

COPY TO Bowles
4/24 per JP

THE PRESIDENT HAS SEEN
4/21/95

EXECUTIVE OFFICE OF THE PRESIDENT

20-Apr-1995 09:18am

95 APR 20 P1:32

TO: Erskine Bowles
FROM: Jonathan P. Gill
SUBJECT: Very interesting

1-2-3-4-5-6-7-8-9-10-11-12-13-14-15-16-17-18-19-20-21-22-23-24-25-26-27-28-29-30-31-32-33-34-35-36-37-38-39-40-41-42-43-44-45-46-47-48-49-50-51-52-53-54-55-56-57-58-59-60-61-62-63-64-65-66-67-68-69-70-71-72-73-74-75-76-77-78-79-80-81-82-83-84-85-86-87-88-89-90-91-92-93-94-95-96-97-98-99-100
POTUS my friend
Thur
Wheeler
E

Erskine,

This is a private forward of a message I just received from the editor of Forbes ASAP. He's VERY much of a libertarian Republican. Note his view that POTUS can WIN in '96 if he regains his optimism. This is the dawning of a great new era I can give you the presentation any time you want.

Please use this wisely and discretely.

Jock

Jonathan P. Gill
Penfield Gill, Inc.

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+1 (202) 667-1747

----- Forwarded message -----
Date: Wed, 19 Apr 95 18:55 EST
From: Rich Karlgaard <0005096930@mcimail.com>
To: "Jonathan P. Gill" <jgill@casti.com>
Subject: RE: Testing

Jock --

Signal received!

,,, stuff deleted ...

It's been quite interesting to read about Bill Clinton's reluctance to embrace the Carville wing (bash the rich populism). I admire him for resisting the yap coming from the Bonior, Gephardt side.

I'm all for populism -- this is a populist country, afterall -- but not when it's rooted in resentment as opposed to the democratic ideals of equality and opportunity.

The most popular (and thus mostly effective)

presidents in this century have been towering optimists -- TR, FDR, Ike, JFK, and Reagan. What disturbs me about the Republicans in the field (and I'm a card carrying Republican) is this dour attitude. I miss Kemp. Why do you think he dropped out? (The Kemp wing is looking to my boss, Steve Forbes, to take up the charge).

Back to Clinton . . . he needs to recover his optimism. If he does, he'll win. If he succumbs to the temptation of class warfare, he'll lose. (Mencken once wrote that socialism would never catch on in America because even the Huey Long voter dreamed about being a millionaire.)

Best,
Rich

4/24
THE PRESIDENT HAS SEEN

95 APR 21 85:21

April 17, 1995

MEMORANDUM FOR THE PRESIDENT
VICE PRESIDENT
LEON PANETTA

FROM:

Harold Ickes

SUBJECT:

Direct Mail for the '96 Re-elect

Attached is a copy of the first direct mail fundraising solicitation for the 1996 re-elect which was mailed on 17 April 1996. Approximately 650,000 pieces went out.

ugh
I will be always
of this raise a lot of money
the 4.10 portfolio
the again - it's
the call a fundraiser

Bill Clinton

Mr. John Q. Donor
123 Any Street
Anytown, USA 00000

Dear Mr. Donor:

In a few days, I will formally announce my decision to seek reelection as President of the United States.

Before meeting with the press, I wanted to contact you personally to give you the news. And before beginning this new campaign, I want to invite you to become a member of the National Steering Committee for my reelection effort.

Membership on my National Steering Committee is an honorary position. It is my way of saying thank you for your past friendship. And it is my way of asking you to join me in this new campaign.

All members of the committee will receive periodic briefings on the progress of the campaign. You will have an opportunity to provide my campaign team with written input about the political situation in your area. You will also receive a certificate recognizing your membership. But no meetings or formal duties are required.

I have enclosed a reply card for you to indicate whether or not you accept this invitation. Whatever your answer, please respond soon so that I will know your decision and we can finalize our nationwide membership roster.

And as you consider your decision, I hope you will consider how this campaign will shape our future in America.

Today, the Republican leadership in Congress is claiming a public mandate to enact an agenda of radical and dangerous dimensions.

Their Contract with America would cut education funding including school lunches, student loans and our national service program, reduce Medicare benefits and enact welfare reforms so irresponsible

and underfunded that they could literally leave millions of children destitute and without support. They would legalize assault weapons, break the commitment of our crime bill to hire 100,000 police and end our government's ability to create new regulations needed to protect the environment and the health and safety of American workers.

Americans are understandably frustrated and eager for change. But there are no mandates to support these short-sighted and dangerous measures.

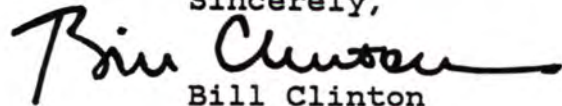
The 1996 elections will be a referendum on how we want to live together, work together and prosper together in America.

Will we continue my efforts to restore the American Dream, to grow the middle class and shrink the underclass? Or will America pursue a different vision which reduces government to an entity without room for helping children, community responsibility or sensible regulation to protect ordinary Americans?

You understand the importance of the task ahead. My message to you is that I need your partnership once again to succeed in the most challenging campaign I will ever face.

I deeply appreciate your past friendship and support and all that you have helped me accomplish. Please let me know that you will be with me again by returning the enclosed card right away.

Sincerely,

A handwritten signature in dark ink, appearing to read "Bill Clinton", with a stylized, flowing script.

Bill Clinton

P.S. One of our important challenges is raising funds for the campaign ahead. Membership on the National Steering Committee does not require a contribution of any kind. However, if you can afford to send a gift to help fund the start-up of our campaign operation, please do so when you return your card. I will greatly appreciate any help you can provide.

To: Bill Clinton

From:

Please verify that your name and address are spelled correctly, and indicate any changes above.

Thank you for your invitation to serve as a member of your National Steering Committee, an honorary position reserved for past friends and supporters.

- ☐ **YES.** I accept your invitation to become a member of your National Steering Committee.
- ☐ **NO.** I appreciate your invitation but respectfully decline.
- ☐ I want to do my part to help launch the reelection committee operations by making a personal contribution of:

The Clinton/Gore '96 Primary Committee may be eligible to receive federal matching funds of up to \$250 for contributions from an individual, personal account. Contributions from spouses drawn on a joint account may be matched up to \$500 if both spouses sign the check or the response card. Corporate contributions may not be accepted.

Please indicate below exactly how you wish your name to appear on the National Steering Committee roster:

Please be sure to fill out the required information on the other side.

Paid for by Clinton/Gore '96 Primary Committee, Inc.

Reply To The President

Please be sure to fill out the required information below.

Federal Election law requires political committees to report the name mailing address, occupation and name of employer for each individual whose contributions aggregate in excess of \$200 in a calendar year.

Occupation: _____

Name of Employer: _____

☐ Check if self-employed.

Your contribution will be used in connection with Federal elections and is subject to the limits and prohibitions of the Federal Election Campaign Act. Your contribution is not tax-deductible as a charitable contribution for Federal income tax purposes.



Michelle Maes
HUGE

THE PRESIDENT HAS SEEN

4/24

OTHER POLITICAL NEWS

Colorado Judgeship. The Colorado Bar Association generated more fallout this week from the withdrawal of Judge Maes' nomination to the U.S. District Court. Despite the fact that Maes withdrew his own nomination, the board passed a unanimous resolution deploring Maes' "rejection" by the White House.

Secretary Pena. Demonstrating great cooperation with Political Affairs, Secretary appeared at state party fundraisers this week in Washington and Oregon, and a DNC briefing in San Francisco.

Motor Voter - Pete Wilson unanimously lost his appeal on motor voter and is obligated to implement the law by June.

Alaska Poll. An internal poll taken for Governor Knowles shows that 85% approve of your working with the governor to lift the oil export ban. Your approval rating is 43% with 53% disapproving; Knowles' is 64% approve, 26% disapprove.

Oregon Public Employees Strike. Oregon state employees voted 93-7% to strike for higher pay on May 6. This creates greater turmoil in a state where anti-labor activists have pursued numerous ballot initiatives to reduce public employee pay, benefits, and pensions.

Ethics Suit in Yonkers. Tomorrow, April 22, 1995, the City of Yonkers will sue for ethics violations a key leader and campaign supporter of ours, County Legislator Herman Keith. Keith, who is the most prominent official in the mainly African-American section of Yonkers, has been involved in a development corporation with his wife. The ethics suit will allege that he inappropriately sought state development funds for his corporation.

Rep. Mel Reynolds (D-IL). Indicted Congressman Mel Reynolds, who has \$145,000 in outstanding debts and has been unable to pay his legal fees, received a helping hand from real estate magnate Jerry Reinsdorf, the owner of the Chicago Bulls and White Sox. Reinsdorf, who supported Reynolds in his 1992 bid against Gus Savage, personally guaranteed a \$30,000 loan. According to the *Chicago Tribune*, the money has been used to pay Reynolds' attorney, who has been asking the court to permit him to resign from the case, citing moral and ethical qualms. Although the attorney denies it, the paper reports that Reynolds' inability to pay is the real reason the attorney wants out.

4/24
THE PRESIDENT HAS SEEN

THE WHITE HOUSE

WASHINGTON

April 21, 1995

95 APR 21 07:14

MEMORANDUM FOR THE PRESIDENT

FROM: DOUG SOSNIK

SUBJECT: WEEKLY REPORT

1996 PRESIDENTIAL

Pete Wilson. Wilson received a significant boost this week with the announcement that Massachusetts Governor William Weld will serve as his national finance chairman, giving Wilson a prominent beachhead in the crucial New England region. Former Texas Governor William Clements and Bush national finance chair Margaret Alexander Parker also joined the Wilson fundraising team. In addition, he has signed up top political strategists such as Craig Fuller, Stuart Spencer, James Lake, and Ken Khachigian. Recovering from minor throat surgery, Wilson is enlisting surrogates to speak for him at public appearances.

Richard Lugar. In the wake of a parade of glowing announcement profiles, Senator Lugar entered the presidential race this week with a surprisingly sharp-worded announcement speech. The tragedy in Oklahoma denied Lugar the coverage his announcement normally would have received.

Dole in Florida. The Florida press described Senator Bob Dole's trip to Tallahassee on Wednesday as "halfway between the big splash President Clinton made last month and the ripple of excitement Senator Phil Gramm generated last week." When addressing the Florida's joint legislative session, Dole called for tougher measures against Cuban dictator Fidel Castro by saying "it's time to make the end of Fidel Castro an explicit goal of American foreign policy." Former state senator Ander Crenshaw (R) and Secretary of State Jim Smith (R) will serve as co-chairs of Dole's 1996 campaign in Florida.

Kansas Primary. Senator Dole has a problem brewing in his home state. The \$1.5 million required to pay for the April 2nd presidential primary was left out of the 1996 budget. While the legislature could add the \$1.5 million, there is opposition to the primary by some ultraconservative leaders in the GOP controlled House, who prefer a caucus system in order to embarrass Dole in favor of more conservative candidates. The state Republican Party, which would organize the caucus, is firmly controlled by Republican extremists. Democratic leaders in the state agree that the primary will eventually be returned to the state budget, but not until Governor Bill Graves (R), a Dole supporter, has been forced to ask for the expenditure.

Minnesota. In Minnesota this week, Phil Gramm named Allen Quist, the darling of the state's large and active radical right, to be his state campaign chair. With Governor Carlson virtually certain to back Bob Dole, Democrats in the state are hopeful that the presidential primary contest will further divide the state Republican party. A GOP legislator proposed this week that Minnesota conduct a binding primary on March 19th, as part of the so-called "Big 10" primary with Michigan, Illinois, Ohio and Wisconsin. Minnesota currently selects delegates at caucuses, holding only a non-binding "beauty contest" in April. The proposal would likely benefit Dole, since Gramm appears more likely to appeal to the activist radical right now that Quist is on board. The plan could have difficulty winning passage in the Democrat-controlled state legislature, however, given many Democrats' affinity for the caucus process.

Louisiana Primary. The Louisiana House voted Tuesday to retain its 1996 Super Tuesday presidential primary, despite attempts to save the state \$3.5 million this year by changing to a caucus system. Some local GOP leaders said the reason a Democrat proposed this bill was to prevent you from being "embarrassed in the primary." The state GOP intends to hold their primary on Super Tuesday in addition to holding pre-Iowa caucuses in the state. Governor Edwards has promised to propose an amended bill to cancel the primary.

FEC Reports. The table below summarizes the FEC reports released this week.

<u>Candidate</u>	<u>Raised</u>	<u>Spent</u>	<u>Cash-on-Hand</u>
Dole	\$4.4 million	\$1.9 million	\$2.5 million
Gramm	\$8.7 million	\$4.6 million	\$8.5 million
Alexander	\$5.2 million	\$2.2 million	\$3.1 million
Specter	\$1.1 million	\$440,000	\$611,000
Buchanan	\$986,000	\$669,000	\$317,400
Dornan	\$34,000	\$28,500	\$5,240

1995 ELECTIONS

Kentucky Gubernatorial Race. Lt. Governor Paul Patton's (D) gubernatorial campaign completed a poll last weekend which showed him with a commanding lead in the Democratic primary. Patton received 41% of the vote, followed by Secretary of State Bob Babbage with 12% and state Senate President Eck Rose with 12%. Patton would have to capture 40% of the vote in the May 23rd primary to avoid a runoff. Democratic Party leaders in the state feel that Patton's numbers are soft and will serve as a catalyst for Babbage and Rose to begin negative campaigning to reduce his lead.

Denver Mayoral Race. Mary DeGroot picked up the Denver Post endorsement, adding momentum to her surging campaign. However, as she solidifies her position as the leading challenger to Mayor Webb, she has come under increasing scrutiny. During a televised debate, Webb slammed DeGroot for airing what he called a misleading and inaccurate

television ad about crime. He also challenged DeGroot to pledge not to award contracts to campaign donors; she declined. Two polls released this week show Webb with a 20 point lead, but still unable to attract more than 42% of the electorate.

1996 ELECTIONS

California Affirmative Action Initiative. In a surprise development, a group of right-wing Republicans has submitted an anti-affirmative action initiative to the California Attorney General to circulate for the March, 1996 ballot. An identical measure had already been submitted by mainstream Republicans for the November, 1996 ballot. A private memo written by a leading anti-gun control activist in support of the March strategy argued that the measure is more likely to win in March, when Republican turnout is expected to be stronger; and that making the issue part of the general election dialogue could backfire by motivating Blacks and low-income women to vote. While the March initiative proponents are very independent and possess some sophisticated political talent, the Republican financial and political leadership is likely to put great pressure on the renegade group to back off.

Dan Quayle. Dan Quayle announced this week that he will not run for governor. Quayle said that "the only office I am truly interested in is the presidency. ... If I wasn't going to run for president in '96, why run for governor in '96?"

Nebraska Senate Race. Nebraska Republicans turned up the heat on Gov. Ben Nelson (D) this week by running an ad in the state's largest newspaper claiming that if Nelson breaks his pledge to serve out his term and runs for the Senate, he is "just another hypocritical liberal." The ad also cites an National Republican Senate Committee poll reporting that 65% of Nebraskans think Nelson should keep his pledge. The poll did not ask a job approval question.

Billy Tauzin. Representative Billy Tauzin (D-LA) has expressed his interest in running for the U.S. Senate seat being vacated by Bennett Johnston in 1996, but may not seek the Democratic nomination. Tauzin said earlier this week he will decide whether to run for the Senate and/or switch to the Republican Party by December of 1995.

✓ **Wyoming Senate.** Kathy Karpan informed us privately that she is considering a challenge to Alan Simpson in 1996. She believes that her respectable 1994 gubernatorial bid makes her a viable candidate in an admittedly uphill battle.

LAUR A

League within - It was after all a by

Part of Round 1 - B.

THE PRESIDENT HAS SEEN
4.21.95

received numerous death threats.

If the Singaporean and Filipino pathologists still fail to agree on the cause of Maga's death after the visit, they have agreed to refer the case to a third, neutral pathologist.

The case has severely strained relations between two key members of the Association of Southeast Asian Nations, although passions appeared to be cooling with the most recent round of resignations.

At one point, Ramos threatened to break relations with Singapore if investigations proved that Contemplacion was innocent.

A Confident Germany Greets Mark's Steady Rise With Yawns By Tyler Marshall= (c) 1995, Los Angeles Times=

BERLIN The latest downward lurch of the dollar has left U.S. policy-makers concerned, Japanese exporters worried, financial analysts confused ... and the Germans relaxed.

Germans, relaxed? In a currency crisis?

The answer, apparently, is yes at least for now.

For a number of reasons, Germans have reacted with unusual detachment to the recent rise of the mark on global currency markets despite the fact it makes their exports more expensive, discourages investment and endangers jobs. Gone are the predictions of economic Armageddon that accompanied earlier revaluations of the mark against the dollar.

To be sure, there have been some warnings. Last week, for example, Daimler-Benz Chairman Edzard Reuter said the rise of the German mark, together with inflated wage settlements, were bound to translate into job losses in Germany.

"The unavoidable result will be the location of production plants abroad," he told a news conference. To prove his point, he announced that a reduction of 13,500 employees, or about 3 percent of the company's global work force planned for this year, would be made mainly in Germany.

Despite such developments, there are few signs of the low-grade fear that so often comes to Germans with the first hints of currency turmoil fear driven by tales of the nightmarish hyper-inflation that ruined the country's economy in 1920s.

As the dollar fell below \$1.38 last month, even Germany's mass-circulation newspaper Bild Zeitung, ignored the chance to stoke anxieties among its 5 million readers.

While it carefully noted that a German machine tool sold to an American customer last year for \$580,000 would be harder to market if it suddenly carried a price tag of more than \$700,000, the paper also played up the prospect of cheaper trips abroad.

Indeed, among the general public, the most noticeable reaction to the mark's climb has been a stampede to the banks to buy dollars to spend on cheaper-than-ever Florida holidays.

"In early March (when the dollar plunged to \$1.35), we were so besieged by customers wanting dollars we couldn't keep up," recalled Stefan Coch, customer service representative at a large branch of the Dresdner Bank in Berlin. "They were taking \$1,000 to \$5,000 each."

Germans today have greater confidence than in previous decades in their ability to compete internationally. The panicky reactions of earlier years were unwarranted, many seem to conclude, so why worry now?

"We've lived with this problem for years," said Herbert Kriegsbaum, an economist at the German Machine Tool Association in Frankfurt, Germany. "We've learned to defend our market share."

This view is shared by many experts. "German industry has adapted to a strengthening currency for most of the last 50 years, so I see no reason why it shouldn't be able to adapt further," concluded Andrew Bosomworth, an economist at the Frankfurt office of Merrill Lynch.

(Begin optional trim)

Several other factors have also contributed to the muted German reaction to the mark's rise. Among them:

While the mark has appreciated by around 10 percent against the dollar during the past two months, it has lost ground against the surging Japanese yen, a development that enhances German competitiveness against Japanese goods in crucial third-country markets.

Some bellwether German industries, such as chemicals, hardly suffer at all because they can save on their oil-based raw materials, purchased almost exclusively in dollars.

Laments by some politicians that the present currency-market gyrations could torpedo the dream of a European Monetary Union are not shared by the majority of Germans, who are eager to keep their Deutsche mark strong and independent.

(End optional trim)

Perhaps most importantly, however, the relaxed mood is due to a briskly expanding economy that has so far felt little impact from the stronger mark, with growth this year still projected at around 3 percent. Germany's Federal Labor Office announced a reduction of 153,000 jobless for March, hardly a sign of impending hard times.

Still, economists warn that if the economy begins to slow and the nation's currency keeps its current strength too long, medium-term growth prospects could suffer considerably.

Global Economic Growth Should Be Clinton's Top Priority Mead is the author of "Mortal Splendor: The American Empire in Transition" (Houghton Mifflin). By Walter Russell Mead= Special to the Los Angeles Times=

Americans kept yawning but international currency markets kept making history last week. As the long, drawn-out currency crisis develops, it is taking a somewhat surprising and even ominous shape: Fifty years after the end of World War II, the United States is once more at loggerheads with Germany and Japan.

Early last week, it looked briefly as if the dollar was going into free fall, losing 4 percent of its value against the yen in just a few hours. The reaction from German and Japanese officials was clear: It was all America's fault.

"I want the United States to feel responsible," said the Japanese finance minister, who went on to suggest the most sweeping currency reforms since 1973.

The Germans were even more pointed. "Each country gets the currency it deserves," said the head of the Bundesbank. "Discipline," he added in a characteristically Teutonic tone, is what the United States needs. Otherwise, the "national deficiencies" of the United States would doom any attempt to bring order to international markets.

As the currency crisis has deepened, and as both Japanese and German exporters complain to their governments about the effects of the dollar's decline on their business outlook, America-bashing has become something of a national sport in Tokyo and Bonn. The U.S. budget deficits, its trade deficits, low savings rate and general habit of "consuming too much and producing too little" are the sins that most irritate the ex-Axis powers. If America would just save more and spend less, say Tokyo and Bonn, world markets would stabilize and the world economy would grow.

It all sounds plausible, and it is true that the elimination of the budget and trade deficits would help strengthen the dollar.

ut the Germans, especially the Japanese, overlook a central point. Bad as American "overconsumption" is for the dollar, without U.S. consumers, the world economy would slip into recession.

For the last 50 years, the U.S. consumer supported by the U.S. government has been the unsung hero of the global economy. In good times and bad, Americans have provided the largest and most open market in the history of the world. The American market allowed Germany and Japan first to recover from the devastation of World War II, then to go on and enjoy the greatest prosperity they have ever known.

In a metaphor economists love, the United States was the locomotive of world growth, "the engine that pulled the world economy up the hill. The Germans and Japanese rode in the club car drinking sake and beer. Sometimes they criticized the engineer for going too fast, sometimes for going too slow, but both countries assumed the free ride would go on forever. Unfortunately, it can't. That is the real meaning of the current dollar crisis. Americans simply can't go on spending their way out of domestic and global recession. European and Japanese investors and businesses have all the dollars they want and then some; increasingly, the United States will have to pay as it goes, financing more of its imports with higher prices of exports, and financing more of its government expenditure with taxes rather than with debt.

At the moment, the passengers in the club car are making all kinds of self-righteous comments about how they knew it couldn't last, and how it is obvious to anyone that the poor, old, beat-up locomotive can no longer pull the train. "More discipline!" say the Germans. "More responsibility!" say the Japanese.

Meanwhile, of course, nobody is going anywhere. German growth is so slow that, despite mammoth public spending in former East Germany, unemployment stands at 8.1 percent, and the costs of the German welfare state threaten to bankrupt government. Japan's economy has stagnated for years, and the rise of the yen only threatens to worsen its difficulties by reducing the profits of its export-driven industrial sector. And if things are bad in the club car, they are worse in the third-class cars, where the developing nations sit. Latin America has already suffered a severe economic shock; many observers are warning that the East Asian economies are next in line. In the last few years, they have borrowed heavily from the United States in yen, but most of their income from trade with the United States comes in dollars. The rise of the yen against the dollar means it is harder and harder for East Asians to repay Japanese loans. An Asian debt crisis would undermine political stability and economic growth in one of the most volatile parts of the world.

If the world economy is to keep moving ahead, the passengers in the club car are going to have to stop complaining and start pitching in. For the Germans this won't be too difficult, but Japan will have problems. Japanese ministry bureaucrats, with little knowledge of or experience in the wider world, can't quite face the truth: It isn't the dollar that is too weak; it is the yen that is too strong. And it isn't so much that Americans spend too much, as that the Japanese spend too little.

Think about it. If the United States did what the Japanese want eliminated its budget and trade deficits we would buy fewer Japanese goods and Japan Inc. would go broke.

The dollar and Japan need the same medicine but, unfortunately, this involves two steps the Japanese bureaucrats won't bear to think about: a massive economic stimulus combined with a systematic deregulation of the economy. This is what most Japanese voters and many Japanese corporations want; but there is no sign Japan's weak government can force its bureaucrats to do anything more than pretend to reform. It means the pressure must come from abroad. This won't be easy. Japanese bureaucrats are notoriously

resistant to pressure from any source. Uncle Sam will have to twist some arms hard to get his way, but he doesn't have any choice. This isn't just another trade dispute; Japan's refusal to manage its economy responsibly is a serious threat to vital U.S. interests.

Americans need to focus on the real issue: It's not that the Japanese discriminate against U.S. goods; they don't buy enough goods period. The Japanese should have better houses, better roads and a better choice of cheaper goods in their stores. Let Japan dismantle the policies that discourage private and public consumption, and we will all be better off. The Japanese will live better; they will buy more American goods; the Japanese trade surplus and the U.S. trade deficit will both shrink; the dollar will stabilize against the yen, and both the U.S. and Japanese economies will grow.

The bureaucrats, alas, are deaf to sweet reason. For Japan to change its ways, the United States will have to speak another language of sanctions and threats. These threats will have to be more than the usual wrist-slapping of trade debates.

This is serious business, and the Japanese must understand it. Economic cooperation is the price of the U.S. alliance. Washington must make this plain to its allies not as a threat, but as a statement of fact. The U.S. military commitment to Japan will not survive if the U.S. economy goes down the tubes. The free ride is over; Japan must help Uncle Sam shovel the coal, or the locomotive won't run, and nobody will get where they want to go.

This goes for the North Atlantic Treaty Organization, too. The United States isn't doing its allies any favors by pussyfooting around the truth: If its allies want military help, they have to help Washington create an economic order that keeps America prosperous enough to maintain its foreign forces. Neither public opinion nor economic realities will support expensive military commitments if the U.S. economy weakens.

Achieving this kind of economic cooperation ought to be the No. 1 goal of the Clinton administration. Forget the North American Free Trade Agreement. Forget Bosnia. Forget Haiti. If President Clinton can get Germany and Japan to join with the United States in a serious, determined effort to support global growth, then he will be remembered (not to mention re-elected) as the president who successfully redefined U.S. foreign policy at the end of the Cold War and put both the nation and the world on the right course for the 21st century.

Rallying the Nonaligned States Against the Real Nuclear Threat Krepon is president of the Henry L. Stimson Center, which focuses on arms-control and security issues. **By Michael Krepon= Special to the Los Angeles Times=**

Nuclear danger has a new image. Instead of the mushroom cloud, picture the back seat of a nondescript sedan, seized by the Prague police in December. Lying on the seat were two metal canisters the size of large Thermos-type bottles, containing fissionable material. The sedan was headed for the black market before being impounded.

This new image of proliferation makes the outcome of the Nuclear Non-Proliferation Treaty extension conference profoundly important. The conference opens Monday at the United Nations, where more than 170 states must decide on the treaty's future. There are three choices: indefinite extension, extension by a fixed period, or periods.

The Clinton administration is pulling out all stops to secure an indefinite extension. But the outcome will be determined by the nations of the "nonaligned movement." Extension will be decided by majority vote and is not subject to a Security

Alon



Sample
cc: ~~Smith~~ / Grant ^{JD}
we have hundreds of these ^{Polymers}

THE WHITE HOUSE

WASHINGTON

April 18, 1995

Mrs. Don Rotarius
119 Woodside Lane
Bay City, Michigan 48708

Dear Kathryn:

Thank you for your moving letter. I'm so sorry to learn of Don's death. Your sons must be very proud of their father.

His confidence in our efforts to restore hope to hardworking families like yours means a lot to me, and I'm grateful that you shared his story. Hillary and I wish you and your family the best for the future. You are in our prayers.

Sincerely,

Bill Clinton

Thank you so much
for writing. I'm working
hard for people like you, Don
and your children. Now
I'll work harder.

March 30, 1995

Dear President Clinton,

This is a belated thank you letter. My husband's company ~~he~~ worked for for many years closed ~~down~~ in 1983. No more insurance, paycheck, retirement plan, profit sharing. I went to work then. Don (my husband) was Mr. Mom for a few years. He got temp. labor jobs off and on for a few years. Then in Feb. 1993 he got a good job with a company, benefits ect. He was so excited. He felt like the man of the house again. He swore it was President Clinton that turned things around for him. He was very proud. He was one of your supporters.

Last June Don was told he had Non-Hopkins lymphoma. He had months of chemo, he had a bone marrow transplant in Feb. 95. Due to complications he died in March. Don was only 44. He left 3 sons and myself. But he told me he was dying with peace of mind because he had had this job. It left us with life insurance, pension plan & profit sharing. He thanked God & President Clinton for these gifts he could leave us.

When I was going thru his things, I found his Clinton ~~for~~ for President buttons and signs. I packed them away. They are something I'll give the boys later.

-1
So, on behalf of Don & myself
a big Thank you. Keep doing the good
job you do. If you run next election
you'll have one less voter on earth.
But a cheering section in heaven.

Thank you,
Kathryn A. Potariis
119 Woodside Lane
Bay City, Mi. 48708

1-517-893-2787

Copy To Bowles 4/23
per DP

Chen
THE PRESIDENT HAS SEEN
4/20/95

EXECUTIVE OFFICE OF THE PRESIDENT

20-Apr-1995 09:18am

95 APR 20 P1:32

TO: Erskine Bowles
FROM: Jonathan P. Gill
SUBJECT: Very interesting

Handwritten:
POTUS my friend
this is the
key
E

Erskine,

This is a private forward of a message I just received from the editor of Forbes ASAP. He's VERY much of a libertarian Republican. Note his view that POTUS can WIN in '96 if he regains his optimism. This is the dawning of a great new era I can give you the presentation any time you want.

Please use this wisely and discretely.

Jock

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----- Forwarded message -----
Date: Wed, 19 Apr 95 18:55 EST
From: Rich Karlgaard <0005096930@mcimail.com>
To: "Jonathan P. Gill" <jgill@casti.com>
Subject: RE: Testing

Jock --

Signal received!

,,, stuff deleted ...

It's been quite interesting to read about Bill Clinton's reluctance to embrace the Carville wing (bash the rich populism). I admire him for resisting the yap coming from the Bonior, Gephardt side.

I'm all for populism -- this is a populist country, afterall -- but not when it's rooted in resentment as opposed to the democratic ideals of equality and opportunity.

The most popular (and thus mostly effective)

presidents in this century have been towering optimists -- TR, FDR, Ike, JFK, and Reagan. What disturbs me about the Republicans in the field (and I'm a card carrying Republican) is this dour attitude. I miss Kemp. Why do you think he dropped out? (The Kemp wing is looking to my boss, Steve Forbes, to take up the charge).

Back to Clinton . . . he needs to recover his optimism. If he does, he'll win. If he succumbs to the temptation of class warfare, he'll lose. (Mencken once wrote that socialism would never catch on in America because even the Huey Long voter dreamed about being a millionaire.)

Best,
Rich

Copy To Panetta
4/24

THE WHITE HOUSE
WASHINGTON

Chro
THE PRESIDENT HAS SEEN

4/21/95

95 APR 19 P5: 49

17 April 1995

MEMORANDUM TO THE PRESIDENT

CC: LEON PANETTA

FROM: Harold Ickes *HI*

SUBJECT: Democratic National Committee support of certain
White House functions

Attached are the pertinent parts (pages 4-6) of the 12 April 1995 memorandum to me from Joe Sandler, General Counsel of the DNC, stating, in effect, that even if the President faces a primary challenge in 1996, the DNC may still continue to pay for White House support.

cc: Maggie Williams
Jack Quinn
Abner Mikva
Bruce Lindsey

[Handwritten signature]

Correspondents, etc.--assuming current scope of work)

- Mike Sheehan's work with Party and Administration officials. (He volunteers his time for the President).

2. Re-elect must pay for consultants providing media advice to re-elect officials and advice/creative/time buying for re-elect materials and media

- General oral/written advice on media and message to President on communications to be undertaken by re-elect
- General oral/written advice on media and message to re-elect officials and staff
- Creative services, production, time buying for re-elect materials and media

3. Contractual arrangement:

- DNC and re-elect each have their own contracts for media consultant(s), if any, to be named
- Sheehan would have contract with DNC only
- Katz would continue to have contract with DNC only

E. Direct mail

DNC and re-elect each have (or will have) their own contracts with Malchow.

F. White House support

1. Includes:

- DNC-paid volunteers at the White House (assuming current responsibilities, not work for re-elect)
- Trinkets
- Political travel not sponsored by any entity and political travel on behalf of candidates but unpaid (excluding travel for the re-elect itself)
- Partisan meetings and events at White House (breakfasts with Democratic Members of Congress, etc., but not events specifically for re-elect donors)
- General meeting and entertainment expenses
- Christmas cards
- Christmas receptions and entertainment

2. DNC can legally continue to pay for above because:

- These activities are undertaken for the President in his capacity as Party leader--not as a candidate.
- RNC continued to pay these costs in 1991 even after Bush became candidate for re-election .

II. EFFECT OF CHALLENGER

A. General Approach. Use of joint polls and common consultants, and other forms of cooperation by DNC exclusively with the re-elect (to the exclusion of any challenger(s)) are justified because:

1. DNC has always begun to support and work for the nominee as soon as it was clear the race was over. That situation exists right now. Non-frivolous figures may seek the nomination but there is no doubt about the outcome. The DNC cannot afford to refrain from laying the groundwork for a successful general election.
2. The President is the leader of the Party and the DNC has the right and obligation to support him in that role.
3. The DNC/Democratic Party has an institutional stake in the success of the Presidency because it affects the election of Democrats at every level in 1996.
4. There is no legal impediment to the above approach. The DNC charter requires neutrality but this language--
 - Applies by its terms only to the conduct of the delegate selection process itself
 - Contemplated a contested nomination for an open seat--not an incumbent President
 - Has never prevented DNC from beginning work and planning for general election in full cooperation with nominee (subject to election law restraints) as soon as nomination was effectively locked up--have not waited until Convention.

B. White House Support. Payment for White House support is justified, in particular, because

1. Political activity cannot be paid for with appropriated funds.

6

2. These activities are undertaken by the President in his capacity as party leader and benefit the Party as a whole.

- Christmas cards and trinkets--used for friends and supporters
- Democrats-only meetings and breakfasts
- Other entertainment--curries goodwill among different groups and segments of the public, to the benefit of the Party generally.

3. Precedent: the RNC paid for these activities in late 1991 even after Buchanan became a candidate for the GOP nomination.

COLUMN ONE

Helium Program Too Tough to Deflate

The idea of war blimps has gone bust, but this perennial of pork-barrel politics lives on. Backers say the nation's stockpile of gas will again survive budget cuts.

By JAMES RISEN
TIMES STAFF WRITER

A1

AMARILLO, Tex.—Billy Jack Moore, general manager of the United States Helium Reserve, hides his government-issue Jeep Cherokee onto the gravel shoulder of old U.S. Route 66 and pulls to a top 100 yards from Amarillo's most famous monument to absurdity, the "Cadillac Ranch." Twenty years ago, Stanley Marsh 3 (not II), the local eccentric rich guy, planted a row of 10 Caddies nose down in arid ranch land and called it art.

"Funny what people do with money," Moore grumbles, with a deep Texas laugh—and not a trace of irony.

Just across the highway stands an aging industrial plant. Designed to process the lighter-than-air gas helium, it was built more than 60 years ago, when the Army and Navy thought the national defense might soon depend on blimps and dirigibles. The days of airships as critical instruments of war are long past, but the Amarillo Helium Plant is still operated by the U.S. Bureau of Mines—a piece of Billy Jack Moore's multimillion-dollar empire.

The reserve, consisting of processing equipment, millions of cubic feet of helium-saturated rock, a few Spartan offices and an aging pipeline, was created to assure that the nation never suffered for want of helium. Over several decades, the government bought vast quantities of the inert gas, which was stored by pumping it 3,500 feet below the surface of the Earth into layers of permeable rock that could absorb and preserve it.

Today, with the clean desk and empty schedule of a man whose main task is to make sure nothing happens, Moore, 60, is the Maytag repairman of the federal government. He's the lonely good servant who runs a program that time forgot.

"Pretty much nobody from Washington ever comes out to visit," says Moore.

The Bureau of Mines points out that the reserve brings in several million dollars annually in sales of the gas to federal agencies. But the Congressional Budget Office estimates that proposals to end the reserve could save \$26 million to \$36 million over five years.

How could such an historical accident survive, especially in an era of serious budget cutting? The answer speaks louder than any civics textbook or politician's speech about how America really works.

Please see HELIUM, A12

Continued from A1

For his part, Moore has devoted 34 years of his life to safeguarding the reserve, and he takes his charge seriously. So don't make jokes about party balloons, funny voices and dirigibles in front of him.

As far as he is concerned, the helium reserve, once critical to national security in the age of the Hindenburg, is still a national treasure. And the politicians, from President Clinton to House Speaker Newt Gingrich (R-Ga.), who openly deride it as a national joke, a stray piece of fiscal absurdity, a taxpayer-supported Cadillac Ranch in a budget-balancing age, just don't understand.

"How would you like it?" snaps Moore. "People think we're down here filling dirigibles. We don't do dirigibles anymore. . . . 'Well,' he pauses, sheepishly, 'we do some dirigibles. . . .'"

Certainly the reserve has proved to be a hardy perennial in pork-barrel politics; it wouldn't have lasted 66 years if it weren't. Rep. Christopher Cox (R-Newport Beach), the leader of a campaign in Congress to kill the program, calls it "an expensive practical joke on the taxpayers." Yet Ronald Reagan tried a decade ago to kill it and failed; Bill Clinton tried two years ago and failed. Now Cox, Clinton and others are trying again.

They will fail this time too. Of that, Moore is fairly certain. Helium already has outlasted the 100-day Republican Revolution and has even picked up some Republican congressional allies. In fact, William M. (Mac) Thornberry, Amarillo's Republican freshman congressman, who signed the "contract with America" and defeated a Democratic incumbent last fall thanks to a hard-line stance on balancing the budget, is pressuring Gingrich to spare the program.

Eventually, Moore believes, Washington will come to its senses and realize that you can't just dump 31 billion cubic feet of helium—enough to keep the reserve in business for 100 years at current rates—onto the market and walk away. That would deluge the world market and virtually destroy the private helium industry.

"How are you going to sell all of it?" Moore wonders. "Congress isn't being realistic."

Odds are, Moore chuckles, that long after Clinton and Gingrich are gone, the helium reserve will still be here, patiently waiting for the next great shortage.

Indeed, as Republican leaders in Congress gear up for this summer's main legislative battle—an assault on spending to comply with the GOP's promise to balance the budget by 2002—they are likely to go after hundreds of obscure federal programs that on the surface appear to be easy targets.

"I think we can kill helium this year—we have support for it in both parties and in both the House and Senate—but I'm really not sure," says a senior Republican staffer on the House Resources Committee, which has jurisdiction over the program. "If we as a party are really going to balance the budget, I don't see how we cannot kill it. But I've learned enough about this program to know that there is no telling what the outcome will be."

Take a tour with plant manager Steve Urbanczyk of the Bureau of Mines' Excell helium facility 30 miles north of Amarillo, where the helium drawn from the reserve is refined. Here the wheezing, World War II-era pumping equipment and the fading photographs along the walls tell the ancient story of how Washington first got caught up in the helium business.

The very richest helium deposits in the world were discovered by early oil and natural gas producers in the Texas Panhandle around Amarillo. But to the dismay of the U.S. military, natural gas producers in the 1920s saw helium as a nuisance, an uneconomical byproduct of drilling that they simply vented into the atmosphere.

So in 1929, the Navy set up the world's first helium production facility on the outskirts of Amarillo to support the military's airship fleet, then considered an important complement to the nation's growing fixed-wing fleet.

The explosion of the German dirigible Hindenburg in 1937 prompted the world to switch dirigibles from flammable hydrogen to helium, and led to a World War II "helium gap." America rushed to build five helium production plants to supply air-defense balloons over London and anti-submarine dirigibles hovering over convoys in the North Atlantic.

With the advent of more modern aircraft and air defenses, blimps became an anachronism and the helium program seemed destined for the postwar scrap heap. But it hung on long enough to hitch onto another technological wave: the space program. NASA found helium ideal for purging and cleansing rocket fuel tanks, and Washington wasn't about to deny funding for something that might help America win the race to the Moon.

In 1960, at the height of the Cold War and the post-Sputnik frenzy, Congress approved a massive expansion of the helium program.

Then Washington put it on autopilot. And promptly forgot about what it had done for more than a decade.

In 1973, Interior Secretary Rogers Morton was horrified to learn that his Bureau of Mines had accumulated 35 billion cubic feet of helium—enough to satisfy the government's needs for 100 years, and at least 10 times the world's annual demand. The bureaucrats in Amarillo—never having received new orders—were still spending \$47.5 million every year to buy more.

Morton yanked on the plug.

But it was too late.

Congress and the Bureau of Mines have been dealing with the consequences ever since.

The government hasn't stored any new helium since 1973, and has been using up

the old reserve for the shuttle and other space programs. But after 20 years, there is still enough to last another century.

In the meantime, a private helium industry generating sales of about \$200 million annually has sprung up to meet the growing commercial demand—helium is used in Magnetic Resonance Imaging machines, for example—complicating the government's efforts to shed its albatross.

Private producers—including such large energy conglomerates as Mesa Petroleum and Phillips Petroleum—built helium plants along a 425-mile pipeline in Texas and Kansas operated by the Bureau of Mines, and now store their own helium in the Amarillo reserve. They use the pipeline and storage facility nearly free of charge, and want to make sure both keep operating.

Fearful that large sales from the government's reserve could destroy their market, the private producers also pressured the George Bush Administration in 1991 to raise the price the government charges for helium from \$37.50 per 1,000 cubic feet to \$55, which put it well above any private long-term contract. "Why should the government be in competition with the private sector?" asks Carl Johnson, chairman of the Helium Advisory Council, the industry's lobbying arm.

The government's sales promptly fell by nearly 50%, and the Bureau of Mines lost all of its private customers. NASA and other U.S. agencies, required by law to buy from the reserve, were the only ones left. The Bureau of Mines' new job of supplying helium for the Border Patrol's drug interdiction dirigibles along the Mexican border has barely made a dent.

The price hike has had plenty of other unintended consequences. The drop in demand for government helium has slowed the reserve's ability to pay off its debt, Moore says.

In fact, the Bureau of Mines borrowed \$250 million from the Treasury to finance its helium purchases in the 1960s. It has never paid it back, and interest is still accumulating.

Today, the Bureau of Mines owes the Treasury \$1.4 billion.

Yet the government has allowed the condition of its helium facilities to erode so badly that they are virtually worthless. "Nobody would buy this plant," sighs Excell plant manager Urbanczyk. "It's so old we could only sell it for scrap."

Trying to sort out this bureaucratic train wreck has bedeviled some of the best minds on Capitol Hill. What's made it especially tough is that Amarillo has been blessed with a series of clever congressmen who have thwarted every attempt to shut down the reserve. And so longtime observers have learned to be cautious in predicting the program's demise.

In 1988, after tussling with Republican Rep. Beau Bolter, the Reagan Administration cut a deal to spare the reserve in exchange for Bolter's support for the closing of a smaller U.S. Bureau of Reclamation facility in Amarillo.

In 1993—in a tale retold in "The Agen-

CLON 4/21/95
THE PF LULLABY HAS SEEN

da," Bob Woodward's book about the Clinton Administration—Democratic Rep. Bill Sarpaulis saved helium from the White House budget ax in exchange for his support for Clinton's tax hike.

Again in 1994, a bill to end the program unanimously passed the House Natural Resources Committee—only to die a mysterious death in the House Rules Committee after Sarpaulis intervened, with the support of then-Speaker Thomas S. Foley (D-Wash.).

Ironically, it was Sarpaulis' vote for Clinton's tax increase that ultimately ended his political career, and brought Thornberry to Washington.

The civic leadership of Amarillo is solidly behind the helium reserve—and its 180 jobs. "Going after helium is just a cynical attempt to make it a symbol, and that's unfair," complains Kel Seliger, Amarillo's Republican mayor. "We're under attack from outsiders, and everybody here agrees it should be preserved," adds Jerome Johnson, a prominent attorney and leading Democrat.

Thornberry echoes his constituents: "It's a poor example of a budget cut to hold up before the entire nation." And he has quietly taken up right where Sarpaulis left off. He wangled himself a seat on the subcommittee that oversees the helium reserve, and has won a pledge from the Republican leadership that they won't go after helium "without first taking his concerns into account," notes one leadership aide.

Given the complexities of the case, even Cox has backed off his original proposal to simply shut down the entire operation and sell it off as quickly as possible. His new legislation, widely supported by the helium industry and Republican and Democratic leaders, would shut down the government's production facilities after one year, but have the Bureau of Mines continue to operate the storage facility and pipeline, and charge higher rates for the use of the facilities by private producers.

But to attract support from the industry, private producers would be allowed to buy the federal helium and then resell it at a profit to NASA and other agencies. Finally, after 2005, the Bureau of Mines would begin a 10-year campaign to sell off the rest of the reserve—if such big sales wouldn't hurt private producers.

"Times have changed, and we are finally on the verge of killing this proposal once and for all," Cox claims.

Yet if his bill passes, the government will still be in the helium business for another generation.

And Billy Jack Moore will have time to groom a successor.

"You know, I'm very disappointed at how we are portrayed," says helium production supervisor John Litchfield, who is a generation younger than Moore. "John Q. Public just doesn't understand. . . ."

Handwritten note: *For the future of the helium reserve, we need to keep it as a national treasure. It's not just a gas, it's a legacy. Let's make sure it stays that way.*

4/18/95

Journal
Bar
B

Wait before you trash Clinton

Record shows the Reagan, Bush years weren't all that great.

AMES, Iowa — Let's look at the record. The Republicans — from Bob Dole on the right to Pat Buchanan on the right — say they could run this country better than Bill Clinton is running it. Maybe so.

But before you buy into that, before you listen to them trash Bill Clinton, before you put a new bumper sticker on your car, look at what happened between 1981 and 1992, the



COUNTERPOINTS

By Michael Gartner

12 years the White House was controlled by Ronald Reagan and George Bush.

The budget deficit in 1980, the year before the Republicans took over, was about \$73 billion. By 1992, their last year in office, it had soared to \$340 billion (or, if you want to toss in the Social Security surplus, \$290 billion).

Responsible

management? Hardly.

Outlays for means-tested entitlements — Medicaid, food stamps, family-support assistance, child-nutrition programs and the like — totaled \$45 billion in 1980. In 1992? More than \$140 billion.

Reform-minded policies? Hardly.

The number of employees in the executive branch in 1980 totaled 2.8 million, excluding soldiers. Employment in 1992? Around 3 million.

Corporate-like toughness? Hardly.

The number of Americans living below the poverty level in 1980 equaled a distressing 13% of the population. By 1992, it was a more distressing 14.5% — with that increase spread among whites, blacks and Hispanics. The number of children below the poverty level rose to 21.1% from 17.9%.

An effective safety net? Hardly.

The number of births to unmarried women nearly doubled during those 12 years, rising to more than 1.2 million from 665,000. When Reagan came into office, about 30% of all births were to unmarried women. When Bush left office, the figure had climbed to more than 45%.

A return to old-fashioned family values? Hardly.

The number of Americans earning \$75,000 and over equaled 8% of the population in 1980. The number in 1992 — and this is measured in constant dollars — had jumped by more than a third, to 11%. The percentage earning under \$15,000 a year actually rose

“

Republicans may think government is too big, but it grew dramatically ... the last time they had a chance to control it.

”

slightly, meaning the percentage in the middle classes fell.

A policy of spreading the wealth? Hardly.

The median income of households rose only a bit during the 12 years of Republican rule — and that was only because more wives entered the workforce. The median income of men declined during those 12 years, when measured in constant dollars.

A land of opportunity? Hardly.

Some other statistics:

America was at peace during those 12 years, yet defense spending rose to \$300 billion in the last year of the Bush administration from \$134 billion in the last year of the Carter administration. Interest on the national debt rose to \$224 billion from \$55 billion. Farm subsidies rose to \$20 billion from \$9 billion; spending on the administration of justice jumped to \$14.4 billion from \$4.5 billion.

In 1980, the government spent \$32 billion on Medicare; in 1992, \$120 billion. In 1980, the government spent \$118 billion on Social Security; in 1992, \$288 billion.

You get the idea.

No matter what the candidates and Newt Gingrich are saying, the statistics tell the story. And the story is this:

The Republicans may think government is too big, but it grew dramatically under them the last time they had a chance to control it.

The Republicans may say they want to reform social programs, but they soared in the Reagan and Bush years.

The Republicans may say they want a safety net to ensure dignity for all, but the number of people below the poverty level — men, women and children, black, white and Hispanic — rose during the Republican era.

The Republicans may say they aren't the party of the rich, but the rich got richer and the poor got poorer and the average man lost ground during the Reagan and Bush years.

And so, as you see the nightly news clips of the candidates wandering the farms of Iowa and the factories of New Hampshire, as you listen to them on the Sunday shows and as you read of their plans and pledges, you might pause and look back at the record.

For statistics don't often lie.

Politicians sometimes do.

COUNTERPOINTS' four columnists provide views from diverse perspectives on today's issues. **Wednesday:** Linda Chavez on foreign policy; **Thursdays:** Susan Estrich; **Mondays:** Tony Snow; **Tuesdays:** Michael Gartner.

4/21/95

OPINIONLINE

What people are saying about affirmative action

Affirmative action: Diminishing returns?

ELLEN LADOWSKY in *The Wall Street Journal*: "The diminishing returns of affirmative action are particularly felt by young women entering the workforce. By now the formal and informal barriers that once kept women out of many fields have come down. The white female college graduate is likely to face the same employment problems that have confronted her male classmates for the past decade: a limited number of slots, competition for a promotion and the denial of jobs because of 'set-asides' for minority applicants."

CYNTHIA TUCKER, *The Atlanta Constitution*: "Perhaps the greatest irony of this era of reborn racism is this: Many critics of affirmative action claim that its time is past. Racism is dead, they say. Discrimination has died away. ... But America is not yet colorblind, and it has no hope of moving beyond color-conscious discrimination and rank bigotry as long as some of its leading public figures believe it is appropriate to mock and disparage those who represent something other than America's mythical ideal: white, straight and middle class. The attitudes ... of public officials matter. They help set the tone of public debate."



TUCKER

WILLIAM RASPBERRY, syndicated columnist: "In some jobs, discrimination is easy to spot; the 120-word-per-minute typist who loses out to a competitor whose top speed is 80 wpm has a discrimination claim. But what of the applicant for an editorial position, or a legal clerkship, or a securities brokerage? Anti-discrimination laws won't do it and neither will affirmative action — although these things may help employers to focus on their behavior. I keep hoping that the time will come when nearly all employers react as many already do: with embarrassment when they haven't lived up to what they know to be right and with pride when they know they've done it right."

CHARLES KRAUTHAMMER, syndicated columnist: "Four years ago, the (California) legislature actually passed a bill mandating public universities to produce ethnic graduation rates that matched those of California's high schools. The ultimate liberal dream: the vexing

problem of the disproportionate college dropout rate of minorities solved overnight by legislative fiat. ... The governor's veto saved California from this monstrosity."

PAUL GREENBERG, syndicated columnist: "It has come to this: In its zeal to recruit women and specified minorities, the U.S. Forest Service has run Help Wanted ads saying that 'only applicants who do not meet standards will be considered.' ... Discrimination is now mandated in the name of outlawing discrimination."

BOB HERBERT, syndicated columnist: "The politicians will tell you that the attack on affirmative action is a cry for racial justice. That is not so. It is an expression of the anger and frustration felt by large numbers of overwrought and underemployed white men. Their anxiety is understandable, but affirmative action is not their enemy. ... The United States is going through a period in which the politics of meanness is in the ascent. ... Eventually we'll find our higher selves and chase the dogs of bigotry and fear and ignorance from the yard."

JOE KLEIN in *Newsweek*: "The American institution most respected by white males, angry and otherwise, is also the institution that has most successfully practiced affirmative action: the United States military. ... Clinton should consider delivering his big affirmative-action speech in a poor black neighborhood and using the opportunity to extol the military. He might even offer a military-style deal: If you work hard and play by the rules, we'll work overtime to give you a better shot. It won't be an easy sale; most blacks are justifiably skeptical about white intentions. But the president can't end racial preference programs (as he should) without proposing an alternative — and an aggressive program of inclusion, targeting poor teens, may be the most plausible."

JAMES G. DRISCOLL in the (Fort Lauderdale) *Sun-Sentinel*: "For many whites, fair-minded or not, the goal is so fogged up and the implementation so messed up that affirmative action has degenerated into an easy target. Every time the incendiary word 'quota' is uttered, and every time a minority or woman lands a job, wins a business contract or is promoted without seeming to be qualified, the howls begin, mostly from white males. I can understand why. At times it seems patently unfair, and I have been tempted to bellow in anger, too. Yet those who protest, I've concluded, either are too young to know what the job world was like 30 or 40 years ago, or are old enough but refuse to remember. I remember, and it was hellish for everyone except white males like me."

MIKE VOGEL in the *Pittsburgh Post-Gazette*: "I am writing about the latest example of the private sector, government and the media promoting and catering to blacks in general. This latest example concerns the Fund for the Advancement of Minorities through Education, which helps blacks pay to attend the area's finest schools. ... What about the many intelligent white students who cannot afford to attend the finest schools and colleges? The most intelligent students overall should be assisted, not just black students or those in a quota system."

GS
What's
this?

Signature

Search

THE PRESIDENT HAS SEEN

4/12/95

USA TODAY • TUESDAY, APRIL 18, 1995

Money fuels Gingrich machine

Newt Gingrich's use of ambitious fund-raising techniques for conservative college courses has drawn praise and raised ethical questions.

By Bob Minzesheimer
USA TODAY

When Newt Gingrich first ran for Congress, he touted his payday-to-payday existence as a \$15,000-a-year professor. He attacked politicians who are "bankrolled by special interests, lobbyists and the rich."

That was 21 years ago, before he built a multimillion-dollar political network that critics call "Newt Inc." It relies on contributions from special interests, lobbyists and the rich.

To varying degrees, that's what most ambitious politicians, Democrats and Republicans, have done to finance campaigns. As Texas Sen. Phil Gramm, a GOP presidential candidate, says: "I have the most reliable friend ... in American politics: ready money."

But Gingrich's distinction is he wasn't a traditional candidate bankrolling a race for the White House or Congress. He was building a conservative movement to win the House for the GOP.

Gingrich got what he wanted. But now he's plagued by ethics allegations from Democrats attacking the same fund-raising and political operation that once operated in relative quiet.

Ex-representative Ben Jones, D-Ga., who lost to Gingrich and filed the first ethics complaint, says Gingrich reinforces the image "that the rich can buy Congress." Gingrich says Democrats are using "politics" to derail his agenda.

When the House returns in two weeks, its ethics committee faces key decisions on the complaints.

How Gingrich's empire works:

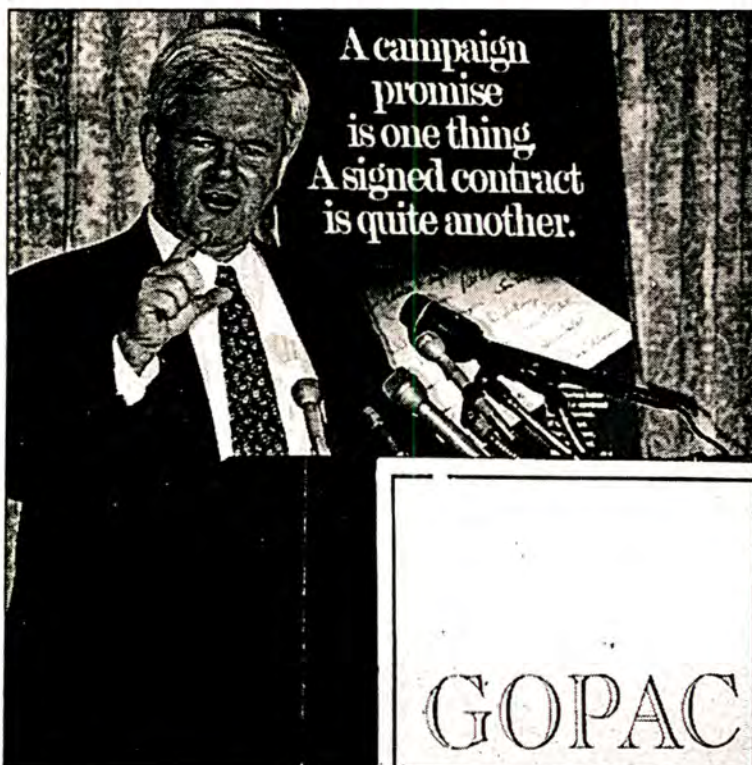
► **GOPAC**, the political action committee Gingrich heads, spent \$2 million last year training GOP candidates.

Until recently, it disclosed only a few contributors. Because most of its money goes to state and local campaigns, GOPAC said it isn't subject to federal disclosure laws or contribution limits.

Its latest report and internal documents obtained by the media show that its biggest contributors are Terry and Mary Kohler of Sheboygan, Wis., who have given \$800,000. He owns the world's largest plumbing manufacturer, and says that like Gingrich, "we are about the process of attempting to save the Western world."

► The tax-exempt Progress and Freedom Foundation calls itself a "non-partisan idea center." Its director, Jeffrey Eisenach, once ran GOPAC.

Gingrich has no formal affiliation with the foundation but is its top benefi-



POWER BASE: Republican House Speaker Newt Gingrich talks to members of GOPAC, the political action committee he heads, in Washington Nov. 14.



JONES: Filed first ethics complaint



KOHLER: Major donor to GOPAC

ciary. The foundation reports spending \$1.5 million as of December, of which 43% paid for a college course Gingrich taught and a cable TV show he hosted.

Many of its reported contributors are drug or telecommunications companies. The foundation is working on proposals to deregulate communications and revise how drugs are approved.

Nothing, however, more divides Gingrich and critics than the college course he taught until recently. The course, "Renewing American Civiliza-

tion," is vintage Gingrich. With his sights far beyond his Georgia students, he says: "To make the course available on television and on video takes a fairly large amount of financing."

Thanks largely to corporations and lobbyists, he raised more than \$600,000.

Gingrich isn't paid for the 20-hour course, which he calls a "scholarly seminar." But his critics see it as an example of how Gingrich uses tax-deductible donations for partisan purposes and trades favors for contributions:

► A letter signed by Eisenach seeking tax-deductible contributions for the course promised "to train, by April 1996, 200,000+ citizens into a model for replacing the welfare state and reforming our government."

His lawyers say there's no proof of a "single partisan political operative who was trained by taking the speaker's highly academic course."

► A \$25,000 tax-deductible contribution was made to Gingrich's course from Richard Berman, a lobbyist for the alcohol industry.

Inside the empire

The key elements in House Speaker Newt Gingrich's empire:

► **GOPAC**, a political action committee, spent \$4 million training candidates in two years. Raised \$487,520 in first three months of 1995.

► **The Progress and Freedom Foundation**, a tax-exempt think tank, spent \$632,115 on Gingrich's course and cable TV show.

► **Renewing American Civilization**, Gingrich's televised course, raised \$660,000 from corporate and individual sponsors, and sold more than \$200,000 of videotapes.

Berman's check came with a handwritten note: "Newt, thanks again for the help on today's committee hearing."

Rep. David Bonior, D-Mich., asks what "influence or favors this \$25,000 check bought."

Gingrich denies assisting Berman, who says: "People do not pay \$25,000 to appear at a subcommittee hearing."

► Corporate support was solicited for Gingrich's course. Givers of \$25,000 were "invited to participate in the course development process."

In lectures, Gingrich praised several contributors, including Spartanburg, S.C., textile magnate Roger Milliken, who also gave \$255,000 to GOPAC.

Gingrich says he mentioned only four of two dozen corporate sponsors and only as "examples of successful entrepreneurs" he's cited before.

The biggest furor came in January when he revealed a \$4.5 million deal to write two books for a publishing firm owned by Rupert Murdoch. Murdoch also owns Fox Broadcasting Co. and is lobbying Congress to deregulate the broadcasting industry.

Gingrich later agreed to forgo the advance and take a standard 15% royalty.

Aside from questions about the book deal, no one alleges that "Newt Inc." puts money into Gingrich's pockets.

But American University political scientist James Thurber, co-author of a guide to congressional management and ethics, says "power seems to have blinded Gingrich to understanding the importance of being as pure as can be. ... I can't understand why he continues to do some of what he does."

Gingrich says it's principle: His opponents "don't like the idea that I teach a course because it's 20 hours of ideas."

1/2

2/2

ACCUSATIONS AND ANSWERS

House Speaker Newt Gingrich denies any ethical violations in his fund-raising. Here's what Democrats charge, and his responses:

TV COLLEGE COURSE

► **Charge:** That a televised college course he teaches is a partisan activity, promoted by GOPAC, his political action committee, and shouldn't qualify for tax-deductible donations.

► **Response:** Gingrich acknowledges that GOPAC and course organizers "shared office space and equipment" but "strict accounting measures" kept GOPAC and course expenses separate.

GOPAC staffers, Gingrich says, "inadvertently or ill-advisedly" used fax machines and stationery to raise cash for the course, actions the House speaker calls that "superficial and irrelevant."

ILLEGAL GIFT

► **Charge:** That Gingrich accepted an illegal gift when Jones Intercable, which wants Congress to rescind cable rate regulation, aired his course for free. House rules ban taking gifts from anyone with issues before Congress.

Democrats say the 20 hours of air time devoted to Gingrich's course is worth \$150,000 to \$200,000. They also note that the firm's owner, Glenn Jones, has expressed interest in buying the Public Broadcasting System. Gingrich wants to end federal subsidies for PBS.

► **Response:** Gingrich says the free air time for his course is no more of a gift than whenever members of Congress appear on TV. He doesn't distinguish between news, interviews and airing an entire lecture series.



THE TEACHER: Newt Gingrich at Reinhardt College in Waleska, Ga. By Andrew Innerarity, AP



GIFT QUESTION: TV magnate Glenn Jones of Jones Intercable, which aired Gingrich's college course for free

POLITICAL ADVISER

► **Charge:** That Gingrich's political adviser Joseph Gaylord is doing congressional work although he's not on the public payroll. Federal law bars using private funds for official expenses.

Federal Election Commission reports show that Gaylord received \$462,779 in the

last two years from Gingrich's political organizations.

Democrats say Gaylord attends Gingrich staff meetings and is often in his office.

► **Response:** Gingrich says Gaylord gives him "outside political advice" and "explicitly does not perform official functions in my office."

Documents filed with the ethics panel show that when

Gaylord was arranging satellite transmission of Gingrich's course, a video company wrote to Gaylord as Gingrich's "chief of staff."

President Clinton also uses outside advisers, such as James Carville and Stanley Greenberg, who are paid by the Democratic National Committee, not the White House.



By Tim Dillon, USA TODAY
FOSTER: Confirmation in Senate is unlikely

Senate's Boxer demands vote on Foster

By Mimi Hall
USA TODAY

Sen. Barbara Boxer, D-Calif., on Monday threatened to prevent the Senate from conducting its business if Majority Leader Bob Dole, R-Kan., refuses to bring the nomination of Henry Foster for surgeon general up for a vote.

"To prevent a vote in this case would be a serious breach of faith with the American people," Boxer wrote to Dole.

If Dole refuses to allow a vote, Boxer said, she will use a procedural maneuver, objecting to each order of business as it comes up, to tie up the Senate indefinitely.

That could be a headache for Dole, who under Senate rules must rely on "unanimous consent" to conduct business.

But even if Boxer could tie up the Senate, she could not force a vote on Foster.

He's not expected to win confirmation in the GOP-majority

Senate anyway, but Democrats clearly want to force Republicans to vote on the Nashville obstetrician-gynecologist, who supports abortion rights and is a leader in the battle against teen pregnancy.

Sunday, Dole threatened to derail Foster's nomination by refusing to allow a full Senate vote, even if the committee holding a May 2 hearing on the nomination approves Foster.

Dole is the front-runner for the Republican presidential

nomination. His threat was widely seen as an appeal to the GOP's right wing and an effort to prevent Sen. Phil Gramm, R-Texas, also running for president, from taking credit for blocking Foster's confirmation.

Foster, 61, has come under fire for twice understating how many abortions he'd done.

He also has been criticized for sterilizing mentally retarded women in the mid-1970s and presiding over the study of an experimental abortion drug.

E. J. Dionne Jr.

Health Care All Over Again

Consider this statement:

The government in Washington is about to take health care decisions away from you. It will make it harder for you to pick your own doctor or get the kind of care you need. Doctors will answer not to you, but to bureaucrats who'll be looking over their shoulders. And the government will just keep cutting back on your coverage.

Is this: (a) a rough approximation of what the Republicans said in 1994 about President Clinton's health plan, (b) a rough approximation of what Clinton and the Democrats will say in 1995 about Republican plans to cut Medicare and Medicaid or (c) both?

Now take another statement:

There is simply no way to balance the federal budget without getting health care costs under control. There is so much waste in the system that we can cut back costs and still expand your options. The other side is just trying to scare you. If they don't like what we're doing, let them come up with their own plan. If they don't, they're just not serious.

Is this: (a) roughly what Democrats said in defense of the Clinton health plan, (b) roughly what Republicans will say in defense of their coming Medicare and Medicaid cuts or (c) both?

As you may have guessed by now, the answer to each question is (c). Americans are on the verge of witnessing a rerun of the health debate of yesteryear, but this time, each side will steal the other's lines.

If the new Republican majority in

Congress is serious about anything it has said about reducing the size of government, it needs to deal with the deficit and cut spending in a big way. Speaker Newt Gingrich has said as much, promising flatly that the Republicans will produce a plan to get the budget into balance by the year 2002. Gingrich knows that will be impossible if the government's health care costs aren't brought under control.

The main causes of the deficit are not mysterious. The deficit ballooned because (1) taxes were cut deeply in 1981; (2) military spending was increased sharply in the 1980s; (3) the savings and loan bailout added a lot of extra dollars to federal spending and (4) health care costs went through the roof. Numbers 2 and 3 are not relevant now. Military spending has been coming back down, and the Republicans oppose deep cuts. The savings and loan bailout is now mostly paid for. That leaves taxes and health costs. The Republicans want to cut taxes, not raise them, which leaves slashing the growth in Medicare and Medicaid spending.

Gingrich has been preparing the ground for this by saying Clinton-like things about how managed care and other innovations could give the elderly and the poor better treatment at less cost. The Republicans can also be counted on to say, as they did on the school lunch issue, that they're not really cutting these programs, only restricting their "growth."

But as Clinton learned, Americans are very sensitive on these issues. They are skeptical of promises that more can be done with less. The elderly are as aware as anyone of medical cost inflation, so they know that "restricting the growth in spending" means less money going into the health system. That could prove quite threatening to them and their care—no matter what Gingrich promises.

The Democrats can't wait for this fight. They think that many of the forces and emotions that worked to defeat the Clinton plan will now be turned on the Republicans. Not just the elderly and the poor but also the hospitals and other health care providers will see the Republican proposals as dangerous. On top of that, Democrats can argue that cutting government health care spending will simply shift health costs to the insured—i.e., "a hidden tax increase." Overall, many Democrats figure they can take a page out of Republican strategist Bill Kristol's health care playbook and oppose, oppose, oppose.

The Republicans will try to reduce their political risks, probably by postponing really deep health care cuts until after the 1996 election. The cuts will be numbers for the "out years" on some chart Gingrich will proudly tote around. But talking about the "out years" didn't do much for Clinton, and may not help the Republicans, either.

What is the alternative to this gloomy scenario? After a properly long period of

pummeling the Republicans, some Democrats think it would be worth testing the chances for a broader health care accord. Both sides, after all, will have already admitted that government spending on health care has to come down somehow, and each side will have made its own case for change.

The grand bargain would involve Democrats agreeing to cap spending on Medicare and Medicaid over time and Republicans agreeing to expand health insurance coverage. The budget savings would kick in more slowly than the Republicans want, and universal coverage would be achieved more slowly than the Democrats want. But both sides would agree to move down the same road, knowing that the problems of the current health care system ultimately threaten both the finances of government and the well-being of many citizens.

What are the chances for this grand bargain? At the moment, almost zero. The Clinton administration will be torn between those tempted by this path, and those who—like many congressional Democrats—want the Republicans to suffer through their own health care crisis. It's hard to see Bob Dole risking fire from the right on this of all issues. And who needs the anguish of alienating potential allies and battling through the specifics of a very hard problem all over again? With health care, it's a lot easier to read polls than to solve problems.

THE PRESIDENT HAS SEEN

4/18/95

THE WASHINGTON POST
TUESDAY, APRIL 18, 1995

Handwritten notes: "JFK" and "Rw" with a large checkmark.

PANETTA

107231

Mr. President:

Here is the options memo on the major choices in affirmative action. To put this in context, this memo assumes that we are not making any changes in the basic structures of affirmative action -- that we would affirm the basic principles where it works best: in the military, in college admissions and in employment (E.O. 11246). At the same time we would strongly reassert that when we do affirmative action we should never resort to quotas, that we should never give preferences to unqualified people, and that reverse discrimination is wrong. 95 APR 21 P 1: 58

We also assume that you want to maintain minority scholarship programs. Even though they may look like quotas, they can be justified because they "expand the pool of qualified applicants." We would also say that these scholarships should not come at the expense of financial aid for other disadvantaged students.

Two tough decisions require most of your attention:

- 1.) Hiring/Firing -- You know the arguments, and there is obvious political benefit in drawing a bright line here. On the other hand, drawing that line would beg the question: If you believe firing is different, why did you reverse course in the Piscataway case? Also the civil rights community will surely protest this bright line.
- 2.) Set-Asides -- Set-asides are the only remaining program for you to eliminate. You could call for eliminating set-asides based solely on race on the grounds that they are, in effect, quotas. Moving toward economic disadvantage could be combined with program reforms, expanding the overall set-aside, and developing empowerment zone-type initiatives. Still, we would expect significant protest from the Black Caucus, minority businesses and other civil rights groups. On the other hand, if you fail to move away from set-asides, you will face criticism for buckling to your base and failing to eliminate a single program after going through a top-to-bottom review. Keeping set-asides also conflicts with your anti-quota principles, despite the fact that these programs have been effective.

Attached is the policy memo along with a message memo prepared by Gene which fleshes out the communications and political arguments in greater detail. A much smaller group than normal should meet after you review these to finalize decisions. Let me know what else you need.

Gr

THE WHITE HOUSE
WASHINGTON

95 APR 21 P 1: 58

April 20, 1995

MEMORANDUM FOR THE PRESIDENT & THE VICE PRESIDENT

From: George ^{GS}Stephanopoulos, Christopher Edley, Jr. & Peter Yu ^{CEJ}

Re: Affirmative Action: Policy Issues

This memorandum presents options regarding federal affirmative action policy. Part I outlines options in four areas: education, employment, procurement, and broadcast licenses. Part II offers three alternative, broader perspectives that may be useful in your deliberations. A subsequent memorandum will discuss the message, communications, and political dimensions of these policy choices.

I. AFFIRMATIVE ACTION IN
EDUCATION, EMPLOYMENT, AND PROCUREMENT

A. Education: Race- or Gender-Specific Scholarships

Background. The central issue in the area of education concerns scholarships for which race or gender is a condition of eligibility. This issue has two dimensions: (i) scholarships administered by universities receiving federal assistance and (ii) federal scholarship programs.

With regard to (i), the current Administration policy for enforcement of Title VI, announced by Secretary Riley in February 1994, permits the use of race as a condition of eligibility for financial aid in order (a) to remedy past discrimination or (b) to promote diversity, provided the measure is narrowly tailored and does not unduly restrict access to financial aid for nonminority students. A measure is "narrowly tailored" if (1) race-neutral means would have been ineffective; (2) a less extensive or intrusive use of race would have been ineffective; (3) the measure is of limited extent and duration, and is applied in a flexible manner; (4) the institution periodically reviews the continuing need for the measure; and (5) the effect on nonbeneficiaries is sufficiently small and diffuse so as not to unduly burden their opportunity to receive financial aid. These restrictions apply to university-administered aid, whether publicly or privately funded. Approximately 3.3% of all undergraduate financial aid, 4.3% of all graduate financial aid, and 12% of all professional-school financial aid is administered through such scholarships.

Current policy with regard to *gender*-specific scholarships provides that institutions may not discriminate on the basis of gender, but may administer privately-funded gender-specific

scholarships if the overall effect of such scholarships does not discriminate on the basis of gender. The majority of gender-specific scholarships are limited to men, rather than women.

The federal government also directly administers a number of race- or gender-specific scholarship programs. All of these are designed to increase diversity in professions or specialties in which racial or gender groups have been significantly underrepresented, either because such inclusiveness is deemed critical to the continued strength of that profession, or because inclusion will lead to greater attention for neglected communities and problems. Supporters of these programs emphasize that these scholarships are necessary to attract women and minorities to these areas. Examples include: NSF's Minority Graduate Fellowship Program designed to increase the number of minority scientist and engineers and NIH's Minority Clinical Associate Physician Program designed to increase the number of minority physicians.

Options. The policy options include:

- Option 1: Maintain current policy, which requires "exhaustion" of alternatives to diversity-based use of race- or gender-specific scholarships.**
- Option 2: "Tweak" current policy to require added analysis of alternatives.**
- Option 3: Bar use of such scholarships except as necessary to remedy past discrimination; otherwise, dilute exclusivity through broader eligibility.**

Analysis. Education policies regarding admissions and scholarships are central to public concerns about affirmative action. Some view race- or gender-specific scholarships as a form of "set-aside" and thus reminiscent of quota-driven admissions policies (such as the dual-admissions system struck down in *Bakke*). On the other hand, education and training are on the "opportunity" end of the opportunity-to-results spectrum, and the current policy requires that any race- or gender-specific programs be narrowly tailored.

Option 3, which focuses on race-specific scholarships, was proposed by the Bush Administration in 1991. This approach would send a clear message that no applicant should be excluded from a scholarship program on the basis of race or gender. Arguably, this would be a curious rule, as it would leave intact numerous scholarships limited by religion, surname, geography, and other, more arbitrary criteria.

Option 2 would clarify the seriousness of the requirement that an institution wishing to use such scholarships (outside of a remedial context) first analyze race- or gender-neutral approaches and conclude they would not be effective substitutes for more exclusive scholarships. The policy guidance would be amended to require the institution to be prepared, if challenged, to present the evidence and analysis upon which its conclusion was based. (This is the formulation used elsewhere in the guidelines, and by the courts, in explaining that when an institution may invoke its history of discrimination as a remedial justification for race-specific scholarships.) On the one hand, this option amounts to a declaration that race or gender should only be used as a condition of eligibility when truly necessary. On the other hand, its minimal practical effect might not justify the anxiety it would likely generate among minority and women's groups.

Option 1 would maintain current policy. As noted in our discussions, race- or gender-specific scholarships are small slices of a much larger pie -- much of which is administered on the basis of need. As there are so many different avenues for financial aid, it is possible to argue that race- or gender-specific scholarships do not meaningfully limit the opportunity of any student, or at least no more so than does a scholarship limited to offspring of the Knights of Columbus or the Daughters of the American Revolution.

Indeed, current antidiscrimination enforcement guidance from the Department of Education, promulgated during the Reagan Administration pursuant to Title IX, makes the test for gender-specific scholarships whether the financial aid practices of the institution, *taken as a whole*, provide equal opportunity. As a matter of constitutional doctrine, race-based distinctions are subject to stricter scrutiny than gender-based distinctions. But this distinction seems untenable as a general matter of policy or politics. Hence, any toughening of prohibitions on race-based aid should probably be similarly applied to gender-based aid.

Finally, we should note the relationship between these options and the familiar hypothetical: a college admissions or scholarship policy that favors the African-American son of a successful neurosurgeon, but not the son of a steelworker. Some argue that affirmative action should be only for economically disadvantaged minorities, because affluent minorities are evidently not suffering from a lack of opportunity, relative to many less economically advantaged whites. The rebuttal has three central points. *First*, there should be affirmative efforts to provide opportunity for economically disadvantaged individuals, both white and non-white; such efforts need not come at the expense of affirmative action when it is legitimately directed at minorities on the basis of concerns apart from economic disadvantage. *Second*, apart from economic disadvantage, but still within the realm of "private fairness," it is often observed that comparatively advantaged minorities nevertheless continue to face social and other obstacles solely because of prejudice and discrimination, and that these disadvantages, while different from badges of poverty, are a fair basis for attention. *Third*, in the realm of institutional and societal benefit, a college might properly conclude that the institution will benefit from inclusion of the neurosurgeon's son -- even though affluent -- just as they might conclude that the diversity benefit of including a bassoonist is weighty not withstanding the musician's affluence. In America today, it remains likely that the neurosurgeon's experiences, perspective, and aspirations will reflect some aspect of the distinctive reality facing blacks. And the college may choose to value that.

B. Employment: Race or Gender in Layoff Decisions

Background. The central issue in this area concerns race or gender as a consideration in layoffs. Under current law, two propositions are clear. First, layoffs cannot be used as a means to implement an affirmative action policy by "making room" for new, diverse employees. Second, race or gender cannot trump a *bona fide* seniority system.

The reach of this second principle is limited. While seniority systems are common in the public sector, the decline of unionism has reduced the private sector's reliance on such systems.

Thus, reportedly, many large firms expressly consider diversity in their layoff policies, and with significant results: Illinois Bell cut recently 930 management jobs, but the proportion of minority managers rose from 25 to 27%; Baxter cut 20% of its 2000 employees, but the proportion of minority managers increased from 10 to 12%.

The narrow question of "tie-breakers" is thus most likely to arise in the context of a seniority system where layoff decisions are more structured. In the *Piscataway* case, the Justice Department has argued that Title VII does not prohibit the School Board from using race as a tie-breaking consideration in pursuit of a legitimate interest in diversity. In the context of the federal civil service, the OPM regulations are silent: the Department of Justice (Office of Legal Counsel) believes the statutes and caselaw would, as in *Piscataway*, permit narrowly tailored consideration of race or gender.

Options. The policy options include:

- Option 1:** As a policy matter, when not inconsistent with a bona fide seniority system, diversity may be considered in layoffs, but only in limited circumstances.
- Option 2:** As a policy matter, race or gender should not be considered in layoff decisions.

Analysis. Concerns about employment are two-fold. In certain sectors, there is a sense that some job opportunities are limited to "diversity candidates" and thus that white males are excluded. Second, there are concerns that in a continuing era of corporate reengineering, women and minorities are, due to affirmative action, at less risk of being laid off. (As you have noted, affirmative action is sometimes used cynically to justify decisions made for other reasons, legitimate and otherwise.)

Option 2 would issue a sharp and clear statement and would provide some comfort to whites, males, and their dependents, in a time of insecurity. (There would be a corresponding reinforcement of minority and women concerns about their marginality.) In the public employment context, this is likely to have little policy impact because of seniority rules, and thus will affect only tie-breaker-type situations. However, this option would send a loud signal to the private sector and could have an effect on private practices.

Option 1 is closer to the status quo, but does not lend itself to a simple rule. Instead, this approach would call for the common-sense balancing of the institution's general diversity interest and the burden on identifiable majority employees. Consideration of race or gender would be permissible only: when necessary for the institution's operation; when a manifest racial or gender imbalance exists; and when less race-intrusive considerations are not effective. If you select this option, announcing a clarification of federal layoff policy could underscore the very high hurdle you would impose, but might also serve to focus resentments around the entire issue. In any case, however, we are likely to face continuing questions regarding the law and policy surrounding the *Piscataway* situation.

C. Procurement: Preferences & Set-asides

Background. Federal law establishes several goals for the distribution of federal procurement opportunities: 20% for small businesses; 5% for small disadvantaged businesses (SDBs -- virtually all of which are minority-owned¹); and 5% for women-owned businesses. There is a web of programs designed to reach these goals; some are government-wide, others are agency-specific. These efforts use several tools:

- **Sole source procurements:** Under SBA's § 8(a) program, small disadvantaged businesses (SDBs) can secure smaller sole-source contracts (usually less than \$3 million).
- **Sheltered competition:** Under DOD's "rule of two," a contract is set aside for SDBs if the officer believes two or more SDBs are likely to make competitive bids on the contract. (If this set-aside is not triggered, there is a similar "rule of two" for all small businesses. Failing this, there is open competition.)
- **Bid preferences:** In open competitions, DOD awards a 10% bid price preference to SDBs; last year's procurement reforms authorized government-wide use of this preference. The RTC program uses a 10% "bonus" preference on contract price and a 15% point bonus on "technical merit," provided the SDB is within the qualified range; the preferences are also provided to joint ventures where the SDB has 40% or more of the transaction.
- **Subcontracting incentives:** DOT provides an incentive payment to prime contractors who (voluntarily) subcontract with SDBs. (The *Adarand* issue.)

These efforts have been successful in expanding procurement opportunities for women- and minority-owned firms. Between 1982 and 1991, while the dollar volume of all contracts increased by 24%, contracts awarded to women-owned firms tripled and contracts awarded to minority-owned firms doubled. Of late, these increases have been accompanied by actual decreases for non-disadvantaged small firms. For example, while DOD's contracting with SDB's more than doubled, its contracting with other small businesses fell by nearly 20%. Notwithstanding these gains, 97 percent of contracting opportunities continue to be awarded to non-SDBs.

Some aspects of these efforts have been problematic. Rates of successful graduation from the 8(a) program remain low and the possibility of abusive practices remains, although recent statutory and administrative efforts promise some improvements. Outside of the limited 8(a) program, however, there are no graduation requirements apart from what happens naturally if a business is no longer "small" or an entrepreneur accumulates substantial wealth. In addition, these programs have in some instances had a disparate impact on particular regions and industries -- such as smaller construction projects and certain transportation sub-industries. Finally, while

¹ In the Department of Transportation's program *only*, the SDB definition includes women.

the 8(a) program permits nonminority firms to participate upon a showing that a firm's owners are "socially and economically disadvantaged," in practice only about 1.6% of all 8(a) firms are white-owned (and those mostly disabled), because the statute links "social disadvantage" to membership in a group subject to discrimination.

Options. The policy options are:

Option 1: Eliminate misuses; expand pre-bid assistance. In particular: establish tighter asset-related eligibility rules to prevent the "disadvantaged millionaire" phenomenon; limit the concentration of set-asides in a single region or industry; and set standards (by business sector and by region) to determine when preferences are no longer necessary. With regard to pre-bid assistance: invest in *new, vigorous* outreach, technical assistance, and surety bonding programs to help level the contracting playing field; continue efforts to "mainstream" minority and women-owned businesses in SBA's programs.

Option 2: Broaden eligibility, but retain race- and gender-based preferences; emphasize the transitional character of program. In addition to the measures in option 1, take the following steps:

- *Social or Economic Disadvantage:* Eliminate the requirement that owners be "socially disadvantaged," thus opening up eligibility to white owners who demonstrate "economic disadvantage." Maintain a less stringent economic disadvantage test for minorities and (*for the first time outside DOT*) for women; this separate standard would preserve some differential benefit for minorities and women, but without excluding disadvantaged whites from the program altogether. To minimize any harm to current participants, increase the goal for total SDB procurement from 5% to 10%.
- *Strict transition requirements:* Require graduation from the program for all SDBs after, say, four years or four contract awards. This limits the moral cost of maintaining preferential treatment for women and minorities.

Option 3: Convert to race-neutral programs. Phase out race- and gender-based eligibility, relying instead on race- and gender-neutral criteria of economic disadvantage only.

Analysis. While procurement policies do not have wide visibility, they are arguably more problematic than either education or employment policies for two reasons. First, the policies rely heavily on racially exclusive set-asides: the practical effect of a set-aside is to take a contract and hang out a shingle saying "whites need not apply." Second, some view procurement set-asides as more problematic than, say, minority-specific scholarships, believing that providing profitable business opportunities seems more directed toward equal results than towards equal opportunity. These observers emphasize that "education is different."

At the same time, preferences may be more necessary in procurement for several reasons. First, anti-discrimination laws are more difficult to enforce in this area, especially in the subcontracting realm. Second, "old-boy" networks are arguably stronger in this area, so that informal exclusionary practices beyond the reach of law enforcement can be potent and persistent. And finally, procurement decisions often turn on a single factor -- price -- and thus the multi-factor mechanisms used in education and employment are less available in this area.

Option 3 would issue a clear statement that federal contracts should not be awarded on the basis of race or gender. Current preference programs would be converted to focus on economic disadvantage (albeit with a tighter asset test than current policy). This option represents a judgment that whatever the group-based discrimination or disadvantages faced by minority or women entrepreneurs, no special policy measures are appropriate beyond "pool-development strategies" such as aggressive outreach and technical assistance.

As noted above, one can support race-specific scholarships but reject race-specific contracting set-asides by distinguishing procurement as "more related to results than to opportunity." This approach is far more restrictive than Supreme Court precedents, which permit set-asides based on legislative findings of discrimination or lingering effects.²

Option 2 would retain a minority- and gender-specific preference program, but reform it in three critical respects. *First*, it would ameliorate several of the most problematic aspects of the current programs. Tightening the asset test emphasizes that the goal is to create opportunity, not endow millionaires. Limiting the concentration of preferences reduces the unfairness to white bidders in a particular region or business sector. Capping the number of contracts awarded through sheltered competition ensures that opportunities are spread over more SDBs.

Second, the program would emphasize creating *opportunity* for entrepreneurship, rather than ensuring entrepreneurial success. Thus, in addition to pool-development measures, this approach would require prompt graduation, emphasizing that preferences help "break the ice," but that entrepreneurs should quickly be ready to compete with small businesses generally. Limiting the "bites at the apple" serves to emphasize that the program is an entryway, not an entitlement. It also underscores that benefits from the program should not be unduly concentrated.

Third, the racial exclusivity of current preferences would be reduced by opening eligibility to non-minority firms based on economic disadvantage. Operationally, this is likely to have only a modest effect on minority contracting. Prior to the codification of its minority entrepreneurship focus in 1978, the 8(a) program used this "minority or need" approach; at that time, only about 4% of all 8(a) firms were white-owned, compared with 1.6% today. Increasing the SDB goal to 10% should help address concerns about diluting benefits to minority-owned firms.

² The Court has required a somewhat more rigorous demonstration by state and local governments than by the Congress. The *Adarand* ruling, expected before July, presents an opportunity for the Court to announce more restrictive principles.

Option 1 would maintain the basic structure of the program -- including its use of race. This option would emphasize eliminating misuses and expanding efforts to develop the pool and level the playing field.

Distressed Areas: In addition to these policy options, we have begun to develop a complementary option: procurement preferences that focus less directly on minority capitalism and more on job-creation for disadvantaged persons and distressed communities. Some of these alternatives would be place-based and others employee-based; we are currently examining issues of administrability. Example of such initiatives include:

- Provide set-asides or other preferences for firms whose workforce (on the contract) would be drawn more than X% from *chronically distressed* areas, using measures based on Census and BLS data. (There are two especially well-regarded alternative indices of distress in the social science literature.) *Or*
- Provide preferences to firms whose workforce would be drawn more than X% from targeted population groups, such as recent AFDC or food stamp recipients. *Or*
- Provide preferences as above, but based also on the employment of underrepresented groups. *Or*
- Employ any of these approaches, but scale the magnitude or duration of the preference according to the firm's workforce "score."

Bearing in mind that such an initiative speaks to somewhat separable policy and political objectives, you may decide that such an *empowerment contracting* scheme should be a (i) substitute for, (ii) complement to, or (iii) condition of the reformed entrepreneurship preferences.

FCC Auctions: Your decision on procurement set-asides will also govern the Administration's position regarding the FCC's auction of "personal communication systems" (PCS) licenses. Phases of the PCS auction have been stayed pending resolution of a constitutional challenge to bid preferences afforded minority- and women-owned firms by Commission regulations. Because PCS licenses are for cellular and other wireless communication rather than for broadcasting, a programming-diversity rationale will not justify group-based preferences. Instead, the motivation is to create inclusive entrepreneurial opportunity, where there otherwise would be none, in a critical emerging industry. Preferences in the PCS auction should be handled like procurement preferences.

II. PUTTING THE PIECES TOGETHER: BROADER PERSPECTIVES

Your policy choices in this area may be most easily defended if they reflect a coherent theory or approach. This Part outlines three such approaches, and describes the policy choices that seem most easily justified within that approach. (See Exhibit 1.) Each is consistent with some basic inclinations you expressed in our various "vision" discussions, including:

- Emphasize antidiscrimination and *opportunity*, rather than guaranteeing results.
- Stress the *remedial* justification, but also embrace the goal of *inclusion*.
- Respect the interests of *bystanders*, by crafting policies carefully and narrowly.

A. The "Calibrated" Approach

This approach emphasizes the difference between equal opportunity and equal results in two dimensions. In terms of the policy tools one uses, outreach and training are less result-driven and thus less problematic than set-asides or quotas. Similarly, in terms of the context, a specific affirmative action tool is less problematic in education (which expands opportunity) than similar efforts in procurement (which more directly affects the distribution of wealth).

This approach supports a broader range of affirmative action policies in education than in procurement, as illustrated by the diagonal orientation of the "border area" in Attachment 1. Thus, certain kinds of set-asides are acceptable for scholarships, but should be eliminated or sharply focused in procurement. With regard to the policy choices outlined above, this approach would support:

Education:	Option 1 -- Maintain current policy.
Employment:	Option 1 -- Permit race or gender to be considered in layoff decisions.
Procurement:	Option 2 or 3 -- Reform and sharply narrow procurement preferences, or phase them out.

B. The "Least Intrusive Alternative" Approach

A second approach expresses more overt solicitude for bystanders by stressing that affirmative action must be narrowly tailored to minimize exclusivity and the use of race- or gender-based decisionmaking. Thus, result-driven quotas are always inappropriate (except in rare court-ordered remedies), and set-asides may only be used (i) when they are either broadly remedial or (ii) when less intrusive alternatives are not *effective*. In essence, this approach would apply the Title VI scholarship policy to all three sectors.

Of course, "effectiveness" will be a matter of degree, and there is an implied balancing of the benefits of inclusion with the costs of exclusion. Prior discrimination is relevant, as is the opportunity-results distinction. So, one might weigh those costs and benefits somewhat differently in different contexts: it matters if an institution or industry has a history of discrimination, in which case the narrowness need not be too scientific; and it matters if the context is procurement, where the distribution of largesse ought to be narrowly tailored indeed.

This approach leads to support for limited use of race-specific programs. In particular (as

illustrated in Attachment 2):

Education: Option 1 or 2 -- Maintain or tighten current policy.
Employment: Indeterminate -- Either option on consideration of race/gender in layoffs.
Procurement: Option 2 -- Reform and sharply narrow preferences.

C. The "Anti-Exclusion" Approach

A third approach emphasizes the moral cost of maintaining programs that exclude persons on the basis of race or gender -- even in the name of diversity. This approach entails opposition to the rule-of-two SDB set-aside and to race- or gender-specific scholarships; these are effectively indistinguishable from quotas. Instead, such programs would have to be revamped to rely on multifactor considerations in which race is but one factor, or on race- and gender-neutral approaches.

This approach leads one to support elimination of set-asides in all areas. In particular (as illustrated in Attachment 3):

Education: Option 3 -- Eliminate race- or gender-specific scholarships.
Employment: Option 2 -- Oppose consideration of race or gender in layoff decisions.
Procurement: Option 2 or 3 -- Reform and sharply narrow procurement preferences, or phase them out.

EXHIBIT 1

Provisional Decisions: Check one box (☐) in each column

(#) -- indicates option number in the memorandum	Education	Employment	Procurement
"Calibrated, Opportunity" Approach	☐ (1) Maintain current policy requiring exhaustion.	☐ (1) Permit limited consideration of race/gender in layoffs.	☐ (2) Reform & sharply narrow preferences; emphasize transition; add disadvantage eligibility; <i>or</i> ☐ (3) Convert to race-neutral programs.
"Least Intrusive Alternative" Approach	☐ (1) Maintain current policy requiring exhaustion; <i>or</i> ☐ (2) "Tweak" current policy, requiring added analysis.	☐ (1) Permit limited consideration of race/gender in layoffs; <i>or</i> ☐ (2) Oppose consideration of race/gender in layoffs.	☐ (2) Reform & sharply narrow preferences; emphasize transition; add disadvantage eligibility.
"Anti-Exclusion" Approach	☐ (3) Eliminate race- and gender-based aid by expanding eligibility, softening exclusion.	☐ (2) Oppose consideration of race/gender in layoffs.	☐ (2) Reform & sharply narrow preferences; emphasize transition; add disadvantage eligibility; <i>or</i> ☐ (3) Convert to race-neutral programs.

A. *"Calibrated Opportunity" Approach:* Emphasize creating opportunity, not guaranteeing results.

B. *"Least Intrusive Alternative" Approach:* Emphasize narrow tailoring, and concern for bystanders.

C. *"Anti-Exclusion" Approach:* Emphasis on avoiding bald set-asides that announce: "No whites need apply."

Additional Decision: FCC Broadcast Licenses: ☐ (1) Maintain status quo, *or* ☐ (2) Establish a limited tax-certificate program.

Attachment 1: A Calibrated Approach

Opportunity ----- Results

Opportunity

Results

	Opportunity Enhancing Assistance	Advantages & Flexible Preferences	Set-asides	Quotas
Education	Compensatory ed; Outreach & recruiting; HBCUs	Multifactor admissions policies: e.g., UC-Berkeley	Group-based programs: e.g., Banneker; NIH Minority Fellowship; San Bernardino's Bridge Program	Two-track (i.e., pre-Bakke) admissions
Employment	Outreach & recruiting; Apprenticeships; Second look programs: e.g., the military	Multifactor hiring: e.g., judicial selection; the Chicago police dept.	Exclusive job listings: e.g., Ill.State Univ.; anecdotes from academe	Race-normed tests to ensure proportional representation
Contracting & Procurement	Technical assistance; Mentoring; Bonding assistance	10% bid preference; "Subcontractor Compensation program": e.g., the Adarand case	8(a) program; Rule of two	Numeric set-asides

under this approach, shaded policies would be appropriate only as remedies for lingering or ongoing discrimination

Attachment 2: A Least Intrusive Alternative Approach

Opportunity ----- Results

Opportunity ----- Results

	Opportunity Enhancing Assistance	Advantages & Flexible Preferences	Set-asides	Quotas
Education	Compensatory ed; Outreach & recruiting; HBCUs	Multifactor admissions policies: e.g., UC-Berkeley	Group-based programs: e.g., Banneker; NIH Minority Fellowship; San Bernardino's Bridge Program	Two-track (i.e., pre-Bakke) admissions
Employment	Outreach & recruiting; Apprenticeships; Second look programs: e.g., the military	Multifactor hiring: e.g., judicial selection; the Chicago police dept.	Exclusive job listings: e.g., Ill.State Univ.; anecdotes from academe	Race-normed tests to ensure proportional representation
Contracting & Procurement	Technical assistance; Mentoring; Bonding assistance	10% bid preference; "Subcontractor Compensation program": e.g., the Adarand case	8(a) program; Rule of two	Numeric set-asides

under this approach, shaded policies would be appropriate only in court-ordered remedies

lined programs would be available either to remedy lingering or ongoing discrimination or to increase diversity, but only if less intrusive policies are not effective

Attachment 3: An Anti-Exclusion Approach

Opportunity ----- Results

Opportunity ----- Results		Opportunity Enhancing Assistance	Advantages & Flexible Preferences	Set-asides	Quotas
	Education	Compensatory ed; Outreach & recruiting; HBCUs	Multifactor admissions policies: e.g., UC-Berkeley	Group-based programs: e.g., Banneker; NIH Minority Fellowship; San Bernardino's Bridge Program	Two-track (i.e., pre-Bakke) admissions
	Employment	Outreach & recruiting; Apprenticeships; Second look programs: e.g., the military	Multifactor hiring: e.g., judicial selection; the Chicago police dept.	Exclusive job listings: e.g., Ill.State Univ.; anecdotes from academe	Race-normed tests to ensure proportional representation
	Contracting & Procurement	Technical assistance; Mentoring; Bonding assistance	10% bid preference; "Subcontractor Compensation program": e.g., the Adarand case	8(a) program; Rule of two	Numeric set-asides

under this approach, shaded policies would be appropriate only as court-ordered remedies for lingering or ongoing discrimination

THE MESSAGE WITH THREE DIFFERENT POLICY APPROACHES

GENERIC MESSAGES: Regardless of which of the three approaches we call for, we will want to stress the positive theme of opportunity, anti-discrimination and inclusion while making clear that we are anti-quota (results), against rewarding unqualified people, and against unfair burdens on innocent third parties. Yet, each of the different approaches tilts at a somewhat different angle, with somewhat different strengths and different vulnerabilities. The following seeks to play out those differences.

I. CALIBRATED OPPORTUNITY THEME:

ANALYSIS: The main paradigm that this approach sets up is opportunity versus results. Indeed it sets up a framework where we can have a hard line for opportunity and a hard offensive against results. Because we still allow "minority scholarships" the attacking results may be a better emphasis that attacking set-asides since we will have an easier time defending minority scholarship as pro-opportunity than we will be able to argue that it is not a set-aside. We also could make a decision to go hard on the anti-quota, anti- set-aside argument and simply insist that scholarships must be viewed from a "school-wide" approach and are not set-asides.

[We should recognize that despite the message of opportunity versus results, the message that comes out may be as simple as Clinton came out for affirmative action in education and employment and against it in contracting.]

STRENGTH OF MESSAGE: The strength of this message is four-fold: One, we go hard at a strong American value, opportunity, and use education as our tool -- something most Americans understand and agree with. Two, we are clearly throwing out set-asides, therefore, we have a clear message that we are not just defending the status quo. Three, more minorities are likely to be concerned with education and employment generally than contracting specifically. Four, we can play into the "empowering people to compete" message. We are against set-asides because they determine the result of a competition or limit it, while education and other help in contracting is about giving people the ability to compete, not determining the outcome.

MESSAGE LANGUAGE:

The vision of America is a vision of providing equal opportunity to all Americans so that each Americans has the chance to succeed -- or fail -- but do so on the basis of their ability. Government can play a role in removing barriers that allow opportunity, but we go too far when we seek to guarantee results as opposed to increase opportunity. We want to give every American the tools to compete -- but government should not be determining the outcomes of the marketplace.

These same principles must be applied to affirmative action.

When affirmative action is flexible, when it focuses on merit, when it avoids unfairness to innocent non-minorities, and when it promotes opportunity and not results, we should support it. When affirmative action, is rigid, when it promotes unqualified people, and when it focuses on results as opposed to opportunity, we should be willing to strike it down.

The best way to stress opportunity is to oppose quotas, but promote affirmative steps in education, because education has always been the ultimate means in our society in which we say to people, we will give you the means to compete -- not a guarantee of how you will do. That is why when we can do so fairly, flexibly and without unfairness to innocent parties, we support reasonable consideration of race in education where we can increase the pool of people with the opportunity to compete.

Yet, affirmative action in set-asides has strayed from that principle. Rather than offering firms help in competing -- like we offer young people education to help them compete for jobs -- too many affirmative action program for contracting seek to ensure results through set-asides, or even some contracts where we essentially say, no whites should even apply. We must recognize here that while the intention is right, the means are wrong. We can still help build opportunity without guaranteeing results through efforts to provide minority contractors assistance, technical help, and even one-time advantages to ensure that new contractors have a chance to get on their feet. •

WEAKNESSES AND POTENTIAL POINTS OF ATTACK:

- This is a hypocritical position because if the Administration is really opposed to quotas and exclusion, how to they justify minority scholarships that say that only blacks need apply -- and that even the poorest white, who has overcome the most disadvantages, is told that they can not even compete with the son of a black neurosurgeon, because the scholarship says only blacks need apply.
- Try telling a struggling working family who has been denied the opportunity to compete with a scholarship that the tens of thousands of dollars they were excluded from competing for is not a real result, it is only an opportunity.
- Stressing education in a results vs. opportunity theme does not necessarily provide the best context to defend affirmative action in employment which may be seen as falling more on the "result" side of the equation.
- Minority contractors will suggest that minority capitalism is the best way to give excluded minorities opportunity.

- This will not be perceived as addressing affirmative action in education or employment the two areas where whites are most likely to be concerned. (Therefore, we may wish to consider an employment)

REPLY TO POTENTIAL ATTACK: When we are attacked on scholarship, we should not only stress opportunity, but turn to the notion that we are not hurting innocent non-minorities because privately funded scholarships are about making special efforts to increase the pool of people with opportunity -- not about taking something away from somebody. We have always allowed special scholarships for all sorts of groups -- men only, women only, specific religions -- and it would be absurd to say that we only can't do special scholarships when we are trying to include outcast groups. The key is to ensure that every school offers fair opportunity to all applicants from a school-wide perspective.

POLITICAL: We will have a strong middle ground strategy. We will have strongly defended affirmative action in the areas most important to minority opportunity, yet the throwing out of set-asides will be major, controversial step that will show that the President was truly re-thinking this issue, and even willing to throw out a major affirmative action area that has strong support within the President's base, and even has its origins through Republican Administrations. The downsides risk is that the benefit with the majority of America who has doubts on affirmative action is unclear, yet the fact that this will draw huge criticism from minority supporters is far more certain. It should be noted, however, that the greater the perceived heat taken for throwing out set-asides the greater this plan will be seen as truly a strong middle ground effort.

II. ANTI-EXCLUSION APPROACH:

ANALYSIS: This strategy takes a similar line as the calibrated opportunity theme, but there would be a harder edge on being anti-quota, anti-set aside, with a strong anti-exclusionary message that we should never allow in our society the equivalent of signs to be put up that someone because of their race need not apply. While we would take a strong pro-opportunity, pro-merit and well-qualified affirmative action, this approach would allow us to take a harder anti-quota edge.

STRENGTH OF MESSAGE: Strong opposition to quotas is a strong and fundamental message. Democrats, however, while always saying they are against quotas are probably not taken seriously because they are not seen as ever opposing any specific affirmative action program. This anti-quota, anti-exclusion message however would have real power under this context, because it would be matched with real tangible and controversial stands: throwing out minority-only scholarships (education), set-asides (contracting), and minority only training remedial programs.

Because this would be extremely controversial with Democratic groups, the President would more likely to be seen as having taken a strong middle ground position, while still allowing most types of affirmative action -- although in a more flexible form. For example, in the calibrated opportunity approach, most affirmative action for contracting would be thrown out, while under the anti-exclusionary approach, affirmative action in contracting would simply have to be more flexible and allow some room for non-minorities. Race could still be considered to support minority scholarships, but would simply have to allow some alteration so that the scholarships were not only for minorities -- even if predominantly so. Thus, the strength of the issue would be that it could give a strong middle ground message while still preserving most affirmative action efforts -- albeit under a more flexible form.

MESSAGE LANGUAGE:

The vision of America is a vision of providing equal opportunity to all Americans so that each Americans has the chance to succeed -- or fail -- but do so on the basis of their ability. Government can play a role in removing barriers that allow opportunity, but we must be vigilant in opposing quotas in all forms -- no matter how well intentioned.

While some oppose all forms of affirmative action and others support nearly any advance in this area, most American do not oppose affirmative action when it is flexible, focuses on merit, avoids unfairness to innocent non-minorities. What Americans have no tolerance for is quotas and exclusionary set-asides, that put a rigid emphasis on numbers ahead of concern with merit and fairness, while also saying to many Americans -- there is no need to apply because of your race. Both sides of the political debate have failed the American public for too long in this areas. One side, we have politicians who support any affirmative action -- even in

extreme cases where decades of discrimination have excluded minorities entirely from important jobs and positions. On the other side are those who mouth the words that they are opposed to quotas, but are never willing to stand up and call a quota a quota and be willing to throw it out. We need to move beyond these two extremes. My policy protects affirmative action that is flexible and fair, but there are several areas where we are using quotas by sometimes another name, and it is time we ask the people who represent the public to go back to the drawing board and find another way.

That is why we must be willing to look at every area of affirmative action and be protect what is good and weed-out what functions as a quota or a race-only preference. In education, race is supposed to be one -- and only one factor that can be taken into account among reasonably qualified people to promote opportunity and ensure that our schools include all Americans. Yet, when we take some scholarships and put a sign on them that says one-race only, we are using quotas and we must be willing to ask those who have instituted them to go back to the drawing board. When set-asides shelter some contracts and say only minorities can apply, that is wrong and we must send people back to the drawing board to find ways to include all people the ability to compete. And when remedial programs designed to help African Americans become so exclusive that they will not even allow a deserving Hispanic a chance to apply, because there is a sign that says one race only need apply, that is wrong and we should tell that such programs must change.

POTENTIAL WEAKNESS:

- Clinton sounds a good game, but he would still allow racial preferences in every walk of life. President Clinton's message is that as long as something is not a technical quota, you can give racial preferences at will.
- Clinton took a major step backwards -- indeed, we would be better off with the end of the Bush Administration when it comes to minority scholarships. These are the most unobjectionable type of affirmative action that hardly hurts anyone. Indeed, now every white ethnic group in the nation can have special scholarships -- except the most persecuted group in our history. What sense does that make.

REPLY TO POTENTIAL WEAKNESS:

The President took a principled case for fair and flexible affirmative action and against quotas. He knew this would lead to strong attacks from those who feel strongly on both sides, but he has taken a principled position that appeals to the fairness of the American people.

The President is not taking step backwards, he realizes that if we want to go forward we have to be honest about the strengths and weaknesses of all of the programs.

POLITICAL ANALYSIS: *A key issue is whether the benefits of having a harder middle ground position and somewhat more consistent anti-quota position is worth the downside costs on the other side of throwing out minority scholarships. How much could the same message be made while just distinguishing minority scholarships.*

III. LEAST INTRUSIVE:

ANALYSIS: This proposal would be seen as the most status quo since there would not be any single area of affirmative action that a newspaper headline could say the President had rejected. Thus, it is mostly likely to be the most popular among Democratic base groups and most unlikely to convince most Americans that the Administration had really take a middle ground approach. The key here would be to stress not areas -- like education, employment and contracting -- but show that in all areas he is willing to crack down on affirmative action proposals that offend his notions of fairness and flexibility.

STRENGTH OF MESSAGE: The message would have to allow the President to speak directly to the concerns of innocent bystanders -- concerned non-minorities -- without dropping a bombshell on supportive groups. This approach would assume that the main benefits the President can from opposing the status quo can be achieved with less dramatic policy changes by speaking honestly to the concerns of American non-minorities, **throwing out specific cases** (as opposed to whole areas) and stressing clear principles on limiting the burdens on innocent bystanders. Therefore, this may be the way of getting the most benefits with the least costs.

POTENTIAL WEAKNESSES:

- After the expectations that have been created -- and in the context of the main Republican proposal -- the lack of any major policy alteration and the lack of any perceived outcry from Democratic base groups -- could make the President the defender of the status quo.
- From a policy perspective, without a controversial position in which the President takes on an entire policy area, the Administration may have less credibility and a weaker foundation to defend affirmative action in general.

REPLY TO WEAKNESSES:

- This is the first time a President has spoken honestly to both groups on the sensitive issue, and he laid out standards by which we should all judge these proposals.
- He made clear that he is willing to oppose affirmative action plans that cross one of several lines.

POLITICAL ANALYSIS:

It is possible that there is no middle ground approach that will please those who oppose affirmative action. The first two could end in the worst of all worlds: few points with opponents of affirmative action and real damage in our base.

On the other hand, the expectations are so high, that this could result in severe criticism for ducking a tough issue, and could help fuel opponents with the message that the Administration has no intention of changing the status quo.

Depression-era labor relic hangs around

BOTH HOUSES of Congress are getting more serious than usual about finally repealing the Davis-Bacon Act, a Depression-era relic that requires contractors on federally funded construction jobs to pay their employees "local prevailing wages."

The push should be popular among Democrats as well as Republicans. If Davis-Bacon once gave minorities access to construction jobs, it now can work against them. Those required "local prevailing wages" most often are union rates, which in some locations exclude non-organized out-of-towners — often minorities — from getting jobs. What's more, the wage requirements cost taxpayers an extra \$500 million a year (Congressional Budget Office estimate) plus \$100 million in paper work. Equal opportunity plus economy: In these times of enlightenment and budget-cutting zeal, that is quite a combination.

But for all its allure, Davis-Bacon repeal apparently hasn't attracted enough Democrats to give Congress the strength to override President Clinton's virtually certain veto. The Senate Labor and Human Resources Committee split along party lines (9 to 7) in approving a bill that would end Davis-Bacon. Edward Kennedy, the committee's ranking Democrat, said, "When you repeal Davis-Bacon, you get shoddy workmanship. You get poor quality. You have dangerous working conditions." (He has been saying that since the mid-1970s.)

If Congress won't repeal the law, it could at least modernize it — first by raising the contract threshold from the archaic (not to mention ridiculous) \$2,000 to a realistic \$100,000 and, second, by eliminating the paperwork requirements. Thus far, though, Democrats will have none of it.

They mock their 1990s goals.

THE PRESIDENT HAS SEEN 4/21

Cebu Rapid Gazette

4:15

249

4.15.95

CR

THE PRESIDENT HAS SEEN

4-20-95

THE WHITE HOUSE

WASHINGTON

95 APR 17 P5:19

April 17, 1995

COPY to:

Marcia Hale

Rahm E.

Billy Webster

TO:

RECOMMENDED TELEPHONE CALL

Mayor Ed Rendell of Philadelphia
(215) 686-2181

DATE:

Monday, April 17, or Tuesday, April 18

RECOMMENDED BY:

Marcia Hale, Intergovernmental Affairs
David Lane, NEC *DL*

PURPOSE:

To review progress made to convert the Navy Complex to civilian use and acknowledge plans to transfer \$50 million from DoD to the City to establish an Economic Conversion Fund.

BACKGROUND:

After several years of disappointment and delay, Philadelphia is making progress redeveloping the Philadelphia Navy Complex. Two major shipbuilding firms have signed letters of intent with the City for reuse of the shipyard, and the City is close to entering agreements with major rail and freight companies to establish an intermodal transportation center on base property.

Transfer of the \$50 million to establish the Economic Conversion Fund will facilitate the location of these and other diverse tenants on the closing base by making capital available on a revolving loan basis.

TOPICS TO DISCUSS:

(Note: You recently wrote the Mayor expressing your condolences on the passing of his mother. In March the Mayor's mother died of Parkinson's Disease after a long illness).

1. It's great to see that your aggressive approach to attracting tenants to the base is beginning to pay off. I understand there are some very real prospects for substantial job creation currently in development.

2. It sounds as though the Economic Conversion Fund negotiated by the City and DoD can play an important role in the process. I'm glad we've been able to make this happen (transfer of the \$50 million will occur within the next week).

Handwritten:
@Crimin Bill
153
to the President

3. When the first big tenant gets settled on the property, we should do something to call attention to this success story.

CONTACT PERSON AND

TELEPHONE NUMBERS: David Cohen, (215) 686-2181

DATE OF SUBMISSION: April 17, 1995

ACTION:

ADDITIONAL BACKGROUND

\$50 Million Conversion Assistance Grant -- Congress earmarked \$50 million in FY93 appropriations for conversion of the naval complex. For more than a year Administration officials have been working with Mayor Rendell's staff on a plan to spend the money. The City has designed an Economic Conversion Fund (ECF) for converting the base through "seed and leveraged" investments in market-driven businesses that would take advantage of the human and physical assets at the base.

The ECF would be capitalized with the \$50 million and is based on an understanding that initiating, accelerating, and sustaining long-term, private investment will be the key to successful conversion of Philadelphia's facilities. Accordingly, the City is structuring the ECF to generate a return on capital for long-term conversion. The City and DoD's Office of Economic Adjustment have worked out management plans and details of the grant, with transfer expected in the near future.

Potential Tenants -- The City and two shipbuilders have agreed in writing to "due-diligence" negotiations over the next few months to sub-lease particular dry-docks and facilities. City officials and the two companies need to evaluate financing, ownership, operating details, worker training, and sub-leasing issues affecting the Navy Shipyard, for which the City signed a master lease with the Navy in November 1994. The City is very optimistic about other reuse opportunities it is pursuing for other parcels of the Navy Base.

The most attractive potential tenant is Meyer-Werft, a German shipbuilding firm, founded in 1795, that operates an enclosed-shipyard in Papenburg, Germany. They employ 2,500 people there and have a significant share (and backlog) of the cruise-ship market. To build cruise ships at the Philadelphia Navy Yard and create 1,800 jobs there, Meyer-Werft would need \$300-\$500 million in financing from a variety of sources, including commercial loans and local, state (PA and NJ), and federal funding (MARAD).

Another attractive potential tenant is Metro Machine, which would create up to 700 jobs in repair work and the building of double-hull tankers, for which they have a design but no orders. Metro's proposal for the Navy Yard is an expansion, not relocation, of their shipyard in Chester, PA -- just south of Philadelphia. In addition to using the same types of financing as Meyer-Werft, the City is offering to support a \$20 million loan to Metro from the Economic Conversion Fund.

THE SOROS FOUNDATIONS

THE PRESIDENT HAS SEEN

4.20.95

*Shelly
P/S review
Mailed 4/20/95*

April 10, 1995

President William J. Clinton
The White House
Washington D.C.

Dear Mr. President:

I take the liberty of writing to you in connection with your forthcoming visit to Russia. As you know I have a foundation there and my remarks reflect the opinion of the people associated with the foundation as well as my own.

Your visit provides an opportunity to reassert the values of Open Society. The Second World War was fought to resist tyranny. Americans gave their lives not only to resist a direct attack from the Japanese but also to liberate Europe from Nazi rule. There is a real danger of a nationalist-socialist dictatorship in Russia and there is a sinister group around Yeltsin exemplified by the head of the Presidential Guard, General Korzhakov, who are reportedly working to this end.

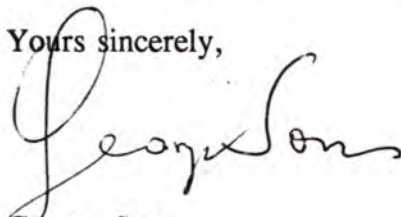
The independent media are the main hope for the maintenance and development of an open society. Yet they are under severe pressure and have been the target of violent attacks.

I think it would be important that you should speak out against this danger both in your private meeting with President Yeltsin and in your public announcements to the extent that protocol permits.

It is also important that you should meet with representatives of civil society and democratic politicians who are not currently in the central government.

I enclose some pages from my forthcoming book which you may find useful.

Yours sincerely,



George Soros

Enclosure

cc: Mr. Strobe Talbott

THE STATELESS STATESMAN

What do you see as the economic future of the Eastern European countries? They became free and independent at a time when even the strongest Western economies are experiencing major crises, facing problems that will only be overcome, if at all, over a long time.

At the time of the Revolution, in 1989, the Western democracies were doing very well. Their failure to follow a far-sighted, generous policy towards Eastern Europe cannot be blamed on economic difficulties. It is the other way round. The present-day difficulties of the Western World may be partially attributed to its failure to adjust to the collapse of the Soviet empire.

As to the economic future of the region, one has to draw a sharp line between Central Europe, that is to say Poland, the Czech Republic, and Hungary on the one hand and the former Soviet Union on the other. There are a number of countries that lie in between them: Slovakia, Romania, Bulgaria, and so forth. Central Europe has made good progress toward a market economy. I am basically optimistic that this direction will continue, unless political or military developments intervene. The same can be said about the Baltic States, Estonia, Latvia and Lithuania, though with less confidence. They have stable currencies

and although conditions are very difficult, these countries have survived the worst and are moving in the right direction. Slovenia has also made the grade.

In the former Soviet Union the situation is very different. The Soviet system has collapsed, but no new system has taken its place. The prevailing trend is still downward, towards disintegration and decay. It is impossible to say how far it may go. There have been precedents: the "time of troubles" after the death of Ivan the Terrible (?) and the Russian Revolution. Between 1913 and 1917 industrial production fell by 75%; between 1917 and 1921 it fell by another 75% - - that is the kind of decline that is in the cards. I used to speak of a "black hole" which would destroy civilization.

But industrial production has more or less stabilized.

That is true. Many industrial enterprises -- those which are still functioning -- have learned to fend for themselves. The economy is like an octopus whose head has been cut off. The tentacles have adapted themselves to a more or less independent existence -- I say more or less because many tentacles are still attached to the state budget and feed off it.

Something very interesting and unexpected happened in 1994. The shares of state-

owned enterprises were distributed to the public practically free in a mass privatization scheme. This divided the enterprises into two classes: those whose shares had value and those which did not. Roughly speaking, the energy and raw materials producers fell into the first class, the energy users into the second class. The division had been there before, but the voucher privatization scheme made it more obvious. It also engendered a feeding frenzy. Shares representing claims on natural resources could be bought at a tiny fraction of their potential value. Oil in the ground sells for \$2-3 a barrel in the rest of the world; in Russia, it could be bought for 2-3 cents. This attracted some enterprising investors from home and abroad and touched off one of the weirdest stock booms in history. The amounts involved were relatively insignificant -- a few hundred million dollars -- but the rate of appreciation was phenomenal. Some shares rose tenfold in a matter of a few months -- between March and August of 1994. The market was rudimentary: there were no clearing and custodian arrangements and share registries were not properly administered. Banks and brokers suffered from an acute shortage of capital -- they gladly paid 10% a month or more for dollar deposits. My foundation was one of the victims of this shortage of capital -- as I mentioned before, we discovered \$12 million deposited in a less-than-first-rate bank.

Is that when you changed your mind and started investing?

Yes, that is when I lifted the ban on investing. I couldn't resist the temptation. Here was an embryonic financial market with tremendous upside potential. Why should we stay away from it? But when I went to Moscow, in the early fall, and took a look at what was going on, I was appalled: it had all the earmarks of a bubble about to burst. I gave the order to sell, but I got the classic answer: to whom? We have been liquidating ever since.

At any rate, there was a moment in 1994 when one could see the faint outlines of a new order rising out of the ashes of the old. It resembles the robber capitalism that prevailed in the United States in the 19th century but it was much worse because the legal infrastructure was much more feeble. There is much talk about the Mafia, but the Mafia is nothing else but the privatization of public safety -- the most successful privatization effort in Russia.

Has law and order completely broken down?

No, but the public authorities are also working for private profit. What we call Mafia is really an interwoven network of alliances between entrepreneurs and officials. It is the seamy side of free enterprise.

Surely you don't find it attractive?

I find it repulsive, but it may be better than the alternative. People act as robber capitalists because that is the only way they can become capitalists in a lawless society. Many of them are educated, decent people who don't like it any better than I do. Given half a chance, they would become upright citizens. In the United States, the corruption in Chicago and Boston and the New York of Tammany Hall engendered a public outcry for clean government. The same would happen in Russia -- because Russians really care about honesty -- if only robber capitalism succeeded.

But that is not likely because it is being destroyed even before it gets started. The enterprises whose shares rose tenfold in the summer of 1994 did not get a red cent out of it -- all the profit went to the people who bought the shares and resold them. It is only in the second stage of privatization that the proceeds would accrue to the enterprises, but the bubble has burst and it is doubtful whether there will be a second stage that really amounts to something. Undoubtedly, some energy companies are going to try because their managements got the idea and are preparing feverishly, but I don't think they will get very far.

Why are you so pessimistic?

Partly because the emerging markets boom -- in which Russia was the last and

most outlandish entrant -- has bust and partly because of political developments inside Russia.

Please explain.

Consider the political implications of a robber-capitalist regime in Russia. The natural resource producers would prosper but the military-industrial complex would decay. The prosperity of the natural resource sector would lead to an import boom because consumers prefer imported products to locally-produced goods. The service sector -- banking, financial services, distribution, trade -- would also develop but there would be practically no market for producer goods. But that is the sector which constitutes the bulk of the economy. The old Soviet economy was incredibly distorted: the producer goods industry, including military goods, was called Sector A and it accounted for 75% of industrial production; light industry, called Sector B, was only 25%. In a market economy the proportions are reversed. The energy-using industry would be penalized because oil and other raw materials are worth more when they are sold in world markets than when they are transformed into products at home. But the military-industrial complex carries tremendous political weight. Already, the political struggle can be boiled down to a conflict between these two interest groups. The energy producing sector is represented by the Prime Minister, Victor Chernomyrdyn, the

military-industrial complex by Oleg Shoshkoveck (?), First Deputy Prime Minister. The actual state of play is, of course, much more complicated -- the mayors of Moscow and Leningrad and the other local potentates are not so easy to fit into the picture -- but the main political battle is going to be fought along these lines. It is a battle that the energy users are favored to win. Not only do they carry much greater political weight, they also have a strong political argument: they can appeal to nationalist sentiment. Robber capitalism would lead to the hollowing-out of the Russian economy. The bulk of industrial workers would lose their jobs and would have to be redeployed. In any country there would be a political outcry. Russia is no exception.

No sooner has robber capitalism reared its ugly head than political forces have coalesced against it. Shoshkoveck (?) has been gaining ground against Chernomyrdyn since the middle of 1994. Even the attack on Chechnya, however badly it was bungled, plays into the hands of the military-industrial complex. The robber capitalist goose is going to be devoured before it can lay any golden eggs.

Can you explain the invasion of Chechnya?

I have no special insight. Clearly, it was designed to exploit the strong popular prejudice against Chechnians, who are associated with the Mafia in the public

mind, and to regain some measure of popularity for President Yeltsin. But it was incredibly mismanaged. It started out as a covert intelligence operation, a so-called internal uprising, which misfired and turned into a full-scale military invasion. It will have incalculable consequences.

What do you expect?

Almost anything. The struggle for power has intensified to a point where almost anything can happen. In a country where people are prepared to steal anything, the State itself is up for grabs. Until now, it was not worth grabbing because it was not viable. Those who tried, failed -- remember the abortive coup in which incompetent bureaucrats tried to oust Gorbachev. But time has passed, people have recovered their wits, and even the economy has stabilized. It is worth making the effort and the effort is currently underway. A rather sinister group has gathered around President Yeltsin, bent on seizing power. The most viable person among them, and probably their leader, is General Korzhakhov, head of the presidential guard and Yeltsin's long-standing drinking partner. The presidential guard is being expanded into a private army and already there have been some ugly incidents. It is rather scary when members of the presidential guard, wearing ski masks, attack the security guard of a banker who controls a TV station which is critical of the President; when the head of the State-owned TV station which has

shown a large degree of independence during the siege of Grozny is murdered; when the son of a prominent dissident is killed in a car accident and deposited on his father's doorstep. There seems to be a concerted campaign to silence or intimidate the independent media in front of the elections.

I don't see why a dictatorship -- if that is what is in the making -- should be incompatible with robber capitalism. Indeed, that is the essence of fascism.

That is a very penetrating observation. But I don't think you can take the victory of fascism in Russia for granted. The battle has just begun. People are not going to give up their new-found freedom without a fight. The media have shown the invasion of Chechnya in its full horror and people have been shocked, much like Western public opinion was shocked by the gory pictures from Bosnia. Indeed, the effect was much greater because people in Russia were exposed to it for the first time. I don't expect the great masses to be aroused to action -- they remain long-suffering and passive -- but I do expect the media to fight for its hard-won independence with messianic zeal. No wonder that the recent atrocities affected people connected with the media!

Do you really believe they can resist the pressure?

If there is no countervailing pressure, probably not.

Where would the countervailing pressure come from?

From abroad, to start with. People in Russia really care what the world thinks of them. Yeltsin himself cares a great deal. He may be under the control of a small, sinister group around him but he can't be happy about it. The German Prime Minister, Helmut Kohl, called him a number of times about Chechnya and he tried to respond. Unfortunately, his orders were not obeyed. That is how we were treated to the spectacle of Yeltsin announcing the suspension of bombing without any effect. Kohl is demonstrating real understanding and concern with the internal situation in Russia. I wish I could say the same thing for our own administration.

There is a factor at play whose importance is not properly appreciated: the military. The military has stayed out of politics so far, but Chechnya has been a traumatic experience. Commanders have refused to obey orders. Large numbers of body bags have been sent home. The army is deeply divided and deeply hurt. When the military become politicized, it happens very fast and it profoundly changes the political landscape. That is what happened just before the outbreak of the Spanish Civil War and that is what is happening in Russia today.

So you expect civil war?

I expect the military to play a more active political role than before. And whoever makes a grab for the control of the State is liable to run into resistance. Whether events will deteriorate into full-scale civil war, it is impossible to say. Almost anything may happen, civil war not excluded. One thing is certain: political instability is not conducive to investment. That is why I give both robber capitalism and fascist dictatorship a relatively low probability, at least in the near term, and increasing instability a much higher probability. We are approaching the conditions I had in mind when I spoke of a black hole.

I am still at a loss as to why you should want to invest in conditions like these.

I don't. I am trying to sell. Conditions in 1994 were very different. It is characteristic of revolutions that conditions turn around completely; that is why they are called revolutions. I anticipated the conditions which prevail today; but the emergence of robber capitalism last year caught me by surprise. It ran counter to the normal evolution of financial markets. Normally the establishment of a legal infrastructure comes first; direct foreign investment next; and the development of foreign portfolio investment last. In this case, the order was

reversed: foreign portfolio investment came first and it acted as a catalyst for the emergence of robber capitalism. I could recognize it when I saw it. I was particularly impressed by the way Boris Jordan, working for Credit Suisse First Boston, helped to develop the market. He did not try to hog the market, like some other players, but left room for others and tried to develop the institutional infrastructure. It reminded me of my youth, when I pioneered the opening up of the Swedish market and other markets and I didn't want to be left out. But, for a number of reasons, including my ban on investing where I have foundations and the role change involved, I was a little slow on the uptake. Instead of first in, first out, we were last in, first out, and instead of a profit, we have a loss.

How do you feel about your foundations?

Distressed. I committed large amounts of money -- the International Science Foundation alone cost me more than \$100 million -- and I am afraid it may be going down the drain.

But you tell me you anticipated the current turn of events.

That's right. I did everything I could to prevent the present turn of events and I have no regrets on that score. It was well worth trying, even if it didn't succeed,

because so much was at stake. But, now that my worst expectations are coming true, I am at a loss as to what to do. I cannot pull up stakes because I would be abandoning those whom I wanted to support in their hour of need. At the same time, it goes against the grain to throw good money after bad. I am caught in a trap of my own making.

How are you going to extricate yourself?

I don't know. I am not in control of the situation. It is in the nature of revolutionary situations that they are beyond anyone's control. I have a strategy and I shall adjust it as events unfold.

What is your strategy?

It gets pretty specific. Do you want me to go into details?

Yes. It is interesting.

All right. As far as the International Science Foundation is concerned, it was meant as a one-time emergency operation: \$100 million to keep alive, during a period of economic dislocation, a scientific establishment which is outstanding by

international standards and has been the mainstay of independent thought and action in the Soviet Union.

Mission accomplished. The money which was meant to be spent in two years was committed in eighteen months and the program was so highly appreciated that the various governments concerned -- Russia, Ukraine and the Baltic States -- offered matching funds in order to get me to continue it. I accepted their offer and committed additional funds for 1995, but I will not extend the program into 1996 unless I get matching funds also from Western sources. I think it is inappropriate that I should be the sole Western source of support for Russian science, especially as European and American governmental programs failed to use the money allocated. The scientists are urging me to lobby for governmental support but I refuse to do so. let them lobby! We are slowly winding down the operation. The international travel program is already shutting down. The same strategy applies to the science education program which started a year later and, barring outside support, will wind down a year later. But I intend to continue the supply of international scientific journals because the publishers have offered such favorable terms that I consider it matching funds. I shall persevere with the Internet program, which is just beginning to pick up momentum, even if I don't get outside support because I consider it so important. I am trying to salvage the Transformation of the Humanities program and I shall continue support of "thick

journals." I am also ready to embark on new programs for the support of culture, civil society and the media, but not on the scale people in Russia have come to expect of me. I intend to continue along these lines as long as civil society supports the foundations and the authorities tolerate them. But I can't help feeling despondent about the prospects.

Do you think events could have taken a different course?

I am convinced of it. It was well within the powers of the Western democracies to slow down the disintegration of the Soviet Union and lay the foundations of an open society before the closed society collapsed. All it would have taken was some positive reinforcement for Gorbachev's policies of glasnost and perestroika. He was dying for it. He had a naive belief that, once he provided an opening, the free world would rush in to help. But the Western governments lacked the political will. In the spring of 1989 I gave a speech at an East-West security conference at Potsdam, which was then still in East Germany. I argued for a new version of the Marshall Plan, this time to be financed mainly by the Europeans. My proposal was "greeted with amusement," as the Frankfurter Allgemeine Zeitung reported. If it had been taken more seriously, history would have taken a different course.

Aren't you overestimating the potential for Western intervention in what were, after all, the internal affairs of the Soviet Union?

Not at all. I speak from personal experience. As early as 1988 I proposed to the Soviet authorities a study group to establish what I called an "open sector" in the Soviet economy. I was not as well known as I am today; I was practically a nobody; nevertheless, I received a positive response. Admittedly the cooperation of the Soviet authorities was haphazard at best but, when I insisted, Prime Minister Ryzkhov issued an order obliging the relevant officials to attend.

What was the outcome?

Negative. I was thinking of creating a market-oriented sector within the centrally planned economy, a sector not too far removed from the consumer and not too far down the chain of production. Food processing, for instance. I had in mind a kind of embryo that would grow within the mother's body. But it didn't take too many meetings to discover that the mother's body was too diseased to support a healthy embryo.

Aren't you contradicting yourself? If the centrally planned economy was doomed in 1988, what could Western assistance accomplish?

It could have slowed down the process of disintegration. It could have given people a sense of material improvement and built support for economic reform. It wouldn't have taken much. For instance, the introduction of tampons would have generated a great deal of enthusiasm among women who had to rely on the most primitive sanitary devices; or electronic gadgets would have motivated the younger generation. At the time I am speaking about, the Soviet Union still enjoyed a first class credit rating because it had always paid its obligations punctiliously. In those years, the Soviet Union borrowed tens of millions of dollars.

Why didn't it have the desired results?

Because no conditions were attached or, more exactly, the conditions were designed to benefit the lenders, not the recipient. Germany lent tens of billions to gain Gorbachev's consent to the reunification of Germany. I remember a \$5 billion credit from Italy for the promotion of Italian exports. Exporters had to pay 5% to the brother of Italy's then-Foreign Minister, Gianni de Michaelis, who is now in jail. But no thought was given to the effect on the Soviet economy. If the lenders had insisted, they could have dictated whatever conditions they wanted. The Soviet authorities were eager to be told what to do. I saw that in connection with the Open Sector Task Force but, of course, I was not in a position to impose

conditions because I wasn't lending billions of dollars. But I would have imposed conditions and I would have enforced them. That was a time to be intrusive. It would have been appreciated.

Would it have worked?

Probably not. Nothing worked at the time. There would have been slippage. But there would have been also some positive results and that could have changed the course of history. What Gorbachev lacked was a modicum of success.

Could the Soviet Union be kept together? And would it have been desirable to hold it together?

I am sure it would have eventually disintegrated, but I am convinced that it would have been better if the process had been slower and more orderly. Look at the dissolution of the British Empire; it took half a century to accomplish and it wasn't without conflict, but the effect was almost wholly beneficial.

But Great Britain was the motherland of democracy.

That is all the more reason why the Soviet Union needed more time for its

dissolution. I do not make myself popular today when I say that it would have been better if the Soviet Union had not collapsed, just as it would have been better if Yugoslavia had not broken up. It would have made possible the transition from a totalitarian system to a free and democratic one. There would have been demands for autonomy, and eventually there would have been an independent Ukraine, for instance, but it would have occurred over a longer period of time. Ukraine would then have been a more stable and viable country when it became independent. To come into the world as a viable organism, an infant needs nine months. The new countries arising out of the Soviet Union did not have enough time to develop. They are all premature births, and one has to wonder whether they are viable.

I was a great supporter of the so-called Shatalin Plan, or the 500-Day Program as it is also known. I was involved in it from its inception. I met with Petrakov (?) on the day the task force was formed. I provided a group of eminent international economists to critique the plan, sponsored a group of lawyers to help design the necessary legislation, and brought the authors, under the leadership of Grigory Yavlinsky, to the 1990 Annual Meetings of the IMF and the World Bank in Washington.

The idea behind the Shatalin Plan was to transfer sovereignty from the Soviet

Union to the constituent republics but, at the same time, to transfer back certain critical elements of sovereignty from the republics to a newly-created entity, the Inter-Republican Council. In effect, it would have replaced the Soviet Union with a new kind of union which would have been more like the European Union. In practice, it would have pitted the new authority, the Inter-Republican Council, against the old, Soviet authorities. Since the old political center was almost universally despised, the new political center would have gained popular support by doing battle with the old one. That is how, a year later, the Russian state superseded the Soviet state. Under the Shatalin Plan, this would have happened in every republic and the republics would have remained in an economic union.

It was a brilliant political conception which was not properly understood. Had it received international support, I am sure Gorbachev would have endorsed it. Even without Western endorsement, it was touch and go. I remember YYY bragging to me how he managed to sway Gorbachev against the plan. He would be the 13th member of a council uniting 12 republics; each member would have a firm territorial base except him; therefore, he would become the least powerful member of the Council. That argument won the day.

You say you were initially involved in the Shatalin Plan. Did you remain involved in the reform process after the dissolution of the Soviet Union?

Not in Russia. I was friendly towards Yegor Gaidar and I would have been ready to help him, but I came to the conclusion that the reform was moving on a false track relatively early on. It happened in April 1992 when I discovered that the enterprises were accumulating receivables at a rate which was roughly half the rate of industrial production. This meant roughly half the production was exempt from the monetary control which was the cornerstone of Gaidar's policy. Half of industry ignored monetary signals and continued producing according to the old system of "state orders" irrespective of getting paid. This was a shocking discovery. I confronted Gaidar when he came to see me one night in New York, and he admitted it. Then he delivered a rousingly optimistic speech in Washington later that week. I started advocating publicly that Western aid should be tied to the creation of a social safety net. This would have enabled the Russian government to put enterprises which failed to obey monetary signals into bankruptcy. My proposal did not make much headway.

None of the policies you supported seem to have been implemented. Wasn't that frustrating?

Yes, it was. But the policies I could implement on my own succeeded. I tried to demonstrate my social safety net proposal in a pilot scheme. That was the origin of the International Science Foundation. We distributed \$500 a year to some

30,000 scientists and I had the satisfaction that it worked. Privately I suggested a similar scheme for military officers, but I was not willing to fund it. It might have cost \$500 million, but it would have made a difference.

You are very critical of Western policy. What would you recommend to the IMF today?

I would not like to be in their shoes. But then, I don't like being in my own shoes very much, either.

Can you be more explicit?

I think it is too late to have a real impact on the course of events in Russia. Russians may have had exaggerated expectations of the West, but now they are disappointed and disillusioned. Our influence has been greatly reduced. Even the progressive elements have turned anti-Western. ZZ Yakovlev, who had been the architect of glasnost and is now the Chairman of Ostankius, complained to me bitterly about the U.S.

But you are actively engaged in Ukraine.

Yes. That is where it is possible to make a difference and I am doing my utmost to bring it about. And, for the first time, I don't feel frustrated. I have a sense of accomplishment. For the first time since 1989, the Western powers did the right thing: in the communique of the 1994 Naples Summit, they promised \$4 billion in aid if Ukraine embarks on a reform program. This happened to coincide with the election of a new president, Leonid Kuchma.

The previous president, Leonid Kravchuk, was an opportunist who realized that the problems of Ukraine exceeded his capacity to deal with them and he did not even try. All he wanted was to stay on top, bobbing along like a cork in a turbulent sea. He had been the chief ideologist of the Ukrainian communist party and he had the same idea as his Serbian counterpart, Milosevic: to change horses from communism to nationalism. For a while, it worked; he was elected with a greater majority than practically any other president: VV%. He sought to maintain his popularity by playing up the Black Sea Fleet and other nationalist themes, but he was undercut by the collapse of the economy.

Kuchma is made of a different fiber. The manager of an important enterprise in the military-industrial complex, he is oriented towards problem-solving. He realizes that Ukraine cannot survive as an independent country the way things are going and he is determined to do something about it. The Naples Summit offered

him a lifeline and he resolved to seize it. He had no deep understanding of the market mechanism, but he understood very clearly what \$4 billion could do for Ukraine because that was the cost of Ukraine's energy imports. On this occasion, the promise of economic aid did what it was supposed to do: it changed the direction of economic policy. The main credit goes to Larry Summers, U.S. Under-Secretary of the Treasury, who inserted an actual amount into the communique, although I am reluctant to say so because, the way international cooperation works, it may actually damage him.

Ukraine was, and remains, a basketcase. The economic collapse has been much greater than in Russia, partly because Ukraine is deficient in energy and partly because there has been no serious attempt at macro-economic stabilization or structural reform. In accordance with my boom/bust theory, this actually makes it easier to engineer a change of direction. I was well placed to assist and I rushed to offer my assistance. We put in place a small team of experts, under the direction of Anders Aslund, to help the Ukrainians in their dealings with the donor community. The cooperation was successful because it was based on mutual trust and an initial agreement with the IMF was put in place in record time. Success is far from assured; the process could be derailed at any point and already we have had to exert ourselves several times to put the train back on the rails, but I have a strong sense that it is moving in the right direction.

This must be a novel experience for you.

Yes, and it is very satisfying.

Why do you think it comes so late in the day? You have been trying since 1988.

Because it takes time to catch up with revolutionary change. It applies to the international authorities; it applies to the Ukrainians -- for instance, one of the first graduates of Hawrylyshyn's business school is a key player on the Ukrainian team; and it applies to me.

But you pride yourself on understanding revolutionary change better than others.

It took time to establish my credentials. I have also learned to be calmer and bide my time. In the early days I was too eager and jumped on every opportunity. Now, I am ready to abstain or withdraw. I don't need to score.

Are you personally so engaged in any other country?

Macedonia. It is the last surviving multi-ethnic society in the Balkans. It can survive as an independent country only if it has a government devoted to the principles of open society -- otherwise, the ethnic tensions between its Slavic and Albanian communities would tear it apart. It is the victim of an illegal and unjustified blockade by Greece, which is a member of the European Union. The Western democracies should have gone to the aid of Macedonia, but they did not. The U.S. stationed some peacekeeping troops there, but nothing was done to provide economic relief. I stepped into the breach. I provided a \$25 million loan which allowed Macedonia to buy oil and I provided a subsidy for an airlift of its export of early vegetables. I continued to agitate for a more constructive policy towards Macedonia but to little effect. As the economy deteriorated, so did ethnic relations. Tensions reached the breaking point recently. Albanian radicals established a so-called university without government permission. It was a political provocation aimed at creating an illegal parallel structure for Albanians similar to the structure that Albanians have established in Kosovo. I pleaded with President Gligorov personally not to be provoked, but I failed. He deployed the police and there has been a fatality. Both the Albanian and the Slavic populations are becoming radicalized. The Slavic inhabitants of the Albanian region are increasingly attracted to the way Milosevic has handled the Albanian problem in Kosovo. The government is failing to provide firm leadership. The situation is liable to deteriorate and I am distressed. Nobody could have done more than I did

in the way of early warning and prevention, but it didn't help. I can see the third Balkan War in the making. I am at a loss as to what to do. I intend to go to Macedonia and appeal to their better judgement. But I have to doubt whether they have a better judgement.

You have said that you consider the rise of nationalism the greatest threat to the region.

Yes. Communism represented the idea of a universal closed society. That idea has failed. There was a small window of opportunity for the idea of a universal open society to take hold. But that would have required the open societies of the free world to sponsor that idea. As I have said before, open society is a more advanced form of social organization than a closed society; it is impossible to make the transition in one revolutionary leap without a firm helping hand from the outside. The Western democracies lacked the vision and the opportunity was lost. Universal closed society has broken down and no new unifying principle has taken its place. Universal ideas generally are in disrepute. People are preoccupied with their personal survival. They can be aroused to a common cause only by a real or imagined threat to their collective survival. Unfortunately, such threats are not difficult to generate. Ethnic conflicts can be used to mobilize people behind the leadership and create particular closed societies. Milosevic has shown the way and

he has many imitators.

Do you consider the threat of nationalism universal?

There is something self-contradictory in your question because nationalism ought to be, by definition, particular. Yet it has a universal aspect. It is catching. It flourishes in the absence of a universal idea such as human rights or civilized conduct. The rise of nationalism and ethnic conflicts indicate the lack of international law and order. In that sense, it is universal. Nationalists are kindred souls. Milosevic and Trudjman understand each other. They can make music together.

As far as Russia is concerned, you are quite pessimistic. I am therefore surprised by the optimism you have expressed regarding the countries of Central Europe. Their prospects are surely better than those of the former Soviet Union, but it seems to me by no means certain that they are irreversibly on their way to a market economy and free society.

I am surprised that you are surprised. The communist system is gone and these countries -- with the exception of Slovakia -- have definitely committed themselves to democracy and market economy. My main concern is whether the

European Union will be open enough to accept them.

Aren't you worried that former communists are once again in power both in Poland and in Hungary?

Not particularly. Communism as an ideology is well and truly dead. At the height of the revolution, former communists were repudiated by the electorate. Their return to public life is a welcome broadening of the democratic spectrum. That is not to say that I agree with their policies. On the contrary, I think they are harmful. But, in the case of Poland, the agrarian party is worse than the former communists. In the case of Hungary, I had high hopes when the socialist-liberal coalition was formed, but I have been terribly disappointed with the prime minister, Gyula Horn.

Why?

Because he is not open to change. When I got to know him, around 1987, I considered him the most dynamic member of the government; by 1989 he struck me as almost reactionary because conditions had changed but he had not. The overarching problem of Hungary is its accumulated debt. The debt was accumulated during the Kadar era, when Horn's political attitudes were formed.

He brings those attitudes to his job now. He would like to maintain economic growth by accumulating more debt. But the music has stopped. After Mexico, Hungary is facing a financial crisis. This is so obvious that I don't see any harm in saying so publicly.

You once proposed a solution to the debt problem.

That was during the elections of 1990. I saw an opportunity to draw a line under the debt incurred by the communist government and turn over a new page. At a time of discontinuity, when a legitimate government is replacing an illegitimate one, such a move is possible. But the opportunity was lost and it will not recur.

Would it not be possible to obtain some relief even now?

No. The old debts and the new debts have been intermingled and bank debt has been replaced by market debt. Even to talk about it would make matters worse. At the same time, I don't know how Hungary is going to refinance its debt in view of market conditions.

Doesn't that contradict the optimistic view you expressed earlier?

Not really. I think Hungary has made the grade, both politically and economically. It has a severe debt problem, like many other countries, which has suddenly turned more acute because of the bust in international investing. It will probably force Hungary to take some painful measures which it would have otherwise deferred and, if it does, I hope it will be rescued by Germany because Germany owes Hungary a particular debt. But a financial crisis could destroy the country, so there is reason to be wary.

Poland does not have a serious debt problem because it has defaulted and its debt has been restructured. I consider Poland one of the healthiest countries in Europe today. Its economy is growing but, even more importantly, it has the right spirit. I have the impression that public life is less corrupt and people remain more concerned with the common good than many of the former communist countries. I am particularly impressed with the intellectual atmosphere surrounding the Stefan Batory Foundation.

that is a strange view. Most people would consider the Czech Republic and Hungary ahead of Poland.

They may be ahead, but Poland is coming up fast. I am interested in the **rate and direction of change**. My only concern is that Poland may be losing **momentum**

because of political developments. It is unfortunate that the electorate rejected the previous Solidarity-based (?) government just when it got its act together.

Many people would say that the improvement is greatest in the Czech Republic, especially since it got rid of Slovakia.

The Czechs have undoubtedly benefitted from the separation from Slovakia, but the Czechs' gain has been Europe's loss. Meciar is trying to align Slovakia with Russia. His ambition is to become the first outpost of a new Russian empire. If he succeeds, it bodes ill for Europe: Slovakia will become a dagger pointed at the heart of Europe. So much for the unabashed pursuit of self-interest.

Is Romania also going to become a trouble spot?

Not necessarily. Romania is a devastated country without the pre-requisites for an open society. The Caeucescu regime was one of the most debilitating and Romania continues to suffer the consequences. It has a crypto-communist regime which has unfortunately felt obliged to align itself with some extreme nationalist parties. This carries with it the seeds of trouble but the trouble may be contained because the regime does not want to be cut off from Europe. The democratic forces are weak but fortunately they never got a chance to run the country.

You say fortunately?

Yes. They weren't ready and they would have failed, as the democrats did in Bulgaria. Or the dissident intellectuals in Czechoslovakia, for that matter. They need time to mature, and I see some signs of maturity. They are more willing to cooperate. Not everyone has to be the head of a party. But they don't have much time left. As a new economic and financial structure emerges, elections will no longer be decided by ideas but by funding and the control of the media. The next elections will be crucial. They may be permanently frozen out of power.

What do you think the West should do to help the countries of Central and Eastern Europe?

It varies from country to country and from time to time. Central Europe needs access to markets and membership of the European Union more than anything. Romania needs assistance with the establishment of democracy and independent media, especially TV. Generally speaking, the further you go East and South, the greater the need for technical assistance and other forms of aid.

You have been very critical of Western policies. How could the delivery of aid be improved?

The trouble is that technical aid is provided by bureaucracies and it has all the negative features associated with bureaucracies. Bureaucrats are sometimes very decent, well intentioned people but they are confined by rules. We joke inside the foundation that Western aid is the last remnant of the command economy because it is designed to satisfy the needs of the donor, not the needs of the recipient. We try to reverse the order. The foundations seek to respond to the needs of the country concerned. In Ukraine, our technical experts work for the Ukrainians: they are selected by them and can be fired by them. But as the foundations become increasingly bureaucratized, the joke is increasingly on us.

I would sum it up like this: Western assistance has gone through three phases. In the first phase, we should have offered assistance but we didn't. In the second phase we promised it but we didn't deliver. In the third phase, we delivered but it didn't work. We are now in the third phase.

My foundations have developed a very useful concept for delivering assistance. You have to find a local partner you trust; you have to empower him to carry out his mission; but you had better retain the pursestrings.

Do you think you have changed the course of history in Eastern Europe?

Would it have taken a different course if you hadn't been there?

Only marginally. Take Hungary, for example. Although the foundation helped to undermine the communist regime--we sponsored writers who then overthrew the communist writers' union; we sponsored youth leaders who then formed the first non-communist youth league, and so on--the regime would have collapsed without the foundation. After all, it collapsed in other countries where we had no foundation. We can claim a lot more credit for the smoothness of the transition. We did lay the groundwork for an open society. And the same applies to other countries. The full impact of our work may be felt only in the future.

Can you envisage developments that would cause you to withdraw from certain countries?

Easily. I am surprised it hasn't happened already. As local conflicts proliferate our stance in one country is liable to displease another country. Communications and travel may also become more restricted. There is a vicious campaign being waged against my foundation in Yugoslavia even as we speak. But I shall not leave willingly. The more my people come under pressure, the more determined I am to stand by them. I am more likely to be expelled by indifference. That was the case in Prague, where the foundation was neither attacked nor supported--although recently it has shown some signs of revival.

We may also reach closure because we run out of money, although that is at least eight years away. With the exception of the Central European University, I don't want my foundations to last forever. I shall insist on a sunset clause.

William Raspberry

Cultural Proteges

It should have been a movie; it was too schmaltzy for real life. Twelve-year-old Lizbet Martinez had just been rescued from a raft. As soon as she was aboard the Coast Guard cutter, she opened a battered violin case, pulled out her beloved instrument and played "The Star-Spangled Banner."

That was last August. Lizbet, now living in Florida, reprised her act for the president when he visited Tallahassee last week. Clinton reportedly has invited her to perform at the White House.

It's one of those only-in-America stories that plucks at the heartstrings like a violinist playing a pizzicato passage.

This isn't. If Lizbet had been Haitian and not Cuban, she might well have been sent packing, back to the home she lately fled.

Lizbet was one of 321 unaccompanied Cuban minors who have been brought to the mainland after a stint at the U.S. naval base at Guantanamo Bay, Cuba. But 258 Haitian youngsters, rescued from the same sea by the same Coast Guard, are still being held in a refugee camp in Guantanamo. Why?

Lawyers representing the Haitians hope to find out why. They have petitioned the U.S. Supreme Court to order the children admitted, charging Attorney General Janet Reno with discriminating against the Haitians while paroling their Cuban counterparts.

As Ira Kurzban, attorney for the Haitian Refugee Center in Miami, told reporter Anne Day: "The attorney general explained her parole of the [Cuban] children as freeing them from the 'extraordinary hardship' of life in the camps. The Haitian children are still living in those same conditions that she deemed too harsh for the Cubans."

It's a confusing policy rendered more confusing by the fact that a number of the Haitian youngsters reportedly have parents or other relatives already in the United States who could take care of them. Day said she talked to one, Odelin Alexis, now living in Florida, who is trying to arrange for his 16-year-old daughter to come to live with him. "She is the only family I have," Day quotes the man, who works as an orange picker, as saying. "She doesn't want to go back to Haiti. Her mother is dead. She is scared. She wants to come here, to live with me and go to school."

At least 42 unaccompanied children already have been repatriated to Haiti, U.S. officials acknowledge—19 as recently as last week—and another 24 have been returned as adults, having reached their 18th birthdays while in camp. Nineteen have been paroled to the United States.

Day says she was told by advocates for the Haitians that several children have been returned to Haiti even though they have parents in America. "Mistakes have been made," the reporter quotes Cheryl Little of Florida Rural Legal Services as saying. "Many of these unaccompanied minors in Guantanamo have parents here in the United States who are willing and able to care for them." Little says her group has found relatives in the United States for nearly all the 258 children still in the camps.

Processing these poor children, and figuring out how best to resettle them, is admittedly difficult work. Nor have American officials been willing to take the word of the children themselves that they have no parents or other family members in Haiti able to care for them.

But the difficulty of sorting through claims, finding relatives and verifying statements isn't the part that's so hard to understand. What is is the differential treatment of the Haitians and the Cubans.

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Day, writing in The Post, said an administration official told her the difference is due to Cuba's refusal to allow repatriation. "It would be an act of war if we were to fly into Cuba to return these children," Day said she was told.

That explanation might be more convincing if we hadn't heard other explanations for the same discrimination involving adults from the two Caribbean islands. American law required us to take in fleeing Cubans, we were told at one point. At another, the explanation was that the Cubans were political refugees, and therefore admissible, while the Haitians were mere economic refugees who had to be repatriated.

Now we can't act consistently because to do so would be an act of war.

You don't suppose it could have anything to do with col— . . . nah. Better leave the whole confusing matter for the Supreme Court to sort out.

Or maybe Dorcile Alexis should learn to play the violin.

Robert J. Samuelson

Social Security: The Facts

Few subjects inspire more mythology than Social Security. I get lots of angry mail. "You keep insisting that Social Security is to blame for the deficits," complains one reader. Asks another: "When are you going to stop pushing the argument that Social Security is bankrupting the country?" Actually, I'm not. By itself, Social Security isn't bankrupting us. But spending on older Americans—a big part of it Social Security—is the main engine of higher federal spending. If it isn't curbed, tax rates or deficits will become oppressive.

My readers, though sincere, have been misled by myths that spending on the elderly isn't part of the "budget problem." It is. Consider: In 1962 programs for older Americans—mainly Social Security—represented 16 percent of federal outlays. By 1994 such spending, now including Medicare, was 38 percent. The total was \$549 billion, three times the \$177 billion spent on the poor (everything from food stamps to welfare) and twice defense spending, \$282 billion. As the baby boom ages, spending pressures will only increase.

Everyone knows this. Yet these issues can barely be discussed. Republicans and Democrats alike are terrified by the power of the elderly. And what justifies paralysis is an elaborate mythology—constructed by advocates for the elderly. Until the mythology is discredited, candid debate can't occur. Let's examine the myths, via question and answer. (My answers rely on information from the Social Security Administration and the Congressional Research Service.)

■ **Isn't Social Security "off budget"?**

Yes and no. In 1986 Congress moved traditional Social Security (the old-age and disability programs) "off budget." Medicare is "on budget." This has no economic meaning. If it did, we could abolish the budget deficit by putting everything "off budget." There'd still be a huge gap between government spending and revenues. Because the "off budget" label is so silly, most budget figures include Social Security.

■ **But isn't Social Security a "trust fund," which means Congress can't tamper with it?**

The trust funds are mostly accounting devices, and there are three: one for old-age and survivors benefits, one for disability insurance and one for Medicare hospital insurance. They don't prevent Congress from tampering. It often alters bene-

fits, usually—but not always—increasing them. In 1954 benefits were extended to farmers; in 1972 benefits were indexed to inflation; in 1983 some Social Security benefits were made taxable. Congress also shifts money among trust funds to prevent shortfalls. In 1994 it made a huge transfer from the old-age to the disability trust fund: \$122 billion between 1994 and 2000.

■ **So what? Aren't retirees simply "getting back" their payroll taxes, which were invested to pay for their benefits?**

No. Social Security and Medicare are pay-as-you-go programs. Today's taxes pay for today's benefits. In 1994 old-age and survivors benefits totaled \$276 billion, or 90 percent of the \$308 billion collected in payroll taxes. The taxes of today's retirees were spent years ago. The same is true of Medicare.

■ **Okay. But if the taxes of today's retirees had been invested, the savings—plus interest—would cover their benefits. Right?**

Wrong. Consider a married worker with average wages who retired in 1993 at the age of 65. This couple has an average life expectancy of 15 to 19 years. The worker's payroll taxes, if invested with interest, would pay for about three years of benefits; adding the employer's taxes would cover about seven years. Medicare benefits are many times retirees' previous taxes, even if those taxes had been reinvested.

■ **Maybe so. But don't Social Security taxes exceed benefits, reducing the budget deficit?**

This is partially true, but misleading. Medicare, which isn't totally financed by payroll taxes, contributes to the budget deficit. And the rest of Social Security doesn't—only because payroll tax rates have risen sharply. They are now 59 percent higher than in 1970 and 25 percent higher than in 1980. This is a huge burden on workers. Payroll taxes now represent 36 percent of all federal revenues, up from 23 percent in 1970.

■ **Still, doesn't the Social Security "surplus" reduce the overall budget deficit?**

Yes. The "surplus" is invested in U.S. Treasury bonds, which means the government borrows less from the public.

■ **Well, doesn't that mean we're already saving for the baby boom's retirement?**

Nope. It's an illusion. As America ages, existing benefits for the elderly can be maintained only by raising taxes or cutting other programs. If Americans dislike those choices, they'll have to cut the elderly's benefits or let budget deficits balloon. The Social Security "surplus" doesn't change that. Think about those Treasury bonds. To redeem them, government will have to raise taxes or cut non-Social-Security spending. The alternatives are higher budget deficits or lower benefits for the elderly, which would make it unnecessary to redeem the bonds.

■ Popular folklore is wrong. Social Security isn't a fully funded pension. It is welfare. Current workers pay for current retirees. Benefits shift according to economic conditions and political whim. The folklore is propaganda intended to impose the burden of deficit reduction onto programs for the non-elderly or taxpayers, mostly workers. This is unfair. By that, I don't mean that today's retirees should suffer deep benefit cuts. Those demand ample warning. But modest changes are justified: slight trims in cost-of-living adjustments; taxing Social Security income as any other; some increase in Medicare fees. Over the longer term, we need to raise retirement ages gradually and make retirees bear more of their health costs. These changes would affect mostly people of my generation (I am near 50) and younger.

Social Security is not just a program. It is a code word for the amalgam of government policies and programs for the elderly. Excluding it from normal political debate prevents us from anticipating an unavoidable future. We need to adapt to new social conditions. People live longer; they should work longer. Older Americans are wealthier; they should be more responsible for themselves. The guardians of today's privileges make it impossible to discuss tomorrow's needs. It's an unseemly legacy.

from Lynn

EDITOR'S NOTE

Why Newt now?

AMERICA IS IN THE MIDST OF A RELIGIOUS CRISIS. OUR CORE belief system is being challenged. And when your faith is threatened, you become more religious, not less.

What is our religion? Work. Work that is freely chosen and meaningful. When Americans ask each other "What do you do?", they aren't simply inquiring "What do you do for a living?", but also "What is your role and status in the lifetime of work that we share?"

Newt understands that voting Americans are scared to death about the future of work. Will there be enough dignified work for the middle class? Recently, I watched the new speaker address a conference about America's economic future sponsored by Newt, Inc. His warm-up act was the futurist couple Alvin and Heidi Toffler, who recited the fundamentals about our ongoing, painful transition from the industrial era to the information age.

You may have read reports of the event. The New York Times ran a dismissive review by their reigning stylist, Maureen Dowd. Better that the Times ridicule Newt than flatter him, but like most reporters, Ms. Dowd missed a chance to analyze the speaker's appeal.

Given my own contempt for Newt, I was surprised by his blunt charisma. He attacked the cybernetic potential of the future with the same relentless, cunning glee with which he seized the speakership. Additionally, because he's learned that the Song of Himself isn't everyone's favorite tune, he's added empathic refrains. "Somewhere there has to be a missionary spirit in America that says to the poorest child in America, 'The Internet's for you. The information age is for you.'"

Whether or not that missionary spirit was in the conference ballroom, there certainly weren't any poor children (or poor adults) present. When Newt introduced a story comparing Germany and the United States, he asked who had been to Germany. Virtually everyone in the audience raised a hand. Newt noted that on the autobahn there is no speed limit, but if a law were passed mandating a 100 kph limit, all Germans would obey it the next day. Then they'd efficiently elect a new party favoring no speed limits. But in the U.S., Newt observed, everyone views the speed limit as "a benchmark of opportunity." Preacherlike, he asked the audience for a show of hands to confirm that most American drivers are willing to breach the legal frontier in order to get ahead.

Newt's point? In the U.S., you can't expect the bureaucracy to lead us into the future because the populace is always speeding forward. So a politician's prime job should be to clear the bureaucracy out of the way.

This Reaganesque idea, easily crafted into a campaign slogan, evokes an optimism basic to our religion of work. Americans believe that it is in our nature to solve economic problems. More fundamentally, we believe that right thinking plus hard work can be transformative, moving us from a lower economic plane to a higher one.



Is this the face of our future?

philosopher John Dewey, who believed that consciousness not only can transform Being, but positively wants to.

Karl Marx got this wrong. He thought that material circumstances create consciousness and that the drive for personal liberty was a concern that would disappear once the means of production were commonly owned.

Yet the American urge to feel free is as strong as our urge to produce. We're most energized when we combine the two urges. We collectively believe that if left to our individual devices, we can conquer all obstacles.

This faith and the enormity of the obstacles we are now encountering help explain the last election. In the past 15 years the crucial bloc of voters (because it is both growing and volatile) consists of people who feel their economic situation has gotten worse. By nearly a 2-to-1 majority, they voted for Republicans in 1994. Some members of this group have attended college, but they don't have advanced degrees. And their economic perceptions are accurate: They've been losers in postindustrial America. With increasing automation throughout an integrated world market, only those skilled in handling information (just 15 percent of our workforce) have thrived.

Those whose income has stagnated or whose job security has deteriorated can't afford to vent their feelings at work. So they direct their anger at those publicly in charge. After all, the government seems as if it's gotten fatter. (In fact, its size as a percentage of Gross Domestic Product has remained almost constant for the past 15 years.) And the tax dollars it takes (though also relatively constant for the past 15 years) hurt more when you're feeling squeezed everywhere else.

What's causing the squeeze? With no external enemies on the horizon, suspicion turns inward. Maybe illegal immigrants are taking your rightful place. Perhaps our permissive culture is perverting the good, old-fashioned rules. Or blacks and women are being given all the breaks.

And who are the culprits publicly associated with these fears? The same politicians who champion large, regulatory government. Basically: Democrats.

Also, in a culture of problem solvers, many citizens simply figure that if the party that has controlled Congress and the presidency can't move the economy forward, the opposition should be given a chance.

So voters install a Republican majority that offers some immediate cash back, but also intends to weaken the already-worn institutional brakes (progressive income taxes, corporate regulations, unions, the minimum

Crude versions of this belief structure can be seen in late-night TV commercials for motivational tapes. ("Do you really, truly want to be a winner?") But there are sophisticated versions as well, for example in the writings of the American

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wage) on the new economy.

Why? Oddly enough, although Americans prize their individualism and their right to a fair reward, they also identify with the *overall forward movement* of the economy. That's why, for example, many Americans who have no stocks listen to the daily Dow Jones report. And why for the next year, so many citizens will join politicians in scapegoating those on welfare. The dole brings to mind the sin of sloth. And cheating. If the American economy isn't working as well as it should, perhaps it's because sinners at the bottom are pulling us down.

How to respond to this nasty national mood? By trying to elicit the best in our religion of work. When I spoke with one of Franklin Roosevelt's granddaughters, Anna, she said she was viscerally repulsed by Newt's repeated invocation of her grandfather. She felt that in the service of destruction, Newt has co-opted FDR's optimism and experimental verve.

Democrats must reclaim this legacy by discussing America's work crisis with a confident, pragmatic spirit. All privatization isn't bad; all government programs aren't good. Some revenue and control probably should be returned to the states.

Conversely, Newt must be exposed as operating in bad faith. When he claims he wants the poorest child to join the Internet, we should say, "Hallelujah! But then, why did you vote against every piece of pro-child legislation in the last few years, a record matched in the Senate only by Jesse Helms?" When Newt destroys college loan programs, we should point out that he has no desire to help American students gain the skills necessary for the 21st century. Every time he puts forth tax cuts, we should hammer home how they primarily benefit the already prosperous. It's an open question just how much government can ease the transition into the information age, but few Americans want it to tilt the playing field further in favor of those already winning.

Newt urges us to get religion, though we already have it. In time, his meanness and greed will reveal him as someone interested only in his own welfare. Not slothful, but a cheater. Although Newt appeals to our faith, he is a false prophet. —Jeffrey Klein

MIXED PAINT

AMERICA IS LESS A MOSAIC THAN A CAN OF PAINT WHOSE COLORS ARE RUNNING TOGETHER. BUT HAVING ENABLED INTEGRATION, LIBERALISM HAS HAD TO TAKE THE BLAME FOR THE CULTURAL ANTAGONISMS THAT INTEGRATION HAS CAUSED. A POLITICAL ESSAY BY LOUIS MENAND

THE "CULTURE WARS"—THE METAPHOR INTO WHICH CAMPUS hate-speech codes, school prayer, Afrocentric school curricula, abortion, politically correct language, family values, affirmative action, the racial distribution of intelligence, deconstructionist literary criticism, sexual harassment policy, the Great Books, hardcore pornography, publicly funded art, and many other fractious things, are currently stuffed—are misfigured. The term suggests two great armies, one "liberal" and permissivist and looking a lot like a horde of Michael Kinsleys with slightly more raffish beards, the other "conservative" and traditionalist and looking alarmingly like a horde of Patrick Buchanans with slightly less charm. And "in the cross fire": the soul of America.

This picture has two things wrong with it. First, there aren't two sides. There are a dozen sides, and the "war" has much less the character of the Battle of the Somme than that of a playground free-for-all. Second, "liberalism" is not one of these sides. Although the term has come to stand for state-sponsored cultural permissivism (i.e., the encouragement of deviant lifestyles and obscene art), liberalism, in its classic meaning, is a politics that brings nothing cultural to the table at all. Liberalism only tries to help people get what they want; it has nothing to say about what it is they ought to want, nor should it.

THE BEST DEFINITION OF CLASSIC LIBERALISM IS THE ONE formulated by British political philosopher Isaiah Berlin in his 1958 essay "Two Concepts of Liberty." Liberalism, in Berlin's terms, is a philosophy of "negative" liberty, which means freedom *from* coercion by others. This freedom is contentless. It takes different people's conceptions of the good life to be incommensurable. It doesn't take a Christian or an atheistic position on, for example, school prayer. It just says that since there is no way of satisfying both Christians and atheists on this matter, there shall be no school prayer, period. To take another case, feminists who want to ban pornography are not "liberals." They are, like fundamentalist Christians who want to ban pornography, people who *do* have a firm conception of the good life (and of the forces that militate against it) and who are willing to use public policy to help secure it. Liberals aren't so willing. This doesn't make liberals pro-pornography; it makes them anti-anti-free expression, which is a philosophically different thing.

The negative conception of liberty, which is very much the modern idea and the American idea, has always had to

face the challenge of Berlin's second concept, "positive" liberty, which he describes as freedom *to*. Believers in positive liberty think freedom comes from directing one's actions toward some articulated conception of the good life. A certain, preferably benign, degree of coercion is therefore appropriate, since people need to know the right values from the wrong ones, and to be guided in their social doings toward those behaviors that will lead to self-realization and self-fulfillment. Schoolchildren will be better off praying; women will be better off without pornography.

In the mid-1990s United States, philosophies of positive liberty are in bloom all across the ideological spectrum. There have been challenges to liberalism before, but there has probably never been such a varied bouquet. Hillary Clinton's "politics of meaning," for example, a phrase she borrowed from Tikkun editor Michael Lerner, is a positive liberty philosophy. It seeks to infuse choices about values into the policy-making process in a manner alarming to classic liberalism. So does the communitarianism promoted by the sociologist Amitai Etzioni. Christopher Lasch's neopopulism, Allan Bloom's Straussianism, Catharine MacKinnon's "feminism unmodified," Patrick Buchanan's new nationalism, Dan Quayle's family values platform, Pat Robertson's Christian Coalition, Charles Murray's "clanism" (his solution to the problem of racial differences in IQ that he and Richard Herrnstein claim to have established in "The Bell Curve"): All base their appeal on the perception that liberalism's agnosticism about the nature of the good life has led to cultural breakdown.

If liberalism is now reduced by these competing moral doctrines to the position of an out-of-work gunfighter, hoping that things will get bad enough for its services to be in demand again, it has only itself to blame. For we are having these cultural brawls not because we fragmented, but because we integrated, and integration was a liberal accomplishment.

IN 1964, CONGRESS PASSED THE CIVIL RIGHTS ACT. (It is profoundly symptomatic of the irrelevance of liberalism to the culture wars that the act's 30-year anniversary has gone by virtually without notice.) The act is the monument to the great equity movements of the 1960s, which began with the civil rights movement for African-Americans and led to the women's movement and, after 1969, to the gay liberation movement. The act mandated nondiscrimination by race, creed, and sex, and it has been the foundation of all civil rights progress—from the enforcement of voting rights to



Liberalism's success has provoked people of many political stripes to ask the state to intervene in cultural concerns: 1. Arthur Schlesinger Jr. worries that schools don't teach a common culture. 2. Allan Bloom lamented the passing of traditional education. 3. Catharine MacKinnon wants to outlaw pornography as harmful to women. 4. Pat Buchanan called for a cultural war at the '92 GOP convention.

the equal funding of collegiate athletics for women—ever since.

The key to the act is neutrality: It doesn't propose that women or nonwhites are better than white men, worse than white men, or even different from white men; it and its subsequent interpretations and emendations say only that whatever difference sex and race may make, that difference shall be ignored when counting votes, serving customers at lunch counters, admitting applicants to educational institutions, interviewing candidates for jobs, selling houses, and generally passing around social resources.

Among its many consequences, the act enabled the realization of the meritocratic system of education. The symbol of this system is the Scholastic Aptitude Test, which represents the commitment made in postwar education, at every level, to reward only merit, regardless of race, sex, faith, or socioeconomic status, and to prevent class stratification in American life. Americans are supposed to feel that they have not been born into their social and economic positions, but can rise to whatever level their abilities permit (or even, I think most people hope, a notch or two higher).

But having established neutral standards, and having compelled adherence to nondiscriminatory procedures, liberalism can go no further. It must be satisfied with whatever these ostensibly neutral systems yield up. Liberalism's faith is that groups are fundamentally equal in capacity, so that bracketing race and gender to eliminate bias will produce demographically proportional results. There is no reason to believe that, in the cultural vacuum tests like the SATs are supposed to provide, people will score lower or higher just because they have breasts or darker skin. Holding cultural background constant, liberals believe we can measure, and reward, excellence and excellence alone.

The genius of the liberal idea, the American idea, was to give each of us the right to pursue happiness—not to tell us what would make us happy. The great equality movements worked to extend that right to everyone.

THE MOST POINTED CHALLENGE to liberalism's neutrality is the movement known as "multiculturalism"—the notion that ignoring differences of race, ethnicity, gender, class, and sexual orientation is a covert method for continuing to oppress the different. For the very simple and disturbing point of multiculturalism is to suggest that there is no such thing as a cultural vacuum. This is not merely a theoretical proposition. It is based on, and draws its authority from, the experience of many of the women and nonwhites who showed up at the colleges and law firms integrated by the equality movements of the 1960s. Such people came to

feel that although legal barriers to acceptance and advancement had been largely removed, cultural barriers remained.

For example, women in the academy (which was, until the late 1960s, one of the most overwhelmingly white and male places in America) found that although they might be paid on the same scale as male professors, and be free from discrimination in the legal sense, subtle impediments persisted, embedded in the institution's traditional folkways and attitudes. These women found it not implausible to conclude that as subtle male bias is to universities, blatant bias must be to mass commercial culture. Thus the exposure of sexism in American movies, television, music, and advertising, and the insistence on its oppressive consequences for women, became a major scholarly industry. And thus the belief that expressions demeaning to women (and to nonwhites, gays, and other marginalized groups) are deserving of censure, since such expressions, wherever they are allowed, inhibit members of these groups from participating as equals.

But most multiculturalism is not simply reactive. It also advocates the identification and celebration of subcultures for a positive reason: to instill a sense of pride and self-worth in people who, because of their race or gender or sexual orientation, have been reduced in, or erased from, mainstream versions of American history. Self-esteem is, multiculturalists think, a necessary condition of empowerment: People cannot take control of their own lives unless they are convinced of the merits of who they happen to be and where they happen to come from.

The great villain for multiculturalism, therefore, is liberalism. It is liberalism that defends the right of panders and bigots to purvey their sexist wares and to utter their racist epithets. It is liberalism that established sham categories like "merit" and "excellence," which have served as high-minded excuses for the exclusion, disparagement, and marginalization of "other" ways of knowing and achieving. And it is liberalism that insists on the majoritarian principles that permanently prevent minority groups—who will always be outvoted—from wielding power in America. Having enabled the integration of American institutions, liberalism has had to take the blame for the cultural antagonisms integration has caused.

THE ARGUMENT OVER MULTICULTURALISM NOW RAGES UP AND DOWN the whole alphabet of American education, from K to Ph.D. It engages "culture" not only in the sense of "arts and letters," but in the very widest connotation of the term. Many multiculturalists propose not only that, say, women might take an interest in books not formerly read in literature classes; they also propose that women might actually have different modes of apprehension and analysis from men. Some multiculturalists claim that only women can teach books by women and only blacks can teach books by blacks, or that the standards of science and mathematics are not neutral and universal, but reflect a racial or sexual bias.

It isn't hard to see why these arguments drive many people to distraction—or, in the case of Arthur Schlesinger Jr., who attacked multiculturalism as an educational doctrine in "The Disuniting of America" (1992), and Robert Hughes, who attacked it as a plausible interpretation of culture in "Culture of Complaint" (1993), to the production of best-selling books about it. Writers like Schlesinger and Hughes insist on a distinction between their antagonism to multiculturalism, which they regard as a liberal one, and the sort of antagonism to multiculturalism associated with conservatives like Newt Gingrich and Patrick Buchanan—the sort of militant and nationalistic assimilationism that was the rhetorical feature of the 1992 Republican national convention, and that shows promise of becoming more than just the rhetorical feature of the 104th Congress.

But although the sort of work Schlesinger and Hughes would like to see culture do—in Schlesinger's case, to provide a common set of values for citizenship; in Hughes', to represent the finest in human accomplishment—is clearly very different from the sort of work Buchanan and Gingrich would like to see culture do, it is not quite correct to call this a distinction between a "liberal" attitude and a "conservative" one. For there can be no such thing as a "liberal" attitude toward culture, since liberalism has nothing substantive to say about culture. Liberals, like anyone else, have views about culture, but liberalism doesn't. And this is why, as shots ring out on Main Street, liberalism can only cool its heels and wait for the day when the townfolk will decide that they have had enough and want the noisemakers run out of town. They don't look like having had enough any time soon.

THE ANTAGONISTS IN THE CULTURE WARS ALL SEEM TO SHARE TWO assumptions. One is that American society really is in a state of increasing fragmentation, that groups which once happily assimilated are now refusing, and are likely to continue to refuse, to melt. The second is that culture can be used instrumentally, either to glue the shards together (as the commonculturalists hope) or to foster the self-esteem of members of America's constitutive groups (as the multiculturalists recommend).

The obsession with "culture" (as opposed to, say, economics) as the key to our national problems draws on an intellectual tradition which points to culture (high culture, indigenous culture, or folk culture, depending on the theorist) as the element of continuity and moral coherence in a world characterized precisely by its lack of respect for continuity and moral coherence. The trouble with this faith is that in addition to being socially and economically mobile and unstable, modern liberal societies are culturally mobile and unstable, as well. Capitalist democracies are not just permissive about cultural change; they actually thrive on it. A new taste means a new market. A free-for-all is exactly the sort of "culture war" capitalist societies produce.

Will the free-for-all end by bringing down the whole house?



Modern cultural achievement has come when people made a new life out of materials their parents never knew: 1. Modernist Georgia O'Keeffe grew up in rural Wisconsin. 2. Novelist Richard Wright was raised by Seventh-Day Adventists who forbade storytelling. 3. Little Italy's Martin Scorsese found success in Hollywood. 4. The Beatles were inspired by Elvis Presley, who adapted Southern, black R & B.

Liberals can only stake the survival of their philosophy on a guess. The guess is that the cultural antagonisms that look like a new and dangerous tribalism are simply the epiphenomena, the shaking out, of an irreversible process of integration in American life. Contrary to most assertions, American society is becoming much less like a mosaic and much more like a can of mixed paint. The life-paths of women and men, and, to a lesser extent, of black and white Americans, are more likely to be congruent than at any time in history. Friction is not, after all, the consequence of separation.

But culture cannot be the organizer, blueprint, or palliative to this new and superficially diverse (though profoundly more unified) world, because culture is as fickle a hodgepodge of values, traditions, styles, and interpretations as anything else in modern life. It's not a foundation stone; it's only a Rubik's Cube of possibilities. And the history of cultural achievement in the 20th century—the examples of people who have made memorable contributions to modern life—demonstrates, over and over, that what's important isn't the "right" combination, but simply access to the cube. For everyone's combination must be different.

Almost everything we value in the way of individual achievement in the modern world has come when people have broken away from their traditions and made for themselves a new life out of materials their parents never knew. Almost nothing that we value has come from people submerging their identity into that of a group or trying to live facing backwards. But facing backwards has its appeal; and when Americans feel drawn to the notion, as they apparently do today, liberalism can only wait for them to get impatient with the results. They will. □

Louis Menand teaches English at the Graduate Center of the City University of New York.

• For resources on liberalism and multiculturalism, see page 78.

Libyan Girds For Defiance Of the West

Revamps Military And Purges Rivals

By CHRIS HEDGES

TRIPOLI, Libya — Muammar el-Qaddafi, who governs Libya with a love of grandiose state projects and unflinching repression, has reorganized his security forces, purged rivals from his inner circle and set Libya on a course of defiance against the West that will probably endure as long as he remains in power.

The Libyan leader, who two decades ago was the enfant terrible of the Arab world, has exhausted a variety of tactics, short of turning over the two Libyans wanted in connection with the downing of a Pan Am jetliner, as he sought to obtain the lifting of the three-year-old sanctions against his country.

Libyan officials have given the British files on the Irish Republican Army, shut down the camps of radical Palestinian groups and let the United States know that they might turn over the rogue C.I.A. agent Frank E. Terpil.

The Government has hired lawyers to see if it could work out a deal with the families of the victims of the Pan Am bombing. All these measures have failed to influence United Nations, which demands that the two suspects be extradited to Britain or the United States for trial.

Colonel Qaddafi, calling himself a "scapegoat," now says he will live within the confines of the sanctions, defy them when he can and count on the instability in the region to prevent further embargoes.

"The feeling in Europe is that we can't destabilize another country in North Africa," a European Ambassador said. "Whatever Qaddafi is, he provides a measure of calm. He helps protect the Algerian and Egyptian regimes by cooperating with their security forces. There is no real successor to Qaddafi. It would be a big and dangerous illusion to think one could back outside forces to take over from him."

United Nations sanctions were imposed on Libya in 1992 after it refused to hand over two Libyan suspects in the 1988 bombing of Pan Am flight 103 over Lockerbie, Scotland, in which 270 people died. The sanctions include an arms, trade and travel embargo.

Colonel Qaddafi has recently sidelined his regular army units, on which he spent more than \$20 billion on mainly Soviet-made armaments over the last 20 years, with new structures he calls "armed people." And longtime associates, like Abdel Salam Jalloud, who was his chief lieutenant, have disappeared from public view.

"He appears to have neutralized any opposition that might come from within the army," the Ambassador said. "His army has little role now, and most the military hardware he bought is rusting in the desert."

When 26-year-old Captain Qaddafi took power in a bloodless coup in 1969, he and his fellow officers promised an Arab renaissance that called for defiance of the West and the liberation of Palestine. He challenged major Western companies over oil pricing and won, inspiring other Arab states to begin the 1973 oil price explosion.

Libya became a port of call for everyone from the Palestinian terrorist Abu Nidal and guerrilla groups in Africa to leaders of the American Indian movement and Marxist revolutionaries from Central America. And Libyan intelligence agents were repeatedly linked to terrorist attacks, including the 1989 bombing of a French DC-10 airliner in which 171 people died.

The oil wealth, which at one point reached \$23 billion a year, financed one disastrous scheme after another, from the attempt to create an army of one million people out of a population of five million, to the expenditure of some \$20 billion to build a huge irrigation project, still under construction, that few experts expect to work.

But little more than the frequent calls for holy war and Colonel Qaddafi's self-proclaimed desert socialism remains. The money, with the fall of oil prices, barely covers the country's imports. The adventurism appears to have ceased. And both Colonel Qaddafi and the country he governs appear more intent on economic survival.

Wages have been frozen for 15 years, despite a 300 percent decline in the value of the currency. Prices for basic goods have risen by as much as 600 percent over the last two years. And despair is the dominant emotion expressed by most Libyans on the dirty, potholed streets of the capital.

"Life is getting worse and worse," said a 17-year-old vendor in the central market, who asked to remain unidentified, "and everyone blames Qaddafi. We want all these schemes and conflicts to end. He got us into this mess, now he better get us out of it."

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WILLIAM SAFIRE

The 25% Solution

WASHINGTON

"Can we simplify the tax system," asked President Clinton at a news conference we can thank CBS for telecasting live, "without being unfair or increasing the deficit?" His rumination was in response to a question about a "flat tax," and he went on to pledge: "If we can do it, then I am open to it."

Challenge accepted. Today we're going to save everybody a lot of time and come up with a new tax system.

The "25 percent solution" is (a) comprehensible to the human brain; (b) stimulating to savings and investment, which creates jobs; (c) satisfying to Republican family-value tax cutters, and (d) passable by a Republican Congress and "fair" — that is, progressive enough to be signable by a Democratic President.

Begin by assuming a compromise between the Domenici-Kasich deficit hawks and the Kemp tax-cut hawks (doves are out this year). Figure a tax cut of \$100 billion a year, a nice round figure, accompanied by much greater spending cuts to balance the budget in seven years.

How do we rejigger the tax system to get there? First, we embrace the bipartisan idea now sweeping the country of a "flat tax." This means knocking down tax rates that have soared to 40 percent, and closing sacred loopholes.

Of course, a Draconian flat tax — 12 percent of everybody's income, no deductions at all — would raise the same amount we collect today, but would cause rioting in progressive streets. Most of us accept as "fair" this principle: The poor should pay nothing, the middle class something, the rich the highest percentage.

Now here's my plan, which steals a little from everything out there.

Your first \$15,000 of income is tax-free. Same for your spouse, and a \$5,500 deduction for each dependent child. It will pay to be married with children, and the "working poor" keep all they earn.

Earnings up to \$150,000 a year would be taxed at a flat rate of 25 percent. Anything over that is taxed at 30 percent. (O.K., so that's not "flat." One step is pretty flat, and preserves fairness.)

To get tax rates down to this, we have to get the Government out of the business of manipulating the tax system to direct social policy. People can best decide for themselves how to spend their own earnings, and investments driven by market forces are more productive than any channeled by Washington.

That means lowering the cap on interest deduction of future (not present) mortgages from \$1 million to \$250,000, picking up nearly \$4 billion a year. Only 3 percent of mortgages are over that anyway. The principle of the mortgage-interest cap is long established; if you can't afford a million-dollar mansion on your own money, don't buy one.

Getting rates that low requires a \$10,000 cap on charitable deductions; more than that should come out of the goodness of your heart, unrewarded by government subsidy. Also, deductions from Federal income tax for state and local taxes would continue, but again with a cap.

That's all there is to it. What about stimulating investment by reducing the capital gains tax? This does it the fairest way, by treating it as income: it reduces the capital gains tax rate down under 30 percent for well-off job-creators, and to 25 percent or less for the other half of the

Here comes the one-step flat tax.

people who will make a capital gain.

The 25 percent solution is better than the House-passed tax reduction bill, which centers on a dependent-deduction hike and does nothing for investment. It's far better than Clinton's opening me-too-but-less proposal, which only increases the abuse of the tax system to distort personal spending decisions.

Does this approach stand a chance of passage and signature?

Accountants brandishing abacuses will challenge the figures set forth herein; real-estate agents will wave their lawn signs in rage; tax lawyers will envision themselves selling apples from pushcarts.

But I cannot see Jack Kemp fighting the dramatic rate-cut approach, and he is the outsider assigned by Republicans Bob Dole and Newt Gingrich to design tax reform this year. Democrats? Key players will be Senator Bill Bradley; Dick Gephardt, the House minority leader, and Treasury Secretary Bob Rubin.

This 25 percent solution builds on the reform that Bradley and Senate Finance chairman Bob Packwood worked out in the mid-80's. And it need not wait for a Republican President. □

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EEOC Is Making Sweeping Changes In Handling Cases

By ROCHELLE SHARPE

Staff Reporter of THE WALL STREET JOURNAL

WASHINGTON — The Equal Employment Opportunity Commission voted to make sweeping changes in the way it handles discrimination complaints, deciding to stop its time-consuming practice of treating all cases equally.

Citing its backlog of more than 100,000 complaints, the commission voted to create a system that will divide all cases into three categories and sharply curtail investigations of complaints that appear to have little merit.

"We must rid ourselves of procedures which have become obstacles to our work," said Paul M. Igasaki, the EEOC's vice chairman, who headed a task force to revamp the commission's handling of cases.

The commission voted to repeal its full investigation policy, in effect since 1983, which required the agency to examine fully every complaint. Under the new procedures, EEOC field offices will have more discretion, getting the authority to dismiss some complaints when they receive them — according to new guidelines now being developed. They will no longer have to write letters explaining specifically why the case was dismissed — a lengthy process that sometimes created more confusion than it resolved, Mr. Igasaki said.

The EEOC also repealed its full relief policy, replacing it with a more flexible system that allows employers to offer substantial or appropriate remedies for workers complaining of discrimination.

The new system will categorize complaints according to priority. The highest priority will be cases that appear more likely than not to involve discrimination or that fall within new national and local enforcement plans. These plans, to be drafted by Aug. 1, will identify the commission's priorities and establish a plan for legal enforcement.

The second category will include complaints that have some merit but require additional investigation. The third group contains complaints that can be immediately dismissed.

Throughout the complaint process, the commission will encourage parties to settle and to consider alternative resolutions of disputes. A separate EEOC task force will make recommendations next week on how alternative resolutions could be used within the agency.

The EEOC's field offices will begin implementing the new system immediately. Until the commission adopts its enforcement plans, its general counsel and regional attorneys will decide whether to file individual discrimination suits. Pattern and practice cases will still come to the commission.

Cases in the backlog will be divided into the three new categories.

The number of EEOC cases has skyrocketed in recent years, in part because of the enactment of the Americans with Disabilities Act in 1991. Fewer than 64,000 workers filed discrimination complaints in fiscal 1991, compared with more than 95,000 people filing complaints in fiscal 1994.

The average EEOC investigator now has a caseload of more than 120 complaints. The average complaint takes more than a year to handle.

Federal Reserve Approves Fair-Lending Regulations

By a WALL STREET JOURNAL Staff Reporter

WASHINGTON — Closing nearly two years of debate, the Federal Reserve Board voted 5-2 to approve rules designed to ensure that banks and thrifts lend to traditionally underserved areas of their communities.

The final regulations implementing the Community Reinvestment Act were also approved by the Comptroller of the Currency and the Office of Thrift Supervision. The Federal Deposit Insurance Corp. is expected to approve them next week. The regulators overhauled the rules at the request of President Clinton, who directed the supervisors to try to make the fair-lending law less burdensome and more productive.

The final rules, as expected, represent a compromise that bankers, community groups and regulators said improves upon existing regulations.

Fed Govs. Susan Phillips and Edward Kelley voted against the final rule, saying they thought the latest draft could increase the burden on banks to comply with the law.

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No Scholarships for Indonesia's Soldiers

The Clinton Administration wants to resume taxpayer-financed courses for Indonesian military officers in the United States. It is a terrible idea.

The Administration argues that the courses expose future leaders of Indonesia's military-dominated regime to American concepts of human rights, teach officers how to use American-made weapons and strengthen security cooperation in Asia. Those are legitimate goals. But Congress cut off funding for training Indonesian officers under the International Military Education and Training program in 1992 to protest flagrant human rights abuses by the Indonesian military in East Timor.

The Bush and Clinton Administrations have gotten around the ban by allowing Indonesia to send officers for training at Jakarta's own expense. But Indonesian military leaders feel insulted by the Congressional funding restriction and now the Clinton Administration wants to give them relief.

Unfortunately, there has been little improve-

ment in the Indonesian Army's human rights performance. Assistant Secretary of State John Shattuck is now in Indonesia conveying Washington's concern over the military's torture and murder of six Timorese civilians in January. By seeking to lift the ban on military scholarships, the Administration undermines Mr. Shattuck's message.

Washington has made an honest effort to improve the human rights component of its training programs. But abusive military behavior in countries like Guatemala and Indonesia is rooted more in the local circumstances of repressive rule and the messages coming down the military chain of command than in any specific training deficiencies.

By signaling to Indonesia's top commanders that American taxpayers will pay for scholarships no matter how badly its soldiers behave in East Timor, the Administration more than cancels out the benefits of any new human rights training courses. Congress should maintain the ban.

A Hollow Plan for the Homeless

Gov. George Pataki wants to deny shelter to New York State's homeless unless they obey certain rules of behavior and participate in social service programs designed to help them fight drug or alcohol addiction or find housing and jobs. The idea is not unreasonable, but Mr. Pataki assumes a level of support programs for the homeless that does not now exist. Until it does, his proposal will only send the homeless back onto the streets.

New York guarantees a right to shelter. But the state is not helpless to set some rules. At a time of fiscal austerity and widespread sacrifice, it is fair to impose some conditions on the homeless. Yet it is important to recognize that lack of housing is often only one symptom of a homeless person's breakdown, with drug and alcohol addiction and mental illness frequent contributing factors.

Mr. Pataki's plan ignores the complex nature of the homeless population. He proposes new regulations, to take effect after a 45-day comment period, that would require a homeless person seeking shelter to cooperate with social service workers. The goal would be to determine whether the person is truly homeless and to identify exact housing and social service needs.

Anyone found to have other housing options or not using all available income and resources to

obtain housing would be denied temporary assistance, including space in shelters. Anyone granted emergency shelter would have to help design a program for independent living, including participation in drug treatment, family counseling and job training programs.

The aim is to reduce drug use and violence in shelters, to push out criminal opportunists and to force families into housing that is available, even if it is not particularly desirable. The rules would have the greatest impact in New York City, which has the largest proportion of the state's homeless population. Mayor Rudolph Giuliani has long pushed some of these changes.

While the state should insist that all other options be exhausted before accepting people in shelters, it must recognize that this is a population with few realistic choices. Last year Mr. Giuliani proposed a continuum of care that was supposed to help homeless people obtain services to expedite their departure from shelters. But a coherent plan, particularly for social services, never developed.

Now, with the state slashing social services, new programs seem even less likely to materialize. Without them the Pataki plan is merely a poorly disguised effort to drive the homeless out of shelters.

Scholars Question Whether Welfare Shift Is Reform

Proposal for State Block Grants Viewed as Likely to Cut Spending, but Not Bureaucracy

By Judith Havemann
Washington Post Staff Writer

Like a surprise front-runner in a primary who is suddenly subjected to a barrage of embarrassing questions, the concept of turning over welfare to the states is coming under intense scrutiny from critics on both sides of the political aisle.

In March, House Republicans approved a plan to turn over welfare programs to the 50 states with lump sum payments, or block grants, to pay for them. Such a move would constitute a crucial shift in the philosophy underlying the programs. The major welfare programs now are entitlements—federal guarantees of benefits to every eligible American who applies, no matter what the cost. The House bill wipes out those guarantees, allowing each state to determine who should be eligible for aid and for how long. Funds essentially would be frozen for five years.

Block grants have so much support in the Senate that some aides think they could pass tomorrow. Even President Clinton, while denouncing the House bill, has refused to say flatly that he would veto a bill that would turn over welfare programs to the states as block grants.

But some scholars are questioning whether the block grant proposals before Congress represent reform or buck-passing.

"The welfare reform debate does not seem to be grappling with the issues of radical redesign of welfare policy," said Anna Kondratas, senior

fellow at the Hudson Institute, a conservative Washington think tank. "Block-granting everything in sight" is "kicking the problem down to the states to solve."

"Today's block grants are an instrument of budget-cutting," said George E. Peterson, senior fellow at the Urban Institute, a liberal think tank. Current block grant proposals have a single common goal, Peterson said: "limiting federal budgetary exposure."

House Speaker Newt Gingrich (R-Ga.) has said he favors block grants as a way to unleash "51 state experiments" (counting the District) and to move the design of programs for the poor closer to the people who have to pay for them. The concept of block grants gained momentum as legislators began to appreciate the cost-cutting possibilities of such a move. The Congressional Budget Office has estimated that, under the measure passed by the House, the government would spend \$66 billion less on welfare programs over five years than it would spend under current law.

The prospect of saving that much money by overhauling a welfare system that the American public ranks as one of its three top priorities for reform has attracted even greater support for the House measure.

Kondratas, who ran the Community Development Block Grant program at the Department of Housing and Urban Development during the Bush administration, as well as the food stamp and women and infant nutrition programs in the Agriculture Department during two years of the Reagan administration, said

that block grants would be difficult, if not impossible, to put into effect by next October, when the House bill would take effect.

"Taking into consideration the immense legislative, regulatory and administrative effort required to turn everything around so dramatically ... it would be prudent to change one thing at a time," she said.

"If the purpose of consolidation is for simplification," she added, that would be accomplished more easily at the federal level. As a former program administrator, "I can confidently state that block grants will certainly not reduce bureaucracy and regulations."

Kondratas questioned whether Congress is seeking to funnel money to the states now because it considers them more responsible than the federal government or merely because so many state governments are Republican. Thirty states now have Republican governors.

"As a Republican and one of the designers of President Nixon's brand of 'new federalism' 20 years ago, I have never favored block grants for welfare," said Richard P. Nathan, director of the Rockefeller Institute of Government at the State University of New York.

"I believe in relying heavily on the states in many fields of domestic policy," he said. "But I worry that a churlish competition among the states to push out and punish the poor would result from devolving welfare to the states."

Kondratas and Nathan are not alone in their concerns about block grants.

Paul E. Peterson, professor of government at Harvard, wrote in the spring edition of the Brookings Review that "despite the intent of today's congressional Republicans to transfer welfare policy to the states, there is no indication that the states are becoming either more suited for or more capable of such policy."

Peterson wrote that while the percentage of national governmental spending on helping the disabled, unemployed, sick, poor and elderly has more than doubled in approximately the last 20 years, state spending has edged up only slightly in the same period.

Since 1970, Peterson added, "states have been in something of a race to lower welfare benefits for fear that high benefits could attract poor people to the state—thus raising social spending and perhaps triggering an exodus of taxpayers."

"States have demonstrated that they are increasingly incapable of sustaining welfare benefits in an ever more integrated economy," he wrote, and in recent years "state proposals to reform welfare have generally taken the form of reductions in welfare assistance."

Critics of block grants also point to the history of the social services block grant program passed in 1981 under President Ronald Reagan. When several social services programs like child care were combined into a block grant, funding was cut 20 percent the first year.

Today the spending level is \$191 million lower than it was 14 years ago.

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The Democrats' Quota System

By PHILIP S. FRIEDMAN

In dealing with affirmative action, President Clinton has apparently seized on the slogan "reflect, don't retreat" while he awaits the findings of a bipartisan commission. But before he embarks on yet another timid assertion of presidential leadership, President Clinton would be wise to reflect on the presidential nominating rules of his own party. There, the full extent of the Democratic Party's institutional commitment to race and gender preferences underscores the likely failure of any affirmative action commission that the president might appoint.

Delegate selection rules for the 1996 Democratic National Convention provide that the national and state Democratic parties must "adopt and implement affirmative action programs with specific goals and timetables" for five minority groups: African-Americans, Hispanics, Native Americans, Asian/Pacific Americans and women. While the rules profess to prohibit quotas, each state delegation, and the convention as a whole, must be divided equally between male and female participants. Moreover, at-large seats are "reserved" for members of the above named minority groups to meet the representation "goals" typically established by a demographic study of the Democratic electorate in each state.

While these rules started as a commendable effort to ensure minority participation, in practice they are enforced with the rigidity of quotas. Indeed, during the 1992 Clinton campaign, I found myself in the uncomfortable position of assisting Mr. Clinton's delegate selection team, like

all of its Democratic counterparts, in counting the number of women, African-Americans, Asians, Hispanics and other party-sanctioned minority groups.

Consider a typical example: A state is allotted 100 convention delegates. Seventy-five of these delegates must be elected at the district or caucus level. The remaining 25 "at-large" delegates are held in reserve pending a final examination of the gender, ethnic and racial characteristics of the 75 delegates elected at the district level. Although any Democrat is eligible to run for these delegate positions, the rules mandate that the district delegates be evenly divided between men and women. Consequently, in a district with 10 delegates, if the voters elect eight male and two female delegates, the party rules dictate that three male delegates be replaced with three female delegates.

The state party must then tally the ethnic, gender and racial characteristics of all the district delegates. If the tally shows that the makeup does not match the state's representation "goals," then the state's "at-large" delegates are "cherry-picked" from among those individuals possessing the group attributes necessary to bring the entire delegation into compliance with affirmative action criteria.

Ostensibly, the purpose of these rules is to encourage those groups who have historically been underrepresented in the party. But rather than provide for equal opportunities, the Democratic Party's rules—as my own experience revealed—dictate equal outcomes based on race and sex. In short, convention delegates are increasingly selected on the basis of their

status as members of defined groups, rather than as individuals with unique ideological principles, commitments and beliefs.

And there is no limit to those who qualify for "minority" status. The New York Democratic Party's 1992 affirmative action plan, for example, guaranteed niches for, among others, African-Americans, Latinos, Asian/Pacific Americans, Native Americans, women, people under 30, people over 65, people of low and moderate income, workers, people with a high school education or less, the physically handicapped, and lesbians and gays.

These quotas can't simply be dismissed as the work of a voluntary organization. The Democratic Party, like the Republican, receives millions of dollars in taxpayer funds. Were there any delegates with the courage—and standing—to challenge the system, the federal courts might well find the Democratic Party's use of federal dollars to promote racial and gender set-asides to be in violation of both Title VI and Title VII of the civil rights laws.

Even more important, however, the Democratic Party's nominating rules embody the ideological commitment of the party and presumably its leader, Bill Clinton, to race and gender set-asides. Until President Clinton revamps these rules, not much credence can be given to his promise for an honest review of this country's affirmative action policies.

Mr. Friedman was the deputy general counsel to the 1992 Clinton campaign. He is an attorney in Washington.

THE WALL STREET JOURNAL WEDNESDAY, APRIL 19, 1995

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THE NEW YORK TIMES OP-ED SATURDAY, APRIL 15, 1995

Empty Promises for Harlem

By Mitchell L. Moss

The empowerment zone, the cornerstone of the Administration's urban policy, won't do a nickel's worth of good in New York City. It defeats the plausible idea at the heart of the enterprise zone, the forerunner of the empowerment zone.

The enterprise zone, as originally conceived by Jack Kemp and Robert Garcia, both former New York Representatives, had a simple logic: relax regulations and reduce taxes for private investors who want to do business in depressed inner-city neighborhoods, thereby stimulating economic growth and creating opportunities for local residents.

Instead of encouraging the creation of jobs, the New York empowerment zone will only encourage dependence on government by creating an enormous and costly safety net for social services.

It was Representative Charles Rangel of Harlem, a Democrat, who brought empowerment zones to life in the 1993 budget act. Congress later appropriated funds for them under a provision of the Social Security Act that provides block grants to the states for social services. In doing so, Congress transformed a market-oriented program into a political boondoggle that expanded, rather than reduced, government involvement in low-income neighborhoods.

After a national competition that attracted hundreds of applicants, President Clinton awarded New York one of six empowerment zones in December 1994 — an almost preordained outcome, given Mr. Rangel's role in pushing the legislation.

Soon after the 1993 election, the defeated Mayor, David Dinkins, designated Harlem the city's empowerment zone. Rudolph Giuliani modified the zone to include parts of the Bronx, but Mr. Rangel was able to keep the Bronx portion to one-sixth of the zone's population.

Mitchell L. Moss is director of New York University's Urban Research Center. This article is adapted from the spring issue of the Manhattan Institute's City Journal.

The Harlem Urban Development Corporation wrote the Harlem portion of the plan, which will likely determine the activities in the zone even if Gov. George Pataki abolishes the corporation, as he plans to do. Since Federal guidelines require community involvement in developing a zone proposal, the corporation assembled groups to identify local needs and priorities.

The corporation made a mistake: it tried to get businesses to invest in public projects rather than to create jobs; the result is that its efforts to attract private-sector resources have been unsuccessful. The corporation wants to spend Federal dollars on a

**No enterprise
and no
empowerment.**

computerized drug treatment referral system; to improve security in public housing; to upgrade a child-care program; on "family preservation, development and intergenerational programs"; on a community health center, and on a cadre of com-

munity organizers to help residents gain access to empowerment-zone and other Government programs.

The proposal earmarks 23 percent of the Federal funds for children and youth programs, 12 percent for health and substance-abuse programs, 6 percent for other social services and 17 percent for local administration — 58 percent of the total.

The proposal calls for a new community college at the empty Washburn Wire Company plant, which would not create private-sector jobs or attract private investment and is unlikely even to get state and local funds in an era of budget cutbacks.

The biggest capital project explicitly designed to fetch private money is not likely to succeed. Long a Rangel pet project, it is the Harlem International Trade Center, a high-rise building intended to house trade offices of third world countries. The problem is that most nations prefer to situate their trade offices near the banking, financial and business center.

The Bronx portion of the plan pays more attention to creating jobs, but public funds are more likely to be earmarked for Yankee Stadium renovation than for revitalizing industrial land in the South Bronx. The plan for the zone has gone largely unquestioned. It went unchallenged when Vice President Al Gore and other Democratic politicians gathered with empowerment zone leaders from around the country at a Columbia University conference in March. Little wonder; many participants represented nonprofit organizations that stand to benefit handsomely from Federal funds.

Unless the empowerment zone is treated as more than political pork, it is not likely to do more than bring a burst of Federal dollars for social-welfare programs into low-income New York, perpetuating its dependence on the public sector. When those dollars expire, there will be no long-term improvement in the community's capacity to generate jobs or attract private investment.

In the end, the Clinton Administration's principal initiative in New York City is bound to self-destruct. □

THE PRESIDENT HAS SEEN 4/20

Supreme Court rules debt-collection law covers lawyers By Jan Crawford Greenburg Chicago Tribune

WASHINGTON In what consumer groups characterized as a victory for people with debts, the Supreme Court held Tuesday that attorneys can be subject to a federal law designed to protect consumers from overzealous debt collectors.

The unanimous ruling, which affirmed a decision of the U.S. Court of Appeals for the 7th Circuit in Chicago, eliminated what many groups said was a loophole for lawyers who represent clients trying to collect debts from consumers.

Before the ruling, lawyers engaged in debt collection litigation on behalf of a bank or local merchant, for example were not subject to the same rules as collection agencies.

"I'm glad to see the Supreme Court recognize that consumers need protection against lawyers just as they need the same protection they've always had against collection agencies," said Alan Alop, a lawyer with the Legal Assistance Foundation of Chicago.

The debt-collection case stemmed from a lawsuit Indiana attorney George Heintz filed on behalf of a Gary, Ind., bank against Darlene Jenkins, a Chicago woman. Jenkins had borrowed money from the Gainer Bank to buy a car, but defaulted on her loan.

When Heintz wrote Jenkins a letter listing the amount she owed, he included \$4,173 for insurance the bank had bought because Jenkins had let her insurance lapse. Jenkins then sued Heintz and his Merrillville law firm under the federal Fair Debt Collection Practices Act.

Jenkins alleged that Heintz had improperly tried to collect money the insurance payments that she had never agreed to pay, violating the federal law, which prohibits attempts to collect debts not expressly authorized.

In arguments before the court in February, Heintz's attorneys said the law shouldn't apply because Congress did not intend for it to cover lawyers who are representing clients trying to collect debts.

But the court, in a unanimous decision written by Justice Stephen Breyer, said the intent of Congress was clear, particularly since it had repealed in 1986 an exemption for lawyers originally written into the Fair Debt Collection Practices Act.

Lawyers and bar groups criticized the ruling, saying it will compromise lawyers who are aggressively trying to represent their clients. The case now goes back to a trial court, where Heintz's lawyer predicted he would prevail.

"This will affect the ethical attorney who makes an honest mistake or who doesn't take a position simply out of fear of liability," said Bruce Carmen, a lawyer with Chicago's Hinshaw & Culbertson, which represented Heintz.

U.N. agency works to prevent nuclear materials from leaving former USSR By Ray Moseley Chicago Tribune

VIENNA, Austria When Iraqi dictator Saddam Hussein took some Westerners hostage in 1990 before the outbreak of the Persian Gulf War and then released them, he inadvertently gave away Iraq's secret effort to build nuclear weapons.

Some hostages were held at the Iraqi nuclear research center in hopes of deterring the United States from bombing the installation. After those hostages were released, the U.S. Central Intelligence Agency quietly bought their clothing and subjected it to laboratory analysis.

The analysis turned up minute traces of highly enriched uranium proof that the Iraqis were working on a bomb. That discovery, as much as the need to protect Middle Eastern oil supplies, may have prompted President George Bush's determination to go to war against Iraq, in the view of some people familiar with the incident.

The equipment developed by the United States to detect the uranium is now available to the International Atomic Energy Agency, a United Nations agency based in Vienna that bears a major responsibility for controlling nuclear proliferation around the world.

The IAEA, in tests in Australia, found it could detect traces of work done at a research center with uranium isotopes 15 years earlier.

Such tools are expected to prove extremely useful to the IAEA as it joins with other agencies and governments in efforts to stem the flow of smuggled nuclear material from the former Soviet Union that is now worrying officials in the West.

The IAEA, operating from a high-rise office building along the Danube River, has become a high-profile agency because of its work in dismantling the nuclear programs in Iraq and South Africa, and the roadblocks it encountered in trying to inspect nuclear facilities in North Korea.

The agency, created in 1957, has 2,000 employees. It does not attempt to duplicate the work of police agencies, but its key nuclear safeguards department has an annual budget of \$70 million and is staffed by 550 people, of whom 250 are inspectors.

Deputy director general Bruno Pellaud, a Swiss who heads the department, said the IAEA's role in the forced dismantling of the Iraqi nuclear program and in South Africa's voluntary dismantling of its seven nuclear devices had given his inspectors weapons experience they didn't have before.

Pellaud said he was giving particular current emphasis to helping Kazakhstan, Ukraine and Belarus, all republics in the former Soviet Union, protect nuclear materials that otherwise could easily be stolen because of lax or non-existent security.

"If a bank has a ton of gold, it will say it needs automatic alarms, heavy doors and guards all around," he said. "We have the same setup. There is a worldwide convention on physical protection of nuclear materials, which provides that they should be sealed in a closed room and protected by a 24-hour human guard system."

Pellaud said IAEA officials also were organizing training courses for security personnel in the nuclear industry of the three republics.

"There is a will to do something in the former Soviet republics," he said. "We are on their backs, in a friendly way, and the signals are getting through."

He said there had been a considerable black market in cesium-137, a radioactive mineral that has nothing to do with the production of nuclear weapons. However, that market has dried up because of safeguard measures and police seizures.

Pellaud conceded that, if a country was sufficiently determined, it would develop nuclear weapons despite the efforts of the IAEA or other agencies.

"The key issue is security," he said. "Countries that have not resolved their security concerns might be tempted to try to develop nuclear weapons."

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COURT LETS RULINGS STAND -- AND DEALS BLOW TO AFFIRMATIVE ACTION By Clarence Page

WASHINGTON -- One should never make too much of the U.S. Supreme Court's refusal to hear a case, since it has many from which to choose and many reasons not to choose any one of them.

But, when the Supremes handed victories to white men earlier this week by deciding not to hear appeals of two race-based affirmative action cases, the temptation to make a big deal out of it proved overwhelming for both sides.

It was "a complete victory for the white male plaintiffs," said their lawyer.

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On the other side, "this puts a question mark of confusion over this whole field of law," said Richard T. Seymour of the Lawyers Committee for Civil Rights Under Law in Washington.

Indeed, it does, and not just for lawyers. The court let stand two so-called "reverse discrimination" verdicts from lower courts. One threw out a quota for promotions of black firefighters in Birmingham, Ala. In the other case, a Pittsburgh jury had awarded a white engineer \$425,000 in damages because he was passed over for promotion by a less-educated and less-experienced black man.

In the current politically superheated atmosphere surrounding the issue of affirmative action, a victory for so-called "reverse discrimination" leaves employers and others wondering what to do. Many who want to do the right thing must be asking themselves, "What is right thing?"

The Lawyers Committee, the Justice Department and the NAACP had sued the City of Birmingham in 1974, alleging the city continued to exclude blacks from management ranks in its fire and police departments.

These are the same police and fire departments the nation remembers turning dogs and fire hoses on men, women and children protesting against racial segregation in the early 1960s.

The court action resulted in a 1981 consent decree that called for, among other provisions, the promoting of one black firefighter for every two available promotions.

Supporters of the plan argued that the quota accelerated the city's efforts to reach its goals. A federal court approved, and most of the goals were reached by 1989.

But, last year a U.S. Court of Appeals in Atlanta struck down the plan as a "rigid quota" that was too broadly fashioned. "Race-neutral alternatives should be considered first," the Atlanta court said.

In the other case, Frederick Claus, the white engineer, who had a degree in electrical engineering and 29 years of experience at the company, complained that he was passed over for a promotion at Duquesne Light Co. by a black man who did not have a bachelor's degree or the required seven years of experience.

Once there was a time when the courts were more willing to recognize that long-tenured white men like Claus were automatically advantaged by their skin color in a racist society, whether they acknowledged it or not. That day is fading fast.

Suddenly the famous line from poet Finley Peter Dunne's "Mr. Dooley" comes to mind: The Supreme Court always reads the election returns.

Probably so. The high court appears to be quite willing, at present, to let the local courts do the fine tuning on current law, while the political candidates take the issue to the people.

That's OK for the court, but employers need guidance. In general, the courts are saying that affirmative action is permissible, but it should not be taken to extremes. That's fair. But, what's "extreme"?

A few years ago there was broad agreement that Birmingham's extreme abuses of blacks called for extreme remedies. There also was a belief that a company like Duquesne Light Co. could decide for itself whether flexible merit standards were OK in seeking bright minorities for the sake of diversity in management. Both were extreme cases. But what about the closer calls employers must decide every day?

It is not enough to tell employers to be "color-blind" or "gender-blind." Most of us would be inclined to hire and promote in our own image. Given a free choice, we tend to view "merit," consciously or subconsciously, as "people who look like me."

Affirmative action, properly tailored, requires employers to at least consider minority and female applicants seriously. It also encourages minorities and women to believe they have a fair chance, that they have the law as a wind at their backs, not in front.

Unfortunately, with the federal Equal Employment Opportunity Commission already experiencing a two-year backlog of complaints, the politics of the moment could go farther than "reverse discrimination" and turn basic fairness into wind. A big bag of it.

McNAMARA HAS NO RIGHT TO CLAIM NAIVETE By Donald Kaul

Robert McNamara, secretary of defense during much of the Vietnam war, has just published a book in which he says that war -- "McNamara's War," we used to call it in the bad old days -- was a mistake and he apologizes for making it.

Oh good. That makes me feel ever so much better. For the past 20 years I've been rolling and tossing in my sleep, wondering whether I did the right thing in opposing the war in the '60s and '70s. Now I can rest, sanguine in the knowledge that one of its chief architects has recanted.

McNamara says that, in retrospect, it is obvious that the conflict was primarily nationalistic in character, that our South Vietnamese allies were slugs and that the war was basically unwinnable. This, by the way, is what I was saying 30 years ago, when the war was raging.

How is it, you might ask, that a columnist writing then from the vantage point of Des Moines, Iowa, could be right about the war when the truth escaped so brilliant a secretary of defense with access to all manner of CIA reports, secret studies and inside information?

Myself, I would argue that it's proof of something we columnists have always known intuitively: that newspaper columnists, as a class, are smarter than secretaries of defense and their ilk. This is why we always seem to have all the answers, while experts waffle.

Not everyone would agree, of course. And, to be fair, columnists were not the only ones to have doubts about the Vietnam war. Many citizens, college students among them, shared our views and, in Des Moines, a group of high school students were kicked out of school for a brief time because they wore black arm bands to class in protest of the war. They were later reinstated, and much later the Supreme Court ruled that it was permissible for high school students to be smarter than the secretary of defense and to demonstrate it by wearing black arm bands.

McNamara does not admit it was a matter of intelligence. He says he and his equally brilliant colleagues at the Pentagon and White House misread the situation because they were naive.

"I had never visited Indochina," he writes, "nor did I understand or appreciate its history, language, culture, or values. The same must be said, to varying degrees, about President Kennedy, Secretary of State Dean Rusk, National Security Adviser McGeorge Bundy, military adviser Maxwell Taylor, and many others."

In other words, they were innocent in the ways of the inscrutable East and were slow learners besides.

I don't know about you, but when a rich and powerful man tells me he's naive, I always put my hand on my wallet, instinctively. You don't get to run Ford Motor Co., the Pentagon and the World Bank -- all jobs McNamara has held -- by being naive. Not more naive than high school students in Des Moines, at any rate.

Forgive me my cynicism but I used to think that Robert McNamara was a liar and I think so now. And, like any truly accomplished liar, he comes to believe his own lies. So he may actually think, by now, that he and his playmates stumbled Candide-like into the morass of Vietnam, out of the best intentions. I don't.

I think they were arrogant careerists who'd spent their lives leaping from one success to another and they were afraid to admit that they were in over their heads. And, having made

VP response?

Still Too Many Secrets

When he campaigned for the Presidency in 1992, Bill Clinton made the noble promise that he would reduce government secrecy. Three years and many bureaucratic battles later, President Clinton has approved a compromise that moves in the right direction, but not far enough.

Since the rise of the national security state during the cold war, Washington's obsession with secrecy has kept the governed from learning what their Government is doing, or even what it has done over the past years. From the secret escalation of the Vietnam War three decades ago to the secret links between the Central Intelligence Agency and Guatemala today, the Federal Government has misused secrecy to shield misguided policies and activities.

The executive order signed Monday by Mr. Clinton would automatically declassify existing secrets after 25 years, and require most future secret documents to be declassified after 10 years. Until recently documents could be kept secret for 30 years or more and were declassified, if at all, only after time-consuming review.

The order would also impede the creation of new secrets by encouraging official challenges to overclassification. It would shift the burden of proof to officials who want to keep a secret or category of secrets longer to provide sound reasons in writing for doing so. Until now the classifying officials were

not always required to provide any reason for their action or even to identify themselves.

Yet the new rules allow significant exemptions that officials can easily abuse to claim secrecy for policies that ought to be subject to contemporaneous public debate rather than historical analysis — and regret — decades later. The Clinton order excludes nine categories of information from automatic 10-year declassification. Some are warranted, like information on how to make nuclear arms or the identity of American intelligence sources. Others are not, like information that would "damage relations" with a foreign government. Nor does the order compel classifiers to balance the public's need to know and the state's interest in secrecy by subjecting such judgments to judicial review.

Reflexively classifying documents is only the most visible way of cutting off the flow of public information essential to democratic governance. Mr. Clinton, by trying to satisfy the military and intelligence agencies most prone to abusing secrecy, has produced a policy that emphasizes declassifying secrets rather than eliminating the Washington psychology that produces them in the first place. Until a President is prepared to take on the whole culture of secrecy, and the self-protective instincts that sustain it, the American people and their elected representatives will not know what they need to know to control their Government.

Fiscal Watchdog for D.C.

Two decades after winning limited home rule, the nation's capital has finally had to pay for years of mismanagement by yielding many of its budget powers to a new financial control board of outsiders. But in signing legislation to create the new board, President Clinton was right to say that the District of Columbia has an opportunity as well as a burden. An independent panel overseeing the city's books could give the District something it has not had for years — credibility. That, in turn, could actually strengthen the case for increased Federal aid.

Like other cities, The District of Columbia is being strangled by crime, drugs and poverty. But unlike other cities, it has no state government to help care for the poor. Its most immediate concern is a deficit that could reach \$800 million in the current fiscal year, or about a quarter of its revenues. Unable to borrow from private sources, the District must borrow from the Federal Treasury, for which it has had to accept a control board modeled after the one created for New York City in its fiscal crisis two decades ago.

The board has the power to reject the Mayor's and City Council's budgets, impose spending plans, review labor agreements and other contracts, and

approve the choice of financial officer. Its creation resulted from an impressive bipartisan effort in which Eleanor Holmes Norton, the District's delegate in Congress, persuaded both Republicans in Congress and her own colleagues in the District that compromise made sense.

For obvious political reasons, she and Mayor Marion Barry have been emphasizing that it does not necessarily mean a loss of home rule for the capital. They are right, but only if Mr. Barry and the City Council do not shirk their responsibility to get the District's house in order. Its finances are in such disarray that no one knows for sure how many people are on the payroll. Controls over disbursements are weak or nonexistent. Only after reforming operations can the city properly turn to Capitol Hill for help.

Mr. Barry has his own credibility problems. He returned to office after serving time in jail and now faces new accusations of misusing campaign funds. In his previous term, he expanded the city's bureaucracy, turning it into a personal patronage mill. He needs to do more to cut and streamline its government. The board can provide him with benchmarks, but the leadership has to come first from him.

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Enter, Women

By Laura A. Ingraham

NEXT Thursday, businesses across America will participate in "Take Your Child to Work Day" — and this has many feminists up in arms. According to the Ms. Foundation, which promotes "Bring Your Daughter to Work Day," girls need a day of their own because they suffer from low self-esteem and are typically "shortchanged" in school.

Attempting to determine, as the Ms. Foundation suggests, whether women still need special treatment, the White House is considering ap-

Aside from being patronizing and simplistic, the idea that women are constantly thwarted by invisible barriers of sexism relegates them to permanent victim status. It also stands on its head the cause that true feminists originally championed: equal opportunity for women. Equal access to the work force and advancement within it was never intended to guarantee that women would ultimately hold a fixed percentage of executive positions.

Latter-day feminists have shown their hand. Their goal is not equal opportunity to succeed, or fail, but proportional representation at all levels of America's hierarchies — business, medical, industrial, legal, etc.

Yet statistics show that this quota approach is unnecessary, that in almost every corner of the working world equal opportunity and hard work have led to steady, impressive gains for women. In 1992, women held 23 percent of corporate senior vice president positions as against 14 percent in 1982. From 1979 to 1993, women's wages increased by 119 percent.

Jonathan Leonard, a business professor at the University of California and expert on affirmative action, has concluded that none of these trends can be definitively traced to affirmative action. Equal opportunity, not social engineering, appears to have lifted women to positions of prominence.

A study published last week by Dun & Bradstreet found that women-owned businesses in the U.S. are growing at twice the pace of all American companies. True, there are still far fewer women than men in senior management positions, but feminists don't acknowledge that this disparity is at least partly the result of women's choices. Women with children, for example, often want to work fewer hours than men, and some mothers

prefer to channel their ambition into their family rather than into a job.

In any case, are we to believe that with women occupying more than 40 percent of all managerial positions in business, corporate leaders sit poised to displace women from top jobs if Federal affirmative-action policies were discarded?

The debate over gender preferences presents an opportunity for women to demonstrate that they really have arrived. By demanding real, not rigged, competition in every profession, women would fulfill the true goal of feminism. More important, we would demonstrate that we do not need special treatment to make it in the workplace — we just need to be judged fairly.

Appointing yet another Presidential commission to undertake another review of affirmative action is a political punt. Focusing on the numbers of women in this or that management level does not advance the debate. Indeed, such bean-counting would ignore choices that do not conform to the feminist establishment's view of success. Instead of whining about an imaginary glass ceiling, why don't feminists celebrate the fact that women in the work force are at long last pushing against a wide open door? □

What glass ceiling?

pointing yet another commission to decide if Federal programs that give preferential treatment to women and minorities have been successful. Such a move would come in the wake of a report last month by the Federal Glass Ceiling Commission that complained that women and minorities are still underrepresented in high-level jobs across the country.

These latest exertions in the name of "women's advancement" are misdirected and counterproductive.

Laura A. Ingraham, a lawyer, is on the advisory board of the Independent Women's Forum, a public-policy organization.