had, however, a lot of experience with encouraging directives coming from the top and then seeing the implementation of those directives fall short. It certainly helps to have a signal coming from the top that openness should be the rule."

Under the new order, much sensitive information would still be kept secret, including the identities of foreign agents working for the C.I.A., war plans, weapons technologies, intelligence methods like code-breaking techniques and data that could help a foreign power create weapons of mass destruction.

The C.I.A.'s general counsel, Elizabeth Rindskopf, said that while the intelligence agency agrees that "the end of the cold war has shown the need to overhaul the classification system," it remained wary of automatically releasing 25-year-old documents and declassifying new secret records after a decade.

'Errors Can Result in Death'

Ms. Rindskopf, testifying on Wednesday before the House Permanent Select Committee on Intelligence, noted that the C.I.A. is required by law to protect its sources and its methods. "We must guard against the release of documents that have passed the scheduled declassification date but contain information that still merits protection," she said.

"Where human sources are involved," she added, "errors can result in ruined reputations, imprisonment or even death."

Former intelligence officials say that foreign spies can exploit declassified documents even if they do not contain lethal information. They use the analogy of a jigsaw puzzle, saying even a half-completed puzzle can reveal the picture on the box.

The House and Senate Intelligence Committees are considering legislation similar to the draft executive order. Advocates of new secrecy laws say legislation can have a more lasting effect than an executive order.

The draft Presidential directive would create a far more open system than one proposed to the National Security Council last year by a Government panel staffed largely by military and intelligence officials. That proposal would have ordered the release of most Government documents after 40 years. Its provisions drew an outcry from advocates of Government openness.

5

THE PRESIDENT HAS SEEN
3-18-94

Dee Dee

FAMOUS LAST WORDS

DEBORAH MATHIS

STANDING UP FOR HOMEPLACE

LITTLE ROCK—Unlike other reporters who hail from the nation's capital, I did not come here on the Whitewater trail.

I came here to visit family and friends. I came here because this is home.

There. I said it: I am from Little Rock.

If that seems like an insignificant admission, you try saying it.

Then, stand back. Raised eyebrows, snickers, scowls and disparaging words will be heaped upon you shortly.

Natives are used to it. At least since 1957, when Little Rock made the map in one of the ugliest episodes of civil rights history, we have been called upon to defend our decision to live here—indeed, the circumstance of having even been born here.

This, allegedly, is the flashpoint for hillbillyism, redneckism, racism, sexism, cronyism and other disreputable isms, of which Arkansans are largely considered either willing practitioners or pitiable products. We are, in the eyes of many others, inferiors who are to be taken lightly, if at all.

"Going to Little Rock?" asked the skycap at an airport in a major American city the other night.

"That's right," I said. "Going home."

"You're from Little Rock?" he asked. "Yep. That's home."

"Ah, a country girl, huh? Aren't you scared in a big city like this all by yourself?"

Little did he know, this supposed rube has been forged in the fire of erred assumptions, so if he was hoping to raise my ire, it was a waste of time. Beside being black, being female and being a native-born Arkansan, I have learned that some battles are worth fighting and others are not.

I could have told him about a life replete with loving, intact family; indoor plumbing; religion; travel; music lessons; and a touch of Shakespeare. I could have told him that the infamous Little Rock Central High School continues to churn out an inordinate number of National Merit finalists. Or that you can see a top-notch performance at the Arkansas Repertory Theatre. Or that, in Arkansas, you can choose filet of sole bonne femme or fried catfish and never regret the choice. Or that you can go from Arkansas to the top of your field, a la Maya Angelou, the poet; Mary Steenburgen, the Academy Award-winning actress; Dr. Joycelyn Elders, the U.S. surgeon general; or—hey—Bill Clinton, the president of the United States.

I could have told him, too, that the bags he was toting at the moment belonged to a country girl who, just a few hours earlier, had been in the East Room of the White House for the umpteenth time, in the company of the American and Ukrainian presidents, the U.S. vice president, the secretary of state and the Olympian gold medalist of women's figure skating.

Instead, true to my Southern ways, I invited him to visit the Natural State, handed him a few dollars and watched him disappear behind the doors of an airport shuttle.

Having to defend hearth and home against a judgment of unfounded or unlearned criticism and ridicule gets old after a while, but it has yet to become unnecessary.

Lately, with the Whitewater imbroglio and all, the national press has taken to deriding Arkansas as a place where everyone knows everyone else and is connected either by blood, business or social ties.

Well, given the small population—only 2 million, total—and the fact that, in any state, the movers and shakers are bound to be a relative few, it stands to reason that the circle of influentials here is more confined than in, say, New York City.

But if ever there was a place that has no moral authority in attacking relationships for their coziness, it might well be the city that has launched so many of the reporters and pundits who are blustering about that very thing in Arkansas.

By any reckoning Washington, D.C., is Nepotism Central, where it is not unusual to find a reporter who is the husband of a federal bureaucrat who is the daughter of a congressman whose wife is a lobbyist whose parents were the media agent father and magazine writer mother of the reporter, who is now hoping his son gets that job in the White House communications office.

More country than city, more plain folks than sophisticate, more down-to-earth than hifalutin? That, we may be.

But this ain't Mayberry. Which is kind of too bad. The snoots in Washington and elsewhere could learn a thing or two from Andy and Aunt Bea.

BOB LANC

FEARL PREDI

I asked well-known pix maven M. Lancaster to handicap the Oscar races for the big ceremony next Monday night. These are her picks. Best Picture: "Schindler's List."

Best Actor: Tom Hanks in "Philadelphia."

Best Actress: Holly Hunter in "The Piano."

Best Supporting Actor: Tommy Lee Jones in "The Fugitive."

Best Supporting Actress: Winona Ryder in "The Age of Innocence."

Best Director: Steven Spielberg for "Schindler's List."

Best Song: "Philadelphia" (sung by Bruce Springsteen).

With one exception, these are not only who will win but who should, M. avers. (The little girl in "The Piano" might ought to win best supporting actress, but won't.)

The coa
blame raci
will bla
coa

Her further observations:

• The favorites are such heavy favorites that there won't even be much point in watching the telecast, especially with Whoopie Goldberg debuting as emcee.

• William Goldman, the screenwriter, says Spielberg is a mortal lock for Best Director, the surest sure thing since Francis Ford Coppola was nominated for "The Godfather" 22 years ago—and lost.

While she was at it, did M. want to go ahead and predict who'll be in the upcoming Final Four, I inquired.

"The Final Four *what* ?" she said.

Here's who I told her: Missouri, Michigan, Connecticut, and Kansas.

And if that's how it turns out—that is, no Arkansas—some further predictions:

THE WHITE HOUSE

WASHINGTON

OFFICE OF THE STAFF SECRETARY

Fax Transmittal Sheet

TO: Eli Segal

Fax Number: 606-4928

Phone Number:

FROM: John Podesta

SUBJECT:

DATE:

NUMBER OF PAGES (including cover sheet): 4

MESSAGE:

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

[redacted] [redacted]

BANKS ENTERPRISES

Eli Segal I got at your Brooklyn College event
— check this out
— be in touch w/
Bruce

[illegible]

Mr. President

THE PRESIDENT HAS SEEN 3/17/94

200 WEST 90th STREET, SUITE 10B, NEW YORK, NEW YORK 10024

[redacted]

THE PRESIDENT HAS SEEN 3/17

CHILDREN OF THE LIGHT

Cultural Education and Discipline Program
Special Birthday Ceremonies

Banks Enterprise
212 724-5482

Dear Mr. President
Please note that
Whitney Young Jr
drowned in Africa
23 years ago
please read →
3/11/71 -
Thanks Velma Banks

A MARCH FOR AMERICA

at the

MARCH ON WASHINGTON FOR JOBS AND FREEDOM

Lincoln Memorial, Washington, D. C.

August 28, 1963

"WE SHALL OVERCOME"

THE NATIONAL URBAN LEAGUE is honored to be a participant in this historic occasion. Our presence here not only reflects the civil rights community's increased respect for, and awareness of, the Urban League's role, but most important, it says, and I hope loud and clear, that while intelligence, maturity, and strategy dictate that as civil rights agencies we use different methods, we are all united as never before on the goal of securing first class citizenship for all Americans — NOW.

That we meet here today, in common cause, not as black or white people, nor as members of any particular group, is a tribute to those Americans who dare to live up to and practice our democratic ideals and our religious heritage. That we meet here today is a tribute also to all black Americans who for 100 years have continued, in peaceful and orderly protest, to bear witness to our deep faith in America; and, in this method of protest, to effect change.

That we meet here at all, however, is to the shame of those who have always blocked the progress of the brown American and to the shame of those who would make deals, water-down civil rights legislation, or take cowardly refuge in technical details around elementary human rights, and who would even now delay, until after Christmas, the consideration of these bills before Congress.

One should not seek here to atone for his past failures as a responsible citizen of the majority group. The evils of the past, and the guilt about it, cannot be erased by a one-day pilgrimage, however magnificent. Nor can this pilgrimage substitute for an obligation to tomorrow by these same citizens.

And so, this March must extend beyond this historic moment. For the true test of the rededication and commitment which should flow from this meeting will be in our recognition that however impressed or incensed our Congressional representatives are by this demonstration, they will not act because of it alone. We must support the strong, we must give courage to the timid, we must remind the indifferent, and warn the opposed. Civil rights, which are God-given and Constitutionally guaranteed, are not negotiable in 1963.

Furthermore, we must work together even more closely back home where the job must be done to see that Negro Americans are accepted as first class citizens and are enabled to do some more marching:

1|2

NASA Budget Cuts Raise Serious Concerns Over Safety of Shuttle

By WILLIAM J. BROAD

Special to The New York Times

CAPE CANAVERAL, Fla.

DESPITE a picture-perfect blastoff of the space shuttle Columbia on Friday and recent euphoria over the successful repair of the Hubble Space Telescope, funds for upkeep of the nation's shuttle fleet have been going down steadily, touching off a debate over whether the space agency is being forced to cut corners and raise the risk that its temperamental spaceships might break down or blow up.

Private experts say a rush of belt-tightening is threatening safety. But the National Aeronautics and Space Administration, while conceding that it is trimming fat, insists that nothing is being done that would endanger the lives of astronauts. NASA officials say no program change will weaken the agency's commitment to put safety first at all times.

The winged spaceships are the world's most complex and dangerous vehicles for the routine transport of people. The risk of catastrophic failure during the shuttle's fiery eight-and-a-half-minute ascent to orbit, the most dangerous part of the flight, is estimated by NASA at about 1 in 75 missions and by private experts at about 1 in 60. In theory, lapses in maintenance could make those numbers even gloomier.

The Challenger disaster eight years ago, in which six astronauts and a high school teacher died, was seen as partly a result of tight budgets that caused declines in maintenance and repair. Joints on booster rockets were known to be weak, but replacements arrived too late to prevent a blowtorch-like leakage of burning fuel and the deadly explosion.

In December, new questions were raised about the booster rockets, which had begun firing unevenly. Critics charged that this type of unevenness could break the spacecraft apart in mid-flight.

The latest focus of worry is a system that has long been considered one of the spaceship's riskiest: the high-pressure pumps that feed liquid hydrogen to combustion chambers for explosive burning. Each of the shuttle's three main engines is fed by one of these high-pressure fuel pumps.

The 3.5-ton pumps are each about the size of an automobile engine but generate an astonishing 75,000 horsepower. This is achieved largely by spinning them at 37,000 revolutions per minute, more than 12 times as fast as the crankshaft of a car zipping along at 60 miles per hour. These rotations put huge stresses on the 122 turbine blades, each about the size of a half-dollar and each producing about 700 horsepower. The exit pressures from the pump are so great that hydrogen fuel, if shot straight up, would rise 34 miles.

"The pumps have been a source of concern from day one," Dr. Seymour C. Himmel, a senior member of NASA's Aerospace Safety Advisory Panel, said in a telephone interview. The high-pressure pumps and similar gear long ago led NASA to conclude that the shuttle's main engines have the highest risk of catastrophic failure of any shuttle system, higher than even the booster rockets that touched off the Challenger disaster.

NASA officials say apprehension about the pumps recently soared when defects were found in a number of their internal welds, after an anonymous tip led to inspections. While no flaw was discovered in the all-important turbine blades, the problematic welds have been banned from flight hardware and have prompted a major inquiry.

"We're under the gun to reduce resources to the shuttle," said Dr. Daniel R. Mulville, a senior official in the safety office at NASA headquarters in Washington. "It's a challenge, but our approach is not to

Continued on Page C9

Continued From Page C1

compromise safety."

Joseph J. Trento, a former Congressional aide who follows the shuttle program for the National Security News Service, a private group based in Washington, said the weld troubles arose when NASA, as part of a cost-cutting move, began letting the manufacturer rather than Federal inspectors verify its pump-assembly work.

In general, Mr. Trento said, NASA is playing with fire by trying to run the shuttle on the cheap. "They're keeping the thing together with baling wire and matchsticks," he said. "The budget is being cut and nobody is paying attention."

Funds for shuttle operations have fallen for several years in a row, according to NASA. The budget went from $4.074 billion in the fiscal year 1992 to $3.870 billion in 1993 and $3.601 billion in 1994. In the proposed 1995 budget that President Clinton recently presented to Congress, the funds would drop further still, to $3.381 billion. If corrected for inflation, that is less money than shuttle operations were getting at the time of the 1986 Challenger disaster.

Warning of Calamity

Daniel S. Goldin, NASA's Administrator and a proponent of streamlining in what many have seen as a bloated agency, recently told Congress that the budget could fall no further without raising the risk of calamity.

"This is it," he said. "We can't get any closer to the bone." Mr. Goldin added. "Based on what we know today, we cannot cut human space flight any further without impacting on safety."

While this might seem like budgetary grandstanding, a wide variety of experts, including NASA engineers, say the situation is serious.

One way NASA has trimmed its shuttle budget over the years is by deferring or stretching out costly safety improvements. For instance, work was halted a couple years ago on a replacement high-pressure fuel pump. While the current pump has more than 300 welds, the new one was to have no welds at all and was to incorporate a host of new high-technology materials, vastly increasing its reliability and making it virtually fail-safe. But it would also weigh hundreds of pounds more, negating one reason the lighter-weight welded pump was originally developed.

Another way NASA is trying to cut costs is by reducing inspections of shuttle parts and repair procedures. Inspections skyrocketed after the Challenger disaster. Experts estimate that every time a worker touches the shuttle with a tool that action will, on average, be checked by seven inspectors at one point or another. In all, Congressional experts say, some two million signatures and approvals are needed before any shuttle thunders off the launching pad.

Dr. Himmel of NASA's Aerospace Safety Advisory Panel said that self-inspection was a broad trend within NASA and industry. And it is fundamentally healthy, he argued. By focusing on building in quality rather than on weeding out poor work, the result is a better product, he said. In theory, any problems are caught by final inspections.

"They're trying to change the culture so that the people who do the work are given a large part of the responsibility for the quality," he said. "Inspection is often just people stamping a piece of paper."

He added: "There's always some degree of risk when you change a system. But managers are suppose to monitor that carefully."

The risks for shuttles became evident when the weld flaws in the high-pressure pump slipped past final inspectors, though, according to NASA officials, none slipped far enough through the parts system to be relied upon during the launching of a shuttle into space.

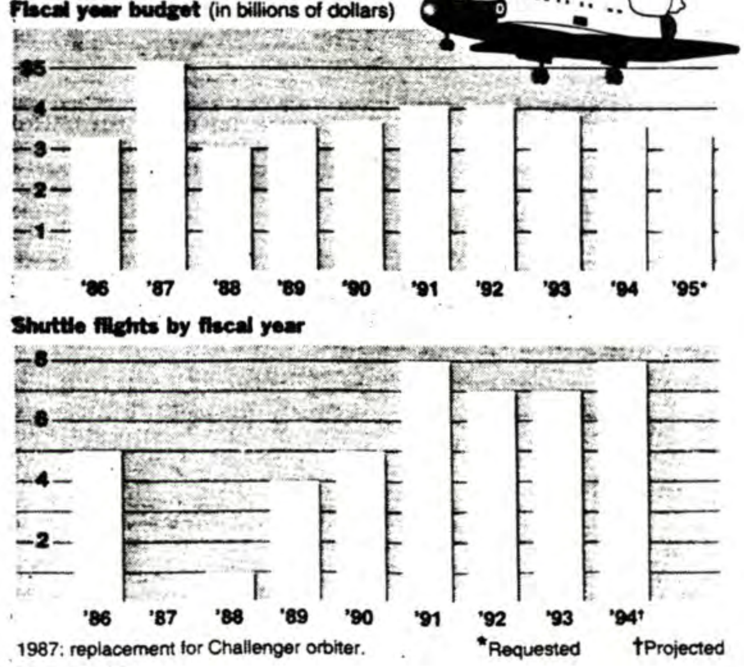
NASA officials say that a report on Sunday in The Daily News of New York that the Columbia went into space with flawed welds was not accurate. Otto K. Goetz, manager for the shuttle's main engine at NASA's Marshall Space Flight Center in Huntsville, Ala., said in response to the article: "We are not flying with faulty welds. If they don't meet the rigorous standards, we don't fly."

Problem Is Reported

Dr. Mulville of NASA headquarters said the weld problem was disclosed anonymously on Nov. 15 through NASA's Safety Reporting System, which was set up after the Challenger disaster. Five kinds of welds in the high-pressure pumps were reported to be faulty, he said. Quick inspections found that the welds were out of alignment. Adjoining pieces were mismatched, weakening the joints. Particularly troubling was weld No.

Shuttle Budget

Overall NASA shuttle budget, as appropriated, not adjusted for inflation.



1987: replacement for Challenger orbiter. *Requested †Projected

Source: NASA

THE PRESIDENT HAS SEEN 3/18

THE NEW YORK TIMES, TUESDAY,

14

2/2

51, which could not be rewelded without taking the pumps apart.

No moving parts had flawed welds. Instead, the flaws were located on interior casings and areas of the pump that helped direct the flow of hydrogen. And the welds were to operate under enormous pressures, in one case about 7,500 pounds per square inch. At worst, Dr. Mulville said, their failure would cause the collapse of a hydrogen-carrying pathway, causing the pump and its engine to seize up and come to a screeching halt.

"It's a safe shutdown," said Dr. Mulville, "not a catastrophic failure."

Dr. Goetz said all pumps with serious alignment problems in their welds had been prohibited from space flight until a NASA Materials Review Board decided what to do. One option now being considered, he said, is simply to reduce the number of times a suspect part is allowed to power a shuttle. For instance, weld No. 51 is normally allowed to undergo the rigors of a shuttle flight 36 times, but that number might be lowered to the high 20's, Mr. Goetz said, to reduce the risk of a breakdown.

The other option, he said, which would be costly, would be to repair and rebuild the pumps from the bottom up.

Outsiders worry, but NASA says safety still comes first.

Mr. Trento, who has gathered NASA documents on the problem through the Freedom of Information Act, said the situation also involved charges of fraud.

After NASA was alerted to the problem, Mr. Trento said, the agency found that inspection documents had been falsified, apparently in an effort to prevent the delay of the Hubble repair mission in December. "The F.B.I. was brought in and is conducting a criminal probe," Mr. Trento said in an interview.

The manufacturer of the pump, the Rocketdyne Division of Rockwell International, based in Canoga Park, Calif., said it had no comment on the pump issue and directed all questions to the space agency. A number of NASA officials said they would have no comment on any F.B.I. investigation regarding the pump or anything else.

The Justice Department recently made public allegations of fraud on the part of several NASA employees and contractors and declared that its investigations were continuing.

Action on Alternative Pump

Last month, after the weld problems came to light, NASA requested and got permission from Congress to renew development work on the alternative high-pressure fuel pump, which is being built by Pratt & Whitney. It is unclear whether the agency's move was related to the discovery of the weld flaws.

The episode is one of a number of recent events where tight budgets and schedules seem to be squeezing the shuttle. Late last year it was reported that the shuttle's boosters had shown large variations in their thrust, prompting a spate of NASA investigations and accusations by critics that the problem was a time bomb waiting to go off.

NASA officials deny any danger, saying the thrust variations do not represent a serious problem. Even the worst foreseeable spike, they say, would be well within the protective limits set for the shuttle. But that assertion was made after NASA lowered the safety margins early last year to keep the shuttles flying.

John E. Pike, head of space policy at the Federation of American Scientists, a private group based in Washington, said the series of recent actions did not build confidence in the future prospects for the world's most complicated flying machine.

"This pattern of activity, of cutting back on safety, of issuing waivers, of flying with problems, strikes me as leading to a situation where the inevitable is going to happen sooner rather than later," he said.

Readings Back to Normal

CAPE CANAVERAL, Fla., March 7 (Reuters) — Pressure readings were back to normal today in the Columbia's hydraulic system, relieving concerns that the 14-day mission would have to be cut short.

The positive assessment came after three days in which the space shuttle was plagued by an apparent ice buildup in one of its three auxiliary power units. The devices supply hydraulic pressure to operate the shuttle's wing flaps and landing gear. Space officials said the blockage was gone today.

Consolidation of Contractors Suits the Pentagon

By ERIC SCHMITT

Special to The New York Times

WASHINGTON, March 7 — The proposed merger of the Grumman Corporation and the Martin Marietta Corporation fits snugly in the Defense Department's post-cold-war strategy to maintain a smaller but robust base of military contractors.

The end of the cold war has left military contractors scrambling to survive on a shrinking Pentagon budget for jets, ships and tanks. The Pentagon's purchases of new weapons and equipment have declined 64 percent since 1985, military industry analysts say.

Defense Secretary William J. Perry has urged military contractors to carry out an orderly consolidation that preserves America's ability to develop the most advanced technology at affordable costs and to expand again if unforeseen security threats emerge down the road.

Retrenching Is Half Done

For the Pentagon, the tricky part in all this has been to steer the shrinking industry in the desired direction but to intervene as little as possible. "We're not going to try to manipulate the consolidation of the defense industry, but we want to encourage it," Mr. Perry told reporters in September.

Pentagon officials and industry analysts say the process of consolidation is only about half completed.

"Such mergers and realignment in the defense industry is an inevitable result of the downsizing, and a private deal arrived at between two highly successful companies to become a single, integrated, more efficient company is very much along the lines that Bill Perry is trying to promote," John M. Deutch, the Under Secretary of Defense for Acquisition and Technology, said in an interview.

Consolidating an Industry

Recent mergers and acquisitions among U.S. military contractors.

Year	Acquirers	Acquired from	Business
1994	Martin Marietta	Grumman	Grumman
1994	FMC (merger)	Harsco-BMY	Armored vehicles
1993	Martin Marietta	General Dynamics	Space systems division
1993	Loral	I.B.M.	IBM Federal Systems
1993	Lockheed	General Dynamics	Aircraft division

Source: Defense Budget Project

In this transition, Martin Marietta has quickly emerged as one of the most aggressive companies. It bought General Electric's aerospace division in 1992 and announced its intent to buy General Dynamics' space system division last year.

The fate of Grumman, however, illustrates the opposite side of the acquisition equation. "Frankly, the world was going to get an awful lot tougher for people in our business," Renso L. Caporali, Grumman's chairman, said today.

Commercial Applications

Pentagon officials say they want not only a smaller, healthy military industry, but one that is more flexible. Mr. Perry and other senior Pentagon officials have sought to encourage companies to produce both military and commercial products, or at least to preserve their arms-making capability.

At the same time, the Pentagon and Congress have pledged to overhaul the cumbersome system the military uses to buy nearly $50 billion of new equipment each year. The Defense Department is also rewriting regulations to allow the military to buy more commercial products. Such equipment is less expensive than items built to military specifications, which were deemed necessary during the cold war.

Underlying the Pentagon's push for consolidation and all the other reforms is the military's desperate need to cut costs. Commanders face a choice between paying for a costly acquisition system, including an inefficient industry, or using that money to pay and train troops, and keep them ready for combat.

In pursuing this course, the Pentagon is walking a political high wire. It encourages consolidation but is also trying to be sensitive to communities affected by plant closings and base shutdowns by offering economic incentives to cushion the blow.

"While this is painful for local communities, this is good for the Defense Department because it reduces overhead, and is good for the economy because it frees up capital now tied up in excess capacity," said Loren B. Thompson, deputy director for National Security Studies at Georgetown University. Indeed, the pain on Long Island will be felt in the elimination of an unspecified number of jobs that Martin Marietta said today was needed to improve the efficiency of the combined company.

The consequences of unfettered consolidation extend only so far. In contrast to the Bush Administration, the Clinton White House has said it will subsidize a few critical industries that cannot produce widely used commercial products. For example, the Navy is seeking to spend $2.3 billion to buy a Seawolf submarine that it says it does not need. But Pentagon officials say it would be more expensive to reopen production lines if they are closed than to run them at low levels.

Asked if he was in essence picking winners and losers in this industrial shakeout, Mr. Perry said last fall, when he was Deputy Defense Secretary: "I don't see it that way. We're determining capabilities we need and taking action."

Industry analysts say there is still enough excess capacity — and accompanying cost inefficiencies — to warrant broader consolidation.

"The Pentagon wants industry to sort it out themselves so Government doesn't have to do it for them," said Richard Bitzinger, a military analyst for the Defense Budget Project, an independent research organization. "They don't see a situation arising yet where there are dangerous monopolies exercising an unfair advantage. It's the best way to preserve the best parts of an industry at the least direct cost to the Government."

THE NEW YORK TIMES, TUESDAY, MARCH 8, 1994

THE PRESIDENT HAS SEEN 3/18

VP

is this many a problem?

B.

Required Surgery

Health Plans Force Even Elite Hospitals To Cut Costs Sharply

At Mass General, Doctors Shorten Patients' Stays, Study Radiology Usage

'Managed Care' Irks Some

A1

By GEORGE ANDERS
Staff Reporter of THE WALL STREET JOURNAL

BOSTON — Paul Shellito's surgical practice at Massachusetts General Hospital often stretches from 7 a.m. to 8 p.m., and he handles a full load of emergency cases on weekends. In his spare time, he teaches at Harvard Medical School and publishes research on colon surgery.

Yet a powerful insurer has been urging Dr. Shellito to pick up the pace.

To hold down costs, Tufts Associated Health Plans, which hospitalizes more than 800 patients a year at MGH, wants doctors throughout the elite teaching hospital to discharge patients faster. Some physicians squawked at first. But after more than a year of detailed case reviews, even hard-liners such as Dr. Shellito have largely conceded the fight.

"It's changed the way I practice," he says. "Tufts is very good at finding ways to get patients out of the hospital sooner with only a little inconvenience. They've put the monkey on my back. Now, I'm haggling with patients about going home the evening of the day I see them."

Changing Routines

The lives of doctors at many prestigious teaching hospitals are changing under powerful pressure from health-maintenance organizations and other insurers that run "managed-care" cost-control programs. These payers are sending big blocks of patients to hospitals that offer cost-effective care; they are shunning those that they believe charge too much.

For decades, teaching hospitals were nearly immune from belt-tightening drives, thanks to their reputations for top-notch care in complicated cases. "But those days are over," says William Kelley, chief executive officer of the University of Pennsylvania Medical System. "Anybody who thinks you can attract patients on quality alone, without paying attention to cost, will go out of business."

In Philadelphia, Dr. Kelley's hospital is paring $5 million from annual expenses so it can land some big HMO contracts. An austerity campaign in Minneapolis has helped the University of Minnesota Health System win three managed-care contracts since 1991 — while slashing its payroll 18%. And at Stanford University Hospital in California, the transplant unit is cutting costs sharply to get business; it offered one HMO a $40,000 discount on the standard $160,000 rate for lung transplants.

Teaching-hospital executives are betting that they can achieve these savings without hurting patient care. They see many ways to "re-engineer" care by eliminating waste, getting work done faster and having patients wind up their recoveries in cheaper, nonhospital settings.

But unlike big corporations, where top management can issue orders to its employees, hospital executives must delicately sell these strategies to hundreds of largely independent doctors. The physicians have final authority in deciding how to treat a patient. And at many teaching hospitals, top doctors earn more and are far more renowned than even the institution's chief executive.

The struggle to cope with managed care is especially fierce at Massachusetts General, which consistently ranks among the nation's five best hospitals in surveys by U.S. News & World Report. It is the lead teaching site for Harvard Medical School, and its doctors have achieved breakthroughs in areas ranging from gene mapping to artificial skin for burn victims.

Relatively Steep Fees

MGH also is one of the biggest and most expensive hospitals in the U.S. The 1,018-bed hospital admits nearly 40,000 patients a year and handles 550,000 outpatient visits. It is moderately profitable on patient revenue of about $500 million a year, thanks largely to fee schedules that can be 30% higher than those at nearby community hospitals.

But during the past three years, a series of shocks showed the elite hospital's vulnerability to a freeze-out by health plans wanting to save money. In 1991, Blue Cross & Blue Shield of Massachusetts set up an HMO without using MGH at all. Then, last fall, Harvard Community Health Plan yanked away its pediatric referrals in favor of a rival bid from nearby Children's Hospital. With that one stroke, MGH faced the loss of 26% of its pediatric patients. Its doctors were alarmed.

"You guys could go the way of IBM," Jay Gellert, a California health-care consultant, warned MGH executives in a closed-door meeting last year. "IBM saw fundamental change coming but couldn't react to it. So it ended up frittering away one of the strongest franchises in American history."

Those events jolted MGH's administrators and doctors into action. The hospital recently negotiated discounts with four managed-care plans — including Blue Cross's HMO. These health plans now account for about 13% of the hospital's admissions, up from less than 5% in 1991, and could hit 25% or more in a few years. "We decided that managed care couldn't be ignored and that our best bet was to

Please Turn to Page A10, Column 1

Continued From First Page

work with it," says Richard von Rueden, the deputy director general.

Like many MGH executives, Dr. von Rueden contends that if the hospital gets things right, it could become a national model of how to marry high quality and cost controls. MGH is allying itself with family doctors in the Boston suburbs, and it plans to merge with a major local competitor, Brigham & Women's Hospital, in a deal that could create the biggest U.S. hospital. The aim is to assemble a vertically integrated, low-cost medical conglomerate that HMOs will love.

The doctors who give MGH its aura, though, are deeply split over that approach. Many say it is necessary and inevitable. A few even like it. But others wonder whether fine points of patient comfort will be sacrificed to save money. And many older doctors grumble about a loss of autonomy as they increasingly feel nudged to order fewer tests, discharge patients faster and keep an eye on the bills.

Departmental Tensions

Such tensions are playing out in the orthopedic-surgery department. A team of younger doctors, led by 42-year-old John Siliski, is picking over two common operations — hip and knee replacements — to look for ways to standardize care and rehabilitate patients more quickly.

"This is the way we want to practice," Dr. Siliski tells a group of nurses at a brainstorming session, as he points to a vast diagram showing how the typical knee-replacement patient should be treated, day by day. The flow chart looks like something in an auto plant, and no wonder. Knee replacements are becoming increasingly routine; last year, MGH performed 416 of them.

Though barely six months old, this flow-chart approach is already paying off, Dr. Siliski says. Patients' average hospital stays have fallen 22%, to 6.8 days, mostly as the hospital ensures that steps such as physical therapy are done promptly, without the minor delays that often occur in big institutions. And the average bill has shrunk 17% to $16,566. "We're trying to do to ourselves what Tufts would otherwise end up doing to us," he explains.

Yet some of Dr. Siliski's colleagues remain uneasy. One, Fred Mansfield, says he has less freedom to let an emotionally stressed patient stay an extra day in the hospital. "It's harder and harder to make the personal connection with patients when you don't have the power to make a little room in the system," Dr. Mansfield says. "You can't be the benevolent father figure anymore. You're just a provider."

In other departments, the HMOs' thrifty values are colliding with time-honored habits of a teaching hospital. MGH doctors order 20% more X-rays and other radiology tests than do those at community hospitals — partly because the teaching hospital sees unusually sick patients and partly because much of the care is provided by young doctors in training who would rather have too much information on a patient than too little.

Too Many Tests?

Even allowing for those special reasons, health plans suspect that some MGH doctors order excessive tests. Several dozen doctors have agreed to examine their recent radiology usage — on the condition that they discuss their findings internally, rather than with the health plans. That's as it should be, says James Richter, an internist at the hospital, adding: "In the end, I trust our judgment much more than I trust a health plan's."

Health-plan executives say they don't want to be preachy, especially when dealing with a hospital as renowned as MGH. "We could say 'We aren't going to pay for this' and end up with a lot of big battles," says Joseph Gerstein, Tufts's medical director. "But what we want is for physicians themselves to say: 'This is the right thing to do.' "

Sometimes, a friendly approach pays off. In the past year, Tufts began paying MGH doctors $70 a patient to make an extra bedside visit late in the day instead of waiting until the next morning. As a result, the doctors are discharging far more hospitalized patients in the evening, avoiding the costs of another overnight stay and saving the health plan a lot of $2,000 per-diem charges.

"If there's one thing that managed care has taught us, it's that you don't write in a patient's chart: 'Doing fine. Home tomorrow,' " Dr. Richter says. MGH's new ethos is to discharge such patients that night.

Similarly, in the gynecology department, the average stay for surgery has been shortened 16% in the past two years, mainly by switching away from big doses of narcotics that were easy to administer but so impaired patients' digestion that they couldn't be discharged for days. With different painkillers, patients are leaving the hospital faster.

Such steps save money and improve quality, says Arlan Fuller, the head of gynecology. They also keep his department alive. "We're the high-cost provider

1/2

THE PRESIDENT HAS SEEN 3/18

65

2/2

in town," Dr. Fuller says. "If we aren't judicious in the way we use resources, we won't get patients."

Pessimistic Pioneers

A gloomier view comes from doctors pioneering new treatments. Thomas Spitzer, for example, joined MGH last summer to set up a unit to treat breast-cancer patients with high-dose chemotherapy and bone-marrow transplants. Such therapy is unproven but promising; it can cost $100,000 or more and is available only at a few dozen top-tier hospitals.

Dr. Spitzer says he doesn't mind a little discounting to get business, but he was flabbergasted when some out-of-state health plans offered to send him patients if he would slash total charges to just $50,000 per case. The implication: If he didn't agree, the plans would go elsewhere.

"I didn't see this coming at all," he says. To save money, he adds, he might have to discharge patients after two weeks in the hospital and finish treatment on an outpatient basis. Even so, he says, he questions whether he can treat patients properly for anything approaching $50,000 each. "If this is managed care, I'm not thrilled about it," he says.

But the bottom-line approach appeals to Peter Slavin, a soft-spoken MGH doctor who also holds an M.B.A. from Harvard Business School. Dr. Slavin heads a hospital task force that is looking for extra efficiencies, and his personal computer holds data on 40 projects. Among them: creating flow charts that could cut heart-surgery costs and reviewing use of a major antinausea drug in chemotherapy.

"My greatest frustration is the pace of change," Dr. Slavin says. "It takes a great deal to get this very proud, 180-year-old institution to change so quickly. We've got 40 projects on our list. There should be another 100. Yet we're struggling to keep these 40 going."

Nevertheless, some veteran doctors think the tug-of-war between the traditionalists and the efficiency squads may be good. One is Barry Levine, an MGH internist who was assigned to spend three months helping Tufts review payment disputes at the hospital. Dr. Levine says that while his peek inside the HMO's world made him much more attentive to cost issues, he hopes that his medical perspective left a mark on Tufts employees, too.

"I truly believe that managed health care is the answer," he says. "It's working. But we have to be very careful not to get overzealous. Patients have human needs. You can't always apply predetermined formulas to them."

Going to an Elite Hospital Would Cost Patients More Under Clinton Proposal

Patients who want to go to elite out-of-state doctors and hospitals could still get insurance coverage under President Clinton's health plan—but not cheaply.

For decades, many Americans have traveled to renowned centers such as the Mayo Clinic in Rochester, Minn., and the Memorial Sloan-Kettering Cancer Center in New York without exceeding the limits of their insurance coverage. Those options aren't being closed off entirely, but they are getting tough scrutiny from both insurers and health-system reformers.

Administration officials say most of the curbs are coming from the insurance industry, as insurers try to channel patients into low-cost networks of doctors and hospitals. One architect of the Clinton plan, White House aide Walter Zelman, contends that if it is enacted, "people will actually have more opportunity to go out of network than they do today."

Several Options

Although it's far from certain that the Clinton plan will be passed in its current form, the 1,300-page proposal provides the most detailed gauge yet of what may lie ahead as Washington takes up the issue.

Under the proposal, people would pick a health plan from a menu of choices offered by a regional alliance. At least one of the options would be a fee-for-service plan allowing patients to be treated by any doctor or hospital they wanted. Another option would let patients go outside their regular care network as long as they paid more of the bill themselves.

Those provisions sound reasonable but may not work as well as the White House hopes, says Robert Smoldt, head of planning at the Mayo Clinic. People wanting to use nonnetwork hospitals could face sizable extra premiums and copayments, he contends, perhaps to the point that they would exceed budget targets set by the health alliances. "We don't think it should be up to the alliances to decide what can be offered to people," Mr. Smoldt adds.

A California precedent suggests that an out-of-network option wouldn't be cheap. The state's Public Employees' Retirement System offers a variety of health plans, much like the menu of choices the White House is proposing. The main plan that lets members go outside their network charges $637 a month for family coverage, about 30% more than the more restrictive plans do. The flexible plan also requires members to pay 40% of the cost of out-of-network hospitalization, compared with zero or 10% copayments for in-network care.

Most of the best-known medical centers currently count on long-distance referrals for a lot of their patients. The University of Texas M.D. Anderson Cancer Center says it gets 25% of its patients from outside its local Houston county and 5% from out of state. The Cleveland Clinic says it gets 20% to 30% from outside Ohio.

Remaining Accessible

The Clinton initiatives "would be a serious problem for patients who rely on us for services that aren't readily available elsewhere," says David Hohn, M.D. Anderson's vice president for patient care. He notes that his cancer center was one of the first places in the U.S. to offer patients a new drug, taxol, for ovarian cancer; now, the drug is widely regarded as promising.

At the Cleveland Clinic, however, officials think that price cutting will keep their center accessible to out-of-state patients, regardless of how the health-reform debate is resolved. Lately, the Cleveland Clinic has been offering a package of 70 specialized services, ranging from lung transplants to heart surgeries, to budget-minded health plans around the U.S.

To get business, the Cleveland center has cut prices enough to win customers such as Delta Air Lines and Kaiser Permanente, the large health-maintenance organization. They send some out-of-state patients to Cleveland, finding it cheaper than trying to provide high-tech care locally. "It would be more difficult, but we could come up with a mechanism to keep doing this under the Clinton plan," says John Clough, chairman of the clinic's health-affairs department.

—*George Anders*

66

THE PRESIDENT HAS SEEN 3/18

Stan —
This is a
good
article — shows
relevance to Congressmen
of Academic health
centers —
B

THE PRESIDENT HAS SEEN 3/15

STEVE HANKE

Ukraine's dilemma, Clinton's choices

Leonid Kravchuk

President Clinton should identify the weak point in Ukraine's defenses.

Today, President Leonid Kravchuk of Ukraine arrives in Washington, where he will meet with President Clinton and members of Congress. There are two general perspectives on the importance of this meeting. The first is articulated by Zbigniew Brzezinski in the current issue of Foreign Affairs. Mr. Brzezinski argues that the West must create conditions such that Russia can't follow its neo-imperialist proclivities and that the Russian-Ukrainian border is the best place to draw a line in the sand. The second perspective is presented by Irving Kristol who concludes that Ukraine's fate is to become "a client state, or semi-protectorate of Russia." Consequently, the United States should continue to follow President Bush's advice, which he presented to the Ukrainian parliament in his "Chicken Kiev Speech" (August 1991): namely, to sing the virtues of a Russian-Ukrainian union. Mr. Kristol (and to a large extent President Clinton and Strobe Talbott) has it wrong and Mr. Brzezinski has it right.

If we accept Mr. Brzezinski's perspective, we must then determine what should be done. On this count, Mr. Brzezinski comes up short. To "help" Ukraine, he proposes to pump in more foreign aid. Alas, close scrutiny of the performance of countries that are large aid recipients shows that aid is inimical to fostering a strong market economy. For example, the two largest recipients of U.S. aid largesse, Israel and Egypt, remain mired in socialism and unable to deliver credible transformation policies. When we look at the big transformation success story, China (so far), we find that the Chinese have generated fabulous growth from the first day they started to transform in 1978 and that aid to China was negligible.

If the U.S. opts for the Brzezinski doctrine and decides to bolster the fortunes of an independent Ukraine, President Clinton must turn a blind eye towards Mr. Kravchuk's request for a $300 million bridge loan from the U.S., Kiev's application for a $700 million loan from the International Monetary Fund (IMF) and a $400 million World Bank loan for sectoral reforms. What then can Mr. Clinton do to assist Ukraine?

First, Mr. Clinton must discard his romantic notions about Russia's intentions vis-a-vis Ukraine and consult some of the works of the great Austrian economist, Ludwig von Mises. In his book, Liberalism, which was first published in German in 1927, von Mises concludes that "Ever since Russia was first in a position to exercise influence on European politics, it has continually behaved like a robber who lies in wait for the moment when he can pounce upon his victim and plunder him of his possessions." With regard to Ukraine (and the other republics of the former Soviet Union), Russia is confirming von Mises' thesis. For example, in March of 1993, well before Mr. Vladimir Zhirinovsky was on the scene, officials of President Boris Yeltsin's government told leaders in Eastern Europe not to bother building large embassies in Kiev because within 18 months they would be downgraded to consular sections.

With a clear, informed mind, Mr. Clinton should then identify the weak point in Ukraine's defenses. The weakest point is easy to determine: the Ukrainian central bank. Thanks to bad advice from the G-7, IMF and virtually all Western advisors, Ukraine, like the other republics of the former Soviet Union, has established a central bank. These institutions have opened a Pandora's box because they have not, and cannot, function in the former Soviet Union.

In Ukraine, for example, hyperinflation is running at over 100 percent per month and the Ukrainian currency, the karbovanets, is well on its way to being completely destroyed. Indeed, things are so bad that the battered ruble is sought after in Kiev's black market. Since the average length of hyperinflations is 13 months and no hyperinflation has lasted more than about two years, we know that Ukraine's days are numbered. When the day of reckoning arrives, Ukraine will be ready for the ever-opportunistic Russians' picking. Indeed, rotten doors are easier to kick in than solid ones.

That the Russians will make their move when the karbovanets completely collapses is assured; they are grand masters at that game. For example, in 1939-40, when the Soviets occupied eastern Poland, Estonia, Latvia, Lithuania, and Bessarabia, they "encouraged" the local governments to inflate (destroy) their local currencies. That left the door open for the Soviets to offer the ruble as a "superior" currency. Annexation followed. The same tactic was used most recently (January 1994) in Belarus.

The only way Ukraine can shore up its defenses and protect its sovereignty is to abolish its central bank and replace it with a currency board. By producing a fully-backed, convertible currency, the currency board system is foolproof. Indeed, no currency board has ever failed, even during civil wars.

Estonia realized this and introduced a currency board-type system in June 1992. Not surprisingly, the kroon is stable and the Estonian economy is registering solid growth. Lithuania, wishing to insulate itself from predatory tactics, is moving rapidly towards the establishment of a currency board. If Ukraine wants to remain independent, it, too, must follow suit.

Steve H. Hanke is a professor of applied economics at the Johns Hopkins University in Baltimore and state counselor on monetary and financial issues for the Republic of Lithuania.

FRIDAY, MARCH 4, 1994 The Washington Times

M

THE PRESIDENT HAS SEEN 3/18

~~Thoughtful~~

Interesting

J

Discharged and Dunned

Despite Relaxed Rules, Military Pursues Ousted Gays to Recoup Payments

By John Lancaster
Washington Post Staff Writer

Several years ago, congressional critics and gay activists jumped on the Pentagon for trying to recoup scholarships and bonuses from men and women kicked out of the military services because they were homosexuals. Although the Pentagon has since relaxed its rules against homosexuality, two recent cases suggest its collection program remains intact.

One of them involves Eric Fenner, now 23, who received a $4,500 bonus from the Navy following his graduation from nuclear power plant training in 1992. Fenner subsequently disclosed his sexual status, and received an honorable discharge last year. Now the Navy wants him to pay back a portion of the bonus on grounds he did not complete his six-year enlistment.

The other case involves Michelle Keenan, 28, who won an Army ROTC scholarship to Vanderbilt University at the age of 18. Keenan said it was only later, during law school, that she realized she is gay, at which point she promptly disclosed her status to her Army command. Discharged honorably last March, Keenan currently is fighting the Army's efforts to collect $24,000 the service says she owes for violating the terms of her scholarship.

"The military can't have it both ways," said Michelle Benecke, an attorney with Servicemembers Legal Defense Network, which represents gay service men and women. "Based on their merit, the military lauded them, accepted them, gave them bonuses or scholarships, then for reasons totally unrelated [to their performance], kicked them out. If the military wants to shoot themselves in the foot with this shortsighted policy, that's their problem."

Pentagon officials declined yesterday to comment on the specifics of individual cases, citing privacy considerations. They said, however, that as a general rule, servicemembers accept certain conditions along with their scholarships and bonuses, one of which is that they will be liable for reimbursing the funds if they fail to complete their service obligations.

"This is true not just of homosexuals, but any other reason," said Lt. Col. Doug Hart, a Pentagon spokesman. "If they've got bad grades and can't make it, they may or may not have to pay back the scholarship money depending on the circumstances." For all the controversy it has caused, the Pentagon's reimbursement policy has a practical side. Defense officials do not want to invest thousands of dollars in a college education for a future officer only to see him or her discharged for homosexuality shortly after graduation.

BY FRANK JOHNSTON—THE WASHINGTON POST

The Navy wants Eric Fenner to repay enlistment bonus.

They suggest, moreover, that under the Pentagon's old policy, which explicitly banned homosexuals from service, many gay service personnel who accepted scholarships or bonuses did so under false pretenses. The new policy, which took effect last month, allows gay men and lesbians to serve so long as they do not reveal their sexual status or engage in homosexual conduct.

But gay rights activists say many young people are still confused about their sexuality when they sign up for military duty. They see the reimbursement policy as a cruel Catch-22 that penalizes gay men and women for the very quality the military teaches them to revere—honesty.

Hart, the Pentagon spokesman, said each case is "looked at on an individual basis" and that "if this revelation came to them after they were already in school, then it's very possible they wouldn't have to pay it back."

The issue first erupted into public view in the late 1980s, when the Defense Department sought reimbursement of scholarships from three gay ROTC scholarship students. After protests in Congress and on college campuses, then-Defense Secretary Richard B. Cheney privately ordered his military service chiefs to back off, according to the book "Conduct Unbecoming" by the late Randy Shilts.

Both Fenner and Keenan insisted in interviews that they did not mislead recruiters about their sexuality. Fenner, the son of a Navy officer, said he "just kind of avoided" the issue as a teenager and enlisted in the Navy in part because "I wanted some time to think." Early last year, Fenner notified his commanders at the submarine base in Groton Ct. that he is gay, he said, and received an honorable discharge. Fenner, now a shipping manager at a corporate office in Rockville, then received a collection notice seeking $2,046, the prorated portion of his enlistment bonus, according to documents he provided.

Keenan acknowledged that the four-page ROTC contract she signed as an 18-year-old contained a statement "in fine print" asserting that she was not a homosexual. But she said she was acting in good faith because at the time "I didn't know I was a homosexual."

Keenan, who by that time had been commissioned as a second lieutenant, said that she notified her Army command of her sexual orientation within two weeks of acknowledging it to herself. But the Army has continued to press her to pay back a portion of the scholarship, a debt that has grown with interest to over $24,000, she said.

Sgt. 1st Class Dawn Kilpatrick, an Army spokeswoman, said: "It's not really a homosexual issue, it's a contract issue. If an individual voluntarily takes himself out of the contract, they're required to" repay the government for its losses.

FRIDAY, MARCH 11, 1994 THE WASHINGTON POST

48

Chron

THE PRESIDENT HAS SEEN 3/18

Tony

Is this necessary?

B

[redacted]

Tony Lake

B

[redacted]

THE PRESIDENT HAS SEEN
3/18/94

[redacted]

LA Weekly Nov. 18, 1993

Tony

The Children's Hour(s)

As developing nations emphasize exports, the use of child labor increases


Child worker in a New England mill, 1909

LEWIS W. HINE

BY RICHARD ROTHSTEIN

IN 1991 THE NATIONAL CONSUMERS League conducted a Christmas boycott of toys made in China, where 10-year-old girls sleep three to a bed in company dormitories and work 14-hour days for as little as $10 a month.

Eight months earlier, *The Wall Street Journal* had described 12-year-old Vicente Guerrero of Guanajuato, first-ranked in his school's general-knowledge exam, but who was forced to drop out for a $34-a-week shoe-factory job. The *Journal* established a scholarship fund to send Vicente back to school, but 5 million to 10 million other Mexican children continue to work illegally.

Last December NBC-TV described Wal-Mart's garment contracting in Bangladesh where children younger than 13 work up to 20 hours a day and sleep on factory floors to earn $7.50 a month.

As developing nations emphasize exports, child labor spreads. While many nations ignore their own regulations, some are more blatant: last year the Philippines, to attract investors, abolished factory age requirements. World work forces now include 200 million children, many mortgaged by parents to carpet and garment factories where accumulated bills for food, lodging and drugs (often amphetamines dispensed to sustain long hours) make redemption of mortgages impossible. About half the children in Pakistan's export carpet industry die from malnutrition and disease before age 12.

U.S. policymakers generally accept child labor's inevitability. In 1990 the AFL-CIO filed a petition to deny Bangladesh duty-free import privileges, in part because of failure to enforce child-labor laws. Bangladesh responded that "abject poverty compels children to work," and the U.S. government dismissed the petition.

Senator Tom Harkin (D-Iowa) and Congressman George Brown Jr. (D-San Bernardino) have now introduced a "Child Labor Deterrence Act" to prohibit import of products made by children. The Clinton administration has not yet endorsed the legislation, but expectation of enactment has attracted international attention. The Philippines announced it would reinstate child-labor prohibitions if the bill passed. India's carpet industry (with 300,000 child laborers) reacted to Harkin-Brown (and a European boycott) with a new certification label for child-labor-free carpets.

Yet most Third World authorities condemn Harkin-Brown. Bangladesh officials complain it could "force thousands of child workers into begging or prostitution." UNICEF's Bangladesh representative declared that the proposed law "has already done damage to children of Bangladesh by evicting them from garment-manufacturing facilities and depriving them of income."

In a recent *Harvard Business Review*, World Bank consultant David Lindauer summarized prevailing views: "If children were not in the factory, they might be begging or scavenging. We cannot solve the

SUPPLY & DISSENT

problem of child labor in a poor country by prohibiting contractors from hiring anyone under the age of 14. It will not change the fundamental circumstances of the labor market. We know of no case where a nation developed a modern manufacturing sector without first going through a 'sweatshop' phase. How long ago was it that children worked in the textile factories of Lowell,


Child worker in a Thai silk factory, 1989

Massachusetts? Should developing countries be any different?"

This argument ignores that no nation emerged from its "sweatshop phase" without decades of popular agitation. In America, a 1917 law finally prohibited children's factory labor but was invalidated by the Supreme Court. Congress then imposed high taxes on profits from child labor; they too were struck down. Child labor was again prohibited by codes of the New Deal's National Recovery Administration, also declared unconstitutional. Finally, in 1938, Congress passed, President Roosevelt signed, and a new Supreme Court accepted the Fair Labor Standards Act which outlawed children's factory labor and established minimum-wage rules.

Opposition was led by the National Association of Manufacturers and academic authorities — the president of Columbia University and the former presidents of

See Supply & Dissent, Page 16

SUPPLY & DISSENT FROM PAGE 14

Harvard and the Carnegie Foundation, for example. Arguments of child-labor apologists were nearly identical to contemporary development experts' rationalizations. According to one mill owner in 1916 congressional testimony: "If you raise the limit to 15 or 16 you would simply exaggerate the hardship that would be visited upon large numbers of people upon whom God has laid poverty." Today's elites haven't stopped believing that God supports their economic policies; they've only renamed him the "fundamental circumstances of the labor market."

During the Depression it became clear that child labor did not alleviate but perpetuated poverty; children's work caused adult unemployment. Adults worked only if pay provided minimal subsistence, but children labored for less, to add pennies to family coffers. Wherever child labor is prevalent, it accompanies adult unemployment. In Mexico today, where 12 percent of children work, 10 million adults are underemployed.

In America, Northeastern states couldn't prohibit child labor because Southeastern states lured industry with promises of deregulation. National legislation was needed. Likewise, developing nations can't control child exploitation because employers retaliate with relocation. Child labor in South Asian carpet industries burgeoned only after the Shah of Iran banned child labor in 1970, causing a rise in Iranian carpet prices. The ban drove carpet exporters from Iran, and substituted child servitude in India, Pakistan and Nepal. When China attempted child-labor regulation in 1988, a Hong Kong manager for American toy contractors announced, "This is the toy biz. If you don't allow us to do things our way, we'll close down our Chinese factories and move to Thailand."

Only a uniform international ban enforced by importing countries (with measures like the Harkin-Brown bill) can prevent such downward spirals.

THE PRESIDENT HAS SEEN 3/18

[illegible] / ltr

This is great

James C. Wright, Jr.
9A10 Lanham Federal Building
819 Taylor Street
Fort Worth, Texas 76102

Speaker
U.S. House of Representatives
1987 - 1989

Member of Congress
12th District, Texas
1955 - 1989

March 8, 1994

VIA FAX

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

Dear Mack:

I am writing this to you because I know something about what the president is suffering inwardly. Since you are his true and sincere friend, I want to communicate from my own experience a thought or two that may help you to help him. Even his very best friends cannot fully identify with the personal pain, the anger and frustration which he is sure to be feeling. I know, because I suffered an almost identical ordeal five years ago.

Like President Clinton, I believed so earnestly in my innocence of any wrongdoing that I <u>invited</u> an investigation. I initiated the action. Like him, I naively supposed that act would silence the petty, nitpicking obsession of frivolous fault-finders in the press and political opposition and that the final report would totally exonerate me of any wrong.

Mack, I underestimated -- and so has he -- the absolutely insatiable appetite in the media for scandal (If they cannot find it, they'll invent it.) and the absolute evil of some in the Republican party who are not restrained by impulses of human decency and will not stop at any slander to attain their ends.

The president surely knows, but must be reassured, that it isn't his ethics with which they find fault. It is his effectiveness! Because he achieved almost every one of his legislative objectives last year and has made a good start this year, the political opposition will stop at nothing to distract, divert, deflect public attention from the achievements and the substantive goals on which he is working. Their success in luring the fickle and feckless press away from the main highway onto these countless dead-end detours is bound to be agonizing and frustrating in the extreme to Bill Clinton.

The next thing in which I sincerely hope President Clinton will rest assured is that the public is with him. I almost lost sight of that during my own travail. I became so anguished and was in such pain assuming large segments of the public must actually believe the innuendoes and outright lies being written about me that I resigned. I had run up a half million dollars in personal legal fees and suffered sleepless nights. My blood pressure soared and my wife feared I might have a stroke. But here is the point -- after my resignation, one newspaper which had clamored for it conducted a poll revealing that 81 percent of the voters, including 72 percent of all the Republicans, believed I was innocent and had been wronged and would vote for me if I sought my old post back.

The point of this is that, while the obsessive news media coverage had made me feel impotent and alone, there was a deep reservoir of public understanding and support on which I could have counted. I am certain that this very same innate common sense of the average people rests like a strong safety net under Bill Clinton. He must not lose sight of that fact, however busily the media practitioners may seek to obfuscate and obscure it.

Bill Clinton and all of you in the White House need to remember that prosecutors and newsmen depend for their advancement and sense of accomplishment on finding something wrong. They are never applauded for concluding that everything was alright. Fiske is human. He undoubtedly feels the spoken and unspoken pressure of the media to prove repeatedly that he is not a patsy, that he's a tough guy and a relentless investigator. Hence the stupid and insulting subpoenas where a simple personal request would have sufficed. It is easy to be dismayed. Try not to be.

Finally, you need to be aware that there is a wicked cabal of holdover appointees from the Reagan and Bush years, particularly in the Justice Department, which is disloyal to the core. They do not wish the president well. They should have been rooted out early last year. U.S. District Attorneys and all Schedule C appointees in the Clinton Administration should be team players, loyalists. Bill Clinton deserves no less. He does not have that today. If there is any doubt of this, I can cite you chapter and verse.

There are other things that I could tell you, Mack. I do not want one solitary thing. But I do know what Bill Clinton is going through, and I want to do anything and everything I can to help. Please call on me if I can elucidate on any of the matters above. The only thing I want to be is your friend. I have a feeling that you need one.

Sincerely,

Jim Wright

Jim Wright

THE PRESIDENT HAS SEEN 3/18

Costs Soar for Children's Disability Program

How 26 Words Cost the Taxpayers Billions in New Entitlement Payments

By Bob Woodward
and Benjamin Weiser
Washington Post Staff Writers

A1

Nora Cooke Porter, a pediatrician and lawyer, works on the front lines of the nation's entitlement system. She can barely contain her frustration as she flips through some of the thousands of applications for a federal aid program for disabled poor children that have passed through her Harrisburg, Pa., office over the last two years.

The files show, she says, that children who curse teachers, fight with classmates, perform poorly in school or display characteristics of routine rebellion are often diagnosed with behavioral disorders and therefore qualify for the program's cash benefits, which average $400 a month. Under a broad new federal standard prompted by a 1990 Supreme Court ruling, behavior that isn't "age appropriate" is considered a disability.

Porter feels her hands are tied by the new rules. She has tried to block benefits to children who, in her medical opinion, are not suffering from any disability. Her superiors have overruled her, and she has written detailed rebuttals. Last month, she was suspended without pay for her repeated protests, and she believes her job as a disability-review physician is in jeopardy.

Months before her suspension, she agreed to be interviewed because she believes that the children's disability program is an example of an entitlement system gone haywire. She hopes that her decision to speak out will draw attention from congressional or federal investigators.

SSI, From A1

The age-appropriate standard is only the most recent flaw in the program, according to Porter and others. They trace the program's problems to its origin: a vague, little-debated 26-word clause that was hastily inserted in a mammoth welfare bill passed in 1972.

Porter's criticisms are echoed by many others who work in the program. They say they sympathize with the children, many of whom are living in desperate poverty. But, they argue, the program does little to help them with their real troubles, especially since the majority of children who now qualify have mental disorders rather than physical ones.

How to provide for the country's neediest—the old, the young, the poor, the sick, the disabled, the disadvantaged—without bankrupting the Treasury has become one of the central governing questions of our time.

Earlier this week, The Washington Post published a series of articles on the rising cost of Medicaid, the health insurance program that is the government's largest entitlement for the poor. This article examines the little-known children's disability program, another entitlement for the poor, which is experiencing the same skyrocketing costs as Medicaid.

Last year, the children's disability program cost $3.6 billion. It was serving 770,000 at the end of December, a number that none of its sponsors imagined possible when it was enacted 20 years ago, they say. Because disability recipients automatically qualify for Medicaid, the program's rapid expansion also has led to hundreds of millions of dollars in additional costs for that entitlement program.

Children's disability is a component of a larger entitlement program called Supplemental Security Income, or SSI, which provides benefits to poor people who are elderly, disabled or blind. By law, entitlement programs guarantee government benefits to anyone who meets the qualifications set out in legislation or in regulations. Federal spending levels are mandatory, meaning they cannot be altered unless the law is changed.

1/3

What Can Happen

The history of the children's disability program illustrates what can happen when a law is enacted without much debate or study and then becomes subject to interpretation by regulators, advocates and the Supreme Court.

The new age-appropriate standard that Porter criticizes was written by federal regulators after the Supreme Court ruled that the law required the government to use a broader definition of disability in determining eligibility.

Since the court ruling, the number of children receiving benefits has more than doubled. The decision also led to lump-sum back payments for some 150,000 children who had been denied benefits under the old rules. These back payments—which averaged $15,000, with some as high as $75,000—have cost the government $2 billion since 1991, plus at least $287 million more in administration.

In a survey of state disability determination directors conducted last summer, more than half cited "inappropriate use of SSI funding" as the most common concern in their states. Parents or guardians are not required to use the money for therapeutic or medical aid. They can spend the cash payment as they please, as long as it benefits the child in some way. That rule has been interpreted to allow the purchase of a television set, a video game or a car.

"I really have to grapple with the idea that I'm allowing that parent to use the money any way they want to, fairly certain, given the history, that the child is not going to benefit," said a psychologist in the Washington disability determination office. "And that happens to us . . . eight times a day."

The lump-sum payments revealed what both supporters and critics of the program see as the absurdity of federal spending rules. Families receiving the back payments were required to spend the money within six months so that their sudden wealth would not make them ineligible for the income-based program.

Last summer, a group of disability experts and officials met in Washington to discuss the mission of the children's disability program. According to a confidential memo about the July 19 meeting, a congressional staff director "questioned exactly what we were trying to accomplish by giving disabled children benefits."

The response: "From a social policy perspective," the memo said, "it was interesting that no one really had a good answer"—not the policy experts, nor the people who run the program, nor even the people who oversee the legislation.

A Consolation Prize

The children's disability program began in 1972 as a kind of consolation prize.

The Senate had just killed the Nixon administration's proposal for a guaranteed minimum income for poor Americans. As a compromise, Congress established SSI to provide aid for the "deserving poor": the elderly, blind and disabled. Initially, no money was set aside for children.

Thomas C. Joe, a senior federal welfare official, inserted the 26-word clause that expanded SSI to cover children. It appeared in parentheses, as follows: "(or, in the case of a child under the age of 18, if he suffers from any medically determinable physical or mental impairment of comparable severity)."

Joe, 58, now head of a Washington social policy think tank, said that expanding the program to cover disabled children was part of his "incremental strategy" to assist as many poor people as possible. It was a welfare program disguised as disability assistance.

There was no consideration of the financial or policy consequences or of other ways to aid disabled children, according to participants in drafting the original legislation. Nor was there any public hearing that even mentioned Joe's 26-word clause.

Joe acknowledged with some humor that he tucked the provision into the 697-page bill in order to sneak it through. "I was afraid that too many people were going to discover this and it would be a big controversy," he said. "This is a good example of democracy not at work," he added.

THE WASHINGTON POST FRIDAY, FEBRUARY 4, 1994

37

The Senate Finance Committee chairman at the time, Russell B. Long (D-La.), made a run at killing the provision. "Disabled children's needs for food, clothing and shelter are usually no greater than the needs of non-disabled children," his staff wrote in a Sept. 26, 1972, committee report. It said disabled children needed health care and rehabilitative services, not money, and noted that Medicaid already covered poor children's health costs in 48 states.

During the closed-door, marathon weekend House-Senate conference in October 1972 to reconcile different versions of the bill, hundreds of other welfare, Medicaid and Medicare issues were being resolved, and SSI received little attention.

"It wasn't thought of as a big deal," said Frank Crowley, a now-retired senior staffer who worked on the bill. "It was one of these annoying little details."

The 67-page report from the conference made no mention of how the issue was settled. J. William Kelley, a House Ways and Means Committee staffer at the time, has a copy of the only existing conference paper about Senate amendment No. 564, which called for dropping Joe's provision. The single sheet reads: "CONFIDENTIAL. Summary: The House bill authorizes payments to children under age 18. The Senate bill does not." The line under "Cost" was left blank.

When the conference report was presented to the House on Oct. 17, 1972, Rep. Phillip Burton (D-Calif.) rose to praise the new program. "Thanks to Tom Joe, this is now a reality," he said.

What Is Disability?

Joe's amendment became law without anyone addressing the obvious question: How do you define disability for a child?

Previously, disability assistance had been premised on the disabled person's inability to work. The purpose was to make up for lost income. The bill creating SSI defined a disabled adult as someone "unable to engage in any substantial gainful activity."

But children don't work, at least until they become teenagers. "It is ludicrous on its face to apply the same standard to children," said Joseph Humphreys, a former congressional staffer who worked on the 1972 bill. Humphreys called the 26 words "a punt by Congress" that left regulators to decide what to do.

The meaning of Joe's 26 words—especially the phrase "comparable severity"—has been controversial ever since. Even today, Joe said, he doesn't know exactly what the phrase was supposed to mean.

In writing regulations, the Social Security Administration, which runs SSI, said an adult was eligible if his or her disability appeared on a predetermined list of physical and mental impairments. If it didn't, the adult could still qualify by having a personal evaluation that determined that he or she was unable to work.

The regulations treated children differently. They had to manifest one of the listed impairments, such as acute leukemia, chronic epilepsy or serious mental retardation. Because children generally don't hold jobs, individual evaluations were not considered necessary.

In the early 1980s, the Reagan administration moved to slash the number of people on federal assistance programs, including SSI. One of the thousands of people affected was Brian Zebley, a 5-year-old retarded boy. His family filed a lawsuit, charging that the government was illegally denying benefits to Brian and other children.

As the case wound its way through the federal courts, it attracted a vigorous and passionate advocate—Jonathan Stein, a legal services lawyer in Philadelphia. The legal counterpart to Joe, Stein saw the courts as a way to extend benefits to the poor. He and a colleague, Richard Weishaupt, took Zebley's case all the way to the Supreme Court.

Stein spotted the logical flaw in the administration's way of determining eligibility: The "comparable severity" test could not be applied to children unless the methods of assessing disability in adults and children were themselves comparable. Children deserved the same kind of individual assessments that adults were receiving, Stein argued.

A Supreme Court case often carries the expectation that large constitutional, moral or social issues will be addressed. The Zebley case, however, was framed narrowly: Had the government properly interpreted the law? In 1990, in *Sullivan v. Zebley*, the Supreme Court ruled 7-2 in Zebley's favor and ordered the Social Security Administration to give children the same individual analysis as adults.

To implement the high court's ruling, the agency asked a panel of experts to settle the question: What is the work of a child?

The panel's answer, in the form of new regulations, is the primary cause of Nora Porter's complaints. The new rules defined a child as disabled if his impairments "substantially reduce" his ability to "grow, develop or mature physically, mentally or emotionally and thus to engage in age-appropriate activities of daily living." These activities ranged from learning, communicating and performing in school to interacting appropriately with peers and family members.

Social Security officials said the panel was seeking a common-sense way of comparing children and adults. In Porter's view, they failed. "Age appropriate is a fictitious standard," she said. "It applies to the perfect child, and any deviation from that allows someone to apply for and likely be declared disabled."

James Perrin, a Harvard Medical School pediatrician who helped develop the regulations, said Porter's criticism was unrealistic and out of touch. He said physicians need some standard to assess a child's behavior. "None of us can think about children without raising the question of age-appropriate behavior," he said. "There's no way of approaching children and adolescents without thinking about that."

Victory Provides Leverage

Stein's legal victory gave him enormous leverage over the children's disability program. According to federal and state officials, he became the program's de facto supervisor.

Stein regularly threatened to seek contempt-of-court citations when he felt the Social Security Administration wasn't implementing the rules fast enough. He also provided the news media with information of how the agency's foot-dragging was costing hundreds of thousands of disabled children money that the Supreme Court said they deserved.

One of Stein's most significant accomplishments was getting Social Security to review roughly 450,000 cases, dating to 1980, in which children had been denied benefits. This led to the 150,000 lump-sum back payments.

But not even Stein could do anything about the government's requirement that the recipients spend the money within six months to remain eligible for the program. Stein unsuccessfully tried to create an exception for back payment recipients, calling the rule "Kafkaesque."

The rules legitimized and even encouraged shopping sprees. In a case that both federal officials and program advocates said was fairly typical, Beverly Smith of Greenville, Ky., received a back payment in 1992 of $13,000 for her 11-year-old son, who is hyperactive and was deemed disabled under the new rules. Smith, who earns about $8,000 a year sweeping up in a local bank, said she was shocked to receive so much money at once.

She used the money to buy a car, a washer and dryer, a refrigerator, a stove, a television, a $2,500 computer and three jogging suits for her son, she said in a recent interview. She also repaired her bathroom, leaky roof and collapsed hallway floor.

The computer, she said, has helped her son to sit still for long periods of time for the first time in his life. The stove had to be fitted with protective glass doors because her son once started a fire in the kitchen.

Smith now receives a regular monthly SSI check from the government for $446, in addition to Medicaid benefits.

In other cases disability money—both the back payments and the monthly checks—has been spent on everything from medical expenses not covered by Medicaid to family vacations. In some cases, families have tried to avoid the spending sprees by establishing trust funds for the children, but such arrangements are legally complex and prohibitively expensive.

The Social Security Administration does require an accounting from the person who is entrusted with the child's check. But the agency does not have the resources to scrutinize spending on a large scale. A guardian is suspended only if an egregious misuse of the money is called to the agency's attention.

"When you get into programs like this," said Louis D. Enoff, a 30-year veteran of the Social Security Administration and its acting director until July 1993, "if you write something that's very, very tight, then you have great difficulty. . . . You're going to have to follow up with a tremendous administrative detail to follow it

2/13

THE WASHINGTON POST FRIDAY, FEBRUARY 4, 1994

through. What are we going to do? Follow every penny and ask for check stubs? And go see the evidence?"

Enoff said he wasn't sure a purchase such as a car should be allowed. "Yeah, they may buy a new car, but it's not a Mercedes or something," he said. "That's probably benefiting the kid as much as anything, because he needs treatment and he gets better treatment. . . . If the child has to go to the hospital once a week, they're taking a cab now. So you pay for the car pretty quickly." He added, "I mean, I would not buy a car, maybe, if it was me."

Social Security officials said the evidence of abuse is small. "I believe that most people are honest people . . . who really care about their kids," said Barry Eigen, a senior Social Security official. "They're not trying to beat somebody out of something. They need this."

Fractured Administration

Administration of the child disability program is divided among state and federal offices in a vast, fractured system where hardly anyone is responsible for seeing the big picture.

First, applicants visit federal Social Security offices, where financial eligibility for the program is determined. Then, the applications are sent to separate state offices, such as the one where Porter works in Harrisburg. The state offices determine medical eligibility. Finally, the cases return to the Social Security offices, which make the monthly payments and oversee the spending of the money.

Doctors and examiners in the state offices make their judgments on the basis of applications and medical assessments. They almost never meet the children they are evaluating or the parents who are spending the money. "Our work begins in the mailroom when we receive a file and ends in the mailroom when we send it back with an allowance or disallowance," said Myrtie Adkins, the Maryland office director.

Meanwhile, the Social Security officials who see the applicants have no input on the disability determination. "We don't question the decision," said Ruby Burrell, head of the Camp Springs, Md., Social Security office. "We don't even question if they are really disabled. It would be improper to do that. . . . You meet the criteria, you get the benefits."

Many recipients come from troubled families, where parents or guardians may have their own addictions or pathologies.

Karen Bolewicki, a senior examiner in Maryland for eight years, said "at least one-third" of her cases involve families in which a parent is a drug or alcohol abuser. And Maryanne Bongiovani, a psychologist in Maryland for five years with a PhD, said a quarter of the 4,000 children's cases she has reviewed involve sexual abuse by a family member.

Kenneth R. Carroll, a psychologist with a PhD and a former colleague of Porter's in Pennsylvania, said these troubled family situations made him uncomfortable approving certain applications. "Many of the problems these children manifest are largely traceable to parental neglect or abuse," said Carroll. "Behavioral and emotional problems or conduct disorders that are directly attributable to inadequate parenting are being called disabilities, and the parents are receiving a cash award for having achieved the problem."

But Leslie Ellwood, a pediatrician with Virginia's office of disability determination, said just because a disability stems from poor parenting doesn't mean the children do not deserve assistance. "You don't want to visit the sins of the parents on the child," Ellwood said.

To address all these complicated questions, the government has now written some 40,000 words to interpret Tom Joe's original 26-word phrase. "We're doing a lot here based on one little statement," said Louis Enoff. "And is this really what was meant?"

Researcher David Greenberg contributed to this report.

3/3

SOARING COSTS

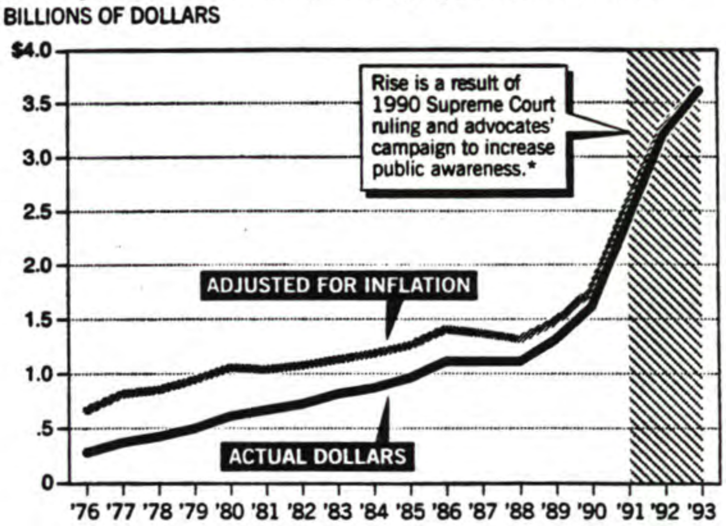
GROWTH OF THE CHILDREN'S DISABILITY PROGRAM

The children's disability program was enacted in 1972 as part of the Supplemental Security Income program. Payments began in 1976.

Recipients must have limited income to be eligible. Two examples:

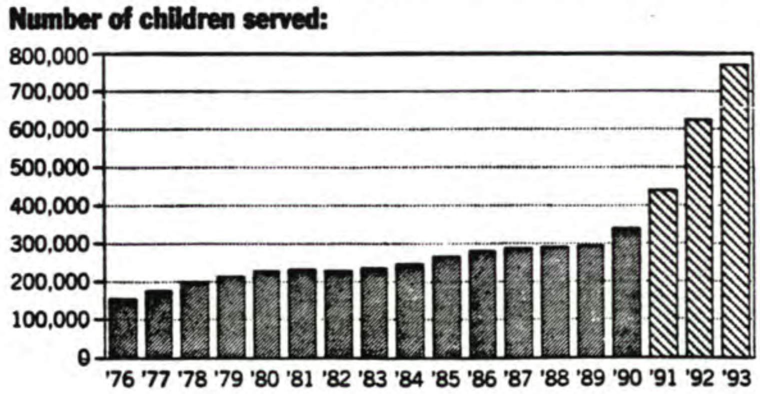
- **A single working parent** with one disabled child receives the full SSI payment of $446 a month as long as the parent's earned income is less than $1,107 a month ($13,284 a year). As income increases, the SSI payment decreases correspondingly; if income exceeds $1,907 in any month, the family becomes ineligible.
- **A two-parent family with two children**, one of whom is disabled, receives the full benefit if its earned income is less than $1,685 a month ($20,220 a year). Partial payments are available as long as the family's income level is below $2,576 a month. Above that level, the family becomes ineligible.

Benefits paid to families of children judged to be disabled:
IN BILLIONS OF DOLLARS



*Figures for 1991-93 do not include $2 billion in retroactive payments made after the 1990 Supreme Court ruling.

Number of children served:



SOURCE: Social Security Administration

THE WASHINGTON POST FRIDAY, FEBRUARY 4, 1994

39

THE PRESIDENT HAS SEEN 3/18

Castro

anything to do

w/ this?

THE PRESIDENT HAS SEEN 3/18

Employer Costs for Prescription Drugs Increased 15% Last Year, Survey Finds

By RON WINSLOW
Staff Reporter of THE WALL STREET JOURNAL

NEW YORK – Employer costs for prescription-drug benefits jumped 15% last year, about twice the rate of overall health-plan expenses, according to Foster Higgins, an employee-benefits consultant.

The findings indicate that despite growth of managed-care strategies to contain health costs and pledges from drug manufacturers to hold down price increases, many employers are still having difficulty holding down the cost of prescription drugs for their workers.

The survey, covering 2,395 employers, also found that growth in overall health costs was shaved to 8% last year, compared with a 10% increase in 1992. And it showed that, for the first time, a majority – 53%, to be exact – of U.S. employees who were covered by health insurance were enrolled in a managed-care program, up from 48% in 1992.

"The most successful approach we see in holding down costs is getting more and more employees into managed care," said David Rahill, principal at Foster Higgins.

The overall results provide further evidence of a general moderation in health-care inflation. Last month, for instance, the Bureau of Labor Statistics reported that medical-care prices rose just 5.4% last year, the lowest annual increase since 1973.

Conflicting Forces

But the results for drug benefits run counter to that trend and may reflect a variety of conflicting forces in the market. For one thing, said James A. Norton, managing consultant in Foster Higgins's Stamford, Conn., office, more companies are trying new techniques to manage their drug costs and the initial impact of such strategies often is to increase costs. That's because of the "shoebox effect." For example, prescription cards automatically record claims that employees might otherwise have stuffed in a shoebox and never filed.

Another factor, Mr. Norton said, might be the growing use of new drugs such as Prozac, an antidepressant marketed by Eli Lilly & Co. Many experts said they believe that consumers are seeking – and physicians are prescribing – such medicines for conditions that don't call for pills. "The consumption of drugs by the population is increasing steadily each year, and not necessarily because the rate of disease is increasing."

It appears unlikely that drug-price increases contributed significantly to the rise in corporate costs since prescription drug prices went up just 3.1% last year, according to the producer-price index. Compared with the 15% rise in employer-drug costs, revenues at the major drug companies grew about 5%, noted Jack Lamberton, an analyst at NatWest Securities Corp.

A Merck & Co. spokesman said growth of membership in managed-care plans could account for some increase in employer-drug costs because the plans tend to use drugs more aggressively to hold down hospital and other health-care expenses. But because managed-care organizations negotiate discounts, their increased utilization – and increased cost – might not increase drug companies' revenues proportionately, said a spokesman for McKesson Corp., which owns PCS Health Systems Inc., a big manager of pharmaceutical costs for health plans.

Mail-Order Pharmacies

According to IMS America Ltd., which collects data on prescriptions dispensed in the nation's pharmacies, individual prescriptions were up 5% in 1993, but those distributed by mail-order pharmacies, which are heavily used by managed-care organizations, were up 15%.

At managed-care networks known as preferred-provider organizations, or PPOs, costs were up 5.5%, while at so-called point-of-service plans – HMOs that provide members with the option of getting care outside of their network – increases were 8.9%.

Unlike traditional HMOs, both PPOs and point-of-service plans offer members the option – at increased out-of-pocket costs – to see doctors outside of the health plan. Nearly all of the enrollment growth in managed care occurred in those types of plans, while traditional HMO membership was almost flat, the survey found. "The desire to have some choice is a key selling feature of any new" health plan, Mr. Rahill said. Preserving choice of doctors is emerging as a key issue in the national debate over legislative proposals to reform the health-care system.

—Elyse Tanouye contributed to this article.

Big HMO Group Joins Drive to Lift Vaccination Rates

By RON WINSLOW
Staff Reporter of THE WALL STREET JOURNAL

A big trade group for health maintenance organizations is joining the Clinton administration's effort to boost vaccination rates among U.S. children.

The Group Health Association of America said more than 250 HMOs will work toward developing strategies for raising vaccination rates to 90% by 1996.

Currently, about 60% of children are fully immunized with diphtheria-tetanus-pertussis, or DTP, polio, and measles-mumps-rubella vaccines, and only about 40% of all children get them on the recommended schedule. One result: in the three years ended in 1991, some 136 children died in measles outbreaks that, public health officials say, could have been prevented with better vaccination rates.

Legislation aimed at achieving the 90% goal was passed by Congress last year and officials at the National Vaccine Project in the Department of Health and Human Services figured HMOs, which emphasize preventive care, could help lead the effort. "We need someone out front to demonstrate that it's possible to do it," said Anthony Robbins, of the National Vaccine Project.

Under the program, participating HMOs will determine their 1993 vaccination rates for their members to establish a baseline, set annual goals for improvement and report on strategies that work and those that don't, said Pamela Middlestat, director of medical affairs at GHAA. By disseminating such information, even among HMOs that might compete in local markets, the hope is that overall immunizations will increase and that models for both HMOs and non-HMO organizations can be developed. HMOs that serve Medicaid patients will be among the participants.

Experience at some 20 HMOs operated by United HealthCare illustrates some of the hurdles facing the initiative. Even though all the HMOs provide free vaccines, rates average about 65% to 70%. Dr. Newcomer said a study showed that physicians frequently missed opportunities to vaccinate children when they were brought in for other reasons. But rescheduling a visit was difficult because while parents can get time off from work to take a sick child to a doctor, they can't get time off to take a well child for a shot.

Hewlett-Packard Co.

Hewlett-Packard Co., Palo Alto, Calif., said it may have developed a practical alternative to incandescent lamps. The advance, which depends on a new technique that makes possible the world's brightest light-emitting diodes, could turn up in automobile taillights within two to three years, the company said.

Light-emitting diodes form the basis for various thin electronic screens. Their lack of brightness has hampered their use in the past, but Hewlett-Packard said its light-emitting diodes are as much as four times brighter than those from rivals.

The company declined to forecast the size of the market for these new lights, but a spokesman said the technology could replace incandescent lamps in many situations, including traffic lights. The company said it will begin selling sample quantities of the lights at midyear.

THE PRESIDENT HAS SEEN 3/18

Cyrus

shd I do more

to them?

The Des Moines Register

White House
News Summary
Page 9

OVER THE COFFEE

Donald
KAUL

Clinton vs. what's really news

Bill Clinton's first year in office is at an end; it's time for a summing up.

It was terrible; everybody says so. The president lurched from one disaster to another, trying to lie and cheat his way out of them. The sacred promises, he broke; the ones he kept, he shouldn't have made. He was weak when he should have been strong, stubborn when flexibility was called for.

He didn't seem to stand for anything. (Don't take my word for it, ask The Wall Street Journal or The Washington Post.)

Oh, he had his minor successes; I'll grant you that. Deficit reduction, GATT, NAFTA, health care, family leave, national service, nuclear disarmament, gun control. Piddling little triumphs.

But on the big issues, the ones that will set the course of the nation for the next century — the paying of Social Security taxes on household help, the propriety of getting haircuts in airports, the conduct of the White House travel office, free and untrammeled access to the back rooms of the White House press office by reporters, the fitness of women with cutesy names like Zoe, Kimba and Lani to serve in high office — he was a pathetic failure.

And if that wasn't bad enough, he kept us out of war in Bosnia, reduced the deficit on the hard-working, Armani-clad backs of the upper 2 percent of taxpayers and treated a couple of his Arkansas police bodyguards so badly that they had no choice but to spread awful stories about him, some of them true. Is it any wonder he came in for so much criticism?

Sure, he presided over a rebound in the economy, a surge in the stock market and a fall in joblessness, but why should we give him any credit for that? It is more interesting to hold him responsible for not getting us out of Somalia or into Haiti.

As a matter of fact, the only national institution to have a worse year than President Clinton was the press.

It abandoned all claim to respectability as it focused, with unremitting zeal, on the cheap, the tawdry and the meretricious. For example, in a month when we saw the remarkable repair of the Hubble telescope, giving promise of unlocking the mystery of the universe; when we learned that our government was guilty of appalling, Nazi-like behavior in the '40s and '50s, conducting radiation experiments on helpless, unsuspecting citizens; when the world's third-largest nuclear power agreed to give up its weapons, the two biggest stories in our newspapers and on our television screens centered on a figure-skater's knee and the sexual member of an alleged wife abuser.

Both the Kerrigan-Harding soap opera and the Bobbitt story were moderately diverting, in a Geraldo Rivera-Oprah Winfrey kind of way, but to go on about them day after day, week after week? This is journalism?

I don't think so. If I had my way I would sentence the Bobbitts to live together on an isolated island with Amy Fisher and Joey Buttafuoco. And the only visitors I'd allow them are the Menendez brothers.

Yeah, Clinton's a dud all right. Don't you wish for the good old days when we had a successful president? A president like Ronald Reagan?

One of Reagan's legacies came into the news the other day. Your local paper or TV news show might not have run it. They were probably too busy with important stuff, like Clinton's real estate investments in Arkansas or Michael Jackson's baby-sitting technique.

It seems that the Pentagon is getting ready to launch a $30 billion communications satellite system, Milstar, that will — are you ready for this? — enable us to sustain a nuclear war with the Soviet Union for as long as six months. From all reports, it is a terrific system. It has only a few flaws:

- There is no Soviet Union.
- If there were, a nuclear war would be more likely to last six hours rather than six months.
- There is no way to tell whether it will work, short of having a nuclear war.

Thirty billion.

So it's not perfect. What is? The point is that it's the sort of thing we should expect from a really successful president.

It's too bad about that two-term limit on presidents. Without it, Reagan could be in the White House yet, thinking up ways to spend billions on useless gadgets to defend ourselves from an imaginary enemy.

Presidential leadership: You've either got it or you don't.

DONALD KAUL is a Register columnist.

THE PRESIDENT HAS SEEN
3/18

THE PRESIDENT HAS SEEN 3/18

New Careers for Criminals

By Arlen Specter

WASHINGTON

When Congress reconvenes on Jan. 25, it has a chance to do something meaningful about violent crime.

The crime bill the Senate passed before the holiday recess is a start; it would provide $22.3 billion over five years for a broad range of anticrime activities, including building new prisons and hiring more police officers.

Something else needs to be part of any serious approach to crime, but hardly anyone is willing to advocate it because it is unpopular to appear concerned about convicts. I don't believe in coddling criminals — as my record as a district attorney and then Senator shows — but we need to focus on rehabilitating first- and second-time offenders before they become career criminals.

About 70 percent of violent crimes are committed by habitual offenders, many of them drug addicts. Yet while 27 states have laws authorizing life sentences for such criminals, they are rarely used.

When I was District Attorney of Philadelphia in the late 1960's and early 70's, my office made major efforts to use Pennsylvania's habitual-offender law without success. Even tough judges were reluctant to impose harsh sentences because of an unspoken feeling that the defendant had not really had enough of a chance to justify isolating him for life — and, besides, the prisons were so overcrowded there was no place to put him.

Not much has changed, except that the prisons are more overcrowded and decrepit. There is little counseling for inmates who are dependent on drugs and even less literacy education. And there is no meaningful vocational training to enable an ex-con to get a job, so he returns to a life of crime.

Washington State recently enacted a "three strikes and you're out" law that mandates life sentences for those convicted of three serious crimes. But even in states that follow Washington's lead, judges are likely to resist such Draconian mandates unless there are better rehabilitation programs for first and second offenders. If rehabilitation were available, judges would be far more willing to give life sentences to three-time offenders who failed to take advantage of it.

Rehabilitation doesn't merely serve the interests of the justice system, it means fewer potential victims. Is it any surprise that an illiterate without a trade or skill leaves jail only to rob or rape again? Add drug dependency to the picture, and the parolee goes through the revolving door, out of prison and back in.

Life sentences, sure. But try rehabilitation first.

The anticrime legislation passed by the Senate would help in the rehabilitation effort. Over $1 billion would be made available for drug treatment and other rehabilitative programs; the Senate also adopted my amendment to create a Federal office to coordinate and improve job placement programs for ex-inmates.

There are other ways to encourage states to use habitual-offender laws. For more than a decade, legislation pending in Congress would provide Federal prison space for career criminals convicted in state courts. This recognizes that such criminals, customarily drug offenders who move interstate, are really a Federal problem.

Further reform of the criminal justice system requires diversion of lesser cases involving nonviolent first offenders out of the criminal courts altogether so they can focus on serious crimes. It requires elimination of plea bargaining so that meaningful sentences are imposed. And we need to reform the Federal courts' review of state death penalty cases to reduce the interminable delays.

Admittedly, such reforms do not deal with the root causes of crime — in particular, poverty, the rise in illegitimate births and the disintegration of the family. The future of crime control is bleak unless we move on many fronts. But Congress can make an immediate impact on violent crime by focusing on realistic rehabilitation and then on life sentences for criminals who cannot be rehabilitated.

Arlen Specter, Republican of Pennsylvania, is a member of the Senate Judiciary Committee.

Wastelands Transformed

By Richard M. Daley

CHICAGO

Since 1960, America has lost 10 million manufacturing jobs, leaving a wasteland of abandoned, contaminated industrial sites too expensive and numerous for local governments or private businesses to restore. Our communities are scarred with dangerous, useless properties and abandoned factories, and jobs have been driven away — to the suburbs, rural areas or abroad.

Last summer, I testified before Congress on proposed legislation to clean up abandoned industrial sites. The legislation, which was sponsored by Representative Mel Reynolds of Chicago and is awaiting action in the House Ways and Means Committee, combines a package of Federal tax credits, private financing and local government incentives to get businesses to take a fresh look at the problem.

The bill calls for a Federal commitment of $75 million a year in tax credits for a five-year pilot program. Companies that restore industrial sites would receive credits worth one-fourth their cleanup costs; and local governments would offer grants, loans, tax abatements or donations of property, and could issue tax-exempt bonds to cover land acquisition and cleanup.

In Chicago, one of the cities that would be covered under the pilot program, there are hundreds of abandoned industrial sites with environmental problems: asbestos-laden rubble, contaminated underground storage tanks, illegal dumps and hazardous waste. A 50-acre site on the South Side with access to road, rail and shipping terminals sits idle because no one will invest the millions of dollars needed to clean it up.

And Chicago recently lost a 40-employee metal-stamping firm that had been on the West Side since 1954 because the owners, who wanted to expand the business, could not find a big enough site free of pollution problems. After an extensive search in the city, the company moved to the suburbs.

There is great demand for old factories that are clean and functional. In the last six months, two major Chicago manufacturers have committed to relocating to a new industrial park on the site of the former Chicago stockyards. And a number of potential buyers have expressed interest in a 15-acre site on the Northwest Side on which the city is spending more than $1 million, demolishing abandoned buildings and starting an environmental cleanup.

How abandoned factory sites can roar to life.

Yet Chicago does not have the resources to clean up more than a handful of these sites. Under the Federal proposal, the city could be eligible for $6 million in tax credits, which could lead to $24 million in private financing. That sum would help level the playing field in the jobs competition between Chicago and outlying areas.

The bill's real virtue is that it uses Federal tax dollars to enlist the private sector for job creation and environmental cleanup. By trading $375 million in tax credits for $1.5 billion in private investment over the next five years, government becomes the catalyst for economic development. By creating a partnership among the private sector and local and Federal governments, this bill would distribute the burden of cleanup costs.

Putting environmentalists and industrialists on the same side, it builds on our common interest in keeping good, solid manufacturing jobs in our cities and towns and in broadening their tax base, which is critical to the viability of urban America. It can also slow the runaway development that has led to uncontrollable suburban sprawl.

If the program succeeds, it could be renewed or expanded after five years. If it doesn't, we can try something else. But we must do something to restore these abandoned sites to productive use. We must do more to keep good jobs and to make our cities and towns attractive to new investment. This bill is a good first step.

Richard M. Daley is the Mayor of Chicago.

cc: Podesta / GS / Gearan / Gergen

THE PRESIDENT HAS SEEN 3/18

LYNN HECHT SCHAFRAN
ATTORNEY AT LAW
99 HUDSON STREET, SUITE 1201
NEW YORK, N.Y. 10013
(212) 925-6635

3/8/94

Dear Hillary —

Just read the enclosed article on Bernie & what a lawyer's duty is & thought you'd like to see it. I sent it to Bernie, too.

Hope Pam transmitted to you our (Pam's & my) telephone message of love & support earlier today —

Stay Strong!! L

cc: Bernie

Podium

Nussbaum Did What A Lawyer Should Do

BY STANLEY S. ARKIN
Special to The National Law Journal

VINCENT FOSTER'S death was a sad human event. Because his death, which was almost certainly self-inflicted, took place in a federal park and he was a White House official, an investigation by the park police was expectable. The immense media focus on the event and the consequent scrutiny of their investigation resulted in well-deserved criticism of the amateurish quality of the police work.

Rather than take steps to correct their shortcomings, the police resorted to the time-despised Washington tactic of blaming someone else—in this case, leaking an inflammatory and thoroughly unjust accusation that Bernard Nussbaum, White House counsel, somehow had impeded their investigation by acting like a lawyer. This transparently silly shot at Mr. Nussbaum has contributed to a dangerously and disturbingly false impression of what a lawyer—any lawyer, for any client—should do when confronted by a police or other governmental inquiry.

Mr. Nussbaum's actions were absolutely correct and proper. If anything, considering that, as White House counsel, his watch includes issues of national security and other sensitive concerns, and that the White House is the nerve center of the world's most powerful democracy, it is unthinkable, as a matter of professional responsibility or ethics—or even some hard-to-define and elusive "obligation" to the body politic—that he would have conducted himself other than as he did.

Kevin C. Pyle

The park police now complain, which they did not at the time, that Mr. Nussbaum hindered their investigation by insisting that a member of his staff be present at all interviews of White House personnel.

No lawyer in his right mind would have done differently. The perception of some press pundits that Mr. Nussbaum's acts were dictated by his experience in a gamesman's arena of corporate litigation, in which concealment or getting the edge is the object, is as naive as it is redolent of a mindless antipathy for the legal profession.

False Impression

There is some folkloric notion that law enforcement interviews are more effective if the person being questioned is unaccompanied by a friend or counsel. Endless experience, however, chronicled in legal decisions and newspaper reports, informs us to the contrary. Truth, balance and an absence of overreaching are the more likely products of an interview when someone ir addition to the police is present.

Whether it is the employee of a government agency, a private corporation, a newspaper or other media entity, a university or even a member of my family or yours, a basic desire to ensure fairness and accuracy suggests that a witness not be left alone with the police. This is not the wisdom of parochial lawyering; I cannot believe that any intelligent person, be it a CEO of a company or a manager of a delicatessen, would think otherwise about his or

Continued on page A18

Mr. Arkin, senior partner with New York's Arkin Schaffer & Supino and a fellow of the American College of Trial Lawyers, is a regular columnist for the New York Law Journal on the subject of business crime.

After Foster's Death, Counsel Acted Appropriately

Continued from page A17

her employees or family members.

More to the point, what Mr. Nussbaum did was designed to assure a fair and accurate reporting of what was said; it also was reflective of ordinary prudence for him to keep himself informed of what was being learned, if anything. After all, Vincent Foster was an important functionary of the White House. An investigation of his death was of justifiable interest to his employer.

Then there is the matter of the Whitewater file—a set of papers relating to an investment by the president and first lady—found among Mr. Foster's papers and promptly sent by Mr. Nussbaum to the president's personal lawyer, a member of one of our nation's most respected law firms.

With pious yet thoroughly unfair reminders of Watergate, there is now the suggestion that Mr. Nussbaum should have given the file to the park police or the Department of Justice. But the file consisted of personal and private papers of two people who happen to be the president and first lady. It had nothing to do with the business of government. Nor could it, at that time, in any reasonable sense or predictable manner, have been said to relate to Mr. Foster's death. What is important is that the file was not destroyed, altered or erased (speaking of Watergate). It was maintained and secured by its delivery to a responsible personal representative of the president.

What Mr. Nussbaum did was designed to assure a fair and accurate reporting.

Private Documents

The president's personal papers, particularly those relating to a time before he held office, are by no means public documents. What Mr. Nussbaum did was not only what any common-sense, decent person would have done; it was also his obligation. Whether the papers should be made public, and under what circumstances, was and is a personal decision to be made by the president in consultation with his personal adviser. This was not, and could not properly be, a call made by the White House counsel.

The most patently inane slight visited on Mr. Nussbaum is the complaint that he failed to give free and unsupervised rein to the park police in their search of Mr. Foster's office and that he exercised some discretion as to which documents he would allow them to review and take. Had the police sought free run of the Pentagon, Langley, Gracie Mansion or, for that matter, the offices of any person in business, the arts, media or education, it would have been refused and considered ridiculous and offensive. Mr. Nussbaum would have been viewed as irresponsible, if not reckless, to have allowed a White House office to be searched in an unsupervised manner by police who had no idea of what they were looking for and no training, clearance or sensitivity with respect to matters of national security and other extraordinary information that resides at that location.

As for the documents he reviewed before producing them for the police: How else could he have acted and not himself be guilty of security and ethical violations? There was no conceivable need—in the most aggressively imaginative, paranoid scheme of things—for the police to have untrammeled access to all White House documents in Mr. Foster's office.

There is a tendency by some, especially within the media, to characterize what lawyers do as narrow and selfish, and lacking in appropriate social and political vision. When the lawyer in question functions in an important and sensitive public position, that sort of criticism often takes on a shrill and righteous quality.

The answer is that there are lawyers—just as there are journalists, professors, social workers and bus drivers—who may not see beyond the narrow channels of the ordinary tasks of their jobs or otherwise have closed and rigid agendas. But it is the truth that lawyers played the pre-eminent role in fashioning what is the world's most vibrant democracy, productive economy and tolerant society. Neither Mr. Nussbaum nor the bar of which he is a part should be condemned for doing what lawyers do best, and that is make efforts to effect rational, honest and socially constructive resolutions to questions and conflicts.

FRW

THE WHITE HOUSE

WASHINGTON

March 16, 1994

MEMORANDUM FOR LLOYD CUTLER
SPECIAL COUNSEL TO THE PRESIDENT

FROM: JOHN PODESTA JDP
ASSISTANT TO THE PRESIDENT AND
STAFF SECRETARY

SUBJECT: SECURITY CLEARANCES

The Washington Post wants to follow up on the conversation between Bill Kennedy and Ann Devroy. I propose that you talk with her and make the following points:

- Security clearances for White House office personnel are the responsibility of the Counsel's office.

- I take these matters very seriously and see no reason to think that individual cases have not been appropriately handled.

- I also recognize the human dimension in dealing with individual cases.

- I am in the process of fully reviewing the procedures and individual cases to ensure that the cases have been appropriately handled and have been applied in a consistent manner.

- I will provide further guidance to the staff as necessary.

THE WHITE HOUSE

WASHINGTON

March 16, 1994

John E. Barnes
Smith Barney Shearson Inc.
Post Office Box 25120
Little Rock, Arkansas 72221-9964

Dear John:

Thanks for your letter of March 8. It was good to see you recently and to have a chance to visit. I'm glad you enjoyed your visit to Washington.

I appreciate your advice about the markets, as well as your offer to provide counsel from time to time. I hope you'll feel free to write me any time you see fit.

Thanks, too, for letting me know about your trip in July. While I never know what my schedule will hold, I hope to have a chance to see you when you're here. Please call Nancy Hernreich (202-456-6610) when you have more details.

See you soon.

Sincerely,

Bill

cc NH

I want to see them

Nancy Hern too -

JOHN E. BARNES
VICE PRESIDENT
FINANCIAL CONSULTANT
(501) 221-6352

SMITH BARNEY SHEARSON

March 8, 1994

The Honorable William J. Clinton
President of the United States
The White House
1600 Pennsylvania Ave.
Washington, D.C. 20500

Dear Bill,

It was good to see you recently during my visit to Washington, D.C. for the annual legislative conference of the Association of Community College Trustees. As you may remember, I got involved in the community college effort because you appointed me to the newly created Pulaski Technical College Board of Trustees in 1991. We are doing great things in Arkansas with community colleges and I hope you will use them as one of your vehicles to implement the Reemployment Act of 1994.

On a personal note, I was flattered that you took the time to obtain my views on the financial markets. Working "on Wall Street" but geographically away from it, we sometimes have a better view of the overall picture. As I mentioned to you, a moderate interest rate fluctuation and moderate inflation is the key to keeping the economy growing steadily. I also think the economy will be the key to your re-election. You may be able to improve health care coverage for the masses, and you certainly have been successful in bringing about a decline in the deficit, but people will vote their pocket book. I'm not telling you anything you don't already know. I know you have several qualified economic advisors, but if you need an Arkie's viewpoint from time to time, let me know. I would be happy to oblige.

I called Nancy and told her of your inquiry, and she was also flattered that you had thought of her. She would like to come to Washington and bring Muffin. We have talked about meeting there with our children so they could see Washington. I've decided to bring Christy, my oldest, and Megan, my youngest, along with my wife Debbie on July 18-22. Nancy and Muffin will join us there. Nancy, Debbie and I and our children would like to see you and maybe a VIP tour of the White House if possible. Christy still remembers the time you escorted her back from Washington seven years ago when she came up with me but returned early because I had meetings to attend.

(more)

SMITH BARNEY SHEARSON INC.
TWO FINANCIAL CENTRE
10825 FINANCIAL CENTRE PKWY
LITTLE ROCK, AR 72211
(800) 879-0089 Toll Free

I know you are going through a tough time with all the pressure of Whitewater being pushed upon you by the Republicans. When I saw you last week, I took special note of the fact that you said you were having "a lot of fun." That let me know you still had your sense of humor and that you were holding up in spite of the Whitewater onslaught. You have faced adversity before, and I know you can deal with this issue. Just remember, there are a lot of us who have walked beside you all along your road of public service. Though we may not be as vocal as your adversaries, remember we are still with you every step of the way.

Give my love to Hillary.

Sincerely,

John E. Barnes

[redacted]

THE WHITE HOUSE
WASHINGTON

DATE: 03/18/94

TO: MACK MCLARTY
GEORGE STEPHANOPOULOS
DAVID GERGEN
MARK GEARAN
DEE DEE MYERS

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

[redacted]

The attached has been forwarded to the President.

[redacted]

1919

056637

THE WHITE HOUSE

WASHINGTON

March 17, 1994 94 MAR 17 P5:25

INFORMATION

MEMORANDUM FOR THE PRESIDENT

FROM: ROBERT RUBIN RER
ANTHONY LAKE TL

SUBJECT: Response to U.S.-Japan Trade Articles

This memorandum responds to a few questions you raised in the margins of an article on U.S.-Japan trade by James Glassman. (You noted that the article was more targeted than most attacks). We have also attached a recent Wall Street Journal Op Ed piece by Laura Tyson, addressing many of these issues.

Glassman's points are in bold, followed by our thoughts:

The U.S. runs trade surpluses with some countries, deficits with others. That's the way trade works. We should not focus so keenly on the deficit with Japan. Of course free trade does not mean perfectly balanced trade, but the imbalances with Japan have been large and sustained -- a problem most of the world shares. That's why we have consistently focused on Japan's global current account surplus, which was $130 billion last year -- or 3% of Japan's GDP, a very high percentage by developed country standards. The global measure better demonstrates that this is not a commonplace bilateral deficit, but a global imbalance that slows the pace of economic expansion and job creation in other nations, and destabilizes the world trading system. The workings of comparative advantage, the real source of benefit from free trade over the long term, are seriously impeded when the second largest economy in the world has relatively closed markets.

U.S. exports to Japan are roughly in line with U.S. exports to other countries. This observation is not a very meaningful one: how much a country trades with another country is affected by size, proximity, and other characteristics such as natural resource endowments. Glassman particularly noted that our exports to Germany and France were similar, as a percentage of those countries' GDPs, to our exports to Japan, as a percentage of its GDP. But France and Germany are in the middle of a European Union with a number of highly-developed trading partners in close proximity. Japan is not in that position.

The real problem is that the U.S. buys too much from Japan, particularly cars. We don't agree. The real problem is that the U.S. doesn't sell enough to Japan. We don't want to restrict trade.

The Japanese system in fact is rigid and inefficient. American-style capitalism is winning out. We should not emulate Japanese government interference, as we did with the recent Saudi/Boeing sales. Japanese protectionism can make its industries less efficient (although there is often intense competition among Japanese companies). Many U.S. industries are coming back precisely because they did face tough international competition in the 1980s (e.g., cars, semiconductors). But government action like the Boeing sale generally only counters practices in which other governments routinely engage. It's not clear that those kinds of efforts have not been successful or make industries less competitive.

Attachments
Tab A Washington Post - Glassman
Tab B Op Ed by Tyson

SENT BY:Xerox Telecopier 7020 ; 3- 8-94 ; 16:16 ; The White House→ 2024566487;# 2

THE WASHINGTON POST FRIDAY, FEBRUARY 25, 1994

BIG MONEY

A Deficit That May Not Matter

BR - must answer the # question once and for all.

Targeting Japan on Trade Hurts Us—and Misses the Point

By James K. Glassman
Special to The Washington Post

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

COMMENTARY

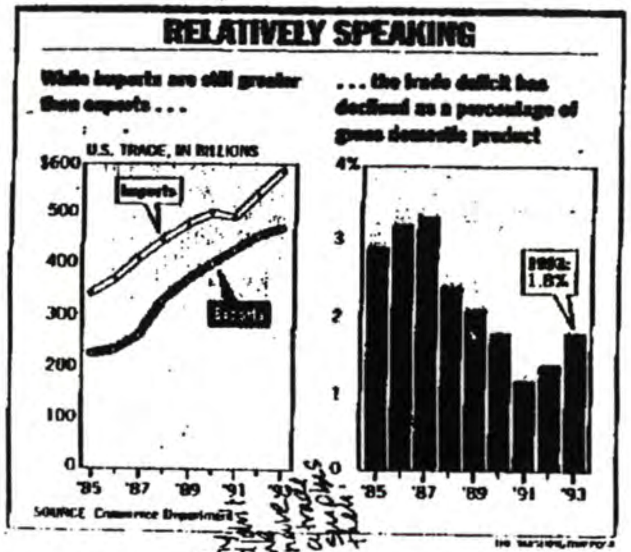
President Clinton's "gratuitous brinkmanship"—as Sen. Bill Bradley (D-N.J.) aptly termed his trade policy—is encouraging Congress's worst protectionists to come out of the woodwork, where they'd been hiding for months after their defeat on the North American Free Trade Agreement. Bashing Japan, especially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

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

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

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

See BIG MONEY, B4, Col. 1



Why didn't we have a trade surplus then?

BIG MONEY, From B1

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

talk to POTUS

THE PRESIDENT HAS SEEN 2/27

What's your response to this — it's a bit more carefully targeted than most attacks — worth a written response perhaps

Rubin
What's yr. response to this — it's a bit more carefully targeted than most attacks — worth a written response perhaps

TAB B

Japan's Trade Surplus Matters

By LAURA D. TYSON

Critics of the U.S. position in the Framework talks with Japan question their central premise namely, that Japan's distinctive trading behavior harms its partners. Often such criticisms begin by pointing out that the bilateral trade imbalance between any two nations does not matter. But the *bilateral* imbalance between the U.S. and Japan is *not* what the talks seek to remedy. Rather, they are designed to address Japan's *multilateral* current-account surplus and structural barriers to Japan's markets, both of which matter very much to Japan's trading partners.

Japan is currently running a current-account surplus of about $130 billion, or 3% of its gross domestic product. This huge surplus depresses global demand and slows the pace of economic expansion and job creation in other nations. A reduction of $50 billion in Japan's multilateral trade surplus—which would still leave Japan with a current-account surplus of $80 billion, or about 2% of its GDP—would mean an additional $50 billion in demand for the goods and services of Japan's trading partners. America's share of this $50 billion might be in the $5 billion to $15 billion range, or about 100,000 to 300,000 jobs.

Can Japan do anything to reduce its current-account surplus? Luckily, yes. Increases in public spending and tax cuts can stimulate domestic demand, increase imports and reduce the trade imbalance without jeopardizing Japan's fiscal stability. Japan's own consumers and businesses, reeling from the effects of the worst economic slowdown since World War II, would be the major beneficiaries of more expansionary fiscal measures. But Japan's trading partners would share in the benefits. Fiscal expansion is a win-win strategy for Japan and the rest of the world—and it was a *major* focus of the Framework talks.

Manufactured Imports

Japan's current-account surplus is only one of the distinctive features of its international performance. Another is the comparatively small share of manufactured imports in total Japanese consumption. Over the past 20 years, the share of manufactured imports in total consumption has increased steadily and perceptibly in all of the advanced industrial countries, except one: Japan. Today this share is only about 6% in Japan, compared with more than 15% in the U.S. and Germany.

Japan also has a distinctively low level of intra-industry trade—that is, trade in differentiated manufactures within a given industry. Japan does import—but it tends not to import very much in industries in which it is a major exporter. Japan is a major exporter of automobiles, for example, but it imports very few of them. In contrast, the U.S. and the other advanced industrial countries that trade with one another tend to buy and sell in the same product lines, thereby reaping the and lower prices for their consumers.

If the Japanese markets were truly open, as many Japanese claim, traded goods would sell at "international prices" adjusted for transportation costs. In fact, however, traded goods sell at far higher prices in Japan than in other countries. For example, two recent studies, jointly conducted by the U.S. Commerce Department and Japan's Ministry of Trade and Industry, found that prices of traded goods were on average 37% higher in Japan than in the U.S.

Japan's distinctive differences are no accident; they are the result of a host of structural impediments to imports. These include, to name but a few: a reliance on nontransparent and capricious bureaucratic control to ensure product safety, domestic cartels, discriminatory practices by the *keiretsu*, weak enforcement of competition policies, inadequate intellectual property protection, and restrictive distribution practices. All of these barriers have

Japan's distinctive differences are the result of a host of structural impediments to imports. Does it matter that many of Japan's markets are largely closed to foreign competitors? The answer once again is yes.

the same effect: They discriminate in favor of Japanese suppliers and against foreign suppliers. And to date none of these barriers are effectively covered by the General Agreement on Tariffs and Trade.

But does it matter that many of Japan's markets are largely closed to foreign competitors? The answer once again is yes. One recent comprehensive study indicated that if Japan were to eliminate all its formal and informal barriers to trade, American exports alone would increase initially by between $9 billion and $18 billion. This means that American merchandise exports to Japan might be as much as one-quarter to one-third greater in the absence of such barriers.

And this is only the immediate effect. Structural barriers to the Japanese market have had subtle but pervasive effects on the behavior of both Japanese customers and foreign suppliers. The oft-cited preference of Japanese customers for Japanese goods is partly the result of the inadequate availability of foreign alternatives. And the oft-cited unwillingness of foreign producers to mount the efforts necessary to sell in Japan is partly the result of frustration with the myriad barriers that such efforts have encountered in the past. In a world without such barriers, Japanese ciation for foreign goods, and foreign producers would develop a greater commitment to their Japanese clientele.

In such a world, Japan's import share would rise gradually over time, and this would mean substantially greater sales for Japan's trading partners. As an illustration, if Japan had the same import share of GDP as the U.S., its imports would be about $160 billion more a year, and this would mean about $20 billion to $30 billion more in U.S. exports to Japan.

Moreover, forgone American exports to Japan are not the only cost posed by structural barriers in Japan. Such barriers have also created large, lucrative and protected domestic markets that have provided Japanese companies the experience, the scale and the profits they needed to compete with American companies in other markets around the globe.

The Motorola Case

An example illustrates the point. Motorola's cellular telephones are among the best in the world. By blocking Motorola's access to Japan's rapidly growing market, Motorola's Japanese competitors have been able to keep their prices up, earn high profits and develop competing products. Based in their sanctuary at home, they have been able to launch competitive strikes against Motorola in the U.S. and in third-country markets. Similar stories apply to competition between American and Japanese producers in several other industries, including automobiles, machine tools, color television, semiconductors, construction and financial services.

Japan's structural barriers are frustrating and costly for all of Japan's trading partners, but they are particularly damaging for the U.S. because Japan is a major market for what American companies and workers produce best: sophisticated manufactured goods and advanced services that provide high-skill, high-wage jobs for American workers. Both the level of trade and its *composition* matter to U.S. living standards. And Japan's structural barriers cause continuing injury on both counts—by depressing the level of trade between the two countries and by distorting its composition away from the sectors in which the U.S. has a strong competitive advantage.

Prime Minister Morihiro Hosokawa remarked on his trip to Washington last month that Japan is now grown up. He is certainly correct—Japan has the world's second-largest economy and one of the richest in the world. But grown-ups have many responsibilities. They must provide leadership, set a good example, cooperate with one another and not take advantage of other family members. It is time for Japan to act like a grown-up by opening its borders to fair foreign competition and by reducing its multilateral surplus. Both are essential to preserving the health of the global trading system.

Ms. Tyson is chairwoman of the presi-

THE WHITE HOUSE

WASHINGTON

March 17, 1994

NOTE TO NANCY SODERBERG

FROM: PAUL RICHARD

RE: GUIDELINES FOR THE PRESIDENT'S REMARKS

- The maximum number of speech cards the President wants for any speech is 25 cards.

  - It is necessary to submit, along with the 2 sets of speech cards, only a single spaced version of the remarks.

- If the remarks are over 25 speech cards long, do not prepare speech cards.

  - Prepare a triple spaced version for the President.

  - Also prepare a single spaced version for the staff distribution.

THE WHITE HOUSE

WASHINGTON

March 15, 1994

THE PRESIDENT HAS SEEN
3.17.94

MEMORANDUM FOR NANCY HERNREICH

FROM: DAWN FRIEDKIN

SUBJECT: ATTACHED LETTER FROM BEN GINSBURG

My grandmother brought the attached letter to the editor from the Florida Sun Sentinel. I thought that with the President's upcoming trip, he would really enjoy seeing such a supportive letter. The letter was written by a friend of my grandmother's, obviously an older American.

Dawn will do a thanks letter

Great
Go ahead to Clin

President, first lady earn good performance review

Get off President Clinton's back. We are very lucky to have a president who is working so hard to bring prosperity back to our nation. Never in our history has a president been faced with so many problems in his first year of office, but if given a chance, with a Congress that will help, not hinder, his progress, Bill Clinton will do the necessary job.

Not only do we have a great president, but we also have a great first lady who is doing a remarkable job on the health-care program — on her own time without pay.

Perhaps our president is not an angel, but none of us are. The fact remains that he is most sincere and dedicated in his efforts to get this country moving ahead.

I am proud to be an American each time I see the president on television or acting as our representative in meetings with other world leaders.

Bill Clinton is young, he's sophisticated and he has all the abilities and energy for his high position. Let's get behind him and our talented first lady and I'm sure we'll all benefit.

BEN GINSBURG
Lauderhill

Florida Sun Sentinel of Ft. Lauderdale
Feb. 1994

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
3.17.94
J Klein | CEGS | Podesta

YODE07▾tn--1

r k

^bc-yoder-column advIMMEDIATE<

^EDWIN YODER COLUMN<

^(FOR IMMEDIATE RELEASE--Normally Advance for Wednesday, March 9, 1994)<

^(For Yoder Clients Only)<

^By EDWIN M. YODER, JR.=

WASHINGTON--According to news stories about his sudden ouster, White House counsel Bernard Nussbaum strenuously opposed the appointment of a special prosecutor to investigate the ''Whitewater'' episode. He was right but he probably didn't suspect, poor fellow, that his would be among the first scalps collected in this overblown media melodrama.

What was his problem? Meeting! That's what it was. In recent congressional testimony, the deputy secretary of the treasury, Roger Altman, disclosed that he and other departmental officials met three times with Nussbaum and other White House staffers. At these meetings, the first of which occurred in October, they brainstormed the possibility that a government probe of the failed Madison Guaranty S&L in Arkansas might link President and Mrs. Clinton to the thrift as unwitting beneficiaries of its dubious financial operations, which cost the taxpayers $50 million to $60 million.

Since Altman is acting head of the Resolution Trust Corporation, the government agency charged with the liquidation of failed thrifts, the great pooh-bahs of the press, and other keepers of the national conscience, hit the ceiling. They were shocked. As they huffed and puffed, the special prosecutor, Robert Fiske, issued no fewer than 10 subpoenas to the said meeters. They must explain themselves to his grand jury.

But I wish someone would begin by explaining to me why it is so very wicked for White House staff to want information from elsewhere within the executive branch about charges and rumors concerning the president--or why it is deemed even wickeder for Treasury officials, political appointees all, to supply it. Since stories that cast a shadow on the personal integrity of the president, whether true or false, can impair his ability

(more)

to govern you might expect his appointees to take a keen interest. Indeed, not so long ago it would have been expected that political appointees would interest themselves in the president's political well-being.

In the two decades since Watergate, however, Washington has undertaken to take politics out of government. It has become so webbed with finespun rules and regulations and ''ethics'' fetishes that government itself often takes a back seat to the process of staying squeaky clean. One day soon, we shall probably dispense with government altogether, inasmuch as official acts, which regularly often involve compromise, regularly interfere for that reason with the cleansing process.

Poor Bernie Nussbaum. He is probably a good lawyer and an ethical man; but most of his experience was in the legal aspects of New York high finance and politically he appears to be all thumbs. He should have known that we do not permit meeters to meet these days.

And what is at the bottom of all this? On the day the latest Whitewater flap broke, a visiting friend from out of town and I were walking across the Ellipse south of the White House. This visitor, a well-informed professional historian at a distinguished Southern university, glanced at the White House and confessed that he is baffled. President Clinton, he said, seemed to be doing well, but the capital's continuing absorption in the Whitewater business was very puzzling. Was he missing something?

I dutifully undertook a quick education in the ways of Washington. The more esoteric such a story appeared, I explained, the more likely it was to be largely a concoction of reportorial fancy. ''Do you recall,'' I asked, ''that when it first began to be understood that Earth and other planets revolve around the sun, it was believed that their orbits were circular? But since that theory conflicted with observation, it became necessary to add epicycles--circles orbiting circles--to adjust the theory to observation. Naturally, the trouble lay all along in the failure to understand that planetary orbits are elliptical; but understanding that had to wait for Kepler and Newton.''

Take that small historical parable, I suggested, as a model of the way Washington, and the major media, deal, in these days of ethical cleansing,

(more)

with suspicions of wrongdoing. The suspicions may be groundless, frivolous, out of date and nebulous in the extreme, as in Whitewater. But once launched, the suspicions will be endlessly refined and recycled to fit whatever information comes along, even when it disconfirms them.

The analogy seemed to satisfy my friend and we turned to other topics. Would that Washington could also.

GOP leaders admit revenge part of reason for Whitewater push

White House

Podesta

By Richard Whittle
Washington Bureau of The Dallas Morning News

WASHINGTON — Republicans demanding congressional hearings on the Whitewater affair insist that they are just trying to "get the Congress to do its job," as Rep. John Linder of Georgia puts it.

But GOP leaders and aides concede that a desire for revenge also lies behind their zeal for a congressional investigation of President Clinton's dealings in Arkansas and whether his administration has tried to impede inquiries.

"You have to remember the position that all Republicans have been in for 12 years, where we were investigated, sometimes frivolously," said Rep. Henry Hyde, R-Ill., chairman of the House Republican Policy Committee. "If we get a chance to point the finger, why, it requires a saintliness that is superhuman, supernatural to act with restraint."

Mr. Hyde, though not among those calling for special hearings on Whitewater, cited two 1992 investigations by Democrat-controlled committees as an example of why many of his colleagues are trying to force this issue.

The committees looked into the "October Surprise" allegations that President Ronald Reagan's campaign aides made a pact with Iran to sell Tehran arms if it held its American hostages until the 1980 election.

"We spent over $3 million on that wild goose chase, and there was nothing there, they just finally folded it, with no apologies, no nothing," Mr. Hyde said.

Senate Minority Leader Bob Dole of Kansas has made the same argument in his near-daily statements on the Senate floor during the past two weeks.

On Monday, Mr. Dole cited a Congressional Research Service list of more than 20 congressional investigations of "alleged executive branch wrongdoing during the Reagan and Bush administrations" as one reason the Democrats should accede to the GOP's demand for hearings.

"The Democrat-controlled Congress has never been shy about exercising its oversight responsibilities," Mr. Dole said, "and there's no reason to make an exception for Whitewater."

Mr. Dole and other Senate Republicans have vowed to block Mr. Clinton's nominee to head the Federal Deposit Insurance Corp. until hearings are convened.

So far, the Democrats have rejected special hearings such as those held during the Watergate scandal during the 1970s and the Iran-contra affair of 1986-87.

The Democrats contend that questions about the Clintons' Whitewater real estate venture in Arkansas and whether they benefited from a failed savings and loan owned by their business partner are best left to Special Counsel Robert Fiske Jr.

Mr. Fiske has offered the Democrats powerful support for that position by arguing that any congressional hearings might jeopardize his investigation.

The Democrats also dismiss the Republicans' fury as a product of partisan politics.

"The Republicans can't run on the economy, they can't run on health care, they can't run on welfare and they can't run on crime, so they're going to try to exploit this issue," presidential adviser George Stephanopoulos declared Sunday on ABC-TV's *This Week*.

In a letter to Mr. Fiske this week, Rep. Jim Leach, R-Iowa, argued that a Senate Banking Committee hearing Feb. 24 showed that congressional action might help rather than impede his probe. As ranking Republican on the House Banking Committee, Mr. Leach has led the GOP push to have Congress investigate.

During that hearing, Deputy Treasury Secretary Roger Altman revealed that he and top White House officials had met with Treasury officials to discuss a federal investigation of Madison Guaranty Savings & Loan. The failed savings and loan was owned by James McDougal, the Clintons' partner in the Whitewater Development Corp.

That disclosure, along with subsequent reports of more White House meetings on Whitewater, led to the resignation last weekend of White House Counsel Bernard Nussbaum. It also prompted Mr. Fiske to subpoena the officials who took part in those meetings.

"The irony stands out," Mr. Leach wrote. "If it had not been for the Senate hearing producing this troubling information, your office would have had no basis to issue the White House and Treasury subpoenas."

Mr. Leach has vowed to use a March 24 House Banking Committee hearing on the Resolution Trust Corp., the agency handling the cleanup of the S&L mess, to bring out new facts about the Whitewater affair.

Sen. Alfonse D'Amato, R-N.Y., one of the most vocal senators demanding more hearings, has argued that congressional hearings could be structured so as not to interfere with Mr. Fiske's investigation.

Mr. D'Amato contends that such hearings would focus on whether the Clinton administration had acted properly while independent federal agencies, including the RTC and the FDIC, investigated Madison and related matters.

A senior House Republican aide, speaking on condition of anonymity, said such Republican arguments are sincere, even though they are partly motivated by politics.

"If it wasn't legitimate, there would be no political benefit to it," the aide said. Republicans are genuinely concerned, the aide said, with what they see as a "politicization of law enforcement" by the administration.

Mr. Hyde said it is difficult to separate politics from legitimate concern. "I'd say there are liberal dollops of both," he said.

But in the wake of the Senate hearing that led to Mr. Nussbaum's resignation and with new accusations and revelations emerging almost daily, the GOP aide said he expects his side to ratchet up the pressure.

"I've never seen blood in the water," the aide said, "but this must be what it's like."

153

THE PRESIDENT HAS SEEN

3.17.94

Mark/Podesta

Fyi — might be a better to hang.

Roy Lichtenstein, *Half Face with Collar*, 1963
Oil and Magna on canvas, 121.9 x 121.9 cm (48 x 48 in)
Gian Enzo Sperone Collection

Solomon R. Guggenheim Museum
1071 Fifth Avenue, New York City

Mr. President,

It may not be readily apparent to you, but I think you and Roy Lichtenstein met in another life!

Thanks so much for the invitation to the movie last week - it was quite a treat. (Sometime, I'd like to see the oval office - preferably with you in it.)

I know how tough it must feel, day after day, after day. If I can help, you know you can call.

Fondly,
Gloria Cabe

PLACE
STAMP
HERE

Ira Fye

THE PRESIDENT HAS SEEN

3.17.94

DRAFT

In 1992 Americans paid $65.98 billion for health care insurance (excluding self-insurance and Blue Cross/Blue Shield Plans). In addition, U.S. health insurers obtained $8.34 billion of investment and other income. Where did this $74.32 billion go?

Answer:

Health Care Benefits 1/	$27.34 billion	(36.8%)
Health Care Providers' Insurance Processing and "Defensive Medicine" costs 2/	$18.22 billion	(24.5%)
Insurance Company Reserve Strengthening	$ 2.03 billion	(2.7%)
Commissions to Insurance Salespersons	$ 8.16 billion	(11.0%)
Insurer Operating Expenses 3/	$11.47 billion	(15.4%)
Other Insurer Expenses	$ 1.82 billion	(2.5%)
Dividends to Policyholders	$ 0.33 billion	(0.4%)
Insurance Company Profit 4/	$ 4.95 billion	(6.7%)
	$74.32 billion	100.0%

1/ Over the last four recorded years (1988-1992), insurance company payments to health care providers increased by 10.2 percent but insurance premiums increased by 20.3 percent.

2/ Based on estimates that 5% to 10% of payments to health care providers go to malpractice insurance and that 25% to 40% of payments go to insurance processing and control costs. These estimates are below the medical profession's own estimates that between 40% and 75% of health care costs are for insurance and insurance processing.

3/ Over the last five recorded years (1987-1992) insurance company expenses for employee wages and benefits increased by 52%, while all other insurance company general expenses increased by 3%.

4/ Represents a return of about 23.6% (pre-tax) on statutory capital.

THE PRESIDENT HAS SEEN
3.17.94

THE WHITE HOUSE

WASHINGTON

OK — Ask [illegible] to get back to Brian soon

3/10/94

94 MAR 16 P5:50

MACK,

The President sent you a note saying that we need a reply to Brian Greenspun's letter complaining about the FCC's action in rolling-back cable rates. The President said he was concerned about the rate roll-back.

Greg Simon has drafted the attached letter for the Vice President's approval and the President's signature. The letter explains how cable operators below a certain price benchmark will be given special relief and therefore the FCC's action is not inconsistent with the National Information Infrastructure Initiative led by the VP.

The draft letter, will go to the President once approved by Gore. Do you want to respond directly to the President?

TOBACK

3/16

Mr. President: Per above, we are continuing to work on this matter. Currently w the V-President. I also have talked to Jerry Levin personally. Mack

[POTUS to Brian Greenspun--draft by David Lytel, OSTP (6-6037) 7 March 11:00] THE PRESIDENT HAS SEEN

3-17-94

Dear Brian,

Thank you for your letter concerning the FCC's cable rate decision. I appreciate reading your views and am pleased to learn that you have met with FCC Chairman Reed Hundt to also express your concerns.

As you know, the unanimous FCC action concerned the pricing of basic cable services, but preserved the ability of cable operators to create and offer unregulated services. The Commission's first action in April required systems operating above a price benchmark average to reduce their prices 10 percent. The 22 February action brought basic cable rates down an additional 7 percent. However, cable operators below the new benchmark, small cable operators, and cable operators with high costs will be given special relief. For these reasons, and because there are pass-through provisions for investments in infrastructure, I believe the actions are consistent with our National Information Infrastucture Initiative led by Vice President Gore.

In addition, I support Chairman Hundt's actions to restructure his agency so that it can act in a more timely manner and effectively implement these regulations. I also have to respect the independence of his agency, which as you know is required by law to act on its own to protect the public interest in matters such as this that fall within its jurisdicition.

Finally, I'm sure you are aware that we are trying to change the law to promote competition in the provision of telecommunications services. The passage of telecommunications reform is an urgent priority, as I said in my State of the Union address. We both agree that competition is a more effective tool to control prices and promote innovation than regulation. But until such time as consumers have alternative providers and free market provision of cable services there will continue to be a need to protect consumers cc John P – 2/23

LAS VEGAS SUN

THE PRESIDENT HAS SEEN 2/27

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

-FAX COVER-

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

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

MACK / cc VP
need a reply
I have a concern about FCC action too –
B

Mack / cc VP
need a reply
I have a concern about
FCC action too –
B.

LAS VEGAS SUN

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

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

February 23, 1994

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

VIA TELEFAX

Dear Mr. President,

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

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

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

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

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

LAS VEGAS SUN

President Clinton
Page 2,
February 23, 1994

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

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

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

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

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

This is madness.

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

LAS VEGAS SUN

President Clinton
Page 3,
February 23, 1994

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

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

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

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

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

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

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

Respectfully,

Brian

Brian

LAS VEGAS SUN

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

-FAX COVER-

DATE:	February 23, 1994
TO:	Nancy Hernreich Deputy Assistant to the President
FAX:	(202) 456-1121
PAGES:	3
FROM:	Cindy Robinette

Wednesday, Feb. 23, 94

WHERE I STAND

Cable ruling hurts industry

BRIAN GREENSPUN

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

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

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

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

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

What I hear
The FCC, like
agencies, live
Wonderland w
and reality has
Chairman Hu
companies hav
the public with
relationship to
And it is the F
to single-hand

SEE WHERE,

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

.he destruction
ile, at the same
· the continued
npanies as they
ɔn the information

·rders on disaster.
ny government
an Alice in
where up is down
place. To hear
tell it the cable
ıg been gouging
es that bear no
ıer cost or risk.
ı responsibility
strike a blow for

Where

CONTINUED FROM 1A

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

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

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

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

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

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

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

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

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

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

BRIAN GREENSPUN is editor of the Las Vegas SUN.

TOTAL P.03

MAR 11 '94 03:32PM

THE PRESIDENT HAS SEEN
3.17.94

60 minutes MAR 16 P5:50

To The President
fr Mc McLarty

Mr. Mac McLarty
Chief of Staff
The White House
Washington, DC

March 11, 1994

Dear Mac:

I don't know whether to be heartened or discouraged after our conversation yesterday, but I do especially want to thank you for trying to help. All of us at 60 MINUTES would like to clear the air with the President and Mrs. Clinton and get this behind us.

Just for the record, between you and me, the interview between the Clintons and Steve Kroft ran over an hour. I am told that everyone understood that the piece would run the length of a normal 60 MINUTES story which is usually 12 to 13 minutes, never longer than 15 minutes. So I am baffled how anyone thought there would be no editing at all.

Regardless, the 60 MINUTES segment seemed to be a turning point in the campaign. It is widely believed that it allowed the Clintons to put their troubles behind them and march on to win the nomination. I wish we could get the Clintons to remember that!

You recommended a "patient approach." This sounds fine. I am available to come to Washington almost any time to meet with whomever you suggest. At one point in our conversation you even talked about my getting together with the Clintons which sounds like a good idea to me.

This won't sound very "patient," I know, but I will be in Washington this Wednesday and could easily be available!

On the truly impatient front, please let me remind you about our proposal for an interview next Sunday or the Sunday after. If you reach a point where you all decide an in-depth interview is in order, but don't want to wait until Sunday, we could even talk about a 60 MINUTES Special in the middle of the week.

I'm trying to be pushy...but not too pushy!

If any of this works, I can be found at 212/975-8726 or at home at 212/799-4092.

Again, many many thanks for your kindness in following up on our first conversation at Mort's.

All the very best,

Lesley

Lesley Stahl
Co-Editor

The President

U.S. HOUSE OF REPRESENTATIVES

SUBCOMMITTEE ON CONSUMER CREDIT AND INSURANCE
OF THE
COMMITTEE ON BANKING, FINANCE AND URBAN AFFAIRS

ONE HUNDRED THIRD CONGRESS

ROOM 604 O'NEILL HOUSE OFFICE BUILDING
WASHINGTON, DC 20515

There's something to this - get rec from Rubin

94 MAR 16 P5:50

THE PRESIDENT HAS SEEN
3-17-94

MEMORANDUM

TO: Mack McLarty, Chief of Staff to President Clinton
FROM: Joe Kennedy, Chairman, Subcommittee on Consumer Credit and Insurance
DATE: 10 March 1993
RE: Proposed Presidential Summit on the Credit Needs of Working Americans

---

President Clinton has led a very impressive economic recovery. The stock market is at an all-time high, housing starts increased by 15% in 1993, and 1.6 million jobs were created in the private sector last year. However, as the President indicated in his State of the Union speech, there are still many people in this country -- primarily minorities and the poor who live in our inner-cities -- who have been left behind by the recovery.

Given the fact that literally millions of our citizens who live in the inner-city have been left out of this recovery and all past recoveries, I strongly believe that a directed effort by the Clinton Administration to stimulate the economy in these neighborhoods is not only good policy, but would be enthusiastically supported by a broad coalition in the Congress and the country. Such an effort has the potential to be enormously successful and could become a critical and historic part of the Clinton Presidency.

Toward this end, I believe that a high visibility national summit on the credit needs of residents and small businesses in the inner-city would be entirely appropriate. It could be modeled after the highly successful Little Rock Economic Summit that the President convened before his inaugaration. The summit would bring the President together with banks, securities firms, insurance companies, community development groups, small businesses, homeowners and tenants, financial regulators, and legislators. It would discuss the problems that working Americans have in obtaining affordable credit, and focus on the President's efforts to address those problems. It would be a forum for the President to lay out his vision of public-private partnertships. In addition, it would demonstrate the President's commitment to ending poverty not by the creation of government bureauacracies, but by ensuring that all Americans are brought into the economic mainstream where they may advance by their own efforts. The overall goal of the summit would be to create a national economic development policy for our nation's cities.

The President has already undertaken a number of initiatives that demonstrate his commitment in this area: enterprise zones legislation, community development banking legislation and reform of the Community Reinvestment Act. He has an opportunity to take credit for these initiatives and the work that is taking place by the regulators who are encouraging lenders to make investments in the inner-city.

With the participation of a broad cross-section of people from Jesse Jackson to David Rockefeller, I believe the summit would be a real winner. And with me as Chairman, how can we go wrong!

THE WHITE HOUSE

WASHINGTON

THE PRESIDENT HAS SEEN
3.17.94

94 MAR 5 P2:54

March 3, 1994

RECOMMENDED TELEPHONE CALL

TO: Representative Charlie Rose (D-NC)

DATE: Sometime the week of March 7 - 11

RECOMMENDED BY: Patrick J. Griffin

PURPOSE: To discuss MFN status for China

BACKGROUND: Chairman Rose is a strong supporter of the Dalai Lama and is thus concerned about the Tibetan issue. He is concerned that the issue of MFN status for China will become increasingly contentious in the coming months and is looking to forge a compromise with Representative Nancy Pelosi and others. He believes that it is urgent that he discuss his ideas with you sometime this week.

TOPICS OF DISCUSSION:

1. Discuss the Chairman's position on MFN for China.

2. Discuss his idea for compromise.

CONTACT PERSON AND TELEPHONE NUMBER(S): WH Operator

DATE OF SUBMISSION: March 3, 1994

ACTION: ______________________________

He wants us
to hang tough.